

NEW ISSUE**\$45,000,000**

**DORMITORY AUTHORITY OF THE STATE OF NEW YORK
UNIVERSITY OF ROCHESTER
REVENUE BONDS, SERIES 2004A**

Dated: Date of Delivery**Due: July 1, as shown below**

Payment and Security: The University of Rochester Revenue Bonds, Series 2004A (the "Series 2004A Bonds") are special obligations of the Dormitory Authority of the State of New York (the "Authority"), payable solely from, and secured by a pledge of, (i) certain payments to be made under the Loan Agreement dated as of August 11, 1999 between the University of Rochester (the "University") and the Authority (the "Loan Agreement"), and (ii) all funds and accounts (except the Arbitrage Rebate Fund) established under the Authority's University of Rochester Revenue Bond Resolution, adopted August 11, 1999 (the "Resolution"), and the Series 2004A Resolution authorizing the Series 2004A Bonds adopted July 21, 2004 (the "Series 2004A Resolution").

The Loan Agreement is a general obligation of the University and requires the University to pay, in addition to the fees and expenses of the Authority and the Trustee, amounts sufficient to pay the principal and Redemption Price of and interest on all Bonds issued under the Resolution, including the principal of and interest on the Series 2004A Bonds, as such payments become due.

The Series 2004A Bonds will not be a debt of the State of New York (the "State") nor will the State be liable thereon. The Authority has no taxing power.

Description: The Series 2004A Bonds will be issued as fully registered bonds in denominations of \$5,000 or any integral multiple thereof. Interest on the Series 2004A Bonds will be payable on January 1, 2005 and each July 1 and January 1 thereafter. The principal and Redemption Price of the Series 2004A Bonds will be payable at the principal corporate trust office of The Bank of New York, New York, New York, the Trustee and Paying Agent.

The Series 2004A Bonds will be issued initially under a Book-Entry Only System, registered in the name of Cede & Co., as nominee for The Depository Trust Company ("DTC"). Individual purchases of beneficial interests in the Series 2004A Bonds will be made in Book-Entry form (without certificates). So long as DTC or its nominee is the registered owner of the Series 2004A Bonds, payments of the principal of and interest on such Series 2004A Bonds will be made directly to DTC or its nominee. Disbursement of such payments to DTC participants is the responsibility of DTC and disbursement of such payments to the beneficial owners is the responsibility of DTC participants. See "PART 3 - THE SERIES 2004A BONDS - Book-Entry Only System" herein.

Redemption: *The Series 2004A Bonds are subject to redemption prior to maturity as more fully described herein.*

Tax Exemption: In the opinion of Bond Counsel, under existing statutes and court decisions, and assuming compliance with the tax covenants referred to herein, interest on the Series 2004A Bonds is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended. Bond Counsel is also of the opinion that interest on the Series 2004A Bonds is exempt from personal income taxes imposed by the State of New York and any political subdivision thereof (including The City of New York). See, however, "PART 11 - TAX EXEMPTION" herein.

\$17,825,000 Serial Bonds

<u>Due July 1</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>Due July 1</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Yield</u>
2005	\$ 465,000	3.00%	1.55%	2016	\$ 855,000	4.20%	4.25%
2006	560,000	3.00	2.05	2017	890,000	4.25	4.33
2007	575,000	3.50	2.45	2018	930,000	5.00	4.42*
2008	600,000	3.50	2.82	2019	975,000	5.00	4.49*
2009	620,000	4.00	3.16	2020	1,025,000	5.25	4.46*
2010	645,000	4.00	3.37	2021	1,075,000	5.25	4.56*
2011	670,000	5.00	3.62	2022	1,135,000	5.25	4.64*
2012	705,000	5.00	3.78	2023	1,195,000	5.25	4.70*
2013	740,000	5.00	3.93	2024	1,255,000	5.25	4.77*
2014	775,000	5.00	4.03	2025	1,320,000	4.75	4.91
2015	815,000	5.00	4.14*				

**\$15,270,000 5.00% Term Bonds Due July 1, 2034, to Yield 5.04%
\$11,905,000 5.125% Term Bonds Due July 1, 2039, Price 100%**

* Priced to the July 1, 2014 optional redemption date.

The Series 2004A Bonds are offered when, as, and if issued and received by the Underwriters. The offer of the Series 2004A Bonds may be subject to prior sale, or may be withdrawn or modified at any time without notice. The offer is subject to the approval of legality by Hawkins Delafield & Wood LLP, New York, New York, Bond Counsel, and to certain other conditions. Certain legal matters will be passed upon for the University by its counsel, Nixon Peabody LLP, Rochester, New York. Certain legal matters will be passed upon for the Underwriters by their counsel, Robinson, Bradshaw & Hinson, P.A., Charlotte, North Carolina. The Authority expects to deliver the Series 2004A Bonds in definitive form in New York, New York on or about August 26, 2004.

Lehman Brothers**Citigroup**

August 6, 2004

No dealer, broker, salesperson or other person has been authorized by the Authority, the University or the Underwriters to give any information or to make any representations with respect to the Series 2004A Bonds, other than the information and representations contained in this Official Statement. If given or made, such information or representations must not be relied upon as having been authorized by the Authority, the University or the Underwriters.

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be a sale of the Series 2004A Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

Certain information in this Official Statement has been supplied by the University and other sources that the Authority believes are reliable. The Authority does not guarantee the accuracy or completeness of such information, and such information is not to be construed as a representation of the Authority.

The University has reviewed the parts of this Official Statement describing the University, the Hospital/Medical Center, the 2004A Project, the Estimated Sources and Uses of Funds and Appendix B. The University shall certify as of the dates of sale and delivery of the Series 2004A Bonds that such parts do not contain any untrue statements of a material fact and do not omit any material facts necessary to make the statements made therein, in the light of the circumstances under which the statements are made, not misleading. The University makes no representation as to the accuracy or completeness of any other information included in this Official Statement.

References in this Official Statement to the Act, the Resolution, the Series 2004A Resolution and the Loan Agreement do not purport to be complete. Refer to the Act, the Resolution, the Series 2004A Resolution and the Loan Agreement for full and complete details of their provisions. Copies of the Resolution, the Series 2004A Resolution and the Loan Agreement are on file with the Authority and the Trustee.

The order and placement of material in this Official Statement, including its appendices, are not to be deemed a determination of relevance, materiality or importance and all material in this Official Statement, including its appendices, must be considered in its entirety.

Under no circumstances shall the delivery of this Official Statement, or any sale made after its delivery, create any implication that the affairs of the Authority or the University have remained unchanged after the date of this Official Statement.

IN CONNECTION WITH THE OFFERING OF THE SERIES 2004A BONDS, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICES OF THE SERIES 2004A BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

TABLE OF CONTENTS

<u>Part</u>	<u>Page</u>	<u>Part</u>	<u>Page</u>
1. INTRODUCTION	1	Services and Programs	31
Purpose of the Official Statement	1	Service Area	32
Purpose of the Issue	1	Strategic Plan	33
Authorization of Issuance	1	Governance	33
The Authority	1	Potential Conflicts of Interest	34
The University	2	Medical Staff	34
The Hospital/Medical Center	2	Management	35
The Series 2004A Bonds	2	Utilization	37
Payment of the Series 2004A Bonds	2	Rochester Area Hospitals	38
Security for the Series 2004A Bonds	2	Sources of Revenue	38
Covenants	2	Hospital Finances	39
2. SOURCE OF PAYMENT AND SECURITY		Management's Discussion of Financial Performance	39
FOR THE SERIES 2004A BONDS	3	Affiliations, Mergers, Acquisitions and Divestitures	40
Payment of the Series 2004A Bonds	3	Factors Affecting the Hospital's Revenues	40
Security for the Series 2004A Bonds	3	Affiliated Entities Part of Integrated Delivery System	47
Covenants	4	Debt of Affiliated Entities	48
Events of Default and Acceleration	5	6. THE 2004A PROJECT	49
Issuance of Additional Bonds	6	7. ESTIMATED SOURCES AND USES OF FUNDS	49
General	6	8. THE AUTHORITY	49
3. THE SERIES 2004A BONDS	6	Background, Purposes and Powers	49
Description of the Series 2004A Bonds	6	Outstanding Indebtedness of the Authority (Other	
Redemption Provisions	7	than Indebtedness Assumed by the Authority)	50
Book-Entry Only System	8	Outstanding Indebtedness of the Agency Assumed	
Principal and Interest Requirements	11	by the Authority	51
4. THE UNIVERSITY	12	Governance	52
GENERAL INFORMATION	12	Claims and Litigation	55
General	12	Other Matters	55
Governance	13	9. LEGALITY OF THE SERIES 2004A BONDS	
Administration	14	FOR INVESTMENT AND DEPOSIT	56
OPERATING INFORMATION	16	10. NEGOTIABLE INSTRUMENTS	56
Student Enrollment	16	11. TAX EXEMPTION	56
Student Recruitment	17	Opinion of Bond Counsel	56
Student Charges	18	Certain Ongoing Federal Tax Requirements and Covenants ...	56
Student Financial Aid	18	Certain Collateral Federal Tax Consequences	57
Labor Relations	19	Original Issue Discount	57
Faculty	19	Bond Premium	57
ANNUAL FINANCIAL STATEMENT INFORMATION	20	Legislation	58
Financial Reporting	20	12. STATE NOT LIABLE ON THE SERIES 2004A BONDS	58
Operating Budget	21	13. COVENANT BY THE STATE	58
Capital Budget	22	14. LEGAL MATTERS	58
Summary of Financial Information	23	15. UNDERWRITING	58
Related Entities	24	16. CONTINUING DISCLOSURE	59
University Retirement Plans	25	17. MISCELLANEOUS	60
Federal Government Grants and Contracts	26	Appendix A - Definitions	A-1
Private Gifts and Endowments	26	Appendix B - Consolidated Financial Statements of the	
Total Return Plan	27	University of Rochester and Related Entities	
University Indebtedness	27	(With Independent Auditors' Report Thereon)	B-1
Plant Values	30	Appendix C - Summary of Certain Provisions of the	
LITIGATION AND LEGAL MATTERS	30	Loan Agreement	C-1
5. THE HOSPITAL/MEDICAL CENTER	31	Appendix D - Summary of Certain Provisions of the Resolution	D-1
General	31	Appendix E - Form of Approving Opinion of Bond Counsel	E-1



DORMITORY AUTHORITY - STATE OF NEW YORK - 515 BROADWAY ALBANY, N.Y. 12207
MARYANNE GRIDLEY - EXECUTIVE DIRECTOR GAIL H. GORDON, ESQ. - CHAIR

OFFICIAL STATEMENT RELATING TO
\$45,000,000
DORMITORY AUTHORITY OF THE STATE OF NEW YORK
UNIVERSITY OF ROCHESTER,
REVENUE BONDS, SERIES 2004A

PART 1 - INTRODUCTION

Purpose of the Official Statement

The purpose of this Official Statement, including the cover page and appendices, is to provide information about the Authority and the University in connection with the offering by the Authority of \$45,000,000 principal amount of its University of Rochester Revenue Bonds, Series 2004A (the "Series 2004A Bonds").

The following is a brief description of certain information concerning the Series 2004A Bonds, the Authority and the University. A more complete description of such information and additional information that may affect decisions to invest in the Series 2004A Bonds is contained throughout this Official Statement, which should be read in its entirety. Certain terms used in this Official Statement are defined in Appendix A hereto.

Purpose of the Issue

The Series 2004A Bonds are being issued (i) to pay the Costs of the 2004A Project, (ii) to pay a portion of the interest on the Series 2004A Bonds, and (iii) to pay certain Costs of Issuance of the Series 2004A Bonds. See "PART 6 - THE 2004A PROJECT" and "PART 7 - ESTIMATED SOURCES AND USES OF FUNDS."

Authorization of Issuance

The Series 2004A Bonds will be issued pursuant to the Resolution, the Series 2004A Resolution and the Act. In addition to the Series 2004A Bonds, the Resolution authorizes the issuance of other Series of Bonds to pay costs of one or more projects, to pay the Costs of Issuance of such Series of Bonds and to refund all or a portion of Outstanding Bonds or other notes or bonds of the Authority issued for the benefit of the University. The Bonds permitted to be issued under the Resolution include Capital Appreciation Bonds, Deferred Income Bonds, Option Bonds and Variable Interest Rate Bonds. All Bonds issued under the Resolution will rank on a parity with each other and will be secured equally and ratably with each other. The Series 2004A Bonds constitute the eighth Series of Bonds to be issued under the Resolution.

The Authority

The Authority is a public benefit corporation of the State, created for the purpose of financing and constructing a variety of public-purpose facilities for certain educational and not-for-profit institutions. See "PART 8 - THE AUTHORITY."

The University

The University of Rochester (the “University”) is an independent, coeducational, nonsectarian, nonprofit institution of higher education, research and health care chartered by the Board of Regents of the State. The University is located in Rochester, New York. See “PART 4 - THE UNIVERSITY” and “Appendix B - Consolidated Financial Statements of the University of Rochester and Related Entities (With Independent Auditors’ Report Thereon).”

The Hospital/Medical Center

The University Medical Center, an integrated division of the University, consists of Strong Memorial Hospital (the “Hospital”) and four other divisions. The Hospital is the largest acute care general hospital in Rochester and serves both as a general regional/national tertiary care hospital and a specialized referral center for a 14-county area. The Hospital is currently licensed for a total of 739 beds. See “PART 5 - THE HOSPITAL/MEDICAL CENTER” and “Appendix B - Consolidated Financial Statements of the University of Rochester and Related Entities (With Independent Auditors’ Report Thereon).”

The Series 2004A Bonds

The Series 2004A Bonds will be dated their date of delivery and will bear interest from such date, payable each January 1 and July 1, commencing January 1, 2005, at the rates set forth on the cover page of this Official Statement. See “PART 3 - THE SERIES 2004A BONDS - Description of the Series 2004A Bonds.”

Payment of the Series 2004A Bonds

The Series 2004A Bonds and all other Bonds which have been or may be issued under the Resolution are special obligations of the Authority payable solely from the Revenues which consist of certain payments to be made by the University under the Loan Agreement, which payments are pledged and assigned to the Trustee. The Loan Agreement is a general obligation of the University. See “PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2004A BONDS - Payment of the Series 2004A Bonds.”

Security for the Series 2004A Bonds

The Series 2004A Bonds are secured equally with all other Bonds which have been or may be issued under the Resolution by the pledge of the Revenues, the proceeds of the Bonds and, except as otherwise provided in the Resolution, all funds and accounts established by the Resolution and any Series Resolution other than the Arbitrage Rebate Fund.

The Loan Agreement is a general obligation of the University. No security interest in any revenues or assets of the University has been granted by the University to the Authority under the Loan Agreement. However, the University has granted security interests in certain revenues and assets of the University to secure certain of the University’s outstanding indebtedness other than the Bonds. In addition, pursuant to the Loan Agreement, the University may incur Debt secured by a lien and pledge of revenues of the University without granting to the Authority any security interest in any revenues to secure the University’s obligations under the Loan Agreement. See “PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2004A BONDS - Security for the Series 2004A Bonds” and “- Issuance of Additional Bonds” and “PART 4 - THE UNIVERSITY - ANNUAL FINANCIAL STATEMENT INFORMATION - University Indebtedness.”

The Series 2004A Bonds will not be a debt of the State nor will the State be liable thereon. The Authority has no taxing power. Neither the State nor the Authority has any responsibility to make payments with respect to the Series 2004A Bonds except for the Authority’s responsibility to make payments from moneys received from the University pursuant to the Loan Agreement and from amounts held in the funds and accounts under the Resolution and pledged therefor.

Covenants

The University covenants in the Loan Agreement that it will maintain at all times (i) Available Assets of the University which will be not less than 200% of the General Liabilities of the University, and (ii) as an asset of the University, unencumbered, unrestricted securities, the market value of which is at least equal to 120% of the aggregate principal amount of its outstanding Short Term Debt. The University is required to demonstrate compliance with such covenants by filing quarterly certificates with the Authority. Failure by the University to comply with any of the foregoing covenants will not constitute an event of default under the Loan Agreement or the Resolution if the University

complies with the provisions relating to a Management Consultant as provided in the Loan Agreement. See “PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2004A BONDS - Covenants - *Ratio of Available Assets to General Liabilities*” and “- *Maintenance of Assets.*”

The University also covenants in the Loan Agreement that, except to the extent permitted under the Loan Agreement, it will not encumber its assets to secure indebtedness. For a summary of the circumstances in which the University may encumber its assets, see “PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2004A BONDS - Covenants - *Limitation on Liens.*” Failure by the University to comply with such covenant will constitute an event of default under the Loan Agreement.

PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2004A BONDS

Set forth below is a narrative description of certain contractual provisions relating to the source of payment of and security for the Series 2004A Bonds. These provisions have been summarized, and this description does not purport to be complete. Reference should be made to the Act, the Loan Agreement, the Resolution and the Series 2004A Resolution. Copies of the Loan Agreement, the Resolution and the Series 2004A Resolution are on file with the Authority and the Trustee. See also “Appendix C - Summary of Certain Provisions of the Loan Agreement” and “Appendix D - Summary of Certain Provisions of the Resolution” for a more complete statement of the rights, duties and obligations of the parties thereto.

Payment of the Series 2004A Bonds

The Series 2004A Bonds and all other Bonds which have been or may be issued under the Resolution are special obligations of the Authority. The principal, Sinking Fund Installments, if any, and Redemption Price of and interest on the Series 2004A Bonds and all other Bonds which have been or may be issued under the Resolution are payable solely from the Revenues, which consist of payments to be made by the University pursuant to the Loan Agreement on account of the principal, Sinking Fund Installments, if any, and Redemption Price of and interest on the Bonds. The Revenues and the right to receive them have been pledged to the Trustee for the benefit of the Bondholders.

The Loan Agreement is a general obligation of the University and, except as may otherwise be provided in a Supplemental Loan Agreement entered into by the Authority and the University in connection with a loan to the University of proceeds of one or more Series of Bonds, the Loan Agreement requires the University to make semi-annual payments (on May 15 preceding each July 1 and on November 15 preceding each January 1) in amounts sufficient to pay the interest on and annual payments (on May 15 preceding each July 1) in amounts sufficient to pay the principal and Sinking Fund Installments, if any, of all Bonds (other than Variable Rate Bonds and Option Bonds) Outstanding under the Resolution as such payments become due. Monthly payments of amounts sufficient to pay interest and annual payments of amounts sufficient to pay the principal and Sinking Fund Installments, if any, are required with respect to Variable Rate Bonds and Option Bonds. The Loan Agreement also obligates the University to pay, at least 45 days with respect to Bonds other than Variable Rate Bonds and Option Bonds and 15 days with respect to Variable Rate Bonds and Option Bonds prior to any date on which Bonds are to be called for redemption, the amount, if any, required to pay the Redemption Price of such Bonds. See “PART 3 - THE SERIES 2004A BONDS - Redemption Provisions.”

The Authority has directed, and the University has agreed, to make such payments directly to the Trustee. Such payments are to be applied by the Trustee to the payment of the principal, Sinking Fund Installments, if any, and Redemption Price of and interest on the Bonds.

Security for the Series 2004A Bonds

The Series 2004A Bonds are secured equally with all other Bonds which have been or may be issued under the Resolution by the pledge of the Revenues, the proceeds of the Bonds and, except as otherwise provided in the Resolution, all funds and accounts established by the Resolution and any Series Resolution other than the Arbitrage Rebate Fund.

The Series 2004A Bonds will not be a debt of the State nor will the State be liable thereon. The Authority has no taxing power. Neither the State nor the Authority has any responsibility to make payments with respect to the Series 2004A Bonds except for the Authority’s responsibility to make payments from moneys received from the University pursuant to the Loan Agreement and from amounts held in the funds and accounts under the Resolution and pledged therefor.

The Loan Agreement and the obligation of the University to make payments under the Loan Agreement are general obligations of the University. The obligations of the University to make payments or cause the same to be made under the Loan Agreement are complete and unconditional and the amount, manner and time of making such payments are not to be decreased, abated, postponed or delayed for any cause or by reason of the happening or non-happening of any event, irrespective of any defense or any right of set-off, recoupment or counterclaim which the University may otherwise have against the Authority, the Trustee or any Bondholder for any cause whatsoever.

No security interest in any revenues or assets of the University has been granted by the University to the Authority under the Loan Agreement. However, the University has granted security interests in certain revenues and assets of the University to secure certain of the University's outstanding indebtedness other than the Bonds. See "PART 4 - THE UNIVERSITY - ANNUAL FINANCIAL STATEMENT INFORMATION - University Indebtedness," for a description of such indebtedness of the University secured by certain pledged revenues. In addition, pursuant to the Loan Agreement, the University may incur certain Debt secured by a lien and pledge of revenues of the University without granting to the Authority any security interest in any revenues to secure the University's obligations under the Loan Agreement. See "Covenants - *Limitations on Liens*" below. In the event of a default under any debt instrument secured by such pledged revenues, the holder or trustee under such debt instrument (including the Authority) will have the right to collect a portion or all of such pledged revenues, and apply the revenues so collected to the payment of amounts due under such debt instrument. Any revenues so collected and applied will not be available for satisfying any of the University's obligations under the Loan Agreement.

Covenants

The University has made in the Loan Agreement certain covenants regarding maintenance of the ratio of its Available Assets to its General Liabilities and maintenance of its assets, as more fully described below. Failure by the University to comply with any of these covenants will not constitute an event of default under the Loan Agreement or the Resolution if the University complies with the provisions relating to a Management Consultant as provided in the Loan Agreement. The University has also covenanted in the Loan Agreement that, except to the extent permitted under the Loan Agreement, it will not encumber its assets to secure indebtedness, as more fully described below. Failure by the University to comply with this covenant will constitute an event of default under the Loan Agreement and the Resolution.

Ratio of Available Assets to General Liabilities

The University has covenanted that it will maintain at all times the ratio of its Available Assets to its General Liabilities of at least 2.00 to 1.00. As of March 31, 2004, the ratio of the University's Available Assets to its General Liabilities was approximately 2.85 to 1.00. The University is required to demonstrate compliance with this covenant by filing quarterly certificates with the Authority. Failure by the University to comply with this covenant will not constitute an event of default under the Loan Agreement or the Resolution if the University complies with the provisions relating to a Management Consultant as provided in the Loan Agreement. See "Appendix B - Consolidated Financial Statements of the University of Rochester and Related Entities (With Independent Auditors' Report Thereon)" and "Appendix C - Summary of Certain Provisions of the Loan Agreement - Financial Covenants and Management Consultant."

Maintenance of Assets

The University has covenanted that it will at all times maintain, as an asset of the University, securities derived from gifts and bequests which are free and clear of any pledge, lien, charge, security interest or other encumbrance, which are not subject to any statutory, contractual or other restriction, and which have a market value of at least 120% of the aggregate principal amount of outstanding Short Term Debt. The University is required to demonstrate compliance with this covenant by filing quarterly certificates with the Authority. Failure by the University to comply with this covenant will not constitute an event of default under the Loan Agreement or the Resolution if the University complies with the provisions relating to a Management Consultant as provided in the Loan Agreement. See "Appendix B - Consolidated Financial Statements of the University of Rochester and Related Entities (With Independent Auditors' Report Thereon)" and "Appendix C - Summary of Certain Provisions of the Loan Agreement - Financial Covenants and Management Consultant."

Limitation on Liens

The University has covenanted that it will not issue, assume or guarantee any Debt secured by Liens upon any Restricted Property or create, incur or assume any Liens on Restricted Property to secure Debt, unless the obligations of the University under the Loan Agreement are secured equally and ratably with or prior to all other obligations secured

by such Lien, with certain exceptions (the “Excepted Debt”), including: (i) Liens to secure all or any part of the purchase price or cost of construction of Restricted Property acquired or constructed by the University, provided that, among other things, the Debt secured by any such Lien is non-recourse to the University and the amount of Debt does not exceed 95% of the purchase price or cost of construction; (ii) Liens on Restricted Property existing at the time of acquisition of such Restricted Property by the University, provided that, among other things the Debt secured by any such Lien is non-recourse to the University and that the amount of Debt does not exceed 95% of the fair market value of such Restricted Property; (iii) Liens to secure Debt incurred to the Authority or to secure bonds, notes or other obligations of the Authority; (iv) with the consent of the Authority, Liens upon Restricted Property to secure obligations incurred by the University to the issuer of a Liquidity Facility or Credit Facility pursuant to an agreement relating thereto; and (v) extensions, renewals or replacements of any Liens of the types referred to in the preceding four clauses. See “Appendix C - Summary of Certain Provisions of the Loan Agreement - Limitation on Liens.”

Notwithstanding the limitations set forth in the preceding paragraph, the University may issue, assume or guarantee Debt secured by Liens or create, incur or assume Liens to secure Debt if (i) the value of all Restricted Property securing Debt (other than Restricted Property securing Excepted Debt) does not exceed 20% of the University’s total assets or such higher percentage as the Authority may consent to, and (ii) the aggregate principal amount of all Debt secured by Liens (other than Excepted Debt) does not exceed 20% of the University’s total assets or such higher percentage as the Authority may consent to. In no event may the University issue, assume or guarantee any Debt secured by Liens upon the University’s portfolio of stocks, bonds, notes or other investments or create, incur or assume Liens upon the University’s portfolio of stocks, bonds, notes or other investments to secure Debt (other than Debt incurred to the Authority), if at the time such Debt is issued, assumed or guaranteed or such Lien is created, incurred or assumed : (a) the market value of the University’s portfolio subject to Liens plus the proposed Liens to secure such Debt is more than 10% (or such higher percentage as the Authority may consent to) of the total value of the University’s portfolio less 110% of the principal amount of Bonds then Outstanding, or (b) the market value of the University’s unpledged and unrestricted portfolio is less than 110% of the principal amount of the Bonds then Outstanding. See “Appendix C - Summary of Certain Provisions of the Loan Agreement - Exempted Transactions.”

In addition to the aforementioned secured indebtedness permitted under the Loan Agreement, the Loan Agreement permits the University to secure Debt issued by the Authority under any resolution of the Authority other than the Resolution. Such Debt may be secured with the University’s stocks, bonds, real estate or other assets. Any assets securing Debt issued under a resolution of the Authority other than the Resolution would not be for the benefit of the Bondholders under the Resolution.

Events of Default and Acceleration

The following are events of default under the Resolution: (i) a default in the payment of the principal, Sinking Fund Installment, if any, or Redemption Price of or interest on any Bond; (ii) a default by the Authority in the due and punctual performance of the tax covenants contained in the Resolution, as a result of which the interest on Bonds of a Series is no longer excludable from gross income under the Code; (iii) a default by the Authority in the due and punctual performance of any other of the covenants, conditions, agreements and provisions contained in the Bonds or in the Resolution or any Series Resolution on the part of the Authority to be performed and the continuance of such default for 30 days after written notice specifying such default and requiring the same to be remedied shall have been given to the Authority by the Trustee, which may give such notice in its discretion and shall give such notice at the written request of the Holders of not less than 25% in principal amount of the Outstanding Bonds; or (iv) an event of default under the Loan Agreement shall have been declared and is continuing and all sums payable by the University under the Loan Agreement have been declared immediately due and payable (unless such declaration has been annulled). Unless otherwise specified above, an event of default under the Loan Agreement is not an event of default under the Resolution.

The Resolution provides that if an event of default (other than as described in clause (ii) of the preceding paragraph) occurs and continues, the Trustee may, and upon the written request of Holders of not less than 25% in principal amount of the Bonds Outstanding, by notice in writing to the Authority, is to declare the principal of and interest on all of the Bonds Outstanding to be due and payable at the expiration of 30 days after such notice is given. At the expiration of 30 days from the giving of such notice, such principal and interest will become immediately due and payable. The Trustee, with the written consent of the Holders of not less than 25% in principal amount of Bonds not yet due by their terms and then Outstanding, will annul such declaration and its consequences under the terms and conditions specified in the Resolution with respect to such annulment.

Notwithstanding any other provision of the Resolution to the contrary, upon the Authority's failure to comply with the covenant described in subclause (ii) of the first paragraph under this heading, upon the direction of the Holders of not less than 25% in principal amount of the Outstanding Bonds of the Series affected thereby, the Trustee is to exercise the rights and remedies provided to the Bondholders under the Resolution. However, the Resolution provides that in no event may the Trustee, whether or not it is acting at the direction of the Holders of 25% or more in principal amount of the Outstanding Bonds of the Series affected thereby, declare the principal of such Series of Bonds, and the interest accrued thereon, to be due and payable immediately as a result of the Authority's failure to comply with such covenant.

The Resolution provides that the Trustee is to give notice in accordance with the Resolution of each event of default known to the Trustee to the Holders of the Bonds within 30 days after knowledge of the occurrence thereof unless such default has been remedied or cured before the giving of such notice. However, except in the case of default in the payment of the principal, Sinking Fund Installment, if any, or Redemption Price of, or interest on, any of the Bonds, the Trustee is protected in withholding such notice thereof from the Holders if the Trustee in good faith determines that the withholding of such notice is in the best interests of the Holders of the Bonds.

Issuance of Additional Bonds

In addition to the Series 2004A Bonds, the Resolution authorizes the issuance of other Series of Bonds to finance one or more projects and for other specified purposes including to refund Outstanding Bonds or other notes or bonds of the Authority issued on behalf of the University. The Bonds which may be issued include Capital Appreciation Bonds, Deferred Income Bonds, Option Bonds and Variable Interest Rate Bonds.

General

The Series 2004A Bonds will not be a debt of the State nor will the State be liable thereon. The Authority has no taxing power. The Authority has never defaulted in the timely payment of principal or sinking fund installments of or interest on its bonds or notes. See "PART 8 - THE AUTHORITY."

PART 3 - THE SERIES 2004A BONDS

Set forth below is a narrative description of certain provisions relating to the Series 2004A Bonds. These provisions have been summarized and this description does not purport to be complete. Reference should be made to the Resolution, the Series 2004A Resolution and the Loan Agreement, copies of which are on file with the Authority and the Trustee. See also "Appendix C - Summary of Certain Provisions of the Loan Agreement" and "Appendix D - Summary of Certain Provisions of the Resolution" for a more complete description of certain provisions of the Series 2004A Bonds.

Description of the Series 2004A Bonds

The Series 2004A Bonds will be dated their date of delivery, and will bear interest from such date (payable on January 1, 2005 and on each July 1 and January 1 thereafter) at the rates set forth on the cover page of this Official Statement.

The Series 2004A Bonds will be issued as fully registered bonds. The Series 2004A Bonds will be issued in denominations of \$5,000 or any integral multiple thereof. The Series 2004A Bonds will be registered in the name of Cede & Co., as nominee of DTC, pursuant to DTC's Book-Entry Only System. Purchases of beneficial interests in the Series 2004A Bonds will be made in book-entry form, without certificates. If at any time the Book-Entry Only System is discontinued for the Series 2004A Bonds, the Series 2004A Bonds will be exchangeable for other fully registered Series 2004A Bonds in any other authorized denominations of the same series and maturity without charge except the payment of any tax, fee or other governmental charge to be paid with respect to such exchange, subject to the conditions and restrictions set forth in the Resolution. See "Book-Entry Only System" herein and "Appendix D - Summary of Certain Provisions of the Resolution."

Interest on the Series 2004A Bonds will be payable by check mailed to the registered owners thereof. The principal of the Series 2004A Bonds will be payable in lawful money of the United States of America at the principal corporate trust office of The Bank of New York, New York, New York, the Trustee and Paying Agent. As long as the Series 2004A Bonds are registered in the name of Cede & Co., as nominee of DTC, such payments will be made directly to DTC. See "Book-Entry Only System" herein.

Redemption Provisions

The Series 2004A Bonds are subject to redemption as described below.

Optional Redemption

The Series 2004A Bonds maturing on or before July 1, 2014 are not subject to optional redemption prior to maturity. The Series 2004A Bonds maturing after July 1, 2014 are subject to redemption prior to maturity in any order at the option of the Authority, as a whole or in part at any time, on or after July 1, 2014, at a price of par plus accrued interest to the redemption date.

Special Redemption

The Series 2004A Bonds are subject to redemption prior to maturity at the option of the Authority, in whole or in part on any interest payment date, at 100% of the principal amount thereof plus accrued interest to the redemption date (i) from proceeds of a condemnation or insurance award, which proceeds are not used to repair, restore or replace the 2004A Project; and (ii) from unexpended proceeds of the Series 2004A Bonds upon the abandonment of all or a portion of the 2004A Project due to a legal or regulatory impediment. See "PART 5 - THE 2004A PROJECT."

Mandatory Redemption

In addition, the Series 2004A Bonds are also subject to redemption, in part, on each July 1 of the years and in the respective principal amounts set forth below, at 100% of the principal amount thereof, plus accrued interest to the date of redemption, from mandatory Sinking Fund Installments which are required to be made in amounts sufficient to redeem on July 1 of each year the principal amount of Series 2004A Bonds specified for each of the years shown below:

<u>Series 2004A Term Bonds Maturing on July 1, 2034</u>		<u>Series 2004A Term Bonds Maturing on July 1, 2039</u>	
<u>Year</u>	<u>Sinking Fund Installments</u>	<u>Year</u>	<u>Sinking Fund Installments</u>
2026	\$1,385,000	2035	\$2,150,000
2027	1,455,000	2036	2,260,000
2028	1,525,000	2037	2,375,000
2029	1,605,000	2038	2,495,000
2030	1,685,000	2039 †	2,625,000
2031	1,765,000		
2032	1,855,000		
2033	1,950,000		
2034 †	2,045,000		

†Final maturity.

Selection of Bonds to be Redeemed. In the case of redemptions of Series 2004A Bonds at the option of the Authority or the University, the Authority or the University will select the maturities of the Series 2004A Bonds to be redeemed. If less than all of the Series 2004A Bonds of a maturity are to be redeemed, the Series 2004A Bonds of such maturity to be redeemed will be selected by the Trustee, by lot, using such method of selection as the Trustee shall consider proper in its discretion. DTC has informed the Authority that so long as DTC acts as securities depository for the Series 2004A Bonds, if less than all of the Series 2004A Bonds of a maturity are called for redemption, the particular Series 2004A Bonds of such maturity or portions thereof to be redeemed will be selected by lot by DTC and the DTC Participants in accordance with their procedures. See "Book-Entry Only System" below.

Notice of Redemption. The Trustee is to mail a copy of such notice postage prepaid, not less than 30 days nor more than 45 days prior to the redemption date to the registered owners of any Series 2004A Bonds which are to be redeemed, at their last known addresses, if any, appearing on the registration books but such mailing is not a condition precedent to such redemption and failure to mail such notice to any such registered owners will not affect the validity of the proceedings for the redemption of such Series 2004A Bond. If directed in writing by an Authorized Officer of the Authority, the Trustee shall publish or cause to be published such notice in an Authorized Newspaper not less than 30 days nor more than 45 days prior to the redemption date, but such publication is not a condition precedent to such redemption and failure to publish such notice or any defect in such notice or publication will not affect the validity of the proceedings for the redemption of such Series 2004A Bonds.

If, on the redemption date, moneys for the redemption of the Series 2004A Bonds of like maturity to be redeemed, together with interest thereon to the redemption date, are held by the Trustee so as to be available for payment of the Redemption Price, and if notice of redemption has been mailed, then interest on the Series 2004A Bonds of such maturity will cease to accrue from and after the redemption date and such Series 2004A Bonds will no longer be considered to be Outstanding under the Resolution.

For a more complete description of the redemption and other provisions relating to the Series 2004A Bonds, see “Appendix D - Summary of Certain Provisions of the Resolution.” Also see “Book-Entry Only System” below for a description of the notices of redemption to be given to Beneficial Owners of the Series 2004A Bonds when the Book-Entry Only System is in effect.

Book-Entry Only System

The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the Series 2004A Bonds. The Series 2004A Bonds will be issued as fully-registered securities in the name of Cede & Co. (DTC’s partnership nominee), or such other name as may be requested by an authorized representative of DTC. One fully-registered Series 2004A Bond certificate will be issued for each maturity of each Series of the Series 2004A Bonds, each in the aggregate principal amount of such maturity of such Series, and will be deposited with DTC.

DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, GSCC, MBSCC and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Series 2004A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2004A Bonds on DTC’s records. The ownership interest of each actual purchaser of each Series 2004A Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2004A Bonds are to be accomplished by entries made on the books of Direct and Indirect

Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in any Series of the Series 2004A Bonds, except in the event that use of the book-entry system for a Series of the Series 2004A Bonds is discontinued.

To facilitate subsequent transfers, all Series 2004A Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2004A Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2004A Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2004A Bonds are credited, which may or may not be the Beneficial Owners. The Direct or Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Series 2004A Bonds within a maturity of the Series 2004A Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Series 2004A Bonds. Under its usual procedures, DTC mails an omnibus proxy (the "Omnibus Proxy") to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2004A Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, redemption premium, if any, and interest payments on the Series 2004A Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon receipt of funds and corresponding detailed information from the Authority or the Trustee on the payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the payable date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in street name, and will be the responsibility of such Participant and not of DTC, the Trustee or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, redemption premium, if any, and interest to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC, is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners is the responsibility of Direct and Indirect Participants.

The Authority and the Trustee may treat DTC (or its nominee) as the sole and exclusive registered owner of the Series 2004A Bonds registered in its name for the purposes of payment of the principal and redemption premium, if any, of, or interest on, the Series 2004A Bonds, giving any notice permitted or required to be given to registered owners under the Resolution, registering the transfer of the Series 2004A Bonds, or other action to be taken by registered owners and for all other purposes whatsoever. The Authority and the Trustee shall not have any responsibility or obligation to any Direct or Indirect Participant, any person claiming a beneficial ownership interest in the Series 2004A Bonds under or through DTC or any Direct or Indirect Participant, or any other person which is not shown on the registration books of the Authority (kept by the Trustee) as being a registered owner, with respect to the accuracy of any records maintained by DTC or any Direct or Indirect Participant; the payment by DTC or any Direct or Indirect Participant of any amount in respect of the principal, redemption premium, if any, or interest on the Series 2004A Bonds; any notice which is permitted or required to be given to registered owners thereunder or under the conditions to transfers or exchanges adopted by the Authority; or other action taken by DTC as registered owner. Interest, redemption premium, if any, and principal will be paid by the Trustee to DTC, or its nominee. Disbursement of such payments to the Direct or Indirect Participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of the Direct or Indirect Participants.

For every transfer and exchange of beneficial ownership of any of the Series 2004A Bonds, a Beneficial Owner may be charged a sum sufficient to cover any tax, fee or other governmental charge that may be imposed in relation thereto.

DTC may discontinue providing its service with respect to a Series of the Series 2004A Bonds at any time by giving notice to the Authority and discharging its responsibilities with respect thereto under applicable law, or the Authority may terminate its participation in the system of book-entry transfer through DTC at any time by giving notice to DTC. In either event, the Authority may retain another securities depository for a Series of the Series 2004A Bonds or may direct the Trustee to deliver bond certificates in accordance with instructions from DTC or its successor. If the Authority directs the Trustee to deliver such bond certificates, such Series 2004A Bonds of a Series may thereafter be exchanged for an equal aggregate principal amount of Series 2004A Bonds of a Series in any other authorized denominations and of the same maturity as set forth in the Resolution, upon surrender thereof at the principal corporate trust office of the Trustee, who will then be responsible for maintaining the registration books of the Authority.

Unless otherwise noted, certain of the information contained in the preceding paragraphs of this subsection "Book-Entry Only System" has been extracted from information given by DTC. Neither the Authority nor the Trustee makes any representation as to the completeness or the accuracy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof.

NEITHER THE AUTHORITY NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATIONS TO SUCH DTC PARTICIPANTS, INDIRECT PARTICIPANTS, OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE PAYMENTS TO OR THE PROVIDING OF NOTICE FOR SUCH DTC PARTICIPANTS, INDIRECT PARTICIPANTS, OR THE BENEFICIAL OWNERS. PAYMENTS MADE TO DTC OR ITS NOMINEE SHALL SATISFY THE AUTHORITY'S OBLIGATION UNDER THE ACT AND THE RESOLUTION TO THE EXTENT OF SUCH PAYMENTS.

So long as Cede & Co. is the registered owner of the Series 2004A Bonds, as nominee for DTC, references herein to the Bondholders or registered owners of the Series 2004A Bonds (other than under the captions "PART 11 - TAX EXEMPTION" and "PART 16 - CONTINUING DISCLOSURE" herein) shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of the Series 2004A Bonds.

Principal and Interest Requirements

The following table sets forth the amounts required to be paid by the University during each twelve month period ending June 30 of the years shown below for the payment of (i) the principal of the Series 2004A Bonds payable on the succeeding July 1, the interest on the Series 2004A Bonds payable on January 1 of such year and on the succeeding July 1, and total debt service on the Series 2004A Bonds, (ii) debt service on other outstanding indebtedness for which the University is obligated, and (iii) total debt service on all indebtedness for which the University is obligated, including the Series 2004A Bonds.

Debt Service on University Indebtedness

<u>Year Ending June 30,</u>	<u>Series 2004A Bonds</u>			<u>Other University Debt Service *</u>	<u>Total University Debt Service</u>
	<u>Principal</u>	<u>Interest Payments</u>	<u>Total</u>		
2005	\$465,000	\$1,873,635	\$2,338,635	\$45,010,495	\$47,349,130
2006	560,000	2,197,554	2,757,554	45,189,059	47,946,613
2007	575,000	2,180,754	2,755,754	38,131,368	40,887,122
2008	600,000	2,160,629	2,760,629	36,698,002	39,458,631
2009	620,000	2,139,629	2,759,629	36,120,453	38,880,082
2010	645,000	2,114,829	2,759,829	26,240,578	29,000,407
2011	670,000	2,089,029	2,759,029	34,089,822	36,848,851
2012	705,000	2,055,529	2,760,529	33,778,508	36,539,037
2013	740,000	2,020,279	2,760,279	32,590,354	35,350,633
2014	775,000	1,983,279	2,758,279	33,068,441	35,826,720
2015	815,000	1,944,529	2,759,529	33,142,193	35,901,722
2016	855,000	1,903,779	2,758,779	46,009,580	48,768,359
2017	890,000	1,867,869	2,757,869	31,919,799	34,677,668
2018	930,000	1,830,044	2,760,044	32,042,056	34,802,100
2019	975,000	1,783,544	2,758,544	31,873,535	34,632,079
2020	1,025,000	1,734,794	2,759,794	29,748,341	32,508,135
2021	1,075,000	1,680,981	2,755,981	29,649,640	32,405,621
2022	1,135,000	1,624,544	2,759,544	22,764,932	25,524,476
2023	1,195,000	1,564,956	2,759,956	22,631,528	25,391,484
2024	1,255,000	1,502,219	2,757,219	21,401,470	24,158,689
2025	1,320,000	1,436,331	2,756,331	19,503,920	22,260,251
2026	1,385,000	1,373,631	2,758,631	11,884,917	14,643,548
2027	1,455,000	1,304,381	2,759,381	11,883,536	14,642,917
2028	1,525,000	1,231,631	2,756,631	3,834,218	6,590,849
2029	1,605,000	1,155,381	2,760,381	3,794,830	6,555,211
2030	1,685,000	1,075,131	2,760,131	3,742,553	6,502,684
2031	1,765,000	990,881	2,755,881	3,680,662	6,436,543
2032	1,855,000	902,631	2,757,631	2,273,200	5,030,831
2033	1,950,000	809,881	2,759,881	2,265,486	5,025,367
2034	2,045,000	712,381	2,757,381	-	2,757,381
2035	2,150,000	610,131	2,760,131	-	2,760,131
2036	2,260,000	499,944	2,759,944	-	2,759,944
2037	2,375,000	384,119	2,759,119	-	2,759,119
2038	2,495,000	262,400	2,757,400	-	2,757,400
2039	2,625,000	134,531	2,759,531	-	2,759,531

* Interest on the Series 2003 Bonds is assumed to accrue at the fixed payment rate of 3.97% per annum under the related swaps.

PART 4 - THE UNIVERSITY

GENERAL INFORMATION

General

The University of Rochester, founded in 1850, is an independent, nonprofit institution of higher education, research, and health care located in Rochester, New York. It is a coeducational, nonsectarian university, accredited and incorporated under the authority of the Board of Regents of the State. The University also includes, among other operating divisions or entities, Strong Memorial Hospital, which is a part of the University Medical Center described below. The University is governed by a Board of Trustees and derives its income from tuition, fees, patient care revenues, endowment, grants from private foundations and government, and from gifts from friends, alumni, corporations and other private philanthropies.

The University is comprised of seven schools and colleges offering programs which range from the undergraduate through the postdoctoral level. It is a member of the Association of American Universities and is accredited by the Middle States Association of Colleges and Schools. In addition, its various professional and graduate programs are separately accredited by their respective professional associations, including the Accreditation Board of Engineering and Technology, the National League for Nursing, the National Association of Schools of Music, the American Medical Association, the American Psychological Association, and the American Assembly of Collegiate Schools of Business. The Margaret Warner Graduate School of Education and Human Development is accredited by the New York State Education Department.

Academic programs include the humanities, social sciences, natural sciences and the professional fields of engineering, education, management, music, medicine and nursing. These programs presently are staffed by a full-time tenure-track faculty of approximately 1,000 men and women. In addition to its regular academic sessions, which include two regular semesters and special summer sessions, each school offers courses for part-time students.

The University's seven academic units plus its Memorial Art Gallery are located on five campuses. The largest of these is the River Campus, overlooking the Genesee River and housing four of the University's schools and colleges: the College of Arts and Sciences and its School of Engineering and Applied Science (collectively, the "College"), the Margaret Warner Graduate School of Education and Human Development, and the William E. Simon Graduate School of Business Administration. In addition to the sixteen academic buildings housing these units, the River Campus includes twenty-two residential and dining halls, five athletic facilities, the Interfaith Chapel, and administrative support buildings.

The University Medical Center (also referred to as the "Medical Center"), adjoining the River Campus, houses the School of Medicine and Dentistry, the School of Nursing, the Eastman Dental Center, and Strong Memorial Hospital, which is described in more detail in "PART 5 - THE HOSPITAL/MEDICAL CENTER." The Medical Center Strategic Plan, adopted by the University's Board of Trustees in 1996, resulted in the creation of the Aab Institute for Biomedical Research, recruitment through 2002-03 of 74 faculty members in the School of Medicine and Dentistry, and the construction of two biomedical research facilities. During the 2002-03 fiscal year, research funding from the National Institutes of Health totaled \$129 million.

The Eastman School of Music, located in downtown Rochester, has its own academic and auxiliary service buildings which contain special facilities for the instruction, research, practice and performance of music. The 3,100-seat Eastman Theater and the 460-seat Kilbourn Hall, both integral parts of the Eastman School, are used for performances by Eastman School groups and by the community's major orchestras and visiting artists. A 16-story residence hall provides on-campus housing for approximately 370 students.

The Memorial Art Gallery, which is owned and operated by the University, houses a permanent collection of paintings by American and European masters, as well as sculpture and decorative arts, and offers arts and craft classes for adults and children.

The University's library system contains more than 3 million printed volumes and subscribes to approximately 12,000 current periodicals and other serial publications. The system includes the Edward G. Miner Library, serving the Medical Center, and the Sibley Music Library, one of the largest academic music libraries in the western hemisphere, serving the Eastman School of Music. The University is a member of the Association of Research Libraries.

Other special facilities and programs include the Center for Optoelectronics and Imaging, a 120,000 square foot research facility; the C.E.K. Mees Observatory, located south of Rochester; the specialized laboratories and shops of the Institute of Optics; and the Laboratory for Laser Energetics. The University's Laboratory for Laser Energetics is a unique national resource. Established in 1970 as a center for the investigation of the interaction of intense radiation with matter, the laboratory has the five-fold mission of (1) conducting implosion and basic physics experiments in support of the National Inertial Confinement Fusion Program; (2) developing new laser and materials technologies; (3) providing graduate and undergraduate education in electro-optics, high-power lasers, high-energy-density physics, plasma physics, and nuclear fusion technology; (4) operating the National Laser Users' Facility; and (5) conducting research and development in advanced technology related to high-energy-density phenomena. A planned upgrade of the facility called the Omega Enhanced Performance Project is intended to ensure the long-term viability of the laboratory, allow for advances in fusion research, and permit exploration of new and exciting physics. The William E. Simon Graduate School of Business Administration, which operates the Bradley Policy Research Center, also offers cooperative programs with Nyenrode University in the Netherlands and The University of Bern in Switzerland.

Governance

The University's Board of Trustees (the "Board") consists of not more than 42 persons, as from time to time determined by the Board. Each is selected to serve a term of five years, renewable for an additional five years. Regular meetings of the Board are held during the week preceding the annual Commencement and at other times during each year in the fall and winter, as determined by the Board. The current members of the Board are as follows:

Richard T. Aab
Chairman, USLEC Corp and
General Partner, Melrich Associates

Ernest A. Bates, M.D
Chairman and CEO
American Shared Hospital Services

Joel S. Beckman *
Managing Partner
Greenbriar Equity Group LLC

Laurence H. Bloch *
Chairman
TransWestern Publishing Co., L.P.

Sheila E. Blumstein
Mead Professor of Cognitive and
Linguistic Sciences
Brown University

Ursula M. Burns
President, Business Group Operations
Xerox Corporation

William M. Carpenter *
Managing Director
Unicorp Ventures

Steven Chu
Director
Lawrence Berkeley National Lab

Launcelot F. Drummond
Senior Vice President and
Transaction Services Executive
Bank of America, N.A.

Barry W. Florescue
CEO and Chairman of the Board
Marietta Corporation, and
CFG, BMD, and BFMA

Roger B. Friedlander *
Retired, Staples, Inc.

Jerry Gardner *
President
C. A. Gardner & Associates

Myra Gelband *
Retired Senior Editor
Sports Illustrated

Robert B. Goergen
Chairman
Blyth, Inc.

Gwen Meltzer Greene
Associate Director
Bear, Stearns & Co., Inc.

Edmund A. Hajim
Chairman and CEO
MLH Capital, LLC

Alan F. Hilfiker
Partner
Harter, Secrest, and Emery

Robert H. Hurlbut
President
Hurlbut Trust

Thomas H. Jackson *
President and CEO
University of Rochester

Michael E. Jones
Managing Director
Clover Capital Management

Louis G. Lange, M.D. *
Chairman and CEO
CV Therapeutics

Gail Ann Lione
Vice President, Secretary
and General Counsel
Harley-Davidson Motor Company

Joseph P. Mack *
President
MT Development Co.

Bala S. Manian
ReaMetrix Inc.

Barry M. Meyer
Chairman & Chief Executive
Warner Brothers, Inc.

Cathy E. Minehan *
President and CEO
Federal Reserve Bank of Boston

Robert M. Osieski *
Vice President
J. P. Morgan Securities, Inc.

Francis L. Price
CEO
Q3 Industries

Thomas S. Richards
Retired Chairman, President and CEO
RGS Energy Group

Hugo F. Sonnenschein *
President Emeritus and Professor
University of Chicago

Peter D. Standish
Partner, Retired
Weil, Gotshal & Manges

Raymond C. Stark
Retired VP Six Sigma & Productivity
Honeywell

Danny R. Wegman
President
Wegmans Food Markets, Inc.

Ralph R. Whitney, Jr. *
Chairman
Hammond, Kennedy, Whitney & Co.

Carl C. Williams *
Retired Principal Group

Nathaniel Wisch, M.D.
Physician, Private Practice and
Assoc. Clinical Professor of Medicine
Mount Sinai School of Medicine,
Adjunct Professor of Medicine
New York University School of Medicine
Chief of Hematology, Lenox Hill Hospital

G. Robert Witmer, Jr. *
Partner (Attorney)
Nixon Peabody LLP †

* Member of the Executive Committee.

† The firm of Nixon Peabody LLP serves as counsel to the University.

The Board has thirteen standing Committees: Academic Affairs, Audit and Risk Assessment, Compliance and Compensation, Development, Executive, External Affairs, Facilities, Financial Planning, Health Affairs, Investment, Nominations and Board Practices, Personnel and Student Affairs. Between meetings of the Board, the Executive Committee exercises the powers of the Board in all matters except those specifically requiring action of the full Board pursuant to the Bylaws, e.g., the granting of degrees, removals from office, election of trustees, and the amendment, alteration or repeal of the Bylaws.

The Board has delegated certain authority and responsibility for managing two divisions of the University, Strong Memorial Hospital and Eastman Dental Center, to the Medical Center Board, subject to powers expressly retained by the Board. The Medical Center Board currently has 44 members. This includes the President, the Provost, the Senior Vice President and Vice Provost for Health Affairs, the Medical Center Vice President and Chief Operating Officer, the Medical Center Vice President and Chief Financial Officer, the President and Chief Executive Officer of the Hospital, the Dean of the School of Medicine and Dentistry, the Dean of the School of Nursing, the Director of the University of Rochester Medical Faculty Group, the Director of the Eastman Dental Center, two Department Chairs of clinical departments from the School of Medicine and Dentistry, one member of the community-based faculty from the Medical Staff, several University Trustees, and individuals from the community, all of whom are appointed by the Board. A representative of the Friends of Strong (the Hospital's volunteer organization) serves as an ex-officio, non-voting member. The Medical Center Board operates under by-laws approved by the Board and reports regularly to the Trustees concerning the operation of the Hospital and Eastman Dental Center. Express approval of the Board is required before action is taken by the Medical Center Board which would (1) result in a call upon the financial resources of the University not dedicated for the support of the Hospital or the Eastman Dental Center, (2) have a major impact on University academic programs, or (3) contravene policies of the University established by the Board.

Administration

The University is administered on a day-to-day basis by the President and his administrative staff. The principal officers of the University as of July 1, 2004 are:

Thomas H. Jackson, President and Chief Executive Officer. Mr. Jackson was appointed President of the University of Rochester on July 1, 1994. Before he became the University's ninth President, Mr. Jackson was Vice President and Provost of the University of Virginia, which he first joined in 1988 as Arnold H. Leon Professor of Law and Dean of Virginia's School of Law. He had been Professor of Law at Harvard from 1986 to 1988 and served on the Stanford University faculty from 1977 to 1986. A graduate of Williams College, Mr. Jackson earned his law degree from Yale University in 1975. He first clerked for the U.S. District Court Judge Marvin E. Frankel in New York in 1975-76, and then for Supreme Court Justice (now Chief Justice) William H. Rehnquist in 1976-77. While on leave from Stanford, he was an associate at the San Francisco law firm of Heller, Ehrman, White & McAuliffe from 1979 to 1981, and remained as special counsel from 1981 to 1986. He is the author of bankruptcy and commercial law texts used in law schools across the country. Mr. Jackson has announced his retirement effective June 30, 2005 and a search is currently underway for his successor.

Charles E. Phelps, Provost. Mr. Phelps joined the University in 1984 as Director of the Public Policy Analysis Program, a graduate program offered by the Department of Political Science, in conjunction with the Department of Economics. From 1989 through 1994 he served as Chair of the Department of Community and Preventive Medicine in the School of Medicine and Dentistry. In 1994, Mr. Phelps was appointed to his current position in which he oversees the entire academic activity of the University, including all teaching and research in each of the University's seven schools. Prior to joining the University, Mr. Phelps worked at the RAND Corporation from 1971 to 1984 as Staff Economist, Senior Staff Economist and (in his last 5 years there) as Director of RAND's Program on Regulatory Policies and Institutions. He received a Bachelor of Arts degree in hospital administration (1968) and a Ph.D. in business economics (1973) from the University of Chicago. Mr. Phelps has authored numerous books, articles, chapters, reviews and reports on the economics of health care.

Paul Burgett, Vice President and General Secretary. Mr. Burgett joined the University in 1981 as the Dean of Students at Eastman School of Music, became Vice President and University Dean of Students in 1987 and assumed his current position in 2001. Prior to this position, Mr. Burgett was the Executive Director of Hochstein Memorial Music School from 1970 to 1972, music teacher in the Greece Central School District from 1973 to 1977, and Assistant Professor of Music at Nazareth College from 1976 to 1981. He received a Bachelor of Music (1968), Master of Arts (1972) and Ph.D. in music education (1976) from the Eastman School of Music. Mr. Burgett is a former Chairman of the Board of Trustees of the Margaret Woodbury Strong Museum and serves on the Board of Directors of the Urban League of Rochester. He is Chairman of the National Advisory Board of the Center for Black Music Research at Columbia College, Chicago.

Ronald J. Paprocki, Senior Vice President for Administration and Finance and Chief Financial Officer. As Chief Financial Officer, Mr. Paprocki is responsible for the University's financial operations as well as budgeting, planning, and the treasury function. He oversees the University Budget Office, Finance Office (including the offices of Controller, Accounts Payable, Financial Reporting and Analysis, Payroll and Employee Record Center, and Sponsored Program Accounting), Internal Audit Office and Treasury Management. He is in charge of the University's administrative and support operations including Facilities and Services, Human Resources, Purchasing and Auxiliary Operations, and Research and Project Administration. He also oversees Planning and Project Administration. In addition to in-depth experience in the financial arena, his thirty plus years at the University have provided him with an intimate knowledge of the University's programs as well as broad experience in administrative support and student service areas. He joined the central administration in 1986 after serving as chief administrative officer for the College of Arts and Sciences. Mr. Paprocki is a Phi Beta Kappa graduate of the University of Rochester in the class of 1969. He also holds an MBA from the University's William E. Simon Graduate School of Business Administration. He has served on various community boards and committees and is currently a member of the Mayor's Stewardship Council of the City of Rochester.

C. McCollister Evarts, M.D., Senior Vice President and Vice Provost for Health Affairs; Medical Center and Strong Health System Chief Executive Officer. Named to the position in September 2003, Dr. Evarts previously served as CEO of the Milton S. Hershey Medical Center and Senior Vice President and Dean of Pennsylvania State University's College of Medicine. During his tenure there beginning in 1987, Dr. Evarts presided over the expansion of clinical services, the tripling of both the organization's faculty and its research funding, the construction of a seven-story biomedical research facility, and the initiation of a new medical school curriculum. A graduate of Colgate University and the University of Rochester School of Medicine and Dentistry, he completed his internship and residency in orthopaedic surgery at Strong Memorial Hospital. In 1964, he joined the Cleveland Clinic Foundation and, over the next decade, headed that institution's orthopaedic residency training program and ultimately served as chair of its Department of Orthopaedics. He returned to the University of Rochester in 1974 as chair of orthopaedics, Dorris H. Carlson Professor of Orthopaedics, and Orthopaedist-in-Chief at Strong Memorial Hospital.

Douglas W. Phillips, Senior Vice President for Institutional Resources. Mr. Phillips joined the University in October 2000. He was previously Treasurer of Williams College, where he was employed from 1986 until leaving to join the University. Prior to 1986, he spent five years as the manager of investment administration for Princeton University and two years as a financial analyst with Management Planning, Inc. in Princeton. Mr. Phillips oversees the management of the University's endowment and provides strategic oversight of the University's development and advancement programs, including the cultivation of major donors. Mr. Phillips was awarded a Bachelor of Arts degree from Rutgers College, Rutgers University, in 1980 and an MBA from Rensselaer Polytechnic Institute in 1991.

Sue S. Stewart, Esq., Vice President and General Counsel. Ms. Stewart, appointed in 2003, is a well-known specialist in legal affairs for educational institutions and other non-profit organizations. A graduate of Wellesley College and Georgetown Law School, she retired from Nixon Peabody in 2001 after 33 years with the firm, the last three as managing partner of the Rochester office. For many years the primary outside counsel for the University as well as several other educational institutions, her practice concentrated on such legal issues relating to educational institutions as corporate structure and governance, tax-exempt status, fundraising, student affairs, academic affairs, employee relations, risk management, intellectual property, finance, and medical-school affairs. She has served on a number of community organization boards, and her many awards include the 1999 Athena Award from the Greater Rochester Metro Chamber of Commerce, the 2001 Distinguished Volunteer Service Award from the United Neighborhood Centers of Greater Rochester, and the 2003 Alexis de Tocqueville Award from United Way of Greater Rochester.

OPERATING INFORMATION

Student Enrollment

The following table shows enrollments at the University for the past five academic years.

ENROLLMENT SUMMARY

**Fall Enrollment, Full-time and Part-time
Matriculated and Non-Matriculated Students**

Academic Year	Full-Time				Part-Time				Grand Total
	Under- Graduate	Graduate and Professional	Non- Degree	Total	Under- Graduate	Graduate and Professional	Non- Degree	Total	
1999-00	4,300	2,554	46	6,900	145	578	604	1,327	8,227
2000-01	4,243	2,419	44	6,706	143	672	680	1,495	8,201
2001-02	4,436	2,525	38	6,999	131	676	684	1,491	8,490
2002-03	4,439	2,755	40	7,234	118	616	657	1,391	8,625
2003-04	4,353	2,820	42	7,215	108	572	622	1,302	8,517

The following table sets forth the full-time enrollment of matriculated undergraduate and graduate students for the 2003-04 academic year by division.

**2003-04 Full-Time Enrollment
By Academic Division**

<u>Academic Division</u>	<u>Undergraduate</u>	<u>Graduate</u>	<u>Total</u>
The College			
Arts and Sciences	3,595	650	4,245
School of Engineering and Applied Sciences	225*	284	509
Margaret Warner Graduate School of Education and Human Development	-	107	107
William E. Simon Graduate School of Business Administration	-	528	528
School of Medicine and Dentistry	-	846	846
School of Nursing	56	41	97
Eastman School of Music	477	364	841
Totals	4,353	2,820	7,173

*Junior and Seniors.

Student Recruitment

The following table sets forth the number of undergraduate and graduate applications received for admission to full-time and matriculated part-time study in all schools at the University (including transfer students), the number of those applicants accepted, and the number of accepted applicants who enrolled for each of the past five years.

ADMISSIONS STATISTICS

Undergraduate

<u>Academic Year</u>	<u>Applications</u>	<u>Admits</u>	<u>% Admits/ Applicants</u>	<u>New Enrollment</u>	<u>% New Enrollment/ Admits</u>
1999-00	10,214	6,250	61.2	1,378	22.0
2000-01	11,848	5,602	47.3	1,190	21.2
2001-02	11,138	5,500	49.4	1,223	22.2
2002-03	10,165	5,267	51.8	1,159	22.0
2003-04	11,910	5,529	46.4	1,205	21.8

Graduate

<u>Academic Year</u>	<u>Applications</u>	<u>Admits</u>	<u>% Admits/ Applicants</u>	<u>New Enrollment</u>	<u>% New Enrollment/ Admits</u>
1999-00	12,650	2,011	15.9	1,071	53.2
2000-01	12,909	2,107	16.3	958	45.5
2001-02	12,009	2,225	18.5	1,107	49.8
2002-03	13,074	2,085	16.0	1,011	48.5
2003-04	13,989	2,256	16.1	1,097	48.6

The University's student body is composed of students from every state in the United States and from 90 foreign countries. Approximately 1,350 international students were enrolled in the fall of 2003.

The mean SAT scores for entering freshmen at the University continue to be significantly higher than the mean scores for freshmen nationwide. The mean score for University freshmen in the fall of 2003 was 1,309. The national mean for the same year was 1,026. For purposes of comparison, qualitative University data relating to mean SAT scores and grade point averages are based on undergraduate matriculants in the College. Data on applicants to the Eastman School are omitted because the significant criteria for admissions to that division are unique. Over the past two years, the percent of the University's freshmen in the top quarter of their high school graduating class has been approximately 90%. For the past two years, one out of every six freshman was either the valedictorian or salutatorian of his/her high school graduating class. That compares to one out of ten a decade ago.

The table below presents the composite mean SAT scores for the University's incoming freshman classes since 1999 as compared to the national average SAT scores for college-bound high school seniors over the same period.

Composite Mean Scholastic Aptitude Test Scores

Freshman Class Entering Fall

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
University freshmen	1,308	1,315	1,325	1,312	1,309
National	1,016	1,019	1,020	1,020	1,026

Student Charges

Tuition, room and board charges and activity fees at the University for the past four years and the current year are listed below:

STUDENT CHARGES

	<u>2000-01</u>	<u>2001-02</u>	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05</u>
Tuition	\$ 23,130	\$ 24,150	\$ 25,430	\$ 26,900	\$ 28,250
Room	4,720	4,885	5,054	5,250	5,485
Board	3,040	3,300	3,450	3,520	3,580
Mandatory Fees	<u>565</u>	<u>604</u>	<u>637</u>	<u>673</u>	<u>732</u>
Total	\$ 31,455	\$ 32,939	\$ 34,571	\$ 36,343	\$ 38,047

Mandatory Fees

Health Fee	\$ 390	\$ 429	\$ 462	\$ 498	\$ 522
Activity Fee	175	175	175	185	210

Student Financial Aid

In the academic year 2002-03 the University administered student aid funds totaling \$87,850,000. Scholarship funds provided by the University from its own resources assisted approximately 90% of the undergraduates. University-administered programs for the last five academic years are outlined below:

SOURCES OF SCHOLARSHIP AND GRANT AID

(dollars in thousands)

<u>Academic Year</u>	<u>University Scholarships</u>	<u>State Grants</u>	<u>Federal Grants</u>	<u>Other Awards</u>	<u>Total</u>
1998-99	\$68,273	\$2,620	\$3,260	\$4,938	\$79,091
1999-00	70,444	2,586	3,386	5,402	81,818
2000-01	72,313	2,144	2,942	5,516	82,915
2001-02	73,827	2,163	3,250	5,836	85,076
2002-03	76,491	1,808	3,148	6,403	87,850

In addition to the programs outlined above, students are eligible for Federal Work Study funds, federal loans, and private loan programs. The University also offers tuition pre-payment, monthly installment and financing programs to help students and their parents finance the cost of the students' education.

The University benefits from a State program through which State aid ("Bundy Aid") is allocated to independent colleges and universities in the State based on the number of academic degrees conferred during the previous year. During the 2003-04 academic year, the University received \$1,160,560 from the program.

Further State and federal aid depends upon the annual appropriations by the State Legislature and Congress, and the ability of the State and the federal governments to pay the amounts appropriated. Neither the University nor the Authority can give any assurance that the various federal and State programs will be continued. The reduction or elimination of the programs could have a material adverse effect on the University.

Labor Relations

The faculty and staff at the University are provided with an extensive range of employee benefits, including basic hospital, surgical and medical insurance, major medical and dental plans, long-term disability coverage, group life insurance, travel-accident insurance, tuition for faculty, staff and dependents, and University health services, as well as the retirement plan outlined below.

The University has five separate bargaining units with three unions covering about 1,517 of its employees. District 1199, Hospital and Health Care Employees, SEIU/AFL-CIO negotiates two contracts. One covers approximately 1,023 Hospital service employees and expires in October 2004. The other covers approximately 216 River Campus service employees and expires in October 2004. The Security Officers Association negotiates one contract covering approximately 67 security personnel. The current contract expires on November 16, 2004. Although negotiations to extend these agreements have not yet begun, no unusual or significant issues have thus far been raised and the University fully expects that the contracts will be extended. The International Union of Operating Engineers (“IUOE”) negotiates one contract covering the Medical Center facilities maintenance trades employees, River Campus maintenance trades employees and a separate bargaining unit covering employees in the University’s central heating plant operation. IUOE’s contract covers approximately 211 employees and expires in August 2006. The University has no notice of a future strike by unions covering its employees.

Faculty

The University’s faculty includes 44 fellows of the American Physical Society, 15 fellows of the Optical Society of America, 13 fellows of the American Academy of Arts and Sciences, seven fellows of the National Academy of Science, and three members of the American Academy of Nursing. Many others are members of the leading academic societies of their fields.

The University’s faculty have received a total of 27 John S. Guggenheim Fellowships in the past 19 years. In the past 15 years faculty have won six National Endowment for the Humanities Senior Fellowships, and 21 Alfred P. Sloan Research Fellowships.

The faculty includes a recipient of a John D. and Catherine T. MacArthur Foundation Fellowship, better known as the “genius grant,” one recipient of the most prestigious honor of the Optical Society of America, the Frederic Ives medal; a Distinguished Fellow of the American Economic Association, an honor that goes only to two or three economists each year; and two recipients of the American Physical Society’s Panofsky Prize in Experimental Particle Physics. The American Political Science Association annually awards a prize named in honor of Rochester’s Richard F. Fenno, Jr., professor emeritus of political science.

FACULTY PROFILE

<u>Academic Year</u>	<u>Full-Time Tenure-Track Faculty</u>	<u>Part-Time Faculty</u>	<u>Total Faculty*</u>	<u>Percent of Tenure-Track Faculty Tenured</u>
1999-00	1,013	512	1,525	40.0
2000-01	1,006	519	1,525	43.0
2001-02	1,018	548	1,566	43.0
2002-03	1,090	559	1,649	44.1
2003-04	1,140	578	1,718	42.0

* Service track and Option A (Clinical) in the School of Medicine and Dentistry are non-tenure track and are not included.

ANNUAL FINANCIAL STATEMENT INFORMATION

Financial Reporting

The consolidated financial statements of the University are prepared on an accrual basis of accounting and in conformity with accounting principles generally accepted in the United States of America. They include the accounts of all of the integrated divisions of the University and its related entities, including Strong Partners Health Systems, Inc. (and its affiliates), Eastman Dental Center Foundation, Inc., Strong Home Care Group (and its subsidiaries) and the Research Foundation of the University of Rochester. See “Related Entities” below. All significant interorganization balances and transactions have been eliminated.

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

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

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

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

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

Revenues from sources other than contributions are generally reported as increases in unrestricted net assets. Contributions are reported as increases in the appropriate category of net assets with the exception of contributions for which imposed restrictions are met in the same fiscal year in which they are received. Such contributions are included in unrestricted revenues.

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

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

Balance Sheet - The consolidated balance sheets present the University’s and its related entities’ assets, liabilities and net assets as of June 30, 2003 and 2002. During the 2003 fiscal year total assets, net of accumulated depreciation, remained at \$2.711 billion. Total liabilities increased from \$811 million to \$822 million. The result was a slight decrease in net assets of \$11 million.

Statement of Activities - The consolidated statements of activities present the changes in net assets of the University and its related entities from operating activities and from nonoperating activities for the years ended June 30, 2003 and 2002. Operating revenues and expenses relate primarily to educational and training programs, research activities, and hospital and patient care activities provided by the University and its related entities. Utilization of investment income and gains on long-term investments held for endowment and similar purposes under the University's total return spending policy is considered operating revenue.

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

Total operating revenues for the University and its related entities increased in 2002-03 from \$1.570 billion to \$1.653 billion. Total operating expenses rose from \$1.527 billion to \$1.633 billion. The result was a \$20.5 million increase in net assets from operating activities.

The change in net assets from nonoperating activities - primarily the investment program, including long-term investment income and gains allocated for operations, amounted to a decrease of \$31.8 million.

Statement of Cash Flows - FASB Statement No. 117 amends FASB Statement No. 95, Statement of Cash Flows, by extending its provisions to not-for-profit organizations. The statement of cash flows divides cash flows into three categories - net cash provided by (or used in) operating activities, investing activities, and financing activities.

The University's and its related entities' operating activities in 2002-03 provided cash of \$40.8 million. The net cash used in investing was \$25 million and the net cash used in financing activities was \$5.8 million, leaving an overall net increase in cash of \$10 million (from \$138.6 million to \$148.6 million). Cash provided by operating activities was net of \$17 million transferred to operating investments to obtain higher yields through longer maturity.

Operating Budget

The University's annual operating budget for the following fiscal year is approved by the Board at its spring meeting. The general financial plan for a full five-year period is reviewed by the Committee on Financial Planning of the Board. Assumptions and financial projections are developed by the administration in conjunction with that committee. Thus, the operating budget for any given year will have been developed by the Board within a five-year planning context with continuing refinements in the economic estimates and in the programmatic concerns that affect the final budget. The planning process includes projections of endowment growth, graduate and undergraduate enrollments in the various schools and colleges of the University, competitive trends that may have disparate effects among the academic units, wages and salaries and benefits, government and private sponsorship of research, indirect cost recovery rates and energy costs. Actual performance against the operating budget is monitored by the administration and is reported to the Board's Executive Committee on a regular basis.

Capital Budget

At its spring meeting, the Board also approves a detailed capital budget for the next year along with a capital plan of projects proposed for the subsequent two years. This permits the administration and the Board to plan in advance for major projects, to evaluate possible operating budget implications and to assess the University's debt requirements and capacity.

The table below sets forth the 2005-2007 Capital Plan for the University, including the Hospital. This plan projects total capital expenditures of approximately \$449.8 million. Projects included in the plan may be delayed pending completion of fundraising efforts, because they have not yet been approved by the Board, are contingent on external funding, or are not yet sufficiently well defined. The Capital Plan is a guide to the University's capital spending intentions but is subject to adjustment year by year as circumstances change.

CAPITAL PLAN SOURCES AND USES OF FUNDS (dollars in thousands)

	Fiscal Year <u>2004-2005</u>	Fiscal Year <u>2005-2006*</u>	Fiscal Year <u>2006-2007*</u>	<u>3-Year Total</u>
SOURCES				
Gifts and Grants	\$ 44,750	\$ 38,274	\$ 19,600	\$ 102,624
Reserves and Operations	68,901	60,883	55,248	185,032
Debt				
Medical Center	19,142	20,610	20,628	60,380
Other	<u>34,417</u>	<u>42,620</u>	<u>24,680</u>	<u>101,717</u>
Total Debt	<u>53,559</u>	<u>63,230</u>	<u>45,308</u>	<u>162,097</u>
Total	\$ 167,210	\$ 162,387	\$ 120,156	\$ 449,753
USES				
By Campus:				
Eastman School of Music	\$ 3,429	\$ 100	\$ 100	\$ 3,629
Medical Center	90,634	79,312	70,380	240,326
Memorial Art Gallery	114	100	100	314
River Campus	15,147	23,578	36,138	74,863
South Campus	32,245	24,230	330	56,805
University-Wide Projects	<u>25,641</u>	<u>35,067</u>	<u>13,108</u>	<u>73,816</u>
Total	\$ 167,210	\$ 162,387	\$ 120,156	\$ 449,753
USES				
By Type of Project:				
Construction	\$ 45,773	\$ 41,403	\$ 18,000	\$ 105,176
Renewal & Replacement	22,056	32,152	31,767	85,975
Renovations	21,908	17,105	30,825	69,838
Equipment	47,072	41,845	11,030	99,947
Information Systems	21,704	18,462	18,664	58,830
Mixed Projects**	<u>8,697</u>	<u>11,420</u>	<u>9,870</u>	<u>29,987</u>
Total	\$ 167,210	\$ 162,387	\$ 120,156	\$ 449,753

* These years include projects contingent upon fundraising.

** Primarily a combination of renovation and equipment.

Summary of Financial Information

The following Summary of Activities summarizes the University's consolidated revenues and expenses and other changes for the last three fiscal years. This summary is derived from the audited consolidated financial statements of the University for such periods. It should be read in conjunction with the University's consolidated financial statements and the notes thereto, which statements were prepared in accordance with accounting principles generally accepted in the United States of America. See "Appendix B - Consolidated Financial Statements of the University of Rochester and Related Entities (With Independent Auditors' Report Thereon)."

SUMMARY OF ACTIVITIES

Fiscal Years Ended June 30,

(dollars in thousands)

	<u>2001</u>	<u>2002</u>	<u>2003</u>
Operating Revenue:			
Tuition and fees	\$ 166,175	\$ 180,184	\$ 190,037
Less scholarships and fellowships	(72,314)	(73,827)	(76,491)
Net tuition and fees	93,861	106,357	113,546
State and local appropriations	2,154	1,830	1,937
Gifts and pledges	51,950	52,473	44,579
Grants and contracts	227,835	262,657	278,005
Hospital and faculty practice patient care	875,681	972,499	1,040,185
Auxiliary enterprises	35,760	37,648	40,777
Investment income on cash equivalents	5,351	5,342	5,525
Educational activities	26,244	24,015	24,581
Royalty income	39,565	37,691	31,364
Other sources	4,730	3,225	3,161
Long-term investment income and gains allocated for operations	64,194	66,189	69,703
Total operating revenue	<u>1,427,325</u>	<u>1,569,926</u>	<u>1,653,363</u>
Operating expenses:			
Salaries and wages	722,338	770,042	808,269
Fringe benefits	164,474	188,130	212,000
Total compensation	886,812	958,172	1,020,269
Supplies	171,463	197,210	204,993
Business and professional	101,141	108,145	108,840
Utilities	23,261	22,967	24,966
Maintenance and facilities costs	32,325	35,368	42,827
Depreciation expense	99,182	107,754	107,697
Interest Expense	25,955	26,183	24,455
Other	52,170	71,023	98,810
Total operating expenses	<u>1,392,309</u>	<u>1,526,822</u>	<u>1,632,857</u>
Change in net assets from operating activities	<u>35,016</u>	<u>43,104</u>	<u>20,506</u>
Nonoperating activities:			
Long-term investment activities:			
Investment income	29,390	24,773	24,109
Net depreciation	(14,976)	(79,359)	30,292
Total long-term investment activities	14,414	(54,586)	54,401
Long-term investment income and gains allocated for operations	(64,194)	(66,189)	(69,703)
Proceeds from sale of dialysis unit	-	19,483	-
Other non-operating health care revenues/ (costs)	(216)	5	-
Additional minimum pension liability	-	-	(14,781)
Change in valuation of annuities	1,563	(2,034)	(1,768)
Change in net assets from non-operating activities	<u>(48,433)</u>	<u>(103,321)</u>	<u>(31,851)</u>
Change in net assets before cumulative effect of change in accounting principle	(13,147)	(60,217)	(11,345)
Cumulative effect of change in accounting principle	-	21,183	-
Change in net assets	<u>(13,417)</u>	<u>(39,034)</u>	<u>(11,345)</u>
Beginning net assets	<u>1,952,912</u>	<u>1,939,495</u>	<u>1,900,461</u>
Ending net assets	<u>\$ 1,939,495</u>	<u>\$ 1,900,461</u>	<u>\$ 1,889,116</u>

Related Entities

The consolidated financial statements of the University include the accounts of certain related entities, including Strong Partners Health System, Inc. (“SPHS”) and its affiliates, Eastman Dental Center Foundation, Inc., Strong Home Care Group and its subsidiaries and the Research Foundation of the University of Rochester. See Appendix B. None of these related entities are legally obligated to pay debt service on University obligations, including the Series 2004A Bonds.

The University is the sole member of SPHS, which controls Highland Hospital of Rochester (“Highland Hospital”) and its affiliates. Highland Hospital and its affiliates have debt outstanding which has been included in the University’s consolidated financial statements; however, under the terms of the affiliation agreement among Highland Hospital, SPHS and the University, the University has no legal obligation for the debt of Highland Hospital and its affiliates. For additional information about Highland Hospital and its affiliates, see “PART 5 – THE HOSPITAL/MEDICAL CENTER – Affiliated Entities Part of Integrated Delivery System.”

SPHS also has affiliation agreements with The Highlands Living Center, Inc.; Highland Community Development Corp.; and The Meadows at Westfall, Inc. For additional information about these related entities, see “PART 5 – THE HOSPITAL/MEDICAL CENTER – Affiliated Entities Part of Integrated Delivery System.”

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

The University is the sole corporate member of Strong Home Care Group (and its subsidiaries that include Visiting Nurse Service of Rochester and Monroe County, Inc. and Community Care of Rochester). These entities provide visiting nurse services. For more information about Strong Care Health Group, see “PART 5 – THE HOSPITAL/MEDICAL CENTER – Affiliated Entities Part of Integrated Delivery System.” The University has guaranteed certain indebtedness of Strong Home Care Group.

The University is also the sole corporate member of the Research Foundation of the University of Rochester. The Research Foundation was formed for the purpose of owning and managing certain intellectual property created by the University, owning and managing investments based on such intellectual property, promoting the transfer of technology relating to University-developed intellectual property to business and governmental entities which are in a position to commercialize and disseminate this intellectual property for the benefit of the public, and securing fair and reasonable compensation for the University in consideration for such transfer and licensing.

The University is also the sole member of Rochester Technology Transfer Corporation, doing business as University Technology Partners, which was created to foster the creation, retention, expansion and use of technology created or enhanced by the University.

University Retirement Plans

Most full-time University employees participate in the retirement plans administered by TIAA/CREF, or in a defined contribution plan sponsored by the University. Under these plans, the University made contributions of \$40.3 million in 2003 (\$37.6 million in 2002), which were vested for the benefit of the participants.

Effective January 1, 1996, the Board approved a postretirement benefit plan, which 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 accumulated postretirement benefit obligation of \$70,623,000, created as of January 1, 1996 by the enactment of the new plan, is being amortized over 16 years, which is the average estimated service lives of plan participants.

Net periodic benefit costs for the years ended June 30, 2003 and 2002 were approximately \$13.7 million and \$12.7 million, respectively.

The following table presents the plan's funded status reconciled with amounts recognized in the University's consolidated balance sheet at June 30, 2003:

Accumulated Postretirement Benefit Obligation Fiscal Year Ended June 30, 2003 (dollars in thousands)

Retirees	\$ 68,687
Full eligible active plan participants	29,439
Other active plan participants	<u>14,067</u>
Total	112,193
Prior service costs not yet recognized in net periodic post retirement benefit cost	<u>(60,311)</u>
Accrued postretirement benefit liability	\$ 51,882

Net periodic postretirement benefit cost for the year ended June 30, 2003 includes the following components:

Net Periodic Postretirement Benefit Cost Fiscal Year Ended June 30, 2003 (dollars in thousands)

Service cost – benefits earned	\$ 1,331
Interest cost	7,254
Net Amortization	<u>5,105</u>
Net periodic postretirement benefit cost	\$ 13,690

For measurement purposes, a 10% annual rate of increase in the cost of covered benefits is assumed. An increase of 1% in the rate of increase would increase the accumulated postretirement benefit obligation as of June 30, 2003 by

approximately 3.7% (4.2% as of June 30, 2002) and the aggregate service and interest components of net periodic postretirement benefit cost by 4.4% (4.2% for 2002). The weighted average discount rate used in determining the accumulated postretirement benefit obligation was 6.25% at June 30, 2003 and 7.25% at June 30, 2002.

Federal Government Grants and Contracts

The University has long been a center for programs of research and training. Federal grants and contracts provide most of the funds for sponsored programs, although additional amounts come from other government entities, industry, foundations and interested individuals. For the year ended June 30, 2003, approximately \$205 million was spent on research funded by federal grants and contracts.

The following table shows the amounts received from government grants and contracts for each of the past five fiscal years:

Total Federal Grant and Contract Program Revenues
Fiscal Years Ended June 30,
(dollars in thousands)

Federal Agency	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Public Health Service (includes NIH)	\$ 82,905	\$ 90,193	\$ 106,293	\$ 124,454	\$ 135,184
Department of Energy	31,563	35,430	33,749	41,158	42,343
National Science Foundation	11,382	9,681	8,196	8,021	8,409
Department of Defense	6,249	7,399	9,617	9,047	9,229
Department of Education	4,978	4,793	4,639	5,856	6,171
National Aeronautics and Space Administration	685	1,406	947	1,664	1,244
NEH/NEA	180	72	40	40	81
Other Sponsors	<u>581</u>	<u>1,081</u>	<u>2,084</u>	<u>2,846</u>	<u>2,294</u>
Total	\$ 138,523	\$ 150,055	\$ 165,565	\$ 193,086	\$ 204,955

Private Gifts and Endowments

The following table shows the amounts received by the University as gifts and pledges in the following categories for the past five years:

Private Gifts and Endowments
Fiscal Years Ended June 30,
(dollars in thousands)

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Unrestricted Net Assets	\$19,439	\$28,791	\$27,115	\$22,690	\$19,317
Temporarily Restricted Net Assets	17,470	23,826	19,579	18,600	17,962
Permanently Restricted Net Assets	<u>14,701</u>	<u>13,023</u>	<u>3,945</u>	<u>9,423</u>	<u>5,401</u>
Total	\$51,610	\$65,640	\$50,639	\$50,713	\$42,680

The University historically has reported the value of its endowment and similar funds at market value rather than at cost. Consequently, the value of the endowment reported may fluctuate considerably from year to year. Funds functioning as endowment are funds which the Board, rather than the donors, has committed to invest for earnings. As such, they may be liquidated and used for operating or capital purposes. Funds shown as “restricted” must be used only for the purposes specified by the donors and are not available for general operating or capital purposes.

**Net Assets of Endowment Funds
and Funds Functioning as Endowment
Fiscal Years Ended June 30,
(dollars in thousands)**

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Unrestricted Net Assets	\$ 861,710	\$ 977,671	\$ 944,234	\$ 848,335	\$ 835,100
Temporarily Restricted Net Assets	87,679	108,062	102,516	90,104	88,208
Permanently Restricted Net Assets	<u>129,363</u>	<u>138,591</u>	<u>146,638</u>	<u>152,509</u>	<u>164,676</u>
Total	\$1,078,752	\$1,224,324	\$1,193,388	\$1,090,948	\$1,087,984

The University’s investment program for endowment and similar funds operates under an investment policy statement and guidelines established by the Board, which delegates direct oversight for the investment program to the Investment Committee of the Board. The consolidated endowment pool, in which virtually all endowment funds are placed, is diversified among equities, fixed income, real estate and other investments, both in the United States and abroad, and is managed by external money managers appointed for the purpose by the Committee. The University investment managers make limited use of derivatives, generally only for the purpose of hedging currency exposure.

As of March 31, 2004, the market value of the University’s investments was approximately \$1.46 billion. The consolidated financial statements and notes thereto contained in Appendix B to this Official Statement show further details concerning the valuation of investments, the University’s consolidated financial resources and uses of both operating and capital funds.

Total Return Plan

The University’s portfolio of endowment and similar funds is managed according to a total return plan. Both investment performance and endowment spending are subject to continuous review by the Board of Trustees. Endowment use is measured as a percentage of a five-year moving average. Each year, the Board approves the endowment spending rate as a part of the budgetary approval process. An ultimate spending target of 5.5% has been established. The pattern of spending over the past five years is as follows:

Endowment Support of Operations

<u>Fiscal Year</u>	<u>Endowment Spending</u>	<u>As a Percentage of Five Year Moving Average of Endowment Market Value</u>
1999-00	\$57,171,000	6.9%
2000-01	62,774,000	6.9
2001-02	66,188,000	6.5
2002-03	69,703,000	6.4
2003-04	72,424,000	6.5

University Indebtedness

Non-Authority Indebtedness. Exclusive of various Authority obligations and capital leases described below, the outstanding long term indebtedness of the University at June 30, 2003, amounted to \$16,962,000 and consisted of the following:

1. The University entered into an agreement with the New York State Urban Development Corporation (“UDC”) to partially fund the construction of the University’s Center for Optoelectronics and Imaging (COI) with a loan of \$5,000,000. The agreement requires the University to pay the loan principal plus the cost of issuance for the \$6,320,000 bond issue by which the UDC financed the loan. Through June 30, 2003 the University repaid \$2,000,000 leaving a balance outstanding of \$3,000,000. The loan is secured by a mortgage on the property. Pursuant to an agreement authorized by statute, the State of New York leases the COI from the University for the 30-year life of the loan, paying as rent an amount sufficient to cover the University’s obligations to the UDC. These rents have been assigned to the UDC as further security for the loan. Rental payments by the State are subject to annual appropriation by the State Legislature. The University retains possession of the property under a sub-lease back from the State at an annual rent equivalent to one-thirtieth of the sum of the loan principal and the cost of issuance of the UDC bonds.

2. Pursuant to an agreement between the University and JPMorgan Chase Bank dated June 2000, JPMorgan Chase Bank issued a term note of \$7,000,000 to finance the renovation of the Goergen Athletic Center. The note is being repaid at an interest rate of LIBOR plus .40% on the unpaid principal balance of the loan through September 2005. Through June 30, 2003, \$850,000 was repaid leaving a balance outstanding of \$6,150,000.

3. Pursuant to an agreement between the University and JPMorgan Chase Bank dated June 2, 2003, the University drew on its available revolving line of credit in the amount of \$7,812,000 to refinance indebtedness related to Eastman Place, a facility used partly to house activities of the Eastman School of Music. Proceeds from the sale of the University’s Direct Note Obligations, Series 2003, described below under “*Indebtedness Incurred Since June 30, 2003,*” were in turn used to refinance the amount drawn on the line of credit.

Authority Indebtedness. The University’s indebtedness to the Authority at June 30, 2003 amounted to \$370,757,000, which consisted of the following:

1. Pursuant to a loan agreement and a bond resolution, the Authority issued and sold \$150,000,000 of Series 1987 Bonds, of which \$1,620,000 was outstanding as of June 30, 2003. Proceeds from the sale of the Series 2003A Bonds, described below under “*Indebtedness Incurred Since June 30, 2003,*” were used to refund the outstanding Series 1987 Bonds.

2. Pursuant to a loan agreement and a bond resolution, the Authority issued and sold \$21,245,000 of Series 1993A Bonds, of which \$8,895,000 was outstanding as of June 30, 2003. A total of \$8,855,000 is recognized on the University’s consolidated balance sheet, as the Series 1993A Bonds are recorded net of an unamortized discount of \$40,000 at June 30, 2003. Proceeds from the sale of the Series 2003B Bonds, described below under “*Indebtedness Incurred Since June 30, 2003,*” were used to refund the outstanding Series 1993A Bonds.

3. Pursuant to a loan agreement and a bond resolution, the Authority issued and sold \$94,985,000 of Series 1994 Bonds, of which \$77,920,000 was outstanding as of June 30, 2003. A total of \$76,452,000 is recognized on the University’s consolidated balance sheet, as such Series 1994 Bonds are recorded net of an unamortized discount of \$1,468,000 at June 30, 2003. Proceeds from the sale of the Series 2003B Bonds and the Series 2003C Bonds, both described below under “*Indebtedness Incurred Since June 30, 2003,*” were used to refund Series 1994 Bonds maturing after July 1, 2004 in the amount of \$75,300,000.

4. Pursuant to a loan agreement and a bond resolution, the Authority issued and sold \$30,575,000 of Series 1994A Bonds, of which \$3,410,000 was outstanding as of June 30, 2003. A total of \$3,390,000 is recognized on the University’s consolidated balance sheet, as such Series 1994A Bonds are recorded net of an unamortized discount of \$20,000 at June 30, 2003. The Series 1994A Bonds are secured by a security interest granted to the Authority pursuant to the loan agreement in the tuition, room and board, and mandatory student fees received or receivable by the University. The obligation of the University under the terms of the loan agreement is a general obligation of the University.

5. Pursuant to a loan agreement and a bond resolution, the Authority issued and sold \$21,375,000 of Series 1996 Bonds, of which \$7,505,000 were outstanding as of June 30, 2003. The obligation of the University under the terms of the loan agreement is a general obligation of the University. A total of \$7,489,000 is recognized on the University’s consolidated balance sheet, as such Series 1996 are recorded net of an unamortized discount of \$16,000 at June 30, 2003. The Series 1996 Bonds are secured by a security interest in the pledged revenues consisting of any moneys, income, rents or revenues received or receivable by the Hospital.

6. Pursuant to a loan agreement and a bond resolution, the Authority issued and sold \$78,280,000 of Series 1997A Bonds, of which \$53,755,000 were outstanding as of June 30, 2003. A total of \$54,600,000 is recognized on the University’s consolidated balance sheet, as such Series 1997A Bonds are recorded net of an unamortized premium of \$845,000 at June 30, 2003. The Series 1997A Bonds are secured by a security interest granted to the Authority pursuant

to the loan agreement in the tuition, room and board, and mandatory student fees received or receivable by the University. The obligation of the University under the terms of the loan agreement is a general obligation of the University.

7. Pursuant to a loan agreement and a bond resolution, the Authority issued and sold \$131,615,000 of Series 1998A Bonds, of which \$113,475,000 were outstanding as of June 30, 2003. A total of \$113,171,000 is recognized on the University's consolidated balance sheet, as such Series 1998A Bonds are recorded net of unamortized discount of \$304,000 at June 30, 2003. The Series 1998A Bonds are secured by a security interest granted to the Authority pursuant to the loan agreement in the tuition, room and board, and mandatory student fees received or receivable by the University. The obligation of the University under the terms of the loan agreement is a general obligation of the University.

8. Pursuant to the Loan Agreement and the Resolution, the Authority issued and sold \$17,465,000 of Series 1999A Bonds, of which \$17,465,000 were outstanding as of June 30, 2003. A total of \$17,318,000 is recognized on the University's consolidated balance sheet, as such Series 1999A Bonds are recorded net of unamortized discount of \$147,000 at June 30, 2003. The obligation of the University under the terms of the Loan Agreement is a general obligation of the University.

9. Pursuant to the Loan Agreement and the Resolution, the Authority issued and sold \$25,860,000 of Series 1999B Bonds, of which \$23,615,000 were outstanding as of June 30, 2003. A total of \$23,356,000 is recognized on the University's consolidated balance sheet, as such Series 1999B Bonds are recorded net of unamortized discount of \$259,000 at June 30, 2003. The obligation of the University under the terms of the Loan Agreement is a general obligation of the University.

10. Pursuant to the Loan Agreement and the Resolution, the Authority issued and sold \$45,764,000 of Series 2000A Bonds, of which \$40,700,000 were outstanding as of June 30, 2003. A total of \$40,699,000 is recognized on the University's consolidated balance sheet as of June 30, 2003, as such Series 2000A Bonds are recorded net of unamortized discount of \$1,000 at June 30, 2003. The obligation of the University under the terms of the Loan Agreement is a general obligation of the University.

11. Pursuant to the Loan Agreement and the Resolution, the Authority issued and sold \$22,920,000 of Series 2001A Bonds, of which \$22,397,000 were outstanding as of June 30, 2003. A total of \$22,261,000 is recognized on the University's consolidated balance sheet as of June 30, 2003, as such Series 2001A Bonds are recorded net of unamortized discount of \$136,000 at June 30, 2003. The obligation of the University under the terms of the Loan Agreement is a general obligation of the University.

Obligations Under Capital Leases: The University's capital lease obligations amounted to \$3,798,000 as of fiscal year end 2003.

1. In 1986 the University entered into a lease on Eastman Place, a facility used partly to house activities of the Eastman School of Music. During 1992 the University exercised its option to acquire the interests of its lessor in the facility. As part of the exercise of its option, the University assumed mortgages amounting to \$796,000 bearing interest at 4.75% and payable in monthly installments through December 2011. A total of \$429,000 is recognized on the University's consolidated balance sheet as of June 30, 2003. In October 2003, the University refinanced these mortgages by drawing on a line of credit with JP Morgan Chase Bank. Proceeds from the sale of the University's Direct Note Obligations, Series 2003, described below under "*Indebtedness Incurred Since June 30, 2003,*" were in turn used to refinance the amount drawn on the line of credit.

2. In 2000, the University entered into a capital lease with the Authority for certain equipment for the Hospital. The initial cost of equipment subject to the Authority lease was approximately \$4,700,000. A total of \$2,968,000 is recognized on the University's consolidated balance sheet as of June 30, 2003.

3. In 2001, the University entered into a \$1,000,000 capital lease with Fleet Capital Leasing for the purchase of telecommunications equipment. A total of \$401,000 is recognized on the University's consolidated balance sheet as of June 30, 2003.

Potential Indebtedness:

1. The University has a \$16.8 million standby letter of credit with JPMorgan Chase Bank to cover potential liabilities under the University's self-insured workers compensation program.

2. The University has a \$5 million line of credit with JPMorgan Chase Bank that can be used for letters of credit. Of this \$5 million, \$1,033,000 is currently committed (\$500,000 for the University's Commercial General Liability Policy deductible and \$533,000 for the repayment of obligations to the UDC).

3. The University has an additional \$38.5 million line of credit with JPMorgan Chase Bank for short term emergency purposes.

Indebtedness Incurred Since June 30, 2003:

1. In November 2003, the University issued \$8,600,000 of its Direct Note Obligations, Series 2003, as described above under "Non-Authority Indebtedness," to refinance drawings under the University's revolving line of credit with JPMorgan Chase Bank, the proceeds of which had been used to refinance indebtedness and certain other mortgages related to Eastman Place. Eastman Place is a facility used partly to house activities of the Eastman School of Music.

2. In November 2003, pursuant to the Loan Agreement and the Resolution, the Authority issued and sold \$164,425,000 of Series 2003 Bonds, consisting of \$32,550,000 Series 2003A Bonds, \$49,650,000 Series 2003B Bonds, and \$82,225,000 Series 2003C Bonds. A portion of the proceeds of the Series 2003 Bonds refinanced indebtedness related to Series 1987 Bonds, Series 1993A Bonds and a portion of the Series 1994 Bonds. On July 31, 2003, the University executed \$164,425,000 of interest rate swaps with third parties. The obligation of the University under the terms of the Loan Agreement is a general obligation of the University.

3. In January 2004, the University entered into an agreement for the 2004 Replacement Bond issued by the County of Monroe Industrial Development Agency in the amount of \$698,000. The 2004 COMIDA Replacement Bond is for the purchase of property at 10 Gibbs Street, Rochester, New York and will become part of the Eastman School of Music Campus.

4. Throughout fiscal year 2004, the University has entered into a variety of capital leases totaling \$1,495,000, including a \$1,000,000 capital lease with Pantheon Capital LLC for the purchase of equipment for the College.

Plant Values

The following table shows the University's investment in physical plant for the past five years:

**Investment in Physical Plant
As of June 30,
(dollars in thousands)**

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Land and improvements	\$ 22,034	\$ 24,196	\$ 27,370	\$ 30,277	\$ 32,496
Buildings and improvements	830,430	950,242	1,030,473	1,130,696	1,146,840
Completed projects under leasehold agreements	92,498	92,660	48,696	46,333	46,600
Equipment owned	473,852	466,567	481,177	505,259	516,819
Museum collections	23,070	23,998	24,580	25,031	25,231
Construction in progress	112,087	47,042	70,105	26,837	23,725
Library Books	63,278	67,739	72,579	77,843	83,554
	<u>\$1,617,249</u>	<u>\$1,672,444</u>	<u>\$1,754,980</u>	<u>\$1,842,276</u>	<u>\$1,875,265</u>
Less accumulated depreciation	<u>763,971</u>	<u>799,725</u>	<u>842,502</u>	<u>913,312</u>	<u>979,111</u>
Net University plant	\$ 853,278	\$ 872,719	\$ 912,478	\$ 928,964	\$ 896,154

The University presently carries, under blanket insurance policies, \$500,000,000 of replacement cost coverage for University properties, including the Hospital but excluding land and building foundations.

LITIGATION AND LEGAL MATTERS

Various claims and actions are pending to which the University is a party. Insurance policies cover general liabilities in all University divisions and professional liability (medical malpractice) in Medical Center operations. The Medical Center's liability insurance is described in Note (11) to the consolidated financial statements presented in Appendix B. Except as noted below, no legal actions are pending or, to the best of the University's knowledge, threatened against it which, if determined adversely to it, could produce a material adverse effect on its financial condition or operations.

In 2002, a group of medical students sued the American Association of Medical Colleges, the American Medical Association, the American Hospital Association, and multiple academic medical centers, including the University, alleging a conspiracy to restrain competition for resident physician services in violation of antitrust laws. The plaintiffs

have not claimed any specific amount of damages but seek treble damages, injunctive relief and legal fees. Since the case began, the University and co-defendants, represented by the firm of Covington & Burling of Washington, D.C., succeeded in obtaining a legislative exemption from antitrust laws for the residency match program that is at the heart of the case. Plaintiffs have now challenged that legislation in court. The outcome of that challenge, and the case in general, remains uncertain and counsel is unable to express an opinion on the University's ultimate chance of success or range of potential loss, if any.

PART 5 - THE HOSPITAL/MEDICAL CENTER

General

The University Medical Center is a part of the University and consists of the following divisions: (1) Strong Memorial Hospital (the "Hospital"), (2) the School of Medicine and Dentistry, (3) the School of Nursing, (4) the Medical School Faculty Group and (5) the Eastman Dental Center. Since 1995, a major objective has been the integration of all components of the Medical Center (including the Hospital) into a cohesive, cost-effective administrative and financial entity. To that end, the following activities have been implemented: (1) Centralization of Medical Center Administration, including Medical Administration, Finance, Human Resources, Strategic Planning, Public Relations, Development, Legal and Facilities; (2) Development of a Medical Center Strategic Plan; (3) Creation of the Health Affairs Committee of the University Board of Trustees with certain advisory responsibilities; (4) Establishment of the University of Rochester Medical Faculty Group as a separate division within the Medical Center; and (5) Acquisition and Establishment of the Eastman Dental Center as a separate division within the Medical Center.

The Hospital is an integral part of the University's Medical Center and serves as the principal teaching hospital of the School of Medicine and Dentistry and the School of Nursing. Construction of the general hospital and its outpatient units was completed in 1975, replacing a 50-year-old facility. In June 1996, the Hospital opened a comprehensive ambulatory care facility. In addition, the Hospital recently constructed a new emergency department, built new operating rooms and is currently in the process of constructing expanded pediatric and adult intensive care units. The Hospital, with 37,456 discharges and 240,377 patient days in fiscal year 2004, is the largest acute care general hospital in Rochester and serves both as a general regional/national tertiary care hospital and a specialized referral center for a 14-county area.

The Hospital currently serves as a regional center for the following services: Neonatal Intensive Care, Pediatric Intensive Care, Burn, Perinatology, Cancer Center (Oncology services), Liver Transplantation, Heart Transplantation, Bone Marrow Transplantation, Comprehensive Epilepsy Program, AIDS and Trauma.

Services and Programs

The Hospital offers a broad range of diagnostic and therapeutic services for adults and children on inpatient and outpatient bases. Its licensed bed complement is allocated among the following services:

<u>Services</u>	<u>Number of Beds</u>
Medical/Surgical	344
Intensive Care	62
Coronary Care	8
Burn Care	7
Pediatric	60
Maternity	45
Psychiatric	93
AIDS	14
Rehabilitation	20
Pediatric Intensive Care Unit	12
Special Use: Clinical Research Center	8
Neonatal/ICU	<u>52</u>
Subtotal	725
Medical/Surgical at Highland	<u>14</u>
Total	739

The Hospital has been authorized by the New York State Department of Health, through its Certificate of Need process, to operate and provide programs and services in specialized areas such as adult and pediatric cardiac catheterization, adult and pediatric open heart surgery, cardiac transplantation, linear acceleration and magnetic resonance imaging, therapeutic and diagnostic nuclear medicine, therapeutic radiology, bone marrow transplantation, poison control, AIDS, lithotripsy, speech and language pathology, burns, cystoscopy, and kidney, liver, cardiac and pancreas transplantation, in addition to a host of outpatient services.

Excluding medical staff with part-time faculty appointments, the Hospital's staff of more than 7,000 tends to the broad spectrum of health care needs of patients in the greater Rochester area, and to the specialized needs of patients from the surrounding Finger Lakes area, West-Central New York, the rest of the State and the other areas of the United States.

The Hospital has developed programs such as the Durand Bone Marrow Transplantation Center, the Liver Transplantation Center, the Heart Transplantation Center, the Burn Center, a regional AIDS Center, a Comprehensive Epilepsy Center, a Regional Trauma Unit, spinal cord injury, orthopedic reconstructive surgery, high risk obstetric units, and a renowned Cancer Center and Neonatal Intensive Care Unit.

The Hospital also offers needed services to area hospitals, especially those in the communities of Livingston, Wayne, Ontario, Steuben, Orleans, Wyoming, Chemung, Schuyler, Tompkins, Cayuga and Jefferson Counties. These include specialized cardiac, pulmonary, oncology and high-risk obstetric assistance, as well as emergency and airlift care for serious trauma and burn patients who come for treatment only the Hospital can offer in the region.

With respect to its residency programs, the Hospital trains approximately 660 residents and fellows in 77 different fully accredited graduate medical and dental education programs, in sub-specialties which include: Anesthesiology, Dermatology, Emergency Medicine, Emergency Medicine – Pediatric, Family Medicine, General Dentistry, Internal Medicine, Medicine, Medicine-Pediatrics, Medicine-Psychiatry, Neurological Surgery, Neurology, Neurology-Clinical Neurophysiology, Nuclear Medicine, Obstetrics-Gynecology, Ophthalmology, Oral and Maxillofacial Surgery, Orthopaedics, Pathology, Pathology-Neuropathology, Pediatrics, Pediatric Dentistry, Orthodontics, Periodontics, Physical Medicine-Rehabilitation, Prosthodontics, Psychiatry, Psychiatry-Child and Adolescent, Psychiatry-Geriatric, Radiation Oncology, Radiology, Surgery, Surgery-Cardiothoracic, Surgery-Critical Care, Surgery-Otolaryngology, Surgery-Plastic Surgery, Surgery-Vascular, Urology, Allergy and Immunology, Anesthesiology Critical Care, Anesthesiology Pain Management, Medicine-Cardiovascular Disease, Medicine-Cardiovascular Electrophysiology, Medicine-Critical Care, Medicine-Endocrinology/Diabetes, Metabolic, Medicine-Gastroenterology, Medicine-Geriatric Medicine, Medicine-Hematology/Oncology, Medicine-Infectious Disease, Medicine – Interventional Cardiology, Medicine-Nephrology, Medicine-Pulmonary Critical Care, Medicine-Rheumatology, Orthopaedics-Hand Surgery, Orthopaedics-Spine Surgery, Orthopaedics-Sports Medicine, Pathology-Cytopathology, Pediatrics – Adolescent Medicine, Pediatrics-Critical Care Medicine, Pediatrics-Cardiology, Pediatrics – Hematology Oncology, Pediatrics- Infectious Disease, Pediatrics-Nephrology, Pediatrics-Neonatology, Pediatrics-Pulmonology, Psychiatry-Forensic Psychiatry, Radiology-Muskuloskeletal, Radiology-Neuroradiology, Radiology-Pediatric, Radiology-Vascular/Interventional, Pediatric, Anesthesiology, Child Neurology, Maternal Fetal Medicine, Pediatric Gastroenterology, and Advanced Education in General Dentistry.

Service Area

The Hospital is the largest general hospital in the Finger Lakes Region, serving acutely ill patients at all levels including tertiary care. The Finger Lakes Region served by the Hospital consists of the City of Rochester and its suburbs, surrounded by a largely rural region with a combined population of 1.3 million people. In addition to its tertiary services, the Hospital provides a full range of primary and secondary medical, surgical, pediatric, obstetrical, and psychiatric care.

In fiscal year 2004, the Hospital discharged 37,456 inpatients and cared for 1,006,039 outpatients and 87,343 Emergency Department patients. Some 68% of inpatients come from Monroe County, the primary service area, 26% from the secondary service area of surrounding countries including Livingston, Ontario, Wayne, Genesee, Orleans, Steuben, Seneca and Yates and the remaining 6% from other parts of the State and nation.

Strategic Plan

In 1996, the Medical Center developed a strategic plan which is regularly updated that integrates the objectives and activities of the Medical Center's then existing divisions - the School of Medicine and Dentistry, the School of Nursing, the Hospital and the University of Rochester Medical Faculty Group. The strategic plan resulted in recommendations grouped in three categories as follows:

1. Research. Rather than invest broadly across all Medical Center research areas, the Medical Center should invest selectively in programs that have clear potential to achieve national leadership in their fields. Three areas of emphasis identified are Aging and Developmental Biology; Immunology and Vaccine Biology; and BioMedical Genetics. Subsequently, three additional areas were added: Oral Biology; Human Genetics; and Cardiovascular Medicine. Since the inception of the strategic plan in 1997, total NIH funding has increased 91.7% from \$70.4 million to \$135 million in 2003. A total of 74 scientists, including several senior scientists who are nationally renowned in their fields, have been recruited. Leaders in all six areas have been appointed.

2. Clinical Services. The Medical Center should build an integrated health care delivery system with the capacity and infrastructure to manage the health care of 600,000 people, approximately one-half the population of Greater Rochester. The Medical Center should develop the physician network, hospital capacity, subacute services, information systems, and other components necessary to assure competitiveness under a managed care payment system. The plan has been successfully implemented and market share has grown from 40% to 55% in aggregate. Because the health care environment has been changing so rapidly, the strategies employed to achieve market share growth and to sustain financial performance are updated and adjusted frequently.

3. Research Facilities. The Medical Center should implement a master facilities plan that will guide the management of the Medical Center's infrastructure for the next 40 to 50 years. The Medical Center built a 240,000 square foot research building adjacent to the School of Medicine and Dentistry entrance, which was completed in September 1999 and was funded, in part, by the Series 1998A Bonds. The total cost of the new research building was approximately \$73,250,000. The building is contiguous to a 50,000 square foot entry building with an education center, auditorium and conference rooms. The research building is devoted to Aging, Developmental Biology; Vaccine Biology; Cancer, Cardiovascular and Oral Biology and related disciplines. In addition, the Medical Center constructed a second research building of 144,000 square feet, which was completed in January 2002.

Governance

The University's Board of Trustees has delegated authority for governing the Hospital and the Eastman Dental Center to the Medical Center Board but has retained governing authority over the remaining components of the Medical Center. In addition to governance responsibilities for the Hospital and the Eastman Dental Center, the Medical Center Board advises the University Board of Trustees on all matters relating to the Medical Center's mission, plans, policies and operations. The Medical Center Board is responsible for establishing policy, assuring quality patient care, and providing for the institutional management and planning for the Hospital (SMH) and the Eastman Dental Center (EDC). However, the Board of Trustees must approve any action of the Medical Center Board which would (1) result in a call upon the financial resources of the University not dedicated for the support of the Hospital (SMH) or EDC, (2) have a major impact on University academic programs, or (3) contravene policies of the University established by the Board of Trustees.

The Medical Center Board currently has 43 voting members. New members are appointed by the Board of Trustees upon the recommendation of the existing Medical Center Board. At least five members must be or have been Trustees. In addition to the elected members, the following persons serve on the Medical Center Board as ex officio voting members: the University's President, Provost, Senior Vice President and Vice Provost for Health Affairs, the Medical Center Vice President and Chief Operating Officer, the Medical Center Vice President and Chief Financial Officer, the President and Chief Executive Officer of the Hospital, the Deans of the School of Medicine and Dentistry and School of Nursing, the Director of the Eastman Dental Center, the Director of the Medical Faculty Group, two Department Chairs of the clinical departments from the School of Medicine and Dentistry and one member of the community-based faculty from the Medical Staff. A representative of the Friends of Strong (the Hospital's volunteer organization) serves as an ex-officio non-voting member.

The Medical Center Board meets at least six times a year and has seven standing committees: Executive, Audit and Risk Assessment, Development, Finance, Facilities, Nominations and Board Practices, and Quality of Care. The Executive Committee meets monthly.

The current elected members of the Medical Center Board are:

Richard T. Aab
President
RTA Associates, LLC

Michael J. Amalfi
Executive Vice President of Health Care
Ultra Scan Corporation

William Balderston, III*
Retired
Community Leader

Kenneth D. Bell
Regional President
HSBC Bank USA

C. William Brown, Esq.*
Risk Management Consultant
Brighton Pittsford Agency, Inc.

Michael F. Buckley, Esq.
Harter, Secrest & Emery

Richard J. Collins, MD
Retired Physician
Community Leader

Joan L. Feinbloom
Community Leader

John T. Fitzgerald, Esq.
Nixon Peabody, LLP †

David M. Flaum
President & CEO
Flaum Management Company, Inc.

Roger B. Friedlander* - Board Chairman
Retired
Community Leader

Deborah G. Goldman-Landsman
Vice President and Secretary
Landsman Development Corp.

Robert H. Gutkin
Vice President
Strategic Sourcing
Nalge Nunc International

George W. Hamlin, IV
President & CEO
The Canandaigua National Bank & Trust Co.

Susan R. Holliday
President and Publisher
Rochester Business Journal

Robert H. Hurlbut - Board Chair Elect
President
The Hurlbut Trust

Michael E. Jones
Managing Director
Clover Capital Management, Inc.

Dennis Kessler
Owner
The Kessler Group, Inc.

Ronald B. Knight*
Group President
Harris Interactive Service Bureau
Chief of Staff, Harris Interactive

Diana R. Kurty
Vice President, Finance
The Sutherland Group, Inc.

Robert N. Latella, Esq.
Jaeckle, Fleischmann & Mugel, LLP

Joseph M. Loboizzo II
President & CEO
JML Optical Industries, Inc.

Thomas McDermott
Chairman
Forbes Products

Thomas S. Richards
Retired
Community Leader

William W. Richardson
Retired
Community Leader

William D. Ryan
Retired
Community Leader

Wilfred A. Springer, DDS
Retired
Community Leader

Julio Vasquez
President & CEO
Ibero American Action League, Inc.

Daniel R. Wegman*
President
Wegman's Food Market

Joseph R. Wilson
Senior Vice President
Morgan Stanley

Ronald L. Zarrella
Chairman & CEO
Bausch & Lomb

*Current or former University Trustee

†The firm of Nixon Peabody LLP serves as counsel to the University.

Potential Conflicts of Interest

The Medical Center Board has adopted a policy designed to avoid any possible conflict between the personal interests of members of the Board, executive officers, faculty or staff of the Medical Center and the interests of the Medical Center and its various components. The purpose of the policy is to ensure that decisions about Medical Center business and the use or disposition of Medical Center property are made solely in terms of benefits to the Medical Center and are not influenced by any private profit or other benefit to Medical Center personnel who take part in the decision.

Medical Staff

With respect to the Medical Staff, as of July 1, 2004, there were 1,404 physicians and dentists grouped into four categories: Attending, Courtesy, Emeritus and Honorary. The Medical Staff is organized into nineteen (19) clinical departments representing over 100 medical specialties and sub-specialties. As of this date, approximately 81% of the Medical Staff were board certified and the average age was 48 years.

The following is a summary by clinical department of the Medical and Dental Staff, including number of physicians and dentists, average age, and the percentage who are board certified:

MEDICAL AND DENTAL STAFF COMPOSITION

as of July 1, 2004

<u>Department</u>	<u>Number of Staff</u>	<u>Average Age</u>	<u>Board Certified</u>
Anesthesiology	65	44	81%
Dentistry	48	45	42
Dermatology	26	46	100
Emergency Medicine	50	40	85
Medicine	348	48	85
Neurology	55	48	93
Neurosurgery	10	52	90
Obstetrics/Gynecology	102	48	85
Occupational Medicine	3	52	100
Ophthalmology	52	50	83
Orthopedics	36	46	89
Pathology	32	50	92
Pediatrics	309	50	93
Physical Medicine and Rehabilitation	7	47	63
Psychiatry	73	48	70
Radiation Oncology	14	47	93
Radiology	54	46	86
Surgery	91	48	89
Urology	<u>29</u>	49	89
Total	1,404	48	81

Management

C. McCollister Evarts, M.D., Senior Vice President and Vice Provost for Health Affairs; Medical Center and Strong Health System Chief Executive Officer. Named to the position in September 2003, Dr. Evarts previously served as CEO of the Milton S. Hershey Medical Center and Senior Vice President and Dean of Pennsylvania State University's College of Medicine. During his tenure there beginning in 1987, Dr. Evarts presided over the expansion of clinical services, the tripling of both the organization's faculty and its research funding, the construction of a seven-story biomedical research facility, and the initiation of a new medical school curriculum. A graduate of Colgate University and the University of Rochester School of Medicine and Dentistry, he completed his internship and residency in orthopaedic surgery at Strong Memorial Hospital. In 1964, he joined the Cleveland Clinic Foundation and, over the next decade, headed that institution's orthopaedic residency training program and ultimately served as chair of its Department of Orthopaedics. He returned to the University of Rochester in 1974 as chair of orthopaedics, Dorris H. Carlson Professor of Orthopaedics, and Orthopaedist-in-Chief at Strong Memorial Hospital.

Michael C. Goonan, CPA, Vice President and Chief Financial Officer, University of Rochester Medical Center. Mr. Goonan assumed his current position in 1995. He joined the Hospital in 1984 and was appointed its Chief Financial Officer in 1990. From 1975 to 1984, Mr. Goonan was with the international public accounting firm, KPMG Peat Marwick, where he specialized in the healthcare field with particular emphasis on financial management, reimbursement, prospective reporting, and third-party cost reporting. Mr. Goonan received a Bachelor of Science degree in Accounting from St. John Fisher College in Rochester, New York and is a New York State Certified Public Accountant. He is a member of the Audit Committee and the Advisory Committee of the Board of Directors of the Rochester Chapter of the American Red Cross and he is on the Board of Directors of the Crittenden Boulevard Housing, Inc. Mr. Goonan is a member of the Healthcare Financial Management Association. He also serves as Chairman of the Medical Centre Insurance Company, Inc. Mr. Goonan is a Trustee of St. John Fisher College.

Steven I. Goldstein, President and Chief Executive Officer of Strong Memorial Hospital and Highland Hospital; Vice President, University of Rochester Medical Center. Mr. Goldstein joined the Hospital in September 1996 as Executive Director and Chief Operating Officer and assumed his present position in June 1997. Mr. Goldstein was Senior Vice President of The Greater Rochester Health System, Inc. from August 1995 to September 1996 and President and CEO of Rochester General Hospital from March 1993 to September 1996. Mr. Goldstein received his Master of Hospital and Health Care Administration from the St. Louis University Graduate School of Hospital and Health Care Administration.

Raymond J. Mayewski, MD, FACP, Medical Director for Clinical Services at the Medical Center, Chief Medical Officer for Strong Memorial Hospital and Highland Hospital and Physician-Director of the University of Rochester Medical Faculty Group. Dr. Mayewski received his Bachelor of Science (Honors) degree from Pennsylvania State University and Doctor of Medicine degree from Temple Medical School. After joining the Hospital in 1972 as an intern and then as Chief Resident in Medicine, Dr. Mayewski became a licensed physician in 1975 and was certified by the American Board Internal Medicine in 1975. He served as Associate Chairman for Clinical Affairs in the Department of Medicine from 1991 to 1995 and became a Dean's Professor of Medicine in 1994. He was appointed Medical Director for Clinical Services at the University of Rochester Medical Center and Chief Medical Officer for the Hospital in 1995. He is also a Fellow of the American College of Physicians and serves on numerous committees of other local State and national organizations. Dr. Mayewski serves on the Board of the University of Rochester Medical Center and Ronald McDonald House as well as continuing to serve on executive committees at the University of Rochester Medical Center.

Leonard J. Shute, Senior Director for Finance and Chief Financial Officer, Strong Memorial Hospital. Mr. Shute joined the Hospital in 1991 as Director of Financial Operations and assumed his present position in 1995. From 1982 to 1991, Mr. Shute was the Vice President for Institutional Affairs for Blue Cross/Blue Shield of the Rochester Area. Prior to that, Mr. Shute was the Chief Financial Officer for Rochester Area Hospitals' Corporation. Mr. Shute received a Bachelor of Science degree in Accounting from St. John Fisher College. He is a current member and former regional board president of the Health Care Financial Management Association. Mr. Shute serves on the Finance Committee of the Hospital Association of New York State, and chairs the Chief Financial Officer committee of the Rochester Regional Healthcare Association.

Peter G. Robinson, Vice President and Chief Operating Officer, University of Rochester Medical Center. Mr. Robinson joined the Hospital in 1988, as Director of Strategic Planning and Marketing. In 1991, Mr. Robinson was appointed Associate Vice President for Health Affairs. Prior to this, Mr. Robinson was Associate Executive Director at Bellevue Hospital Center and Director, Ambulatory Services, The Presbyterian Hospital, Columbia-Presbyterian Medical Center. He was Vice President of HealthScope Management, a health planning consultant firm, and President of Health Services Management Corporation. Mr. Robinson received a Bachelor of Arts degree from City College of New York, a Master of Arts degree from the New School for Social Research, and Master of Public Health degree from Columbia University. Mr. Robinson is on the Board of Directors of the Center for Governmental Research and the Rochester Health Commission and is President of the board of High Technology of Rochester.

David S. Guzick, M.D., Ph.D., Dean of the School of Medicine and Dentistry. Dr. Guzick was appointed the ninth dean of the University of Rochester School of Medicine and Dentistry in 2003. Dr. Guzick has served as the Henry A. Thiede professor and chair of the Department of Obstetrics and Gynecology at the School of Medicine and Dentistry since 1995, in addition to chief of service of Obstetrics and Gynecology at Strong Memorial Hospital and Highland Hospital. Dr. Guzick came to Rochester from the University of Pittsburgh School of Medicine and Magee-Women's Hospital, where he served as professor of Obstetrics, Gynecology and Reproductive Science and director of the Division of Reproductive Endocrinology. He earned both his medical degree and Ph.D. from New York University as part of a National Institutes of Health scholarship. Following a residency in obstetrics and gynecology at The Johns Hopkins Hospital, he completed a fellowship in reproductive endocrinology at the University of Texas, Southwestern Medical School.

Utilization

The following is a summary of discharges by major clinical departments for fiscal years 2000 through 2004.

PERCENT OF HOSPITAL DISCHARGES*

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Medicine	29.3%	30.9%	34.2%	34.6%	34.7%
Surgery	24.8	25.9	25.4	25.4	24.5
Obstetrics and Gynecology	17.1	14.2	13.1	12.7	11.8
Pediatrics	9.9	10.0	9.4	8.6	9.1
Orthopedics	6.0	6.2	5.7	6.2	6.7
Neurology	3.9	3.6	3.8	3.4	3.3
Clinical Research	0.9	0.9	0.5	0.4	0.3
Comprehensive Epilepsy Program	1.2	1.1	1.0	1.0	1.0
Psychiatry	4.9	6.4	5.6	6.9	7.1
Rehabilitation	1.2	1.2	1.1	1.0	1.1
AIDS	<u>0.8</u>	<u>0.5</u>	<u>0.4</u>	<u>0.3</u>	<u>0.2</u>
	100.0%	100.0%	100.0%	100.0%	100.0%

* Excludes nursery discharges.

A summary of historical utilization data for the years ended June 30, 2000 through 2004 is presented in the following table:

HOSPITAL UTILIZATION DATA

	<u>Year Ended June 30,</u>				
	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Certified Beds	750	750	743	739	739
Discharges*	33,862	35,105	36,020	37,818	37,456
Patient Days*	214,033	221,852	231,507	237,445	240,377
Average Length of Stay (Days)	6.3	6.3	6.4	6.3	6.4
AIDS Patient Days	2,245	1,482	1,555	1,196	684
Emergency Room Visits	70,126	77,285	85,510	85,710	87,343
Outpatient Clinic Visits	277,928	289,784	315,193	330,244	331,552
Ambulatory Surgery Visits	10,656	11,520	12,234	13,511	12,916
Faculty Practice Visits	408,955	513,285	552,026	607,597	661,571
<u>Average % Occupancy†:</u>					
Medicine & Surgery	87.2	92.9	92.9	95.5	99.4
Obstetrics	71.9	73.7	74.9	76.0	71.6
Gynecology	88.3	81.4	102.3	95.3	91.1
Pediatrics	79.1	82.9	82.8	82.9	80.7
Psychiatry	95.2	93.4	84.5	86.4	83.0
Rehabilitation	81.2	76.6	81.5	81.3	89.8

*Includes newborns.

†Based on beds in use.

Rochester Area Hospitals

The following table sets forth the number of acute beds, number of discharges, the occupancy rate and number of newborns for the Hospital and certain other hospitals located in and around the primary service area of the Hospital in calendar year 2003:

AREA HOSPITAL UTILIZATION DATA

	<u>Acute Beds</u>	<u>2003 Discharges</u>	<u>2003 % Occupancy†</u>	<u>2003 Newborns</u>
Strong Memorial Hospital	739	35,338	85.8%	2,865
Rochester General Hospital	528	26,568	78.4%	2,317
Highland Hospital*	254	14,042	70.2%	3,313
Unity Health System	289	15,355	90.8%	1,233

* Affiliate of the Hospital

† Based on licensed beds.

Source of information: Hospital Consortium of Greater Rochester and "Hospital Utilization Graphs" for December, 2003.

Sources of Revenue

The Hospital's major sources of patient services revenue are Medicare, Medicaid, Blue Cross and commercial insurers. During 2002-03, the Hospital received approximately 69% of its patient service revenues from Medicare, Medicaid, and Blue Cross. Comparative sources of patient service revenues for the last five years ended June 30, are as follows:

SOURCES OF HOSPITAL'S PATIENT SERVICES REVENUE

	<u>Year Ended June 30,</u>				
	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Blue Cross	30.5%	31.7%	31.5%	32.7%	32.0%
Medicare	28.9	29.0	28.8	27.8	26.4
Preferred Care	10.3	11.0	11.4	13.4	14.2
Medicaid	12.3	10.1	10.4	11.3	10.4
Commercial Insurance	5.5	5.7	5.6	6.0	8.8
Self-Pay and Other	<u>12.5</u>	<u>12.5</u>	<u>12.3</u>	<u>8.8</u>	<u>8.2</u>
Total	100.0%	100.0%	100.0%	100.0%	100.0%

See "Management's Discussion of Financial Performance" below.

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

Medicare

Under the Medicare program, the Hospital receives reimbursement under a prospective payment system ("PPS") for inpatient services. Under the hospital inpatient PPS, fixed payment amounts per inpatient discharge are established based on the patient's assigned diagnosis related group ("DRG"). When the estimated cost of treatment for certain patients is higher than average, providers typically will receive additional "outlier" payments. Effective August 1, 2000, a prospective outpatient system was adopted that provides for payment for certain medical outpatient services based on service groups called ambulatory payment classifications ("APC's"). Other outpatient services are based upon a fee schedule and/or actual costs. The Hospital's Medicare cost reports are subject to audit by the fiscal intermediary. Such audits have been done through December 31, 1999.

Medicaid and Other Third-Party Payors

The New York Health Care Reform Act of 1996, as amended (“HCRA”), governs payments to hospitals in New York State through June 30, 2005. Under HCRA, Medicaid, workers compensation and no-fault payors pay rates promulgated by the New York State Department of Health. Fixed payment amounts per inpatient discharge are established based on the patient’s assigned case mix intensity similar to a Medicare DRG. All other third-party payors, principally Blue Cross, other private insurance companies, Health Maintenance Organizations (HMO’s), Preferred Provider Organizations (PPO’s) and other managed care plans, negotiate payments rates directly with the hospitals. Such arrangements vary from DRG-based payment systems, to per diems, case rates and percentage of billed charges. If such rates are not negotiated, then the payors are billed at the Hospital’s established charges.

Hospital Finances

In the University’s fiscal year ended June 30, 2003, the Hospital accounted for nearly 40% of both the University’s operating revenues and expenses. The following table presents the operating results of the Hospital for the last five fiscal years derived from the Hospital’s audited financial statements:

Hospital Operating Results					
(dollars in thousands)					
Year Ended June 30,					
	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Operating Revenues:					
Net Patient Services Revenue	\$ 428,624	\$ 470,537	\$ 519,310	\$ 583,673	\$ 625,754
Other Operating Revenue	<u>23,345</u>	<u>24,519</u>	<u>26,596</u>	<u>17,446</u>	<u>20,782</u>
Total Operating Revenue	451,969	495,056	545,906	601,119	646,536
Operating Expenses:					
Salaries, Wages & Fringe Benefits	243,275	256,594	281,529	308,373	324,547
Supplies and Other Expenses	158,455	184,136	207,480	237,382	256,112
Interest	7,152	6,894	7,484	7,890	7,550
Depreciation	<u>24,878</u>	<u>26,338</u>	<u>27,677</u>	<u>28,020</u>	<u>30,153</u>
Total Operating Expenses	433,760	473,962	524,170	581,665	618,362
Gain from Operations	18,209	21,094	21,736	19,454	28,174
Non-Operating Revenue	<u>4,979</u>	<u>1,690</u>	<u>4,184</u>	<u>7,601</u>	<u>1,704</u>
Revenues in Excess of Expenses	\$ 23,188	\$ 22,784	\$ 25,920	\$ 27,055	\$ 29,878

Management’s Discussion of Financial Performance

Net patient revenue of the Hospital for fiscal year 2003 amounted to \$625,754,000, an increase of 7.2% over fiscal year 2002 net patient revenue of \$583,673,000. This increase in revenue was associated with growth in volumes of services provided to both outpatients and inpatients, and modest reimbursement rate increases. Expenses in 2003 increased by 6.3% over the prior year to \$618,362,000. Increases in expenses are associated with higher variable cost attributed to revenue growth and increases associated with employee salary and benefit increases, medical supplies, and professional liability insurance.

Affiliations, Mergers, Acquisitions and Divestitures

As with many healthcare systems, the Medical Center evaluates and pursues potential merger and affiliation candidates on a consistent basis as part of its overall strategic planning and development process. Likewise, the Medical Center occasionally receives offers from, or conducts discussions with, third parties about the potential acquisition or affiliation of operations or properties which may become a part of or affiliated with the Hospital and/or Medical Center, or about the potential sale of some of the operations and properties of the Medical Center. Any evaluation of potential merger and affiliation candidates will turn on whether such candidate will fulfill the requirements for the Medical Center to be able to provide a full continuity of care as part of an integrated delivery system.

Discussions with respect to affiliation, merger, acquisition, disposition, or change of use, including those that may affect the Medical Center are held on an intermittent, and usually confidential, basis. As a result, it is possible that the assets currently owned by the Medical Center may change from time to time, subject to the provisions in the financing documents that apply to merger, sale, disposition or purchase of assets.

The University and its affiliate, Highland Hospital of Rochester (“Highland”), sold their chronic and outpatient dialysis facilities and business to a for-profit business in 2002. The University, through the Hospital, operated three chronic and outpatient dialysis programs and Highland operated five such programs. The total sale price was \$21,500,000, of which \$14,288,000 was allocated to Highland, \$6,212,000 to the University and \$1,000,000 to the University’s faculty research fund. The Hospital’s revenue from its chronic and outpatient dialysis programs accounted for approximately 1% of the total Hospital revenue in fiscal year 2002.

Currently, the Medical Center is affiliated with other nonprofit and for-profit corporations. Such affiliates conduct operations that are of strategic importance to the Medical Center, including opportunities for medical students and residents to receive training in a variety of clinical settings. Their operations may subject the Medical Center to potential legal or financial liabilities, although in general, the Medical Center is not liable for the debts and legal obligations of the affiliates. In some cases, the Medical Center may fund the affiliates on a start-up or ongoing basis, although this funding, in relation to the overall operating budget of the Medical Center, historically has not materially affected the Medical Center’s financial condition or operation, nor is it anticipated to do so in the future.

Factors Affecting the Hospital’s Revenues

General

The revenue and expenses of the Hospital are affected by the changing healthcare environment. These changes are a result of efforts by the federal and state governments, managed care organizations, private insurance companies and business coalitions to reduce and contain healthcare costs, including, but not limited to, the costs of inpatient and outpatient care, physician fees and capital expenditures. In addition to matters discussed elsewhere herein, the following factors may have a material effect on the operations of the Hospital to an extent that cannot be determined at this time.

The receipt of future revenues by the Hospital is subject to, among other factors, federal and state regulations and policies affecting the healthcare industry and the policies and practices of managed care providers, private insurers and other third party payors, and private purchasers of healthcare services. The effect on the Hospital of recently enacted statutes and recent regulatory changes and of future changes in federal, state and private policies cannot be determined at this time.

Future economic conditions, which may include an inability to control expenses in periods of inflation, and other conditions such as demand for healthcare services, including an anticipated continued decline in utilization of inpatient facilities, the capability of the management of the Hospital, the receipt of grants and contributions, referring physicians’ and self-referred patients’ confidence in the Hospital, increased use of health maintenance organizations (“HMOs”) and preferred provider organizations (“PPOs”) with discounted payment schedules, economic and demographic developments in the United States and in the service areas in which facilities of the Hospital are located, competition from other healthcare institutions, changes in interest rates which affect the investment results, and changes in rates, costs, third-party payments and governmental regulations concerning payment, are among other factors which may adversely affect revenues and expenses.

Legislative, Regulatory, and Contractual Matters Affecting Revenue

The healthcare industry is heavily regulated by the federal and state governments. A substantial portion of revenue of healthcare providers is derived from governmental sources. Governmental revenue sources are subject to statutory and regulatory changes, administrative rulings, interpretations of policy, determinations by fiscal intermediaries, and

government funding restrictions, all of which may materially increase or decrease the rates of payment and cash flow to hospitals. In the past, there have been frequent and significant changes in the methods and standards used by government agencies to reimburse and regulate the operation of hospitals. There is no reason to believe that substantial additional changes will not occur in the future or that payments made under such programs will remain at levels comparable to the present levels or that they will be sufficient to cover all existing costs.

Legislation is periodically introduced in Congress and in the State legislature that could result in limitations on the Hospital's revenue, third-party payments, and costs or charges, or that could result in increased competition or an increase in the level of indigent care required to be provided by the Hospital. From time to time, legislative proposals are made at the federal and state level to engage in broader reform of the healthcare industry, including proposals to promote competition in the healthcare industry, to contain healthcare costs, to provide national health insurance and to impose additional requirements and restrictions on healthcare insurers, providers and other healthcare entities. The effects of future reform efforts on the Hospital cannot be predicted.

Managed Care and Other Private Initiatives

Managed care programs, which include various payment methodologies and utilization controls through the use of primary care physicians, are increasingly being offered by traditional insurance companies and managed care organizations in the State. Payment methodologies include per diem rates, per discharge rates, discounts from established charges, fee schedules and capitation payments. Enrollment in managed care programs has increased, and managed care programs are expected to have a greater influence on the manner in which healthcare services are delivered and paid for in the future. Managed care programs are expected to reduce significantly the utilization of healthcare services generally, and inpatient services in particular. In addition, some managed care organizations have been delaying reimbursements to hospitals, thereby affecting institutional cash flows. The financial condition of the Hospital may be adversely affected by these trends.

Medicare and Medicaid Managed Care

Medicare is encouraging and facilitating the development of managed care products for Medicare beneficiaries. Enrollment in a Medicare managed care product is currently voluntary and enrollees may disenroll and reenroll in the traditional Medicare fee-for-service system at any time. Commercial insurers and HMOs typically offer managed care products for the Medicare population. The Balanced Budget Act of 1997 established Medicare+Choice, a program that allows healthcare providers (hospitals and physicians) to contract directly with the United States Centers for Medicare and Medicaid Services ("CMS"), formerly known as the United States Health Care Financing Administration ("HCFA"), to form networks for the purpose of directly serving and insuring Medicare beneficiaries through the assumption of financial risk. Definitions and requirements for these networks, which are referred to as Provider Sponsored Organizations ("PSOs"), were published by HCFA as an interim rule in the April 14, 1998 edition of the Federal Register and by CMS as a final rule in the June 29, 2000 edition of the Federal Register.

Medicare enrollees in managed care products have their healthcare managed and paid for by the applicable insurer, HMO or PSO (the "managed care plan"). The managed care plan is reimbursed by the Medicare program on a monthly per-beneficiary amount for each Medicare enrollee; the payment amount generally includes either a per diem or DRG payment, plus a risk-sharing arrangement. The managed care plan is at full financial risk for cost overruns that exceed the per-beneficiary amounts paid to it by Medicare. Consequently, the managed care plan and its participating hospitals, physicians and other providers seek to reduce utilization and otherwise control the costs of providing care to Medicare beneficiaries. These financial considerations may contribute to reduced per patient revenues for the Hospital Medicare patients. Enrollment in Medicare managed care plans is expected to continue increasing and substantial numbers of Medicare beneficiaries are expected to enroll in such plans.

Future actions by the federal and state governments are expected to continue the trend toward more restrictive limits on reimbursement for hospital services. The management of the Hospital cannot assess or predict the ultimate effect of any such legislation or regulation, if enacted or adopted, on its operations.

The Hospital also participates in the federal and State Medicaid program. In order to control Medicaid expenditures, the State has sought to enroll large numbers of Medicaid patients in managed care programs because experience in other states has shown that inpatient utilization decreases for Medicaid recipients who are enrolled in such programs. Enrollment of Medicaid patients in managed care programs, payments to managed care organizations for care rendered to them, the financial risk assumed by the managed care organization and the resulting and potential financial and other risks to the Hospital are similar to those for Medicare managed care programs.

The State's program for mandatory Medicaid enrollment, The Partnership Plan (also known as the 1115 Waiver), was approved by HCFA in July 1997, allowing the State to begin enrolling most Medicaid recipients in managed care plans. Given the relatively short existence of the program and its phased-in expansion, there remains the possibility that managed care providers will seek to reduce the compensation hospitals are currently receiving under the Medicaid program and direct that such enrollees use the services of only managed care provider approved hospitals.

Department of Health Regulations

The Hospital is subject to regulations of the New York State Department of Health. Compliance with such regulations may require substantial expenditures for administrative or other costs. The Hospital's ability to add services or beds and to modify existing services materially is also subject to Department of Health review and approval. Approvals can be highly discretionary, may involve substantial delay, and may require substantial changes in the proposed request. Accordingly, the Hospital's ability to make changes to its service offerings and respond to changes in the healthcare environment may be limited.

Other Governmental Regulation

The Hospital is subject to regulatory actions and policy changes by those governmental and private agencies that administer the Medicare and Medicaid programs and actions by, among others, the National Labor Relations Board and professional and industrial relations of staff and employees, applicable professional review organizations, the Joint Commission on Accreditation of Healthcare Organizations ("JCAHO"), the various federal, state and local agencies created by the National Health Planning and Resources Development Act, the Occupational Safety Health Act, the act creating the Environmental Protection Agency, the Internal Revenue Service and other federal, state and local governmental agencies.

The Hospital, as are many other medical centers throughout the nation, is frequently subject to audits and other investigations relating to various segments of its operations. The management of the Hospital does not believe that any such audits or investigations will result in a liability that would have a material adverse impact on the business, operations or financial condition of the Hospital.

Competition

The healthcare industry is in the process of rapid and fundamental change, triggered by the deregulation of the acute care hospital reimbursement system and the growing national strength of managed care plans. The growth of the managed care industry is being driven in part by increasing pressures from employers and other purchasers that are seeking to reduce their healthcare premium costs. In New York, integrated delivery systems are developing in order to provide adequate geographical coverage for major purchasers of healthcare and to provide a system through which potential cost savings may become available. These factors may further increase competitive pressures on acute care hospitals, including the Hospital.

The Hospital faces and will continue to face competition from other hospitals and integrated delivery systems. In addition, alternative modes of healthcare delivery offering lower priced services to the same population — such as ambulatory surgery centers, private laboratories, private radiology services, skilled and specialized nursing facilities, and home care — compete with the Hospital.

Management believes that sustained growth in patient volume, together with firm cost controls, and continued superior outcomes will be increasingly important as the healthcare environment becomes more competitive. There are many limitations on the ability of a hospital to increase volume and control costs, and there can be no assurance that volume increases or expense reductions needed to maintain the financial stability of the Hospital will occur.

Private Third-Party Reimbursement

A significant portion of the patient service revenue of the Hospital is received from private entities, such as insurance companies that provide third-party reimbursement for patient care on the basis of negotiated payments or make payments based on the charges submitted by the Hospital. Renegotiations of such negotiated payments and changes in such reimbursement systems and methods may reduce this category of revenue or prevent the Hospital from receiving adequate reimbursement for its costs.

Accreditation

The Hospital is subject to periodic review by the JCAHO and the various federal, state and local agencies created by the National Health Planning and Resources Development Act of 1974. The Hospital has accreditation from JCAHO through 2004. No assurance can be given as to the effect on future operations of existing laws, regulations and standards for certification or accreditation or of any future changes in such laws, regulations and standards.

Federal “Fraud And Abuse” Laws And Regulations

The Federal Medicare/Medicaid Anti-Fraud and Abuse Amendments to the Social Security Act (the “Anti-Kickback Law”) make it a criminal felony offense to knowingly and willfully offer, pay, solicit or receive remuneration in order to induce business for which reimbursement is provided under a federal health care program, including without limitation Medicare or Medicaid. In addition to criminal penalties, including fines of up to \$25,000 and five years imprisonment, violations of the Anti-Kickback Law can lead to civil monetary penalties and exclusion from the Medicare and Medicaid programs. The scope of prohibited payments in the Anti-Kickback Law is broad and includes, subject to certain limited exceptions, economic arrangements involving hospitals, physicians and other healthcare providers, including certain joint ventures, space and equipment rentals, purchases of physician practices and management and personal services contracts.

The Health Insurance Portability and Accountability Act of 1996 (“HIPAA”) contains provisions for enhanced enforcement, increases to the scope of the Anti-Kickback Law, additional sanctions for violations of such laws and other measures designed to protect the integrity of federal healthcare programs. HIPAA created a new program operated jointly by Secretary of the United States Department of Health and Human Services (“HHS”) and the Attorney General of the United States to coordinate federal, state and local law enforcement with respect to fraud and abuse. HIPAA also provides for minimum periods of exclusion from federal reimbursement or third-party payment programs as a penalty for fraudulent billing or similar fraudulent activities; allows intermediate sanctions; and expands the scope of civil monetary penalties applicable to any federal health care programs. In addition, HIPAA and the regulations promulgated thereunder implemented new federal privacy requirements.

HHS had published certain safe harbor regulations that describe certain arrangements that will not be deemed to constitute violations of the Anti-Kickback Law. The safe harbors described in the regulations are narrow and do not cover a wide range of economic relations which many hospitals, physicians and other healthcare providers consider to be legitimate business arrangements not prohibited by the statute.

Further, various federal laws, including the federal False Claims Act, make it a criminal and/or civil violation to submit (or cause to be submitted) fraudulent (or recklessly incorrect) requests for reimbursement or payment from a federal program, including federal health care programs such as Medicare and Medicaid. Violations of these laws and regulations can lead to criminal actions, treble damages, disgorgement of proceeds fraudulently obtained and/or additional financial penalties ranging up to \$10,000 per false claim. In the health care context, with thousands of claims submitted by hospitals each year, liabilities can be potentially enormous, if fraudulent or recklessly inappropriate billing activities occur. Other federal and state laws also prohibit false, reckless or fraudulent billing to non-governmental third-party payors for medical services, and can impose civil and/or criminal penalties for such activities.

Management of the Hospital believes that their current practices are presently in compliance with the Anti-Kickback Law, applicable billing and reimbursement regulations and HIPAA. The Hospital, through its compliance program, routinely monitors institutional billing practices to assure compliance with applicable law. However, in light of the narrowness of the safe harbor regulations and the scarcity of the case law interpreting the Anti-Kickback Law and the confusing body of laws relating to Medicare billing, there can be no assurance that the Hospital will not be found to have violated the Anti-Kickback Law, HIPAA and/or other billing laws and regulations, and if so, that any sanction imposed would not have a material adverse effect on the operations or the financial condition of the Hospital.

There is an increasingly expanding and complex body of laws, regulations and policies relating to federal and state health programs that is not directly related to payment. These include reporting and other technical rules, as well as broadly stated prohibitions regarding inducements for referrals, all of which carry potentially significant penalties for noncompliance. The prohibitions on inducements for referrals are so broadly drafted and so broadly interpreted by several applicable federal cases and in statements by officials of the Office of the Inspector General of HHS (the “OIG”) that they may create liability in connection with a wide variety of business transactions. In the case of the Anti-Kickback Law, limited “safe harbor” regulations provide defenses for a narrow scope of arrangements in case of prosecution or administrative enforcement action. However, failure to satisfy the conditions of a safe harbor does not necessarily indicate a violation of such statute. Activities that fall outside of the safe harbor rules include a wide range of activities frequently engaged in between hospitals and physicians and other third parties. In certain instances, private individuals may also bring suit under the qui tam provisions of the False Claims Act and may be eligible for incentive payments for providing information that leads to recoveries or sanctions. Civil penalties range from monetary fines that may be levied on a per-violation basis to temporary or permanent exclusion from the federal health care programs (which account for a significant portion of revenue and cash flow of most hospitals, including the Hospital). Criminal penalties may also

be imposed. If determined adversely to the provider involved, an enforcement or qui tam action could have a materially adverse effect on such provider. These penalties may be applied to many cases where hospitals and physicians conduct joint business activities, practice purchases, physician recruiting and retention programs, various forms of hospital assistance to individual physicians and medical practices or the physician contracting entities, physician referral services, hospital-physician service or management contracts, and space or equipment rentals between hospitals and physicians. The Hospital conducts limited activities of these general types or similar activities, which pose varying degrees of risk. Much of that risk cannot be assessed accurately due to the lack of case law or material guidance by the OIG. While the Hospital is not aware of any challenge or investigation concerning it with respect to such matters, there can be no assurance that one or more will not occur in the future.

Limitations on Certain Arrangements Imposed by Federal Ethics in Patient Referrals Act

The Federal Ethics in Patient Referrals Act (known as the “Stark Law”) prohibits a physician (or an immediate family member of such physician) with a financial relationship with an entity, from referring a Medicare or Medicaid patient to such entity for the furnishing of designated health services, and prohibits such entity from presenting or causing to be presented a claim for payment under a federal health care program including, without limitation, the Medicare or Medicaid program, for designated health services furnished pursuant to a prohibited referral. The designated health services subject to these prohibitions are clinical laboratory services, physical and occupational therapy services and speech-language pathology services, radiology (including magnetic resonance imaging, computerized axial tomography and ultrasound) services, radiation therapy services and supplies, durable medical equipment and supplies, parenteral and enteral nutrients (including equipment and supplies), orthotics and prosthetic devices and supplies, home health services, outpatient prescription drugs and inpatient and outpatient hospital services. Under the Stark Law, “physician” is defined to include a doctor of medicine or osteopathy legally authorized to practice medicine and surgery by the state in which he or she performs that function or action. The definition also includes a doctor of dental surgery or dental medicine, a doctor of podiatric medicine, a doctor of optometry, and a chiropractor.

The New York Health Care Practitioner Referral Law (the “State Provisions”) is similar to the Stark Law; however, it covers all patients (irrespective of payor) and prohibits practitioners from referring a patient to a healthcare provider for clinical laboratory services, x-ray or imaging services, radiation therapy services, physical therapy services, or pharmacy services, if the referring practitioner (or an immediate family member) has a financial interest in the healthcare provider. Under the State Provisions, a “practitioner” is defined as a licensed or registered physician, dentist, podiatrist, chiropractor, nurse, midwife, physician assistant or special assistant, physical therapist or optometrist.

A “financial relationship,” for purposes of the Stark Law and State Provisions (the Stark Law and State Provisions are hereinafter collectively referred to as “Stark”) is defined as either an ownership or investment interest in the entity or a compensation arrangement between the physician (or immediate family member) and the entity. An ownership or investment interest may be through equity, debt, or other means and includes an interest in an entity that holds an ownership or investment interest in an entity providing the designated health services.

The Stark provisions provide certain exceptions to these restrictions. If the physician has a financial relationship with an entity that provides one of the designated health services, the Stark prohibitions will apply unless one of the specified exceptions are available. Unlike the anti-kickback safe harbors discussed above (where the failure to meet a safe harbor does not necessarily mean the referral is prohibited), failure to satisfy an exception to the Stark provisions means (i) that the referral itself is prohibited, and (ii) the entity receiving the referral is prohibited from seeking payment for such service. However, the mere existence of a financial relationship does not violate the Stark provisions. Stark is only violated if (i) a financial relationship exists, (ii) a referral for designated services is made, and (iii) no relevant exception is available. To the extent a relationship is found to exist, an applicable exception under Stark is necessary in order for the entity receiving the referral to accept such referral (for a designated service) and to bill for the designated service generated by such referral.

The exceptions under the Stark provisions can be broken down into three categories, based upon the nature of the financial relationship between the referring provider and the referral entity. The three categories of exceptions include: (i) exceptions to ownership arrangements, (ii) exceptions to compensation arrangements, and (iii) exceptions to both compensation and ownership arrangements.

If the financial relationship between a physician/practitioner and the Hospital cannot be made to fit within the exceptions, the Hospital will not be permitted to accept referrals for designated services from the physician/practitioner who has such financial relationship. Like the Anti-Kickback Law provisions discussed above, failure to comply with the Stark provisions can result in liability in connection with a wide variety of business transactions. Violations may

result in civil and criminal penalties and exclusion from the Medicare and Medicaid programs. On January 9, 1998, HCFA issued proposed regulations and commentary interpreting the Stark Law. On January 4, 2001, HCFA (now CMS), issued "Phase I" of final Stark regulations. On March 26, 2004, CMS issued "Phase II" of final Stark regulations as an interim final rule with comment period, with an effective date of July 26, 2004. While CMS has provided a one-year period for healthcare providers to bring activities into compliance with the regulations, the law remains in effect. There can be no assurance that a third party reviewing the existing activities of the Hospital would find such activities to be in full compliance with the Stark provisions and existing regulations or in full compliance with the Phase II regulations when and if published.

HIPAA Privacy Regulations

When Congress enacted HIPAA, it required HHS to implement national standards to protect the privacy of individual health information. HHS published a set of regulations, which became effective on April 14, 2001, governing the release of protected health information. The deadline for healthcare providers to be fully compliant with the regulations was April 14, 2003. The regulations prohibit any covered entity, including hospitals and health systems, from using or disclosing an individual's protected health information unless the use or disclosure is authorized by the individual (or his or her personal representative) or is specifically required or permitted under the final regulations. The regulations impose a complex system of requirements for meeting this basic rule. The regulations also provide for the imposition of both civil and criminal penalties for violations of the statute. Civil penalties can range up to \$25,000 per violation. Criminal penalties include fines of up to \$50,000 and imprisonment of up to 1 year. Criminal penalties increase substantially if the offense occurs under false pretenses or with the intent to sell, transfer, or use individually identifiable health information for commercial advantage, personal gain or malicious harm.

The administrative and financial burden of complying with the privacy regulations is substantial. Even when a healthcare provider establishes compliance, there are expected to be significant, continuing costs associated with compliance. The Hospital believes its health information systems are now in compliance with the privacy regulations. The Hospital has appointed a privacy officer to oversee the implementation of the privacy standards and a privacy team works with the privacy officer to ensure compliance. The Hospital cannot predict the extent to which the costs of compliance with the privacy regulations will affect the financial performance of the Hospital.

Regulation of Patient Transfer

Federal laws prohibit hospitals from transferring a patient who is medically unstable or is in labor, unless the patient asks to be transferred or a physician certifies that the benefits of the transfer outweigh the risks. The receiving hospital must agree to accept the transfer. Hospitals that violate the ban on inappropriate transfers may be expelled from the Medicare and/or Medicaid programs and are subject to fines of up to \$50,000 per violation. Management of the Hospital believes that the Hospital is currently in compliance with these requirements.

Internal Revenue Code Limitations

The Code contains restrictions on the issuance of tax-exempt bonds for the purpose of financing and refinancing different types of healthcare facilities for not-for-profit organizations, including facilities generating taxable income. Consequently, the Code could adversely affect the Hospital's ability to finance its future capital needs and could have other adverse effects on the Hospital, which cannot be predicted at this time. The Code continues to subject unrelated business income of nonprofit organizations to taxation.

As a tax-exempt organization, the Hospital is limited with respect to the use of practice income guarantees, reduced rent on medical office space, below market rate interest loans, joint venture programs, and other means of recruiting and retaining physicians. The Internal Revenue Service ("IRS") has recently intensified its scrutiny of a broad variety of contractual relationships commonly entered into by hospitals and affiliated entities and has issued detailed hospital audit guidelines suggesting that field agents scrutinize numerous activities of hospitals in an effort to determine whether any action should be taken with respect to limitations on, or revocation of, their tax-exempt status or assessment of additional tax. The IRS has also commenced intensive audits of select healthcare providers to determine whether the activities of these providers are consistent with their continued tax-exempt status. The IRS has indicated that, in certain circumstances, violation of the fraud and abuse statutes could constitute grounds for revocation of a hospital's tax-exempt status. The Hospital may enter into arrangements with physicians that are of the kind that the IRS has indicated that it will examine in connection with audits of tax-exempt hospitals.

Revocation of the tax-exempt status of the Hospital under Section 501(c)(3) of the Code could subject the interest paid to Bondholders to federal income tax retroactively to the date of the issuance of the Series 2004A Bonds. Section 501(c)(3) of the Code specifically conditions the continued exemption of all Section 501(c)(3) organizations upon the requirement, among others, that no part of the net earnings of the organization inure to the benefit of any private

individual. While management believes the Hospital's arrangements with private persons and entities are generally consistent with guidance by IRS and do not constitute private inurement, there can be no assurance concerning the outcome of an audit or other investigation given the lack of clear authority interpreting the range of activities undertaken by the Hospital.

Intermediate sanctions legislation enacted in 1996 impose excise taxes in cases where an exempt organization is found to have engaged in an "excess benefit transaction" with a "disqualified person," defined generally to include directors and senior management. The tax is imposed both on the disqualified person receiving such excess benefit and on any officer, director, trustee or other person having similar powers or responsibilities who participated in the transaction willfully or without reasonable cause, knowing it will involve "excess benefit," but it is not imposed on the exempt organization. "Excess benefit transactions" include transactions in which a disqualified person receives unreasonable compensation for services or receives other economic benefit from the organization that either exceeds fair market value or, to the extent provided in regulations yet to be promulgated, is determined in whole or in part by the revenues of one or more activities of such organization. The legislative history sets forth Congress' intent that compensation of disqualified persons shall be presumed to be reasonable if certain procedures are followed.

The imposition of excise tax based upon a finding that an exempt organization engaged in an excess benefit transaction could result in negative publicity and other consequences that could have a material adverse effect on the operations, property, or assets of the organization or on the market for its debt obligations.

Antitrust

Enforcement of the antitrust laws against healthcare providers is becoming more common. Antitrust liability may arise in a wide variety of circumstances including, but not limited to, medical staff privilege disputes, payor contracting, physician relations, joint ventures, merger, affiliation and acquisition activities, and certain pricing and salary setting activities. Actions can be brought by federal and state enforcement agencies seeking criminal and civil penalties and, in some instances, by private litigants seeking damages for harm from allegedly anticompetitive behavior. Common areas of potential liability include joint action among providers with respect to payor contracting, medical staff credentialing, and issues relating to market share. Liability in any of these or other trade regulation areas may be substantial, depending on the facts and circumstances of each case. With respect to payor contracting, the Hospital may, from time to time, be involved in joint contracting activity with hospitals or other providers. The degree to which these or similar joint contracting activities may expose a participant to antitrust risk from governmental or private sources are dependent on a myriad of factors, which may change from time to time. If any provider with which the Hospital is or becomes affiliated is determined to have violated the antitrust laws, the Hospital may be subject to liability as a joint actor.

Some judicial decisions have permitted physicians who are subject to disciplinary or other adverse actions by a hospital at which they practice, including denial or revocation of medical staff privileges, to seek treble damages from the hospital under the federal antitrust laws. The Federal Health Care Quality Improvement Act of 1986 provides immunity from liability for discipline of physicians by hospitals under certain circumstances, but courts have differed over the nature and scope of this immunity. In addition, hospitals occasionally indemnify medical staff members who incur costs as defendants in lawsuits involving medical staff privilege decisions. Some court decisions have also permitted recovery by competitors claiming harm from a hospital's use of its businesses. Antitrust liability in any of these contexts can be substantial, depending upon the facts and circumstances involved.

Environmental Matters

Healthcare providers are subject to a wide variety of federal, state and local environmental and occupational health and safety laws and regulations. These requirements govern medical and toxic or hazardous waste management, air and water quality control, notices to employees and the public and training requirements for employees. Healthcare operators and employers such as the Hospital are subject to potentially material liability for costs of investigating and remedying the releases of any such substances either on their properties or that have migrated from their property or have been improperly disposed of off-site and the harm to person or property that such releases may cause.

Provider-Specific Taxes

The Medicaid Voluntary Contribution and Provider-Specific Tax Amendments of 1991 established standards that govern how states can impose and use provider-specific taxes. In general, states are allowed to impose broad-based, provider-specific taxes that are redistributive and do not contain "hold harmless" provisions. The law also limits Medicaid payment adjustments for hospitals that service a disproportionate number of low-income patients to 12% of each state's gross Medicaid expenditures.

Possible Staffing Shortages

In recent years, the hospital industry has suffered from an increasing scarcity of nurses and skilled technicians to staff its facilities. Factors underlying this industry trend include an increase in the proportion of the population that is elderly, an increase in the tendency to institutionalize senior citizens as opposed to providing nursing care in the home, a decrease in the number of persons entering the nursing profession and an increase in the number of nurses specializing in home health care. These factors may intensify in years to come, aggravating the shortage of skilled personnel. Nationally there is a shortage of registered nurses and licensed practical nurses. As competition for such employees intensifies, staffing shortages could have the effect of significantly increasing personnel costs and could have a material adverse effect on the financial results of the Hospital and on the ability of the Hospital to sustain minimum staffing levels necessary to maintain licensure, certification and accreditation. Although the Hospital has achieved adequate nurse and skilled technician staffing levels to date, it is uncertain whether qualified candidates will continue to be available to the Hospital in the future.

Malpractice Claims and General Liability Insurance

In recent years, the number of malpractice and general liability suits and the dollar amounts of recoveries has increased nationwide, resulting in substantial increases in malpractice insurance premiums. Insurance premiums may continue to rise in future years, which could have a negative effect on the financial condition of the Hospital. Furthermore, malpractice and other actions alleging wrongful conduct and seeking punitive damages are occasionally filed against New York hospitals. Insurance may not provide coverage for judgments for punitive damages.

Affiliated Entities Part of Integrated Delivery System

The University is affiliated with other organizations (the “Affiliated Entities”) that are not legally obligated for the payment of debt service on University obligations, including the Series 2004A Bonds. Likewise, the University is not responsible for the obligations of the Affiliated Entities unless it has agreed to do so. The Affiliated Entities are as follows:

Highland Hospital and Affiliates

In June 1997, Highland Hospital and affiliates and the University became affiliated through the restructuring of a corporation now known as Strong Partners Health System, Inc., of which the University is the sole member. This affiliation will enable the hospitals to work together and will provide the link between the University/Strong Memorial Hospital and Highland Hospital and affiliates; Strong Partners Health System, Inc. will also provide the legal structure to enable the Highland affiliates to act as an integrated system while protecting the rights of all of the affiliates.

A brief description of Highland Hospital and its affiliates follows:

Highland Hospital of Rochester

Highland Hospital of Rochester is a 268-bed not-for-profit acute care hospital located in Rochester, New York. The hospital’s services include medical/surgical care, intensive care, maternity and emergency care. In addition, the hospital owns and operates sixteen (16) primary care clinics.

Highland Community Development Corporation

Highland Community Development Corporation (“HCDC”) is a not-for-profit corporation which owns and operates The Highlands at Pittsford, a retirement community located in Pittsford, Monroe County, New York. The retirement community includes 130 independent living units, 60 enriched housing units, a community common area, a dining room, sitting areas and recreational areas. During 2003, HCDC began construction of 36 cottages and a community center on its campus.

The Highlands Living Center, Inc.

The Highlands Living Center, Inc. is a not-for-profit corporation which owns and operates a 122-bed skilled nursing facility and an adult day care health program for seniors in Pittsford, Monroe County, New York. The skilled nursing facility is adjacent to The Highlands at Pittsford.

Highland Facilities Development Corporation

Highland Facilities Development Corporation (“HFDC”) is a not-for-profit corporation whose primary purpose is to provide services that are substantially related to the charitable purposes of Highland Hospital but do not involve the provision of health care services. HFDC owns and operates a medical office building and a parking garage on the hospital campus.

Medical Administrative Associates

Highland Hospital is the sole shareholder of Medical Administrative Associates, Inc., d/b/a Highland Apothecary (“MAA”), which is a for-profit corporation which owns and operates a retail pharmacy, in Rochester, New York.

Highland Hospital Foundation

Highland Hospital Foundation is a not-for-profit corporation controlled by Highland Hospital which solicits, receives and maintains funds for the support of Highland Hospital.

The Highlands at Brighton

The University created a not-for-profit corporation, The Meadows at Westfall (“The Meadows”), of which the University was the sole member. On June 1, 1996, The Meadows became the operator of a 145-bed nursing home in Brighton, New York. The Meadows acquired only the assets and liabilities associated with the routine operation of the facility; liabilities associated with any pending or threatened litigation before June 1, 1996 were expressly excluded. In November of 1998, the membership of the Meadows of Westfall was changed so that Strong Partners Health System is the sole member and the nursing home was renamed as The Highlands at Brighton.

Upstate Health Partners

In January 1995, the Hospital signed an agreement with St. James Mercy in Hornell, New York and Jones Memorial Hospital in Wellsville, New York to form Upstate Health Partners. Through this contractual affiliation, each of the member hospitals works to enhance the quality and accessibility of healthcare services for patients in the rural areas served by Upstate Health Partners. The guiding principle in forming the affiliation is to provide services to patients in their home communities whenever possible. Upstate Health Partners builds on a solid history of collaboration among the three hospitals. Specialists from the Hospital in cardiology, pulmonary medicine, pathology, oncology, rheumatology, rehabilitation and orthopedics regularly travel to Hornell and Wellsville to provide clinical care to patients.

Eastman Dental Center

The Medical Center, as of June 30, 1997 acquired and established the Eastman Dental Center (“EDC”) as a separate division within the Medical Center. The Eastman Dental Center operates a dental diagnostic and treatment center. Graduate dental education programs and dental research are conducted through the School of Medicine and Dentistry and Strong Memorial Hospital.

Visiting Nurse Service of Rochester and Monroe County and VNS Signature Care

The Medical Center affiliated with Visiting Nurse Foundation, Inc. in April 1999, which is now known as Strong Home Care Group (“SHCG”). SHCG is the largest provider of home care services in Monroe County with an excellent reputation for quality services. The University is the sole corporate member of SHCG which holds two care-providing organizations, specifically the Visiting Nurse Service of Rochester and Monroe County, Inc., which is a certified, home health agency, and Community Care of Rochester, currently doing business as VNS Signature Care, a licensed home care services agency. The SHCG board is comprised of community members and sufficient University appointees to give the University effective control of the organization.

Managed Care Organization

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

Debt of Affiliated Entities

The debt of the Affiliated Entities as of December 31, 2003, which is not an obligation of the University, is as follows:

Highland Hospital and HFDC

Total long-term indebtedness (excluding leases) amounted to \$27,765,000. In addition, Highland Hospital has current and long-term lease obligations amounting to \$4,225,000.

Highland Community Development Corporation

Total long-term indebtedness consists of a mortgage loan dated as of January 26, 1994 with the Authority with a principal balance of \$11,745,000.

The Highlands Living Center

Total long-term indebtedness consists of a mortgage loan dated as of August 4, 1994 with the Authority with a principal balance of \$9,388,000.

Visiting Nurse Service

Total long-term indebtedness consists of notes payable with HSBC Bank, USA with a principal balance of \$1,729,000. In addition, Visiting Nurse Service has current and long-term lease obligations amounting to \$1,273,000.

Indebtedness Incurred Since December 31, 2003

Highland Hospital has entered into additional long-term lease obligations amounting to \$3,000,000 since December 31, 2003. Visiting Nurse Service has entered into additional long-term lease obligations amounting to \$577,000 since December 31, 2003.

PART 6 - THE 2004A PROJECT

The 2004A Project consists of the construction of an approximately 25-megawatt cogeneration facility to provide supplementary heat and/or electricity to the University’s main campus, its south campus, the Hospital and the School of Medicine and Dentistry, including an underground piping network and an approximately 6,500 square foot addition to the University’s Central Utilities Plant to house a new boiler and two steam turbine generators.

PART 7 - ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds are as follows:

Sources of Funds

Principal Amount of Series 2004A Bonds	\$45,000,000
Plus: Net Premium	<u>602,797</u>
Total Sources	\$45,602,797

Uses of Funds

Deposit to Construction Fund	\$42,205,352
Capitalized Interest	2,489,910
Costs of Issuance	607,585
Underwriters’ Discount	<u>299,950</u>
Total Uses	\$45,602,797

PART 8 - THE AUTHORITY

Background, Purposes and Powers

The Authority is a body corporate and politic constituting a public benefit corporation. The Authority was created by the Act for the purpose of financing and constructing a variety of facilities for certain independent colleges and universities and private hospitals, certain not-for-profit institutions, public educational institutions including The State University of New York, The City University of New York and Boards of Cooperative Educational Services (“BOCES”), certain school districts in the State, facilities for the Departments of Health and Education of the State, the Office of General Services, the Office of General Services of the State on behalf of the Department of Audit and Control, facilities for the aged and certain judicial facilities for cities and counties. The Authority is also authorized to make and purchase certain loans in connection with its student loan program. To carry out this purpose, the Authority was given

the authority, among other things, to issue and sell negotiable bonds and notes to finance the construction of facilities of such institutions, to issue bonds or notes to refund outstanding bonds or notes and to lend funds to such institutions.

On September 1, 1995, the Authority through State legislation (the “Consolidation Act”) succeeded to the powers, duties and functions of the New York State Medical Care Facilities Finance Agency (the “Agency”) and the Facilities Development Corporation (the “Corporation”), each of which will continue its corporate existence in and through the Authority. Under the Consolidation Act, the Authority has also acquired by operation of law all assets and property, and has assumed all the liabilities and obligations, of the Agency and the Corporation, including, without limitation, the obligation of the Agency to make payments on its outstanding bonds, and notes or other obligations. Under the Consolidation Act, as successor to the powers, duties and functions of the Agency, the Authority is authorized to issue and sell negotiable bonds and notes to finance and refinance mental health services facilities for use directly by the New York State Department of Mental Hygiene and by certain voluntary agencies. As such successor to the Agency, the Authority has acquired additional authorization to issue bonds and notes to provide certain types of financing for certain facilities for the Department of Health, not-for-profit corporations providing hospital, medical and residential health care facilities and services, county and municipal hospitals and nursing homes, not-for-profit and limited profit nursing home companies, qualified health maintenance organizations and health facilities for municipalities constituting social services districts. As successor to the Corporation, the Authority is authorized, among other things, to assume exclusive possession, jurisdiction, control and supervision over all State mental hygiene facilities and to make them available to the Department of Mental Hygiene, to provide for construction and modernization of municipal hospitals, to provide health facilities for municipalities, to provide health facilities for voluntary non-profit corporations, to make its services available to the State Department of Correctional Services, to make its services available to municipalities to provide for the design and construction of local correctional facilities, to provide services for the design and construction of municipal buildings, and to make loans to certain voluntary agencies with respect to mental hygiene facilities owned or leased by such agencies.

The Authority has the general power to acquire real and personal property, give mortgages, make contracts, operate dormitories and other facilities and fix and collect rentals or other charges for their use, contract with the holders of its bonds and notes as to such rentals and charges, make reasonable rules and regulations to assure the maximum use of facilities, borrow money, issue negotiable bonds or notes and provide for the rights of their holders and adopt a program of self-insurance.

In addition to providing financing, the Authority offers a variety of services to certain educational, governmental and not-for-profit institutions, including advising in the areas of project planning, design and construction, monitoring project construction, purchasing of furnishings and equipment for projects, designing interiors of projects and designing and managing projects to rehabilitate older facilities. In succeeding to the powers, duties and functions of the Corporation as described above, the scope of design and construction services afforded by the Authority has been expanded.

Outstanding Indebtedness of the Authority (Other than Indebtedness Assumed by the Authority)

At June 30, 2004, the Authority had approximately \$29.6 billion aggregate principal amount of bonds and notes outstanding, excluding indebtedness of the Agency assumed by the Authority on September 1, 1995 pursuant to the Consolidation Act. The debt service on each such issue of the Authority’s bonds and notes is paid from moneys received by the Authority or the trustee from or on behalf of the entity having facilities financed with the proceeds from such issue or from borrowers in connection with its student loan program.

The Authority’s bonds and notes include both special obligations and general obligations of the Authority. The Authority’s special obligations are payable solely from payments required to be made by or for the account of the institution for which the particular special obligations were issued or from borrowers in connection with its student loan program. Such payments are pledged or assigned to the trustees for the holders of respective special obligations. The Authority has no obligation to pay its special obligations other than from such payments. The Authority’s general obligations are payable from any moneys of the Authority legally available for the payment of such obligations. However, the payments required to be made by or for the account of the institution for which general obligations were issued generally have been pledged or assigned by the Authority to trustees for the holders of such general obligations. The Authority has always paid the principal of and interest on its special and general obligations on time and in full.

The total amounts of the Authority bonds and notes (excluding debt of the Agency assumed by the Authority on September 1, 1995 pursuant to the Consolidation Act) outstanding at June 30, 2004 were as follows:

Public Programs	Bonds Issued	Bonds Outstanding	Notes Outstanding	Bonds and Notes Outstanding
State University of New York Dormitory Facilities	\$ 1,648,516,000	\$ 589,770,000	\$ 0	\$ 589,770,000
State University of New York Educational and Athletic Facilities	9,757,867,999	4,176,389,809	0	4,176,389,809
Upstate Community Colleges of the State University of New York	1,035,570,000	492,015,000	0	492,015,000
Senior Colleges of the City University of New York	7,616,453,549	2,907,383,511	0	2,907,383,511
Community Colleges of the City University of New York	2,094,411,563	618,557,257	0	618,557,257
BOCES and School Districts	1,402,831,208	1,180,740,000	0	1,180,740,000
Judicial Facilities	1,563,692,717	767,982,717	0	767,982,717
New York State Departments of Health and Education and Other	1,934,655,000	1,174,220,000	0	1,174,220,000
Mental Health Services Facilities	4,393,955,000	3,496,685,000	0	3,496,685,000
New York State Taxable Pension Bonds	773,475,000	0	0	0
Municipal Health Facilities Improvement Program	901,760,000	883,530,000	0	883,530,000
Total Public Programs	\$ 33,123,188,036	\$ 16,287,273,294	\$ 0	\$ 16,287,273,294

Non-Public Programs	Bonds Issued	Bonds Outstanding	Notes Outstanding	Bonds and Notes Outstanding
Independent Colleges, Universities and Other Institutions	\$ 11,405,561,953	\$ 5,562,626,371	\$ 122,935,000	\$ 5,685,561,371
Voluntary Non-Profit Hospitals	9,132,314,309	6,474,636,209	0	6,474,636,209
Facilities for the Aged	1,708,695,000	1,187,755,000	0	1,187,755,000
Supplemental Higher Education Loan Financing Program	95,000,000	0	0	0
Total Non-Public Programs	\$ 22,341,571,262	\$ 13,225,017,581	\$ 122,935,000	\$ 13,347,952,581
GRAND TOTAL	\$ 55,464,759,298	\$ 29,512,290,875	\$ 122,935,000	\$ 29,635,225,875

Outstanding Indebtedness of the Agency Assumed by the Authority

At June 30, 2004, the Agency had approximately \$1.8 billion aggregate principal amount of bonds outstanding, the obligations as to all of which have been assumed by the Authority. The debt service on each such issue of bonds is paid from moneys received by the Authority (as successor to the Agency) or the trustee from or on behalf of the entity having facilities financed with the proceeds from such issue.

The total amounts of the Agency's bonds (which indebtedness was assumed by the Authority on September 1, 1995) outstanding at June 30, 2004 were as follows:

Public Programs	Bonds Issued	Bonds Outstanding
Mental Health Services Improvement Facilities	\$ 3,817,230,725	\$ -

Non-Public Programs	Bonds Issued	Bonds Outstanding
Hospital and Nursing Home Project Bond Program	\$ 226,230,000	\$ 31,640,000
Insured Mortgage Programs	6,056,990,000	1,462,819,927
Revenue Bonds, Secured Loan and Other Programs	2,414,240,000	297,345,000
Total Non-Public Programs	\$ 8,697,460,000	\$ 1,791,804,927
GRAND TOTAL	\$ 12,514,690,725	\$ 1,791,804,927

Governance

The Authority carries out its programs through an eleven-member board, a full-time staff of approximately 660 persons, independent bond counsel and other outside advisors. Board members include the Commissioner of Education of the State, the Commissioner of Health of the State, the State Comptroller or one member appointed by him or her who serves until his or her successor is appointed, the Director of the Budget of the State, one member appointed by the Temporary President of the State Senate, one member appointed by the Speaker of the State Assembly and five members appointed by the Governor, with the advice and consent of the Senate, for terms of three years. The Commissioner of Education of the State, the Commissioner of Health of the State and the Director of the Budget of the State each may appoint a representative to attend and vote at Authority meetings. The members of the Authority serve without compensation, but are entitled to reimbursement of expenses incurred in the performance of their duties.

The Governor of the State appoints a Chair from the members appointed by him or her and the members of the Authority annually choose the following officers, of which the first two must be members of the Authority: Vice-Chair, Secretary, Treasurer, Assistant Secretaries and Assistant Treasurers.

The current members of the Authority are as follows:

GAIL H. GORDON, Esq., *Chair*, Slingerlands.

Gail H. Gordon currently serves as Deputy Commissioner and General Counsel for the Office of Children and Family Services. She previously was of counsel to the law firm of Helm, Shapiro, Anito & McCale, P.C., in Albany, New York, where she was engaged in the private practice of law. From 1987 to 1993, Ms. Gordon served as Counsel to the Comptroller of the State of New York where she directed a legal staff of approximately 40 attorneys, was responsible for providing legal and policy advice to the State Comptroller and his deputies in all areas of the State Comptroller's responsibilities, including the supervision of accounts of public authorities and in the administration, as sole trustee, of the New York State Employees Retirement System and the Policeman's and Firemen's Retirement System. She served as Deputy Counsel to the Comptroller of the State of New York from 1983 to 1987. From 1974 to 1983, Ms. Gordon was an attorney with the law firm of Hinman, Howard & Kattell, Binghamton, New York, where she concentrated in areas of real estate, administrative and municipal law. Ms. Gordon holds a Bachelor of Arts degree from Smith College and a Juris Doctor degree from Cornell University School of Law. Ms. Gordon's term expires on March 31, 2007.

JOHN B. JOHNSON, JR., *Vice-Chair*, Watertown.

John B. Johnson, Jr. was appointed as a Member of the Authority by the Governor on April 26, 2004. Mr. Johnson is Chairman of the Board and Chief Executive Officer of the Johnson Newspaper Corporation, which publishes the Watertown Daily Times, Batavia Daily News, Malone Evening Telegram, Catskill Daily Mail, Hudson Register Star, Ogdensburg Journal, Massena-Potsdam Courier Observer, seven weekly newspapers and three shopping newspapers. He is director of the New York Newspapers Foundation, a member of the Development Authority of the North Country and the Fort Drum Regional Liaison Committee, president of the Bugbee Housing Development Corporation, President of the North Country Community Foundation, and director of the YMCA of Jefferson County. Mr. Johnson has been a member of the American Society of Newspaper Editors since 1978, and was a Pulitzer Prize juror in 1978, 1979 and 2001. He was a trustee of Clarkson University, Potsdam, New York. He holds a Bachelor's degree from Vanderbilt University, and Master's degrees in Journalism and Business Administration from the Columbia University Graduate School of Journalism and Business. Mr. Johnson was awarded an Honorary Doctor of Science degree from Clarkson University. His term expires on March 31, 2007.

JOSE ALBERTO CORVALAN, M.D., *Secretary*, Armonk.

Dr. Corvalan was appointed as a Member of the Authority by the Governor on June 18, 2002. Dr. Corvalan is Chief of Surgery, Department of Surgery, St. Clare's Hospital and Health Center, New York, New York. He is also an attending surgeon at St. Vincent's Hospital and Medical Center and St. Clare's Hospital and Health Center. Dr. Corvalan is a Diplomate, American Board of Surgery, and is a Fellow of the American College of Surgeons and the New York Academy of Medicine. Dr. Corvalan has held a number of teaching positions and is Associate Professor of Surgery at New York Medical College, Valhalla, New York. His term expires on March 31, 2005.

BRIAN RUDER, Scarsdale.

Mr. Ruder was appointed as a Member of the Authority by the Governor on May 3, 2004. He is Chief Executive Officer of Skylight Partners, a strategic marketing and business development consulting group that he founded in 2001. Prior to Skylight Partners, Mr. Ruder served for four years as Executive Vice President of Global Marketing for Citigroup. He spent 16 years at the H.J. Heinz Co. in progressively responsible positions, including President of Heinz

USA, President of Weight Watchers Food Company and corporate Vice President of Worldwide Infant Feeding. He also served as Director of Marketing, New Products and Sales for Pepsi USA in the mid-1980's. Mr. Ruder is Vice Chairman of the New York State Board of Science, Technology and Academic Research (NYSTAR), and also serves on the board of the Adirondack Council, the Scarsdale United Way, the New York Metro Chapter of the Young Presidents' Organization and PNC Private Client Advisors. Mr. Ruder earned a Bachelor of Arts degree in American History in 1976 from Washington University in St. Louis, Mo., and a Master of Business Administration degree in Marketing in 1978 from the Tuck School at Dartmouth College. His term expires on March 31, 2006.

ANTHONY B. MARTINO, CPA, Buffalo.

Mr. Martino was appointed as a Member of the Authority by the Governor on April 26, 2004. With over 37 years of experience in finance and public accounting, he is a retired partner of the Buffalo CPA firm Lumsden & McCormick, LLP. He began his career at Price Waterhouse where he worked in the firm's Buffalo and Washington, DC, offices. Mr. Martino is a member of the American Institute of CPAs and the New York State Society of CPAs. Long involved in community organizations, he currently serves on the boards of the Buffalo Niagara Medical Campus as Vice Chair, Hauptman-Woodward Medical Research Institute where he chairs the Building Committee, Mount Calvary Cemetery as Chair of the Investment Committee and a member of the Budget Committee, Cradle Beach Camp of which he is a former Chair, The Kelly for Kids Foundation and Key Bank. Mr. Martino received a Bachelor of Science degree in accounting from the University at Buffalo. His term expires on August 31, 2004.

SANDRA M. SHAPARD, Delmar.

Ms. Shapard was appointed as a Member of the Authority by the State Comptroller on January 21, 2003. Ms. Shapard served as Deputy Comptroller for the Office of the State Comptroller from January, 1995 until her retirement in 2001, during which time she headed the Office of Fiscal Research and Policy Analysis and twice served as Acting First Deputy Comptroller. Previously, Ms. Shapard held the positions of Deputy Director and First Deputy Director for the New York State Division of Budget, from 1991 to 1994, and Deputy Assistant Commissioner for Transit for the State Department of Transportation, from 1988 to 1991. She began her career in New York State government with the Assembly in 1975 where, over a thirteen year period, she held the positions of Staff Director of the Office of Counsel to the Majority, Special Assistant to the Speaker, and Deputy Director of Budget Studies for the Committee on Ways and Means. Ms. Shapard also served as Assistant to the County Executive in Dutchess County. A graduate of Mississippi University for Women, Ms. Shapard received a Masters of Public Administration from Harvard University, John F. Kennedy School of Government, where she has served as visiting lecturer, and has completed graduate work at Vanderbilt University.

ROMAN B. HEDGES, Delmar.

Dr. Hedges was appointed as a Member of the Authority by the Speaker of the State Assembly on February 24, 2003. Dr. Hedges currently serves as the Deputy Secretary of the New York State Assembly Committee on Ways and Means. Dr. Hedges serves on the Legislative Advisory Task Force on Demographic Research and Reapportionment. He previously served as the Director of Fiscal Studies of the Assembly Committee on Ways and Means where he was responsible for the preparation of studies of the New York State economy and revenues of local government, tax policy and revenue analyses, and for negotiating revenue and local government legislation for the Assembly. Dr. Hedges was an Associate Professor of Political Science and Public Policy at the State University of New York at Albany where he taught graduate and undergraduate courses in American politics, research methodology, and public policy. Dr. Hedges holds a Doctor of Philosophy and a Master of Arts degree from the University of Rochester and a Bachelor of Arts degree from Knox College.

DEAN H. LEITH, JR., Troy.

Mr. Leith was appointed as a Member of the Authority by the Temporary President of the State Senate on September 11, 1998. Mr. Leith is a former President, CEO, and Chairman of the Board of Garden Way, Inc. in Troy, New York. He has served on the boards of Samaritan Hospital and the Rensselaer County Historical Society, and has chaired fundraising campaigns for several not-for-profit organizations. He received his Bachelor of Arts degree from the University of Michigan.

RICHARD P. MILLS, *Commissioner of Education of the State of New York*, Albany; *ex-officio*.

Dr. Mills became Commissioner of Education on September 12, 1995. Prior to his appointment, Dr. Mills served as Commissioner of Education for the State of Vermont since 1988. From 1984 to 1988, Dr. Mills was Special Assistant to Governor Thomas H. Kean of New Jersey. Prior to 1984, Dr. Mills held a number of positions within the New Jersey Department of Education. Dr. Mills' career in education includes teaching and administrative experience at the

secondary and postsecondary education levels. Dr. Mills holds a Bachelor of Arts degree from Middlebury College and a Master of Arts, a Master of Business Administration and a Doctor of Education degree from Columbia University.

CAROLE E. STONE, *Budget Director for the State of New York*, Albany; *ex-officio*.

Ms. Stone was appointed Director of the New York State Division of Budget by Governor George E. Pataki on June 26, 2000. As Budget Director, Ms. Stone is the Governor's chief advisor on State fiscal issues and is responsible for developing, negotiating and administering the New York State budget. In addition, she is the Governor's primary aide regarding the proper management and oversight of all funds and resources available to New York State. Ms. Stone has served in the Division of Budget for 25 years. She was named Budget Director after serving as Acting Budget Director since January 1, 2000. Prior to that, she had served the past five years as Deputy Director. In 1986, she was appointed to serve as the head of the Division's Public Protection Unit — assuming budget management and oversight responsibilities for the State's criminal justice and public protection agencies. Ms. Stone has received national recognition for her outstanding achievements as a budget professional, including the receipt in 1996 of the John E. Burton Service Award, which is presented each year by the National Association of Budget Officials. Ms. Stone received a Bachelor's degree from Skidmore College.

ANTONIA C. NOVELLO, M.D., *Commissioner of Health of the State of New York*, Albany; *ex-officio*.

Dr. Novello became Commissioner of Health on June 15, 1999. Prior to her appointment, Dr. Novello held a number of teaching positions including Visiting Professor of Health Policy and Management and Special Director of Community Health Policies at the Johns Hopkins University School of Hygiene and Public Health, Adjunct Professor of Pediatrics and Communicable Diseases at the University of Michigan and Adjunct Professor of International Health at the Johns Hopkins School of Public Health. Between 1993 and 1996, Dr. Novello served as the United Nations Children's Fund (UNICEF) Special Representative for Health and Nutrition, where she advised UNICEF's executive director on global issues pertaining to vitamin deficiency disorders, immunizations and preventing substance abuse among the world's youth. Prior to that, Dr. Novello served as the Surgeon General of the United States. Before becoming Surgeon General, Dr. Novello had a long career working for the United States Public Health Service at the National Institutes of Health.

The principal staff of the Authority is as follows:

MARYANNE GRIDLEY is the Executive Director and chief administrative and operating officer of the Authority. Ms. Gridley is responsible to the Authority for the management, operations and administration of its affairs. Prior to joining the Authority in April 2002, she was First Deputy Secretary to Governor George E. Pataki, serving as a senior advisor on policy issues. From 1995 to 1999, she held positions with the Governor's Office of Public Authorities within the Executive Chamber, first as Assistant Secretary, and then as Deputy Secretary. From 1985 to 1995, she was Assistant Deputy Comptroller for Investments and Cash Management in the Office of the State Comptroller. She also served as a Senior Legislative Budget Analyst with the State Senate Finance Committee from 1977 to 1985. The Municipal Forum of New York honored Ms. Gridley with its Public Sector Career Service Award in March 2000. She received her Bachelor's degree from Newton College of the Sacred Heart, and holds a Master's degree in Public Administration from the State University of New York at Albany.

MICHAEL T. CORRIGAN is the Deputy Executive Director of the Authority, and assists the Executive Director in the administration and operation of the Authority. Mr. Corrigan came to the Authority in 1995 as Budget Director, and served as Deputy Chief Financial Officer from 2000 until 2003. He began his government service career in 1983 as a budget analyst for Rensselaer County, and served as the County's Budget Director from 1986 to 1995. Immediately before coming to the Authority, he served as the appointed Rensselaer County Executive for a short period. Mr. Corrigan holds a Bachelor's degree in Economics from the State University of New York at Plattsburgh and a Master's degree in Business Administration from the University of Massachusetts.

CHERYL ISHMAEL is the Managing Director of Public Finance. She conducts and coordinates financial feasibility studies for certain institutions and coordinates the production of disclosure documents for the sale of Authority obligations. Ms. Ishmael has worked in finance in both the public and private sectors, as a Managing Director of public finance at two investment banking firms. She served as Deputy Budget Director of the New York City Office of Management and Budget and as Director of Fiscal Studies for the State Senate Finance Committee. She also served as an Adjunct Professor at Columbia University. She holds a Bachelor's degree in Political Science and Journalism from Syracuse University and a Master's degree in Public Administration from the State University of New York at Albany, Graduate School of Public Affairs.

LORA K. LEFEBVRE is the Managing Director of Policy and Program Development. She is responsible for the supervision and direction of the Authority's health care monitoring and higher education monitoring groups. Prior to joining the Authority in 1995, Ms. Lefebvre worked for the New York State Division of Budget for nine years in a number of different capacities, working in subject areas that included the State University of New York, school aid and public authority oversight. She holds a Bachelor of Arts in Political Science from Alfred University and a Master's degree in Public Administration from the State University of New York at Albany.

JOHN G. PASICZNYK is the Chief Financial Officer of the Authority. Mr. Pasicznyk is responsible for investment management and accounting, as well as the development of the financial policies for the Authority. Before joining the Authority in 1985, Mr. Pasicznyk worked in audit positions at KPMG Peat Marwick and Deloitte & Touche. He holds a Bachelor's degree from Syracuse University and a Master of Business Administration degree from the Fuqua School of Business at Duke University.

JEFFREY M. POHL is General Counsel to the Authority. Mr. Pohl is responsible for all legal services including legislation, litigation, contract matters and the legal aspects of all Authority financings. He is a member of the New York State Bar, and most recently served as a counsel in the public finance group of a large New York law firm. Mr. Pohl had previously served in various capacities in State government with the Office of the State Comptroller and the New York State Senate. He holds a Bachelor's degree from Franklin and Marshall College and a Juris Doctor degree from Albany Law School of Union University.

DOUGLAS M. VAN VLECK is the Managing Director of Construction. In that capacity, he is responsible for the Authority's construction groups, including design, project management, rehabilitation, purchasing, interior design and engineering services. He has been with the Authority for over 25 years, where he has held increasingly responsible positions within the Construction Division. Mr. Van Vleck holds a Bachelor's degree from Siena College and Master of Business Administration from Rensselaer Polytechnic Institute.

Claims and Litigation

Although certain claims and litigation have been asserted or commenced against the Authority, the Authority believes that these claims and litigation are covered by the Authority's insurance or by bonds filed with the Authority should the Authority be held liable in any of such matters, or that the Authority has sufficient funds available or the legal power and ability to seek sufficient funds to meet any such claims or judgments resulting from such litigation.

Other Matters

New York State Public Authorities Control Board

The New York State Public Authorities Control Board (the "PACB") has authority to approve the financing and construction of any new or reactivated projects proposed by the Authority and certain other public authorities of the State. The PACB approves the proposed new projects only upon its determination that there are commitments of funds sufficient to finance the acquisition and construction of the projects. The Authority has obtained the approval of the PACB for the issuance of the Series 2004A Bonds.

Legislation

From time to time, bills are introduced into the State Legislature which, if enacted into law, would affect the Authority and its operations. The Authority is not able to represent whether such bills will be introduced or become law in the future. In addition, the State undertakes periodic studies of public authorities in the State (including the Authority) and their financing programs. Any of such periodic studies could result in proposed legislation which, if adopted, would affect the Authority and its operations.

Environmental Quality Review

The Authority complies with the New York State Environmental Quality Review Act and with the New York State Historic Preservation Act of 1980, and the respective regulations promulgated thereunder respecting the Project to the extent such acts and regulations are applicable.

Independent Auditors

The accounting firm of KPMG LLP audited the financial statements of the Authority for the fiscal year ended March 31, 2004. Copies of the most recent audited financial statements are available upon request at the offices of the Authority.

PART 9 - LEGALITY OF THE SERIES 2004A BONDS FOR INVESTMENT AND DEPOSIT

Under New York State law, the Series 2004A Bonds are securities in which all public officers and bodies of the State and all municipalities and municipal subdivisions, all insurance companies and associations, all savings banks and savings institutions, including savings and loan associations, administrators, guardians, executors, trustees, committees, conservators and other fiduciaries in the State may properly and legally invest funds in their control.

The Series 2004A Bonds may be deposited with the State comptroller to secure deposits of State moneys in banks, trust companies and industrial banks.

PART 10 - NEGOTIABLE INSTRUMENTS

The Series 2004A Bonds shall be negotiable instruments as provided in the Act, subject to the provisions for registration and transfer contained in the Resolution and in the Series 2004A Bonds.

PART 11 - TAX EXEMPTION

Opinion of Bond Counsel

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the Series 2004A Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) interest on the Series 2004A Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In rendering its opinion, Bond Counsel has relied on certain representations, certifications of fact, and statements of reasonable expectations made by the Authority, the University and others, in connection with the Series 2004A Bonds, and Bond Counsel has assumed compliance by the Authority and the University with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Series 2004A Bonds from gross income under Section 103 of the Code.

In addition, in the opinion of Bond Counsel, under existing statutes, interest on the Series 2004A Bonds is exempt from personal income taxes imposed by the State of New York or any political subdivision thereof (including The City of New York).

Bond Counsel expresses no opinion regarding any other Federal or state tax consequences with respect to the Series 2004A Bonds. Bond Counsel renders its opinion under existing statutes and court decisions as of the issue date, and assumes no obligation to update its opinion after the issue date to reflect any future action, fact or circumstance, or change in law or interpretation, or otherwise. Bond Counsel expresses no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for Federal income tax purposes of interest on the Series 2004A Bonds, or under state and local tax law.

Certain Ongoing Federal Tax Requirements and Covenants

The Code establishes certain ongoing requirements that must be met subsequent to the issuance and delivery of the Bonds in order that interest on the Series 2004A Bonds be and remain excluded from gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to use and expenditure of gross proceeds of the Series 2004A Bonds, yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the Federal government. Noncompliance with such requirements may cause interest on the Series 2004A Bonds to become included in gross income for Federal income tax purposes retroactive to their issue date, irrespective of the date on which such noncompliance occurs or is discovered. The Authority and the University have covenanted to comply with certain applicable requirements of the Code to assure the exclusion of interest on the Series 2004A Bonds from gross income under Section 103 of the Code.

Certain Collateral Federal Tax Consequences

The following is a brief discussion of certain collateral Federal income tax matters with respect to the Series 2004A Bonds. It does not purport to address all aspects of Federal taxation that may be relevant to a particular owner of a Series 2004A Bond. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the Federal tax consequences of owning and disposing of the Series 2004A Bonds.

Prospective owners of the Series 2004A Bonds should be aware that the ownership of such obligations may result in collateral Federal income tax consequences to various categories of persons, such as corporations (including S corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and railroad retirement benefits, individuals otherwise eligible for the earned income tax credit, and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is excluded from gross income for Federal income tax purposes. Interest on the Series 2004A Bonds may be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Code.

Original Issue Discount

“Original issue discount” (“OID”) is the excess of the sum of all amounts payable at the stated maturity of a Series 2004A Bond (excluding certain “qualified stated interest” that is unconditionally payable at least annually at prescribed rates) over the issue price of that maturity. In general, the “issue price” of a maturity means the first price at which a substantial amount of the Series 2004A Bonds of that maturity was sold (excluding sales to bond houses, brokers, or similar persons acting in the capacity as underwriters, placement agents, or wholesalers). In general, the issue price for each maturity of Series 2004A Bonds is expected to be the initial public offering price set forth on the cover page of the Official Statement. Bond Counsel further is of the opinion that, for any Series 2004A Bonds having OID (a “Discount Bond”), OID that has accrued and is properly allocable to the owners of the Discount Bonds under Section 1288 of the Code is excludable from gross income for Federal income tax purposes to the same extent as other interest on the Series 2004A Bonds.

In general, under Section 1288 of the Code, OID on a Discount Bond accrues under a constant yield method, based on periodic compounding of interest over prescribed accrual periods using a compounding rate determined by reference to the yield on that Discount Bond. An owner’s adjusted basis in a Discount Bond is increased by accrued OID for purposes of determining gain or loss on sale, exchange, or other disposition of such Bond. Accrued OID may be taken into account as an increase in the amount of tax-exempt income received or deemed to have been received for purposes of determining various other tax consequences of owning a Discount Bond even though there will not be a corresponding cash payment.

Owners of Discount Bonds should consult their own tax advisors with respect to the treatment of original issue discount for Federal income tax purposes, including various special rules relating thereto, and the state and local tax consequences of acquiring, holding, and disposing of Discount Bonds.

Bond Premium

In general, if an owner acquires a Series 2004A Bond for a purchase price (excluding accrued interest) or otherwise at a tax basis that reflects a premium over the sum of all amounts payable on the Series 2004A Bond after the acquisition date (excluding certain “qualified stated interest” that is unconditionally payable at least annually at prescribed rates), that premium constitutes “bond premium” on that Bond (a “Premium Bond”). In general, under Section 171 of the Code, an owner of a Premium Bond must amortize the bond premium over the remaining term of the Premium Bond, based on the owner’s yield over the remaining term of the Premium Bond determined based on constant yield principles (in certain cases involving a Premium Bond callable prior to its stated maturity, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such bond). An owner of a Premium Bond must amortize the bond premium by offsetting the qualified stated interest allocable to each interest accrual period under the owner’s regular method of accounting against the bond premium allocable to that period. In the case of a tax-exempt Premium Bond, if the bond premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is a nondeductible loss. Under certain circumstances, the owner of a Premium Bond may realize a taxable gain upon disposition of the Premium Bond even though it is sold or redeemed for an amount less than or equal to the owner’s original acquisition cost. Owners of any Premium Bonds should consult their own tax advisors regarding the treatment of bond premium for Federal income tax purposes, including various

special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, amortization of bond premium on, sale, exchange, or other disposition of Premium Bonds.

Legislation

Legislation affecting municipal bonds is regularly under consideration by the United States Congress. There can be no assurance that legislation enacted or proposed after the date of issuance of the Series 2004A Bonds will not have an adverse effect on the tax-exempt status or market price of the Series 2004A Bonds.

PART 12 - STATE NOT LIABLE ON THE SERIES 2004A BONDS

The Act provides that notes and bonds of the Authority shall not be a debt of the State nor shall the State be liable thereon, nor shall such notes or bonds be payable out of any funds other than those of the Authority. The Resolution specifically provides that the Series 2004A Bonds shall not be a debt of the State nor shall the State be liable thereon.

PART 13 - COVENANT BY THE STATE

The Act states that the State pledges and agrees with the holders of the Authority's notes and bonds that the State will not limit or alter the rights vested in the Authority to provide projects, to establish and collect rentals therefrom and to fulfill agreements with the holders of the Authority's notes and bonds or in any way impair the rights and remedies of the holders of such notes or bonds until such notes or bonds and interest thereon and all costs and expenses in connection with any action or proceeding by or on behalf of the holders of such notes or bonds are fully met and discharged. Notwithstanding the State's pledges and agreements contained in the Act, the State may in the exercise of its sovereign power enact or amend its laws which, if determined to be both reasonable and necessary to serve an important public purpose, could have the effect of impairing these pledges and agreements with the Authority and with the holders of the Authority's notes or bonds.

PART 14 - LEGAL MATTERS

Certain legal matters incidental to the authorization and issuance of the Series 2004A Bonds by the Authority are subject to the approval of Hawkins Delafield & Wood LLP, New York, New York, Bond Counsel, whose approving opinion will be delivered with the Series 2004A Bonds. The proposed form of Bond Counsel's opinion is set forth in Appendix E hereto.

Certain legal matters will be passed upon for the University by its counsel, Nixon Peabody LLP, Rochester, New York. Certain legal matters will be passed upon for the Underwriters by their counsel, Robinson, Bradshaw & Hinson, P.A., Charlotte, North Carolina.

There is not now pending any litigation restraining or enjoining the issuance or delivery of the Series 2004A Bonds or questioning or affecting the validity of the Series 2004A Bonds or the proceedings and authority under which they are to be issued.

PART 15 - UNDERWRITING

The Underwriters have jointly and severally agreed, subject to certain conditions, to purchase the Series 2004A Bonds from the Authority at an aggregate purchase price of \$45,302,847.15 and to make a public offering of the Series 2004A Bonds at prices that are not in excess of the public offering prices stated on the cover page of this Official Statement. The Underwriters will be obligated to purchase all such Series 2004A Bonds if any are purchased.

The Series 2004A Bonds may be offered and sold to certain dealers (including the Underwriters) at prices lower than such public offering prices, and such public offering prices may be changed, from time to time, by the Underwriters.

PART 16 - CONTINUING DISCLOSURE

In order to assist the Underwriters in complying with Rule 15c2-12 promulgated by the Securities and Exchange Commission ("Rule 15c2-12"), the University has undertaken in a written agreement for the benefit of the Series 2004A Bondholders to provide to the Authority, on or before 120 days after the end of each fiscal year, commencing with the fiscal year of the University ending June 30, 2004 for filing by the Authority with each nationally recognized municipal securities information repository designated by the Securities and Exchange Commission in accordance with Rule 15c2-12 (each a "Repository"), and if and when one is established, the New York State Information Depository (the "State Information Depository"), on an annual basis, operating data and financial information of the type hereinafter described which is included in this Official Statement (the "Annual Information"), together with the University's annual financial statements prepared in accordance with generally accepted accounting principles and audited by an independent firm of certified public accountants in accordance with generally accepted accounting standards.

If, and only if, and to the extent that it receives the Annual Information and annual financial statements described above from the University, the Authority has undertaken in a written agreement for the benefit of the Bondholders, on behalf of and as agent for the University, to file such information and financial statements, as promptly as practicable, but no later than three business days after receipt of the information by the Authority from the University, with each such Repository and with the State Information Depository. In addition, the Authority has undertaken, for the benefit of the Series 2004A Bondholders, to provide each such Repository or to the Municipal Securities Rulemaking Board (the "MSRB"), and to the State Information Depository, in a timely manner, the notices required to be provided by Rule 15c2-12 and described below (the "Notices").

The Annual Information means (a) annual information concerning the University consisting of operating data and financial information of the type included in "PART 4 - THE UNIVERSITY," herein under the headings "OPERATING INFORMATION" and "ANNUAL FINANCIAL STATEMENT INFORMATION" relating to: (1) *student enrollment*, similar to that set forth under the table heading, "ENROLLMENT SUMMARY;" (2) *student recruitment*, similar to that set forth under the table heading, "ADMISSION STATISTICS;" (3) *tuition and other student charges*, similar to that set forth under the table heading, "STUDENT CHARGES;" (4) *financial aid*, similar to that set forth under the table heading, "SOURCES OF SCHOLARSHIP AND GRANT AID;" (5) *faculty*, similar to that set forth under the table heading, "FACULTY PROFILE;" (6) *labor relations*, including material information about union contracts and, unless such information is included in the audited financial statements of the University, retirement plans; (7) *federal government grants and contracts*, unless such information is included in the audited financial statements of the University; (8) *endowment and similar funds*, unless such information is included in the audited financial statements of the University; (9) *plant values*, unless such information is included in the audited financial statements of the University; and (10) *outstanding long-term indebtedness*, unless such information is included in the audited financial statements of the University; (b) annual information concerning the Hospital consisting of operating data and financial information of the type included in "PART 5 - THE HOSPITAL/MEDICAL CENTER" herein relating to: (1) *medical staff*, of the type set forth under the table heading "MEDICAL AND DENTAL STAFF COMPOSITION;" (2) *utilization*, of the type set forth under the table heading "PERCENT OF HOSPITAL DISCHARGES" and "HOSPITAL UTILIZATION DATA;" (3) *service area*, of the type set forth under the table heading "AREA HOSPITAL UTILIZATION;" (4) *sources of revenue*, of the type set forth under the table heading "SOURCES OF HOSPITAL'S PATIENT SERVICES REVENUE;" and (5) *revenue and expense data*, of the type set forth under the subheading "Hospital Finances," unless such information is included in the audited financial statements of the Hospital; and (c) a narrative explanation, if necessary to avoid misunderstanding and to assist the reader in understanding the presentation of financial and operating data concerning the University and in judging the financial and operating condition of the University.

The Notices include notices of any of the following events with respect to the Series 2004A Bonds, if material: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions or events affecting the tax-exempt status of the Series 2004A Bonds; (7) modifications to the rights of holders of the Series 2004A Bonds; (8) bond calls; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Series 2004A Bonds; and (11) rating changes. In addition, the Authority will undertake, for the benefit of the Holders of the Series 2004A Bonds, to provide to each Repository or the MSRB and to the State Information Depository, in a timely manner, notice of any failure by the University to provide the Annual Information and annual financial statements by the date required in the University's undertaking described above.

The sole and exclusive remedy for breach or default under the agreement to provide continuing disclosure described above is an action to compel specific performance of the undertakings of the University and/or the Authority, and no person, including any Holder of the Series 2004A Bonds, may recover monetary damages thereunder under any circumstances. The Authority or the University may be compelled to comply with their respective obligations under the continuing disclosure agreement (i) in the case of enforcement of their obligations to provide information required thereunder by any Holder of Outstanding Series 2004A Bonds or by the Trustee on behalf of the Holders of Outstanding Series 2004A Bonds or (ii) in the case of challenges to the adequacy of the information provided, by the Trustee on behalf of the Holders of the Series 2004A Bonds; provided, however, that the Trustee shall not be required to take any enforcement action except at the direction of the Holders of not less than 25% in aggregate principal amount of Series 2004A Bonds at the time Outstanding. A breach or default under the agreement shall not constitute an Event of Default under the Resolution, the Series 2004A Resolution or the Loan Agreement. In addition, if all or any part of Rule 15c2-12 ceases to be in effect for any reason, then the information required to be provided under the agreement, insofar as the provision of Rule 15c2-12 no longer in effect required the providing of such information, shall no longer be required to be provided.

The foregoing undertaking is intended to set forth a general description of the type of financial information and operating data that will be provided; the description is not intended to state more than general categories of financial information and operating data; and where an undertaking calls for information that no longer can be generated because the operations to which it related have been materially changed or discontinued, a statement to that effect will be provided. The agreement, however, may be amended or modified without Series 2004A Bondholders' consent under certain circumstances set forth therein. Copies of the agreement when executed by the parties thereto upon the delivery of the Series 2004A Bonds will be on file at the principal office of the Authority.

PART 17 - MISCELLANEOUS

References in this Official Statement to the Act, the Resolution, the Series 2004A Resolution and the Loan Agreement do not purport to be complete. Refer to the Act, the Resolution, the Series 2004A Resolution and the Loan Agreement for full and complete details of their provisions. Copies of the Resolution, the Series 2004A Resolution and the Loan Agreement are on file with the Authority and the Trustee.

The agreements of the Authority with Holders of the Series 2004A Bonds are fully set forth in the Resolution. Neither any advertisement of the Series 2004A Bonds nor this Official Statement is to be construed as a contract with purchasers of the Series 2004A Bonds.

Any statements in this Official Statement involving matters of opinion, whether or not expressly stated, are intended merely as expressions of opinion and not as representations of fact.

The information regarding the University, the Hospital/Medical Center, the 2004A Project, the Estimated Sources and Uses of Funds, and the consolidated financial statements in Appendix B was supplied by the University. The Authority believes that this information is reliable, but the Authority makes no representations or warranties whatsoever as to the accuracy or completeness of this information.

The information regarding DTC and DTC's book-entry only system has been furnished by DTC. The Authority believes that this information is reliable, but makes no representations or warranties whatsoever to the accuracy or completeness of this information.

"Appendix A - Definitions," "Appendix C - Summary of Certain Provisions of the Loan Agreement," "Appendix D - Summary of Certain Provisions of the Resolution" and "Appendix E - Form of Approving Opinion of Bond Counsel" have been prepared by Hawkins Delafield & Wood LLP, New York, New York, Bond Counsel.

Consolidated Financial Statements for the years ended June 30, 2003 and 2002 of the University included in Appendix B have been audited by the University's independent certified public accountants, KPMG LLP, to the extent and for the periods indicated in their report.

The University has reviewed the parts of this Official Statement describing the University, the Hospital/Medical Center, the 2004A Project, the Estimated Sources and Uses of Funds and Appendix B. The University shall certify as of the dates of sale and delivery of the Series 2004A Bonds that such parts do not contain any untrue statement of a material fact and do not omit to state any material fact necessary to make the statements made therein, in the light of the circumstances under which the statements are made, not misleading.

The University has agreed to indemnify the Authority, the Underwriters and certain others against losses, claims, damages and liabilities arising out of any untrue statements or omissions of statements of any material fact as described in the preceding paragraph.

The execution and delivery of this Official Statement by an Authorized Officer have been duly authorized by the Authority.

DORMITORY AUTHORITY OF
THE STATE OF NEW YORK

By: /s/ Maryanne Gridley

Authorized Officer

[THIS PAGE INTENTIONALLY LEFT BLANK]

DEFINITIONS

Appendix A

[THIS PAGE INTENTIONALLY LEFT BLANK]

DEFINITIONS

The following are definitions of certain terms used in this Official Statement.

Accreted Value means with respect to any Capital Appreciation Bond (i) as of any Valuation Date, the amount set forth for such date in the Series Resolution authorizing such Capital Appreciation Bond or a Bond Series Certificate and (ii) as of any date other than a Valuation Date, the sum of (a) the Accreted Value on the preceding Valuation Date and (b) the product of (1) a fraction, the numerator of which is the number of days having elapsed from the preceding Valuation Date and the denominator of which is the number of days from such preceding Valuation Date to the next succeeding Valuation Date, calculated based on the assumption that Accreted Value accrues during any semi-annual period in equal daily amounts on the basis of a year of twelve thirty-day months, and (2) the difference between the Accreted Values for such Valuation Dates;

Act means the Dormitory Authority Act (being Chapter 524 of the Laws of 1944 of the State, as amended, and constituting Title 4 of Article 8 of the Public Authorities Law, as amended);

Annual Administrative Fee means the fee payable during each Bond Year for the general administrative and supervisory expenses of the Authority in an amount equal to .05% of the aggregate principal amount of Bonds issued by the Authority; provided, however, the amount payable with respect to a Series of Bonds for the Bond Year during which such Series of Bonds are issued shall be the amount determined as provided above multiplied by a fraction, the numerator of which is the number of complete calendar months remaining in such Bond Year and the denominator of which is twelve (12);

Appreciated Value means with respect to any Deferred Income Bond (i) as of any Valuation Date, the amount set forth for such date in the Series Resolution authorizing such Deferred Income Bond or a Bond Series Certificate and (ii) as of any date other than a Valuation Date, the sum of (a) the Appreciated Value on the preceding Valuation Date and (b) the product of (1) a fraction, the numerator of which is the number of days having elapsed from the preceding Valuation Date and the denominator of which is the number of days from such preceding Valuation Date to the next succeeding Valuation Date, calculated based on the assumption that Appreciated Value accrues during any semi-annual period in equal daily amounts on the basis of a year of twelve thirty-day months, and (2) the difference between the Appreciated Values for such Valuation Dates, and (iii) as of any date of computation on and after the Interest Commencement Date, the Appreciated Value on the Interest Commencement Date;

Arbitrage Rebate Fund means the fund so designated, created and established pursuant to the Resolution;

Authority means the Dormitory Authority of the State of New York, a body corporate and politic constituting a public benefit corporation of the State created by the Act, or any body, agency or instrumentality of the State which succeeds to the rights, powers, duties and functions of the Authority;

Authority Fee means a fee payable to the Authority consisting of all the Authority's internal costs and overhead expenses attributable to the issuance of a Series of Bonds and the construction of the Projects, as more particularly described in the Loan Agreement;

Authorized Newspaper means *The Bond Buyer* or any other newspaper of general circulation printed in the English language and customarily published at least once a day for at least five days (other than legal holidays) in each calendar week in the Borough of Manhattan, City and State of New York, designated by the Authority;

Authorized Officer means (i) in the case of the Authority, the Chair, the Vice-Chair, the Treasurer, an Assistant Treasurer, the Secretary, an Assistant Secretary, the Executive Director, the Deputy Executive Director, the Chief Financial Officer, the Managing Director of Public Finance, the Managing Director of Construction, the Managing Director of Policy and Program Development, the Chief Financial Officer, the General Counsel, the Deputy General Counsel, the Associate General Counsel, and an Assistant General Counsel, and when used with reference to any act or document also means any other person authorized by a resolution or the by-laws of the Authority to perform such act or execute such document; (ii) in the case of the University, any officer of the University, and when used with reference to any act or document, means the person or persons authorized by a resolution or the by-laws of the University, or designated in writing by an officer of the University to act on such officer's behalf, to perform such act or execute such document; and (iii) in the case of the Trustee, any officer of the Trustee with direct responsibility for the administration

Appendix A

of the Resolution and also means any other person authorized to perform any act or sign any document by or pursuant to a resolution of the Board of Directors of the Trustee or the by-laws of the Trustee;

Available Assets means total assets of the University less all permanently restricted net assets of the University; provided that such assets shall (i) include the corresponding assets of all related entities and affiliates of the University which are consolidated with such assets of the University in accordance with generally accepted accounting principles, and (ii) exclude the corresponding assets of all related entities and affiliates which are not legally available to the University notwithstanding that such assets are consolidated with those of the University as provided in clause (i); provided further that whenever Available Assets is required to be determined based on the University's audited financial statements, total assets and permanently restricted net assets shall be as shown on such financial statements with such adjustments as shall be appropriate to reflect the inclusion and exclusion of related entities and affiliates as required by the preceding proviso;

Bond or Bonds means any of the bonds of the Authority authorized pursuant to the Resolution and issued pursuant to the Resolution and to a Series Resolution;

Bond Counsel means an attorney or a law firm, appointed by the Authority, having a national reputation in the field of municipal law whose opinions are generally accepted by purchasers of municipal bonds;

Bond Series Certificate means the certificate of an Authorized Officer of the Authority fixing terms, conditions and other details of Bonds in accordance with the delegation of power to do so under the Resolution or under a Series Resolution;

Bond Year means a period of twelve (12) consecutive months beginning July 1 in any calendar year and ending on June 30 of the succeeding calendar year;

Bondholder or Holder of Bonds or Holder or any similar term, when used with reference to a Bond or Bonds, means the registered owner of any Bond;

Book Entry Bond means a Bond authorized to be issued, and issued to and registered in the name of a Depository for the participants in such Depository;

Business Day means any day which is not a Saturday, Sunday or a day on which the Trustee or banking institutions chartered by the State or the United States of America are legally authorized to close in The City of New York; provided that, with respect to Option Bonds or Variable Interest Rate Bonds of a Series, such term means any day which is not a Saturday, Sunday or a day on which the New York Stock Exchange, banking institutions chartered by the State or the United States of America, the Trustee or the issuer of a Credit Facility or Liquidity Facility for such Bonds are legally authorized to close in The City of New York;

Capital Appreciation Bond means any Bond as to which interest is compounded on each Valuation Date therefor and is payable only at the maturity or prior redemption thereof;

Code means the Internal Revenue Code of 1986, as amended, and the applicable regulations thereunder;

Contract Documents means any general contract or agreement for the construction of a Project, notice to bidders, information for bidders, form of bid, general conditions, supplemental general conditions, general requirements, supplemental general requirements, bonds, plans and specifications, addenda, change orders, and any other documents entered into or prepared by or on behalf of the University relating to the construction of a Project, and any amendments to the foregoing;

Construction Fund means the fund so designated, created and established for a Project pursuant to a Series Resolution;

Cost or Costs of Issuance means the items of expense incurred in connection with the authorization, sale and issuance of the Bonds, which items of expense shall include, but not be limited to, document printing and reproduction costs, filing and recording fees, costs of credit ratings, initial fees and charges of the Trustee or a Depository, legal fees and charges, professional consultants' fees, fees and charges for execution, transportation and safekeeping of Bonds, premiums, fees and charges for insurance on Bonds, commitment fees or similar charges relating to a Credit Facility, or a Liquidity Facility, costs and expenses of refunding Bonds or other bonds or notes of the Authority, costs and

expenses incurred pursuant to a remarketing agreement and other costs, charges and fees, including those of the Authority, in connection with the foregoing;

Cost or Costs of a Project means costs and expenses or the refinancing of costs and expenses determined by the Authority to be necessary in connection with the Project, including, but not limited to, (i) costs and expenses of the acquisition of the title to or other interest in real property, including easements, rights-of-way and licenses, (ii) costs and expenses incurred for labor and materials and payments to contractors, builders and materialmen, for the acquisition, construction, reconstruction, rehabilitation, repair and improvement of the Project, (iii) the cost of surety bonds and insurance of all kinds, including premiums and other charges in connection with obtaining title insurance, that may be required or necessary prior to completion of the Project, which is not paid by a contractor or otherwise provided for, (iv) the costs and expenses for design, environmental inspections and assessments, test borings, surveys, estimates, plans and specifications and preliminary investigations therefor, and for supervising any of the foregoing, (v) costs and expenses required for the acquisition and installation of equipment or machinery, (vi) all other costs which the University shall be required to pay or cause to be paid for the acquisition, construction, reconstruction, rehabilitation, repair, improvement and equipping of the Project, (vii) any sums required to reimburse the University or the Authority for advances made by them for any of the above items or for other costs incurred and for work done by them in connection with the Project (including interest on moneys borrowed from parties other than the University), (viii) interest on the Bonds prior to, during and for a reasonable period after completion of the acquisition, construction, reconstruction, rehabilitation, repair, improvement or equipping of the Project, and (ix) fees, expenses and liabilities of the Authority incurred in connection with the Project or pursuant to the Resolution or to the Loan Agreement, a Credit Facility, a Liquidity Facility, or a remarketing agreement in connection with Option Bonds or Variable Interest Rate Bonds;

Credit Facility means an irrevocable letter of credit, surety bond, loan agreement, Standby Purchase Agreement or other agreement, facility or insurance or guaranty arrangement issued or extended by a bank, a trust company, a national banking association, an organization subject to registration with the Board of Governors of the Federal Reserve System under the Bank Holding Company Act of 1956 or any successor provisions of law, a federal branch pursuant to the International Banking Act of 1978 or any successor provisions of law, a domestic branch or agency of a foreign bank which branch or agency is duly licensed or authorized to do business under the laws of any state or territory of the United States of America, a savings bank, a saving and loan association, an insurance company or association chartered or organized under the laws of any state of the United States of America, the Government National Mortgage Association or any successor thereto, the Federal National Mortgage Association or any successor thereto, or any other federal agency or instrumentality approved by the Authority, pursuant to which the Authority is entitled to obtain moneys to pay the principal, purchase price or Redemption Price of Bonds due in accordance with their terms or tendered for purchase or redemption, plus accrued interest thereon to the date of payment, purchase or redemption thereof in accordance with the Resolution and with the Series Resolution authorizing such Bonds or a Bond Series Certificate, whether or not the Authority is in default under the Resolution;

Debt means indebtedness, or the guarantee of indebtedness, for borrowed money, whether or not evidenced by notes, bonds, debentures or other similar evidences of indebtedness, including indebtedness for purchase money mortgages, capital leases, installment sales contracts or any other arrangements which appear as debt on the audited balance sheet of the University;

Debt Service Fund means the fund so designated, created and established pursuant to the Resolution;

Defeasance Security means (a) a direct obligation of the United States of America, an obligation the principal of and interest on which are guaranteed by the United States of America (other than an obligation the payment of the principal of which is not fixed as to amount or time of payment), an obligation to which the full faith and credit of the United States of America are pledged (other than an obligation the payment of the principal of which is not fixed as to amount or time of payment) and a certificate or other instrument which evidences the ownership of, or the right to receive all or a portion of the payment of the principal of or interest on, direct obligations of the United States of America, which, in each case, is not subject to redemption prior to maturity other than at the option of the holder thereof or which has been irrevocably called for redemption on a stated future date or (b) an Exempt Obligation (i) which is not subject to redemption prior to maturity other than at the option of the holder thereof or as to which irrevocable instructions have been given to the trustee of such Exempt Obligation by the obligor thereof to give due notice of redemption and to call such Exempt Obligation for redemption on the date or dates specified in such instructions and such Exempt Obligation

Appendix A

is not otherwise subject to redemption prior to such specified date other than at the option of the holder thereof, (ii) which is secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or direct obligations of the United States of America which fund may be applied only to the payment of such principal of and interest and redemption premium, if any, on such Exempt Obligation on the maturity date thereof or the redemption date specified in the irrevocable instructions referred to in clause (i) above, (iii) as to which the principal of and interest on the direct obligations of the United States of America which have been deposited in such fund, along with any cash on deposit in such fund, are sufficient to pay the principal of and interest and redemption premium, if any, on such Exempt Obligation on the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to in clause (i) above, and (iv) which are rated by each Rating Service in the highest rating category of each Rating Service for such Exempt Obligation; *provided, however*, that such term shall not mean any interest in a unit investment trust or mutual fund;

Deferred Income Bond means any Bond as to which interest accruing thereon prior to the Interest Commencement Date of such Bond is compounded on each Valuation Date for such Deferred Income Bond, and as to which interest accruing after the Interest Commencement Date is payable semi-annually on July 1 and January 1 during each Bond Year;

Depository means The Depository Trust Company, New York, New York, a limited purpose trust company organized under the laws of the State, or its nominee, or any other person, firm, association or corporation designated in the Series Resolution authorizing a Series of Bonds or a Bond Series Certificate relating to a Series of Bonds to serve as securities depository for the Bonds of such Series;

Exempt Obligation means an obligation of any state or territory of the United States of America, any political subdivision of any state or territory of the United States of America, or any agency, authority, public benefit corporation or instrumentality of such state, territory or political subdivision, the interest on which is (i) excludable from gross income under Section 103 of the Code, (ii) not an item of tax preference within the meaning of Section 57(a)(5) of the Code, and which, at the time an investment therein is made or such obligation is deposited in any fund or account under the Resolution, is rated, without regard to qualification of such rating by symbols such as “+” or “-” and numerical notation, in the highest rating category by each Rating Agency, or, if such obligation is not rated by a Rating Agency, has been assigned a comparable rating by another nationally recognized rating service;

Facility Provider means the issuer of a Credit Facility or a Liquidity Facility;

Fitch means Fitch, Inc., a corporation organized and existing under the laws of the State of Delaware, or its successors and assigns;

General Liabilities means total liabilities of the University; provided that total liabilities of the University shall (i) include the total liabilities of all related entities and affiliates of the University which are consolidated with the total liabilities of the University in accordance with generally accepted accounting principles, and (ii) exclude the total liabilities of all related entities and affiliates with respect to which the University is not legally obligated notwithstanding that such total liabilities are consolidated with those of the University as provided in clause (i); provided further that whenever General Liabilities is required to be determined based on the University’s audited financial statements, total liabilities of the University shall be as shown on such financial statements with such adjustments as shall be appropriate to reflect the inclusion and exclusion of related entities and affiliates as required by the preceding proviso;

Government Obligation means a direct obligation of the United States of America, an obligation the principal of and interest on which are guaranteed by the United States of America, an obligation (other than an obligation the payment of the principal of which is not fixed as to amount or time or payment) to which the full faith and credit of the United States of America are pledged, an obligation of any federal agency approved by the Authority, and a certificate or other instrument which evidences the ownership of, or the right to receive all or a portion of the payment of the principal of or interest on, direct obligations of the United States of America or a share or interest in a mutual fund, partnership or other fund wholly comprised of such obligations;

Gross Proceeds means, with respect to any of the Bonds, the gross proceeds of such Bonds, as such term is defined or used in the Code as it applies to such Bonds;

Interest Commencement Date means, with respect to any particular Deferred Income Bond, the date prior to the maturity date thereof specified in the Series Resolution authorizing such Bond or in the Bond Series Certificate relating to such Bond, after which interest accruing on such Bond shall be payable on the interest payment date immediately succeeding such Interest Commencement Date and semi-annually thereafter on July 1 and January 1 of each Bond Year;

Investment Agreement means an agreement for the investment of moneys with a Qualified Financial Institution;

Liens means any mortgage, pledge, lien, charge, security interest or lease in the nature thereof (including any conditional sale agreement, equipment trust agreement or other title retention agreement) or other encumbrance of whatsoever nature;

Liquidity Facility means an irrevocable letter of credit, surety bond, loan agreement, Standby Purchase Agreement, line of credit or other agreement or arrangement issued or extended by a bank, a trust company, a national banking association, an organization subject to registration with the Board of Governors of the Federal Reserve System under the Bank Holding Company Act of 1956 or any successor provisions of law, a federal branch pursuant to the International Banking Act of 1978 or any successor provisions of law, a domestic branch or agency of a foreign bank which branch or agency is duly licensed or authorized to do business under the laws of any state or territory of the United States of America, a savings bank, a savings and loan association, an insurance company or association chartered or organized under the laws of any state of the United States of America, the Government National Mortgage Association or any successor thereto, the Federal National Mortgage Association or any successor thereto, or any other federal agency or instrumentality approved by the Authority, pursuant to which the Authority is entitled to obtain moneys upon the terms and conditions contained therein for the purchase or redemption of Bonds tendered for purchase or redemption in accordance with the terms of the Resolution and of the Series Resolution authorizing such Bonds or a Bond Series Certificate;

Loan Agreement means the Loan Agreement executed by and between the Authority and the University, in connection with the issuance of the Bonds, as the same shall have been heretofore or hereafter amended, supplemented or otherwise modified as permitted by the Resolution and by the Loan Agreement;

Maximum Interest Rate means, with respect to any particular Variable Interest Rate Bond, the numerical rate of interest, if any, set forth in the Series Resolution authorizing such Bond or in the Bond Series Certificate relating to such Bond, that shall be the maximum rate at which such Bond may bear interest at any time;

Minimum Interest Rate means, with respect to any particular Variable Interest Rate Bond, a numerical rate of interest, if any, set forth in the Series Resolution authorizing such Bond or the Bond Series Certificate relating to such Bond, that shall be the minimum rate at which such Bond may bear interest at any time;

Moody's means Moody's Investors Service, Inc., a corporation organized and existing under the laws of the State of Delaware, and its successors and assigns;

Option Bond means any Bond which by its terms may be tendered by and at the option of the Holder thereof for redemption by the Authority prior to the stated maturity thereof or for purchase thereof, or the maturity of which may be extended by and at the option of the Holder thereof;

Outstanding, when used in reference to Bonds, means, as of a particular date, all Bonds authenticated and delivered under the Resolution and under any applicable Series Resolution except (i) any Bond canceled by the Trustee at or before such date; (ii) any Bond deemed to have been paid in accordance with the Resolution; (iii) any Bond in lieu of or in substitution for which another Bond shall have been authenticated and delivered pursuant to the Resolution; and (iv) any Option Bond tendered or deemed tendered in accordance with the provisions of the Series Resolution authorizing such Bond on the applicable adjustment or conversion date, if interest thereon shall have been paid through such applicable date and the purchase price thereof shall have been paid or amounts are available for such payment as provided in the Resolution and in the Series Resolution authorizing such Bond;

Paying Agent means, with respect to the Bonds of any Series, the Trustee and any other bank or trust company and its successor or successors, appointed pursuant to the provisions of the Resolution or of a Series Resolution, a Bond Series Certificate or any other resolution of the Authority adopted prior to authentication and delivery of the Series of Bonds for which such Paying Agent or Paying Agents shall be so appointed;

Appendix A

Project means a “dormitory” as defined in the Act, which may include more than one part, financed in whole or in part from the proceeds of the sale of Bonds, as more particularly described in a Series Resolution authorizing the issuance of Bonds in connection with such Project;

Qualified Financial Institution means (i) a securities dealer, the liquidation of which is subject to the Securities Investors Protection Corporation or other similar corporation, (ii) a bank, a trust company, a national banking association, a corporation subject to registration with the Board of Governors of the Federal Reserve System under the Bank Holding Company Act of 1956 or any successor provisions of law, a federal branch pursuant to the International Banking Act of 1978 or any successor provisions of law, a domestic branch or agency of a foreign bank which branch or agency is duly licensed or authorized to do business under the laws of any state or territory of the United States of America, a savings bank, a savings and loan association, an insurance company or association chartered or organized under the laws of any state of the United States of America, (iii) a corporation affiliated with or which is a subsidiary of any entity described in (ii) above or which is affiliated with or a subsidiary of a corporation which controls or wholly owns any such entity or (iv) the Government National Mortgage Association or any successor thereto, the Federal National Mortgage Association or any successor thereto, or any other federal agency or instrumentality approved by the Authority; *provided, however*, that in the case of any entity described in (ii) or (iii) above, the unsecured or uncollateralized long-term debt obligations of which, or obligations secured or supported by a letter of credit, contract, agreement or surety bond issued by any such organization, at the time an Investment Agreement is entered into by the Authority are rated, without regard to qualification of such rating by symbols such as “+” or “-” or numerical notation, “A” or better by each Rating Service, or, if such obligations are not rated by a Rating Service, have been assigned a comparable rating by another nationally recognized rating service; *provided, however*, in no event shall such obligations be rated lower than the lowest rating assigned by a Rating Service to any Outstanding Bonds;

Rating Service means on any date each of Moody's, S&P or Fitch that then has at the request of the Authority assigned a rating to Outstanding Bonds;

Record Date means, unless a Series Resolution authorizing a Series of Bonds or a Bond Series Certificate relating thereto provides otherwise with respect to Bonds of such Series, the fifteenth (15th) day (whether or not a Business Day) of the calendar month next preceding an interest payment date;

Redemption Price, when used with respect to a Bond, means the principal amount of such Bond plus the applicable premium, if any, payable upon redemption thereof pursuant to the Resolution or to the applicable Series Resolution or Bond Series Certificate;

Refunding Bonds means all Bonds, whether issued in one or more Series of Bonds, authenticated and delivered on original issuance pursuant to the Resolution and any Bonds thereafter authenticated and delivered in lieu of or in substitution for such Bonds pursuant to the Resolution;

Resolution means the University of Rochester Revenue Bond Resolution, adopted by the Authority on August 11, 1999, as from time to time amended or supplemented by Supplemental Resolutions or Series Resolutions in accordance with the terms and provisions of the Resolution;

Restricted Property means any of the University's assets;

Revenues means all payments received or receivable by the Authority pursuant to the Loan Agreement, which are to be paid to the Trustee (except payments to the Trustee for the administrative costs and expenses or fees of the Trustee and payments to the Trustee for deposit to the Arbitrage Rebate Fund);

S&P means Standard & Poor's Rating Group, a division of Mc Graw-Hill, Inc., a corporation organized and existing under the laws of the State of New York, and its successors and assigns;

Securities means (i) moneys, (ii) Government Obligations, (iii) Exempt Obligations, (iv) any bond, debenture, note, preferred stock or other similar obligation of any corporation incorporated in the United States, which security, at the time an investment therein is made or such security is deposited in any fund or account under the Resolution, is rated, without regard to qualification of such rating by symbols such as “+” or “-” or numerical notation, not less than the second highest rating category by each Rating Agency or is rated with a comparable rating by any other nationally recognized rating service acceptable to an Authorized Officer of the Authority and (v) common stock of any corporation incorporated in the United States of America whose senior debt, if any, at the time an investment in its stock is made or

its stock is deposited in any fund or account established under the Resolution, is rated, without regard to qualification of such rating by symbols such as “+” or “-” or numerical notation, not less than the second highest rating category by each Rating Agency or is rated with a comparable rating by any other nationally recognized rating service acceptable to an Authorized Officer of the Authority;

Serial Bonds means the Bonds so designated in a Series Resolution or a Bond Series Certificate;

Series means all of the Bonds authenticated and delivered on original issuance and pursuant to the Resolution and to the Series Resolution authorizing such Bonds as a separate Series of Bonds or a Bond Series Certificate, and any Bonds thereafter authenticated and delivered in lieu of or in substitution for such Bonds pursuant to the Resolution, regardless of variations in maturity, interest rate, Sinking Fund Installments or other provisions;

Series 2004A Resolution means the University of Rochester Series 2004A Resolution Authorizing Series 2004A Bonds, adopted by the Authority on July 21, 2004;

Series Resolution means a resolution of the Authority authorizing the issuance of a Series of Bonds adopted by the Authority pursuant to the Resolution;

Short Term Debt means, at the time of each calculation, Debt of the University, other than Debt to the Authority, (i) which Debt is payable upon demand, (ii) twenty percent (20%) or more of the original principal amount of which Debt is payable in any Bond Year prior to the Bond Year during which Bonds are no longer Outstanding, or (iii) the principal amount of which is payable prior to maturity at the option of the holder thereof (other than upon acceleration upon an event of default) prior to the Bond Year during which Bonds are no longer Outstanding, including any note, bond, debenture or other evidence of indebtedness of the University which may be tendered to the University at the option of the holder thereof for purchase, payment or redemption prior to maturity; provided that such term shall not include any Debt twenty percent (20%) or more of the original principal amount of which is payable during any Bond Year if (x) such Debt was incurred on the same date as other Debt of the University is incurred, (y) such Debt and such other Debt were incurred pursuant to a common plan of financing, and (z) less than twenty percent (20%) of the aggregate original principal amount of such Debt and such other Debt is payable in each Bond Year prior to the Bond Year during which Bonds are no longer Outstanding; provided further that such term shall not include Debt less than twenty percent (20%) of the original principal amount of which is payable during each of the then current and the immediately succeeding two (2) Bond Years and Debt which is not payable prior to maturity at the option of the holder thereof during the then current or either of the immediately succeeding two (2) Bond Years;

Sinking Fund Installment means, as of any date of calculation, when used with respect to any Bonds of a Series, other than Option Bonds or Variable Rate Bonds, so long as such Bonds are Outstanding, the amount of money required by the Resolution or by the Series Resolution pursuant to which such Bonds were issued or by the Bond Series Certificate relating to such Bonds, to be paid on a single future July 1 for the retirement of any Outstanding Bonds of said Series which mature after said future July 1, but does not include any amount payable by the Authority by reason only of the maturity of a Bond, and said future July 1 is deemed to be the date when a Sinking Fund Installment is payable and the date of such Sinking Fund Installment and said Outstanding Bonds are deemed to be Bonds entitled to such Sinking Fund Installment; and when used with respect to Option Bonds or Variable Interest Rate Bonds of a Series, so long as such Bonds are Outstanding, the amount of money required by the Series Resolution pursuant to which such Bonds were issued or by the Bond Series Certificate relating to such Bonds, to be paid on a single future date for the retirement of any Outstanding Option Bonds or Variable Interest Rate Bonds of said Series which mature after said future date, but does not include any amount payable by the Authority by reason only of the maturity of a Bond, and said future date is deemed to be the date when a Sinking Fund Installment is payable and the date of such Sinking Fund Installment and said Outstanding Option Bonds or Variable Interest Rate Bonds are deemed to be Bonds entitled to such Sinking Fund Installment;

Standby Purchase Agreement means an agreement by and between the Authority and another person pursuant to which such person is obligated to purchase an Option Bond or a Variable Interest Rate Bond tendered for purchase;

State means the State of New York;

Supplemental Resolution means any resolution of the Authority amending or supplementing the Resolution, any Series Resolution or any Supplemental Resolution adopted and becoming effective in accordance with the terms of the Resolution;

Appendix A

Tax Certificate means the Tax Certificate and Agreement executed by an Authorized Officer of the Authority in connection with the issuance of Bonds of a Series;

Term Bonds means the Bonds so designated in a Series Resolution or a Bond Series Certificate and payable from Sinking Fund Installments;

Trustee means the bank or trust company appointed as Trustee for the Bonds pursuant to the Resolution and having the duties, responsibilities and rights provided for in the Resolution, and its successor or successors and any other bank or trust company which may at any time be substituted in its place pursuant to the Resolution;

University means the institution of higher education, duly incorporated and existing under the laws of the State, whose principal campus is located in Rochester, New York, the corporate name of which is "University of Rochester" and any successor thereto as permitted by the Loan Agreement;

Valuation Date means (i) with respect to any Capital Appreciation Bond, the date or dates set forth in the Series Resolution authorizing such Bond or in the Bond Series Certificate relating to such Bond on which specific Accreted Values are assigned to such Capital Appreciation Bond, and (ii) with respect to any Deferred Income Bond, the date or dates prior to the Interest Commencement Date and the Interest Commencement Date set forth in the Series Resolution authorizing such Bond or in the Bond Series Certificate relating to such Bond on which specific Appreciated Values are assigned to such Deferred Income Bond;

Variable Interest Rate means a variable interest rate or rates to be borne by a Series of Bonds or any one or more maturities within a Series of Bonds, the method of computing such variable interest rate is specified in the Series Resolution authorizing such Bonds or a Bond Series Certificate and shall be based on (i) a percentage or percentages or other function of an objectively determinable interest rate or rates (e.g., a prime lending rate) or a function of such objectively determinable interest rate or rates which may be in effect from time to time or at a particular time or times; provided that such variable interest rate shall be subject to a Maximum Interest Rate and may be subject to a Minimum Interest Rate and that there may be an initial rate specified in each case as provided in such Series Resolution or a Bond Series Certificate or (ii) a stated interest rate that may be changed from time to time as provided in the Series Resolution authorizing such Bonds or a Bond Series Certificate; and provided that such interest rate shall be subject to a Maximum Interest Rate; and provided, further, that such Series Resolution or Bond Series Certificate shall also specify either (i) the particular period or periods of time or manner of determining such period or periods of time for which such variable interest rate shall remain in effect or (ii) the time or times upon which any change in such variable interest rate shall become effective; and

Variable Interest Rate Bond means any Bond which bears a Variable Interest Rate, provided that a Bond the interest rate on which shall have been fixed for the remainder of the term thereof shall no longer be a Variable Interest Rate Bond.

**CONSOLIDATED FINANCIAL STATEMENTS OF
THE UNIVERSITY OF ROCHESTER AND RELATED ENTITIES
(WITH INDEPENDENT AUDITORS' REPORT THEREON)**

(THIS PAGE INTENTIONALLY LEFT BLANK)



265 Clinton Square
Rochester, NY 14604

Independent Auditors' Report

The Board of Trustees
University of Rochester:

We have audited the accompanying consolidated balance sheets of the University of Rochester and related entities as of June 30, 2003 and 2002, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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 related entities as of June 30, 2003 and 2002, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

September 26, 2003



**UNIVERSITY OF ROCHESTER
AND RELATED ENTITIES**

Consolidated Balance Sheets

June 30, 2003 and 2002
(dollars in thousands)

Assets	2003	2002
Cash and cash equivalents	\$ 148,637	\$ 138,640
Operating investments, at market	17,028	-
Accounts receivable, net	206,291	197,334
Inventories, prepaid expenses and deferred charges	58,634	50,235
Contributions receivable, net	37,610	40,329
Notes receivable, net of allowances of \$1,040 in 2003 and 2002	21,034	21,180
Other assets	2,814	4,156
Investments held for long-term purposes	1,263,757	1,268,995
Property, plant and equipment, net	896,154	928,964
Interest in net assets of foundation	15,572	18,046
Investments in perpetual trusts held by others	43,158	43,361
	Total assets	Total assets
	\$ 2,710,689	\$ 2,711,240
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 149,584	\$ 134,197
Advance receipt of sponsored research revenues	26,835	27,133
Deferred revenue	36,121	33,676
Third-party settlements payable, net	49,374	55,344
Accrued pension, post-retirement, and post-employment obligations	98,786	74,858
Long-term debt	444,097	468,978
Refundable U.S. Government grants for student loans	16,776	16,593
	Total liabilities	Total liabilities
	821,573	810,779
Net Assets:		
Unrestricted	1,485,275	1,504,843
Temporarily restricted	185,099	183,507
Permanently restricted	218,742	212,111
	Total net assets	Total net assets
	1,889,116	1,900,461
	Total liabilities and net assets	Total liabilities and net assets
	\$ 2,710,689	\$ 2,711,240

See accompanying notes to consolidated financial statements.

**UNIVERSITY OF ROCHESTER
AND RELATED ENTITIES**

Consolidated Statement of Activities

Year ended June 30, 2003
(dollars in thousands)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Operating revenues:				
Tuition and fees	\$ 190,037	\$ -	\$ -	\$ 190,037
Less: scholarships and fellowships	(76,491)	-	-	(76,491)
Net tuition and fees	113,546	-	-	113,546
State and local appropriations	1,937	-	-	1,937
Gifts and pledges	19,953	19,094	5,532	44,579
Grants and contracts	278,005	-	-	278,005
Hospital and faculty practice patient care activities	1,040,185	-	-	1,040,185
Auxiliary enterprises	40,777	-	-	40,777
Interest income on cash equivalents	5,356	165	4	5,525
Educational activities	24,581	-	-	24,581
Royalty income	31,364	-	-	31,364
Other sources	2,851	310	-	3,161
Long-term investment income and gains allocated to operations	69,703	-	-	69,703
Net assets released from restrictions	19,302	(19,302)	-	-
Total operating revenues	<u>1,647,560</u>	<u>267</u>	<u>5,536</u>	<u>1,653,363</u>
Operating expenses:				
Salaries and wages	808,269	-	-	808,269
Fringe benefits	212,000	-	-	212,000
Total compensation	<u>1,020,269</u>	<u>-</u>	<u>-</u>	<u>1,020,269</u>
Supplies	204,993	-	-	204,993
Business and professional	108,840	-	-	108,840
Utilities	24,966	-	-	24,966
Maintenance and facilities costs	42,827	-	-	42,827
Depreciation expense	107,697	-	-	107,697
Interest expense	24,455	-	-	24,455
Other	98,810	-	-	98,810
Total operating expenses	<u>1,632,857</u>	<u>-</u>	<u>-</u>	<u>1,632,857</u>
Change in net assets from operating activities	<u>14,703</u>	<u>267</u>	<u>5,536</u>	<u>20,506</u>
Non-operating activities:				
Long-term investment activities:				
Investment income	22,277	1,499	333	24,109
Net appreciation	27,936	1,594	762	30,292
Total long-term investment activities	<u>50,213</u>	<u>3,093</u>	<u>1,095</u>	<u>54,401</u>
Long-term investment income and gains allocated for operations	(69,703)	-	-	(69,703)
Additional minimum pension liability	(14,781)	-	-	(14,781)
Change in valuation of annuities	-	(1,768)	-	(1,768)
Change in net assets from non-operating activities	<u>(34,271)</u>	<u>1,325</u>	<u>1,095</u>	<u>(31,851)</u>
Change in net assets	<u>(19,568)</u>	<u>1,592</u>	<u>6,631</u>	<u>(11,345)</u>
Beginning net assets	<u>1,504,843</u>	<u>183,507</u>	<u>212,111</u>	<u>1,900,461</u>
Ending net assets	<u>\$ 1,485,275</u>	<u>\$ 185,099</u>	<u>\$ 218,742</u>	<u>\$ 1,889,116</u>

See accompanying notes to consolidated financial statements.

**UNIVERSITY OF ROCHESTER
AND RELATED ENTITIES**

Consolidated Statement of Activities

Year ended June 30, 2002
(dollars in thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating revenues:				
Tuition and fees	\$ 180,184	\$ -	\$ -	\$ 180,184
Less: scholarships and fellowships	(73,827)	-	-	(73,827)
Net tuition and fees	106,357	-	-	106,357
State and local appropriations	1,830	-	-	1,830
Gifts and pledges	23,152	19,711	9,610	52,473
Grants and contracts	262,657	-	-	262,657
Hospital and faculty practice patient care activities	972,499	-	-	972,499
Auxiliary enterprises	37,648	-	-	37,648
Interest income on cash equivalents	5,019	315	8	5,342
Educational activities	24,015	-	-	24,015
Royalty income	37,691	-	-	37,691
Other sources	3,225	-	-	3,225
Long-term investment income and gains allocated to operations	66,189	-	-	66,189
Net assets released from restrictions	17,751	(17,751)	-	-
Total operating revenues	1,558,033	2,275	9,618	1,569,926
Operating expenses:				
Salaries and wages	770,042	-	-	770,042
Fringe benefits	188,130	-	-	188,130
Total compensation	958,172	-	-	958,172
Supplies	197,210	-	-	197,210
Business and professional	108,145	-	-	108,145
Utilities	22,967	-	-	22,967
Maintenance and facilities costs	35,368	-	-	35,368
Depreciation expense	107,754	-	-	107,754
Interest expense	26,183	-	-	26,183
Other	71,023	-	-	71,023
Total operating expenses	1,526,822	-	-	1,526,822
Change in net assets from operating activities	31,211	2,275	9,618	43,104
Non-operating activities:				
Long-term investment activities:				
Investment income	22,116	2,437	220	24,773
Net depreciation	(63,561)	(10,324)	(5,474)	(79,359)
Total long-term investment activities	(41,445)	(7,887)	(5,254)	(54,586)
Long-term investment income and gains allocated for operations	(66,189)	-	-	(66,189)
Proceeds from sale of dialysis unit	19,483	-	-	19,483
Other non-operating health care revenues	5	-	-	5
Change in valuation of annuities	-	(2,034)	-	(2,034)
Change in net assets from non-operating activities	(88,146)	(9,921)	(5,254)	(103,321)
Change in net assets before cumulative effect of change in accounting principle	(56,935)	(7,646)	4,364	(60,217)
Cumulative effect of change in accounting principle	-	21,183	-	21,183
Change in net assets	(56,935)	13,537	4,364	(39,034)
Beginning net assets	1,561,778	169,970	207,747	1,939,495
Ending net assets	\$ 1,504,843	\$ 183,507	\$ 212,111	\$ 1,900,461

See accompanying notes to consolidated financial statements.

**UNIVERSITY OF ROCHESTER
AND RELATED ENTITIES**

Consolidated Statements of Cash Flows

Years ended June 30, 2003 and 2002
(dollars in thousands)

	2003	2002
Cash flows from operating activities:		
Change in net assets	\$ (11,345)	\$ (39,034)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Cumulative effect of change in accounting principle	-	(21,183)
Depreciation and amortization expense	105,240	104,126
Net (appreciation)/depreciation of investments	(35,135)	70,678
Gifts of property, plant and equipment	(5,910)	(5,715)
Depreciation in interest in net assets of foundation	2,474	3,137
Depreciation of investments in perpetual trusts held by others	203	5,544
Bond premium amortization/(discount accretion)	103	(24)
Loss on disposals of property plant and equipment	2,457	3,746
(Increases)/decreases in:		
Operating investments	(17,028)	-
Accounts receivable	(8,957)	(6,171)
Inventories, prepaid expenses and deferred charges	(10,314)	(6,702)
Contributions receivable	2,719	(12,208)
Other assets	(166)	(91)
Increases/(decreases) in:		
Accounts payable and accrued expenses	15,386	8,897
Advance receipt of sponsored research revenues	(298)	(1,338)
Deferred revenues	2,445	8,261
Third-party settlements, net	(5,970)	(1,857)
Accrued post-employment and post-retirement benefits	23,928	9,072
Contributions for long-term investment, net	(17,836)	(10,535)
Investment income restricted for long-term purposes	(1,153)	(98)
Net cash provided by operating activities	40,843	108,505
Cash flows from investing activities:		
Purchases of property, plant and equipment, net	(65,553)	(115,619)
Purchases of investments	(905,318)	(1,361,399)
Proceeds from the sale and maturity of investments	945,691	1,439,528
Increase/(decrease) in notes receivable, net of activities and other reductions	146	(1,016)
Net cash used in investing activities	(25,034)	(38,506)
Cash flows from financing activities:		
Principal repayments of indebtedness	(34,636)	(26,198)
Proceeds from issuance of long-term debt	9,652	2,255
Increase in refundable U.S. Government grants for student loans	183	288
Contributions for long-term investment, net	17,836	10,535
Investment income restricted for long-term purposes	1,153	98
Net cash used in financing activities	(5,812)	(13,022)
Net increase in cash and cash equivalents	9,997	56,977
Cash and cash equivalents - beginning of year	138,640	81,663
Cash and cash equivalents - end of year	\$ 148,637	\$ 138,640
 Supplemental disclosure of cash flow information - cash paid during the year for interest on long-term debt	 \$ 22,620	 \$ 20,842

See accompanying notes to consolidated financial statements.

UNIVERSITY OF ROCHESTER AND RELATED ENTITIES

Notes to Consolidated Financial Statements

June 30, 2003 and 2002

(1) Summary of Significant Accounting Policies

(a) General

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

(b) Basis of Presentation

The accompanying consolidated financial statements include all of the integrated divisions of the University – The College, 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 Dental Center, Health Affairs, and the University of Rochester Medical Faculty Group (URMFG). Included also are Strong Partners Health System, Inc. (and its affiliates), Eastman Dental Center Foundation, Inc., Strong Home Care Group (and its subsidiaries), and the Research Foundation of the University of Rochester. All significant interorganizational balances and transactions have been eliminated.

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

The Eastman Dental Center Foundation (the Foundation) was formed to hold and manage the investment assets of the former Eastman Dental Center, which was merged

into the University during 1998. Income and assets of the Foundation are used to support oral health, education, and research projects at the University.

The University is the sole corporate member of Strong Home Care Group (and its subsidiaries that include Visiting Nurse Service of Rochester and Monroe County, Inc. and Community Care of Rochester.)

The University is the sole corporate member of the Research Foundation of the University of Rochester. The Research Foundation manages certain intellectual property created by the University of Rochester and investments based on such intellectual property.

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

(c) Basis of Accounting

The consolidated financial statements of the University are prepared on the accrual basis of accounting and in conformity with generally accepted accounting principles in the United States of America. Certain amounts as of and for the year ended June 30, 2002 have been reclassified for comparative purposes.

Classification of Net Assets

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

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

UNIVERSITY OF ROCHESTER AND RELATED ENTITIES

Notes to Consolidated Financial Statements

June 30, 2003 and 2002

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

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

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

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

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

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

(d) Income Taxes

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

(e) Operations

The statements of activities present the changes in net assets of the University from operating activities and from nonoperating activities. Operating revenues and expenses relate primarily to educational and training programs, research activities, and hospital and patient care activities provided by the University and its related entities. Utilization of investment income and gains on long-term investments held for endowment and similar purposes under the University's total return spending policy, as discussed in note 1(i), is considered operating revenue.

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

(f) Cash Equivalents and Operating Investments

Cash equivalents include amounts on deposit with financial institutions, short-term investments with maturities of three months or less at the time of purchase, and other highly liquid investments, primarily cash management funds.

UNIVERSITY OF ROCHESTER AND RELATED ENTITIES

Notes to Consolidated Financial Statements

June 30, 2003 and 2002

Operating investments include all other current investments with original maturities greater than three months. These current investments include obligations of the US Treasury, US Government and other government agencies and corporate & foreign bonds. These items are reported at fair market value in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 124, *Accounting for Certain Investments held by Not-for-Profit Organizations*.

(g) Inventories

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

(h) Contributions

Contributions, including unconditional promises, or pledges, are recognized as revenues in the period received. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value at the date of gift. Contributions to be received after one year are discounted, at a range of 2% to 6%, to their present value. Amortization of the discount is recorded as additional contribution revenue and used in accordance with donor-imposed restrictions, if any, on the contributions. Allowance is made for uncollectible contributions based upon management's judgement and analysis of the creditworthiness of the donors, past collection experience and other relevant factors.

(i) Investments

The University's investments are comprised of the assets of the University's endowment and other investments held for general operating purposes. The University reports those investments at their fair value. The fair value of debt and equity securities is based on quoted market prices of public securities markets. Fair value for certain venture investments is based on transactions involving similar issues or on quoted prices of registered securities, although the University's holdings are restricted with respect to disposition in the ordinary manner.

New York State law allows the spending of income and gains on investments of permanently restricted net assets (except unrealized gains on investments which are not

readily marketable), absent explicit donor stipulations that all or a portion of such gains be maintained in perpetuity. State law allows the University to appropriate and spend such income and gains as is prudent, considering such factors as the University's long- and short-term needs, present and anticipated financial requirements, expected total return on investments, price level trends, and general economic conditions.

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

Investment of the University's net assets held for endowment and similar purposes is based upon a total return policy, and the utilization of its endowment resources for current operating and capital needs is related to this policy. Accordingly, during 2003 and 2002, University Trustees authorized the use of total return (income and appreciation) from its endowment resources at a rate of 6.4% and 6.6%, respectively, of the average market 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, dividends, and royalties, the University utilizes the appreciation of its endowment and similar net assets for operating purposes. To the extent that the total return requirement for the current year is exceeded by interest, dividends and royalties, the University reinvests the excess in its net assets held for endowment and similar purposes.

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

**UNIVERSITY OF ROCHESTER
AND RELATED ENTITIES**

Notes to Consolidated Financial Statements

June 30, 2003 and 2002

(j) Property, Plant and Equipment

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

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

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

(k) Collections

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

(l) Split Interest Agreements and Perpetual Trusts

The University's split interest agreements with donors consist primarily of gift annuities, unitrusts, lead trusts,

charitable remainder annuity trusts and life income agreements. Assets held under these agreements are included in investments. Generally, contribution revenues are recognized at the dates the agreements are established after recording liabilities for the present value of the estimated future payments to be made to the beneficiaries. The liabilities are adjusted during the term of the trusts for changes in the value of the assets, accretion of the discount and other changes in the estimates of future benefits. The University is also the beneficiary of certain perpetual trusts held and administered by others. The present values of the estimated future cash receipts, which are measured by the fair value of the assets contributed to the trust, are recognized as assets and contribution revenues at the dates the trusts are established. Distributions from the trusts are recorded as contributions and the carrying value of the assets is adjusted for changes in the fair value of the trust assets.

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

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

(n) Grants and Contracts

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

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

**UNIVERSITY OF ROCHESTER
AND RELATED ENTITIES**

Notes to Consolidated Financial Statements

June 30, 2003 and 2002

(o) Benefits 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 postretirement benefits are accounted for as a form of deferred compensation over the estimated service lives of employees.

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

(p) Patient Service Revenues

Patient service revenues for the hospitals are recorded at the established rates, with provisions for third-party contractual adjustments, and charity care to arrive at net patient service revenue. Estimated contractual adjustments, including prospective rate adjustments arising under third-party reimbursement programs are accrued in the period the services are rendered to the patients. Differences between estimated retroactive third-party reimbursement settlements for prior years and subsequent final settlements are recorded in the year of settlement as contractual adjustments. Estimated settlements at June 30, 2003 have been accrued for services provided during the years ended June 30, 1996 through 2003. Final settlements have been made for all years prior to 1996.

Patient service revenues for the faculty practice are recorded at the established physician fee schedules with provisions for third-party contractual adjustments deducted to arrive at net patient service revenue.

Estimated contractual adjustments are accrued in the period the services are rendered to the patients. Estimates are based on historical and current gross collection ratios.

(q) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and judgements that affect the reported amounts of assets and liabilities and disclosures of contingencies at the date of the financial statements and revenues and expenses recognized during the reporting period. Actual results could differ from those estimates.

(r) Investment in Net Assets of Foundation

The University follows the provisions of Statement of Financial Accounting Standards (SFAS) No. 136, *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others* in accounting for its interest in the net assets of the James P. Wilmot Foundation, Inc. ("Foundation"). SFAS No. 136 establishes standards for transactions in which a donor transfers assets to a not-for-profit organization or charitable trust, which then agrees to transfer those assets, the return on investment of those assets, or both to a beneficiary specified by the donor. Under the provisions of SFAS No. 136, the University is required to recognize the net assets and its share of the change in the net assets of the Foundation. The Foundation was established for the support of cancer research at the University's School of Medicine and Dentistry. In 2002, the University recorded its interest in the net assets of the Foundation as a cumulative effect adjustment in the amount of \$21,183,000.

**UNIVERSITY OF ROCHESTER
AND RELATED ENTITIES**

Notes to Consolidated Financial Statements

June 30, 2003 and 2002

(2) Net Assets

Unrestricted net assets consist of the following at June 30 (in thousands):

	<u>2003</u>	<u>2002</u>
Designated:		
For long-term purposes to support scholarships and other programs:		
Funds functioning as endowment	\$ 663,191	\$ 671,144
Accumulated appreciation resulting from investment of permanently restricted net assets	171,909	177,191
For property, plant and equipment purposes and debt service reserves held by trustees under debt agreements	22,701	28,217
For student loan programs, including required matching funds under Federal Government loan programs	3,870	3,773
For other specific operating purposes	46,045	44,813
For Highland Hospital and affiliates	48,992	60,872
For Eastman Dental Center Foundation	40,130	42,536
For other related entities	(16,011)	(3,935)
Total designated	<u>980,827</u>	<u>1,024,611</u>
Net investment in property, plant and equipment	421,532	422,942
Undesignated	<u>82,916</u>	<u>57,290</u>
Total unrestricted net assets	<u>\$ 1,485,275</u>	<u>\$ 1,504,843</u>

Temporarily restricted net assets consist of the following at June 30 (in thousands):

	<u>2003</u>	<u>2002</u>
Accumulated appreciation on permanently restricted net assets subject to purpose restrictions:		
Scholarships and grants	\$ 19,176	\$ 20,015
Instruction	49,672	50,314
Other	19,360	19,775
Subtotal	<u>88,208</u>	<u>90,104</u>
Interest in net assets of foundation	15,572	18,046
Related entities	1,475	909
Other gifts and income subject to:		
Purpose restrictions	22,148	23,144
Time restrictions:		
Contributions receivable	34,835	31,842
Split-interest agreements	22,861	19,462
Total temporarily restricted net assets	<u>\$ 185,099</u>	<u>\$ 183,507</u>

**UNIVERSITY OF ROCHESTER
AND RELATED ENTITIES**

Notes to Consolidated Financial Statements

June 30, 2003 and 2002

Permanently restricted net assets consist of the following at June 30 (in thousands):

	2003	2002
Perpetual endowment funds:		
Restricted income purposes:		
Scholarships and grants	\$ 12,148	\$ 11,583
Instruction	36,258	35,927
Other	12,996	12,739
Unrestricted income purposes	103,274	92,260
Subtotal	164,676	152,509
Interests in perpetual trusts held by others:		
Restricted income purposes:		
Instruction	30,404	30,410
Student loans	1,395	1,355
Unrestricted income purposes	11,359	11,596
Subtotal	43,158	43,361
Related entities	2,943	3,162
Split-interest agreements	1,324	755
Perpetual loan funds	3,866	3,837
Contributions receivable	2,775	8,487
Total permanently restricted net assets	\$ 218,742	\$ 212,111

(3) Accounts Receivable

Accounts receivable at June 30 consist of the following (in thousands):

	2003	2002
Patient care and related activities, net of allowances for doubtful accounts of \$16,005 and \$18,089	\$ 129,668	\$ 129,813
Federal, state, and local governments, foundations, and companies, net of allowances for doubtful accounts of \$630 and \$586	31,352	29,315
Student receivables, net of allowances for doubtful accounts of \$1,744 and \$1,100	8,971	8,491
Other	36,300	29,715
Total accounts receivable	\$ 206,291	\$ 197,334

**UNIVERSITY OF ROCHESTER
AND RELATED ENTITIES**

Notes to Consolidated Financial Statements

June 30, 2003 and 2002

(4) Contributions

Contributions receivable, net, are summarized as follows at June 30 (in thousands):

	<u>2003</u>	<u>2002</u>
Unconditional promises expected to be collected in:		
Less than one year	\$ 19,051	\$ 20,800
One year to five years	23,091	23,771
Over five years	<u>1,440</u>	<u>1,748</u>
Subtotal	43,582	46,319
Less unamortized discount and allowance for uncollectible amounts	<u>(5,972)</u>	<u>(5,990)</u>
Total contributions receivable, net	<u>\$ 37,610</u>	<u>\$ 40,329</u>

At June 30, 2003, the University had also received bequest intentions of approximately \$24,908,000 and certain other conditional promises to give. These intentions and conditional promises to give are not recognized as assets. If they are received, they will generally be restricted for specific purposes stipulated by the donor, primarily endowments for faculty support, scholarships or general operating support of a particular department or division of the University.

The University expended approximately \$18,266,000 and \$17,727,000, for University relations and development for the years ended June 30, 2003 and 2002, respectively.

(5) Scholarships, Grants and Fellowships

The University awarded a total of \$76,491,000 and \$73,827,000 in scholarships, grants and fellowships during fiscal years 2003 and 2002, respectively. In addition, the University awarded \$9,050,837 and \$8,371,000, respectively, of scholarships, grants and fellowships as compensation to the recipients. \$14,181,261 and \$12,079,000, respectively, of the total scholarships, grants and fellowships awarded were specifically funded by Federal, state or private gifts or grants, or by investment income and gains earned on investments held for endowment and similar purposes and utilized under the University's total return spending policy.

(6) Investments Held for Long-Term Purposes

Investments were held for the following long-term purposes at June 30 (in thousands):

	<u>2003</u>	<u>2002</u>
Endowment and similar purposes	\$ 1,133,664	\$ 1,132,014
Property, plant and equipment purposes:		
Debt service reserve held by trustees under debt agreements	13,416	17,692
Other	<u>12,864</u>	<u>18,871</u>
Total property, plant and equipment purposes	26,280	36,563
Other purposes	<u>103,813</u>	<u>100,418</u>
Total investments held for long-term purposes	<u>\$ 1,263,757</u>	<u>\$ 1,268,995</u>

Investments held for endowment and similar purposes and for property, plant and equipment purposes consisted of the following at June 30 (in thousands):

	<u>2003</u>	<u>2002</u>
Held for endowment and similar purposes:		
Cash and cash equivalents	\$ 109,344	\$ 40,516
Debt securities	108,346	180,195
Common and preferred stocks	522,364	526,126
Limited partnerships and similar interests	359,194	336,769
Oil royalties	8,200	9,000
Other investments	<u>26,216</u>	<u>39,408</u>
Total market value	<u>\$ 1,133,664</u>	<u>\$ 1,132,014</u>
Total cost	<u>\$ 1,056,672</u>	<u>\$ 1,044,269</u>
	<u>2003</u>	<u>2002</u>
Held for property, plant and equipment purposes:		
Cash and cash equivalents	\$ 7,676	\$ 2,357
U.S. Treasury securities	<u>18,604</u>	<u>34,206</u>
Total market value, which approximates cost	<u>\$ 26,280</u>	<u>\$ 36,563</u>

**UNIVERSITY OF ROCHESTER
AND RELATED ENTITIES**

Notes to Consolidated Financial Statements

June 30, 2003 and 2002

Included in the investments held for endowment purposes above are \$195,089,000 and \$206,187,000 of international investments at June 30, 2003 and 2002, respectively.

Under the terms of certain limited partnership agreements, the University is obligated to periodically advance additional funding for private-equity and real estate investments. At June 30, 2003 and 2002, respectively, the University had commitments of approximately \$83,990,000 and \$96,423,000 for which capital calls had not been exercised. Such commitments generally have fixed expiration dates or other termination clauses. The University maintains sufficient liquidity in its investment portfolio to cover such calls.

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 funds based on shares purchased by each fund and fund addition when it entered the pool. The pooled assets are valued on a monthly basis and a "market value per share" is determined and used to calculate the number of shares applicable to funds entering or leaving the pool.

The following table summarizes changes in relationships between cost and market values of investments held for endowment and similar purposes (in thousands):

	<u>2003</u>		
	<u>Market</u>	<u>Cost</u>	<u>Net Gains</u>
End of year	\$ 1,133,644	\$ 1,056,672	\$ 76,972
Beginning of year	\$ 1,132,014	\$ 1,044,269	<u>87,745</u>
Unrealized depreciation			(10,773)
Realized net gains for year			<u>42,587</u>
Net increase for year			<u>\$ 31,814</u>

	<u>2002</u>		
	<u>Market</u>	<u>Cost</u>	<u>Net Gains</u>
End of year	\$ 1,132,014	\$ 1,044,269	\$ 87,745
Beginning of year	\$ 1,234,364	\$ 1,049,908	<u>\$ 184,456</u>
Unrealized depreciation			(96,711)
Realized net gains for year			<u>33,382</u>
Net decrease for year			<u>\$ (63,329)</u>

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. These financial instruments involve, to varying degrees, elements of market risk in excess of the amounts recorded in the consolidated financial statements.

The University purchases forward foreign currency contracts; with terms ranging from three months to six months, as a hedge against fluctuations in currency prices. Forward foreign currency buy contracts held as of June 30, 2003 and 2002, respectively were valued at approximately \$0 and \$1,967,000. There were no sell contracts held as of June 30, 2003 and 2002. Such contracts involve, to varying degrees, risk of loss arising from the possible inability of counterparties to meet the terms of the contract.

Interest rate futures contracts are held as hedges against changes in market value of fixed income securities due to market interest rate fluctuations. The University is subject to market risk associated with the changes in the value of these futures contracts. The University held long and short-term U.S. Treasury and municipal bond futures contracts at June 30, 2003 and 2002, at a notational amount of \$3,053,000 and \$17,883,000, respectively. These amounts, however, may differ from the University's future cash requirements as the University may close out futures positions prior to settlement and thus be subject only to the change in value of the futures contracts since the contracts are valued daily using the market-to-market method. The margin requirements on

**UNIVERSITY OF ROCHESTER
AND RELATED ENTITIES**

Notes to Consolidated Financial Statements

June 30, 2003 and 2002

deposits with a third party for futures contracts were approximately \$301,000 at June 30, 2003 and \$680,000 at June 30, 2002.

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

Investment fees for the two years ended June 30, 2003 and 2002 were approximately \$11,533,000 and \$10,277,000, respectively.

(7) Property, Plant and Equipment

As of June 30, 2003 and 2002, the University's investment in property, plant and equipment is as follows (in thousands):

	2003	2002
Buildings and improvements	\$ 1,146,840	\$ 1,130,696
Land improvements	27,319	25,076
Completed projects under leasehold agreements	46,600	46,333
Equipment owned	516,819	505,259
Library books	83,554	77,843
Subtotal	1,821,132	1,785,207
Less accumulated depreciation	979,111	913,312
Subtotal	842,021	871,895
Land	5,177	5,201
Museum collections	25,231	25,031
Construction in progress	23,725	26,837
Total property, plant and equipment, net	\$ 896,154	\$ 928,964

**UNIVERSITY OF ROCHESTER
AND RELATED ENTITIES**

Notes to Consolidated Financial Statements

June 30, 2003 and 2002

(8) Long-Term Debt

The following is a summary of the University's long-term indebtedness at June 30, 2003 and 2002 (in thousands):

	<u>2003</u>	<u>2002</u>
Obligations under capital leases, 4% to 8.25%, (a)	\$ 6,006	\$ 16,895
Urban Development Corporation loan, (b)	3,000	3,167
Term note payable, LIBOR rate plus 0.40%, (c)	6,150	6,600
Term note payable, LIBOR rate plus 1.25% (d)	592	1,239
Term note payable, LIBOR rate plus 1.25% (e)	1,632	---
Line of credit, LIBOR rate plus 0.20% (f)	7,812	---
Bonds payable – DASNY Series 1987, 3.60% to 6.50%, (g)	1,620	1,815
Bonds payable – DASNY Series 1993A, 2.50% to 5.30% (net of unamortized discount of \$40 in 2003 and \$44 in 2002), (h)	8,855	9,606
Bonds payable – DASNY Series 1994, 3.90% to 5.90% (net of unamortized discount of \$1,468 in 2003 and \$1,549 in 2002), (i)	76,452	78,866
Bonds payable – DASNY Series 1994A, 4.50% to 6.50% (net of unamortized discount of \$20 in 2003 and \$21 in 2002), (j)	3,390	4,404
Bonds payable – DASNY Series 1994, 7.625%, (k)	9,469	9,624
Bonds payable – DASNY Series 1994B, 5.50% (l)	12,030	12,295
Bonds payable – DASNY Series 1996, 3.85% to 5.30% (net of unamortized discount of \$16 in 2003 and \$22 in 2002), (m)	7,489	9,748
Bonds payable – DASNY Series 1997A, 3.75% to 5.00% (net of unamortized premium of \$845 in 2003 and \$880 in 2002), (n)	54,600	61,990
Bonds payable – DASNY Series 1997A and B, 5.70% to 8.25%, (o)	28,195	29,025
Bonds payable – DASNY Series 1998A, 3.50% to 5.00% (net of unamortized discount of \$304 in 2003 and \$317 in 2002), (p)	113,171	117,558
Bonds payable – DASNY Series 1999A, 5.00% (net of unamortized discount of \$147 in 2003 and \$158 in 2002), (q)	17,318	17,307
Bonds payable – DASNY Series 1999B, 3.70% to 5.72% (net of unamortized discount of \$259 in 2003 and \$271 in 2002), (r)	23,356	23,969
Bonds payable – DASNY Series 2000A, 4.50% to 6.05% (net of unamortized discount of \$1 in 2003 and \$1 in 2002), (s)	40,699	42,388
Bonds payable – DASNY Series 2001A, 2.90% to 5.00% (net of unamortized discount of \$136 in 2003 and \$143 in 2002), (t)	22,261	22,482
	<u>444,097</u>	<u>468,978</u>
Total long-term debt	\$	\$

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

(a) Obligations Under Capital Leases

Strong Memorial Hospital entered into a tax-exempt capital equipment lease program in October 2000 for \$4,719,000. The lease is being repaid with quarterly payments of \$207,884, including interest at 5.50% through May 2007. The leased equipment includes CT Radio Surgery, Ultrasound and linear accelerator equipment.

In 1986, the University entered into a lease on a facility used partly to house activities of its Eastman School of Music. The University undertook to sublease the remaining space to commercial tenants. During 1992, the University exercised an option to acquire the interests of its lessor in that facility. The facility had been financed by \$10,000,000, thirty-year tax-exempt industrial development bonds issued by the County of Monroe Industrial Development Agency (COMIDA) on behalf of the lessor. Upon exercise of its option, the University assumed the lessor's obligations to COMIDA.

**UNIVERSITY OF ROCHESTER
AND RELATED ENTITIES**

Notes to Consolidated Financial Statements

June 30, 2003 and 2002

Concurrently, the bonds were remarketed at an interest rate of 7.25%, per annum, maturing in 2016. The University refinanced the bonds through a line of credit issued by JPMorgan Chase Bank in June of 2003.

Additionally, as a part of the exercise of its option, the University has assumed mortgages amounting to \$796,000, bearing interest at 4.75% and payable in monthly installments through December 2011.

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

(b) Urban Development Corporation Loan

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

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

(c) Term Note Payable – JPMorgan Chase Bank

Pursuant to an agreement between the University and JPMorgan Chase Bank dated June 30, 2000, JPMorgan Chase Bank issued a term note of \$7,000,000 to finance the renovation of the Goergen Athletic Center. The note is being repaid at an interest rate of LIBOR plus 0.40% on the unpaid principal balance through September 2005.

(d) Term Note Payable – HSBC Bank, USA

A University related entity entered into a \$1,939,000 term note agreement with HSBC Bank, USA. The note is being repaid with monthly payments of \$53,861, including interest at the bank's prime rate of LIBOR plus 1.25% through May 2004. This note is guaranteed by the University through June 1, 2004 and is collateralized by the assets of the related entity.

(e) Term Note Payable – HSBC Bank, USA

A University related entity entered into a \$1,718,000 term note agreement with HSBC Bank, USA. The note is being repaid at an interest rate of LIBOR plus 1.25% on the unpaid balance through January 2008. This note is guaranteed by the University and is collateralized by the assets of the related entity.

(f) Line of Credit – JPMorgan Chase Bank

Pursuant to an agreement between the University and JPMorgan Chase Bank dated June 2, 2003, the University drew on its available revolving line of credit, in the amount of \$7,812,000 to refinance the COMIDA lease, which is on a facility used partly to house activities of the Eastman School of Music. The interest on the line is being repaid at the bank's prime rate of LIBOR plus 0.20% on the unpaid principal through October 2004. The line of credit will be refinanced during the first quarter of fiscal year 2004.

(g) Bonds Payable – Dormitory Authority of the State of New York (DASNY) Series 1987

Pursuant to an agreement between the University and the DASNY dated April 1, 1987, the DASNY issued and sold \$150,000,000 of bonds known as University of Rochester, Series 1987. The Series 1987 Bonds were issued to refund outstanding DASNY Revenue Bonds; to fund the Debt Service Reserve Fund in an amount equal to its requirement; and to pay certain costs of issuance of the Series 1987 Bonds.

UNIVERSITY OF ROCHESTER AND RELATED ENTITIES

Notes to Consolidated Financial Statements

June 30, 2003 and 2002

During fiscal 1998, \$65,930,000 of the Series 1987 bonds were refunded as a result of the issuance of the Series 1997A bonds. Another \$20,655,000 of the Series 1987 bonds were refunded during fiscal 1999 as a result of the issuance of the Series 1998A bonds.

The remaining bonds are secured by: (1) certain amounts held by bond trustees from the proceeds of the issues; and (2) pledges of tuition, room and board, and mandatory student fees, subject to a prior pledge of such revenues.

(h) Bonds Payable – DASNY Series 1993A

Pursuant to an agreement between the University and the DASNY dated April 1, 1993, the DASNY issued and sold \$21,245,000 of bonds to finance various physical plant projects and equipment related to Strong Memorial Hospital. The bonds were issued at a discount of \$84,000, resulting in net proceeds to the University of \$21,161,000. The bonds are a general obligation of the University and require the University to pay principal, sinking fund installments and interest on all bonds issued as such payments become due.

The obligation of the University is secured by a pledge of certain revenues of the University. These pledged revenues include all tuition, room and board and mandatory fees charged to students. The pledged revenues are subordinate to the prior pledges securing certain other outstanding indebtedness of the University.

(i) Bonds Payable – DASNY Series 1994

Pursuant to an agreement between the University and the DASNY dated March 1, 1994, the DASNY issued and sold \$94,985,000 of bonds known as University of Rochester, Strong Memorial Hospital Revenue Bonds, Series 1994. The Series 1994 bonds were issued at a discount of \$2,229,000, resulting in proceeds of \$92,756,000 to finance the construction of an ambulatory care facility, access center and parking garage for the Hospital and the renovation of the Hospital's obstetrical unit. The bonds are a general obligation of the University and require the University to pay principal, sinking fund installments and interest on all bonds issued as such payments become due.

As security for its obligation under the agreement, the University has granted to the Authority a security interest in pledged revenues consisting of any moneys, income rents, or revenues received or receivable by the Hospital.

(j) Bonds Payable – DASNY Series 1994A

Pursuant to an agreement between the University and the DASNY dated October 1, 1994, the DASNY issued and sold \$30,575,000 of bonds known as University of Rochester Revenue Bonds, Series 1994A. The Series 1994A bonds were issued at a net discount of \$30,000, resulting in proceeds of \$30,545,000 to finance the renovation of a dormitory, two academic buildings, and an administration building on the University's River Campus; the repair and improvement of the exterior and utility infrastructure of the buildings of the Eastman School of Music, and the refinancing of the University's maturing \$20,000,000 repurchase agreement with the Student Loan Marketing Association (SLMA). The bonds are a general obligation of the University and require the University to pay principal, sinking fund installments and interest on all bonds issued as such payments become due. During fiscal year 2002, the Series 1994A bonds maturing on and after July 1, 2007 were refinanced as a result of the issuance of Series 2001A. The bondholders will be paid on July 1, 2004.

The obligation of the University is secured by a pledge of certain revenues of the University. These pledged revenues include all tuition, room and board and mandatory fees charged to students. The pledged revenues are subordinate to the prior pledges securing certain other outstanding indebtedness of the University.

(k) Bonds Payable – DASNY Series 1994

Pursuant to an agreement with a University related entity (Highland Hospital and affiliates) and the DASNY issued and sold \$11,790,000 of FHA-Insured Mortgage Revenue Bonds, Series 1994 dated July 1, 1994. The related entity is repaying the bonds that are due December 1, 2025 at a fixed rate of 7.625%.

**UNIVERSITY OF ROCHESTER
AND RELATED ENTITIES**

Notes to Consolidated Financial Statements

June 30, 2003 and 2002

(l) Bonds Payable – DASNY Series 1994B

Pursuant to an agreement with a University related entity (Highland Hospital and affiliates) and the DASNY issued and sold \$13,000,000 of Series 1994B Revenue Bonds. The related entity is repaying the indebtedness at a fixed rate of 5.5%, maturing July 1, 2023. The bond issue is secured by an irrevocable direct pay letter that is held by the trustee, JPMorgan Chase Bank. The Series 1994B Revenue Bonds are secured by a parity mortgage and a security interest in certain buildings and equipment.

(m) Bonds Payable – DASNY Series 1996

Pursuant to an agreement between the University and DASNY dated July 1, 1996, the DASNY issued and sold \$21,375,000 of bonds known as University of Rochester, Strong Memorial Hospital Revenue Bonds, Series 1996. The Series 1996 bonds were issued at a discount of \$53,530, resulting in proceeds of \$21,321,470 to finance (1) the implementation of an automated clinical information system, (2) the expansion and renovation of the Hospital's basement area to enlarge and consolidate the pre and post anesthesia units, and (3) the purchase and installation of a nuclear cardiology gamma camera at the Hospital's ambulatory care facility.

The bonds are a general obligation of the University and require the University to pay principal, sinking fund installments and interest on all bonds issued as such payments become due. As security for its obligation under the agreement, the University has granted to the Authority a security interest in pledged revenues consisting of any moneys, income rents, or revenues received or receivable by the Hospital.

(n) Bonds Payable – DASNY Series 1997A

Pursuant to an agreement between the University and DASNY dated November 7, 1997, the DASNY issued and sold \$78,280,000 of bonds known as University of

Rochester Revenue Bonds, Series 1997A. The Series 1997A bonds were issued at a premium of \$1,041,282 resulting in proceeds of \$79,321,282 to finance (1) interior and exterior building renewal for major buildings at the Eastman School of Music as part of a multi-year project; (2) installation of a local area network for all River Campus and Eastman School of Music residence halls to provide high speed data access to undergraduate students; (3) reconstruction of an existing pedestrian bridge connecting Hill Court Residence Complex with the River Campus and (4) major renewal and replacement projects for various buildings, structures, roadways and other facilities on the River Campus, on Mt. Hope Avenue and at the Mees Observatory in South Bristol, New York as part of a multi-year project. Series 1997A also refunded a portion of the University of Rochester Revenue Bonds, Series 1987 which was paid to the bondholders on March 2, 1998.

The bonds are secured by the pledge and assignment of certain revenues of the University. These pledged revenues include all tuition, room and board and mandatory fees charged to students. The pledged revenues are subordinate to the prior pledges securing outstanding indebtedness of the University.

(o) Bonds Payable – DASNY Series 1997 A and B

Pursuant to an agreement with a University related entity (Highland Hospital and affiliates) and the DASNY dated December 11, 1997, the DASNY issued and sold \$26,635,000 of the Series 1997A tax-exempt FHA-Insured Mortgage Hospital Revenue Bonds and \$5,250,000 of Series 1997B taxable FHA-Insured Mortgage Hospital Revenue Bonds.

The Series 1997A and B bonds were issued at par value. The proceeds of these bond issues were used to finance (1) the expansion and modernization of selected clinical and support areas of the Highland Hospital; (2) the construction of the main parking garage and (3) to refinance the Marine Midland Bank, N.A. construction mortgage note payable.

**UNIVERSITY OF ROCHESTER
AND RELATED ENTITIES**

Notes to Consolidated Financial Statements

June 30, 2003 and 2002

(p) Bonds Payable – DASNY Series 1998A

Pursuant to an agreement between the University and DASNY dated March 18, 1998, the DASNY issued and sold \$131,615,000 of bonds known as University of Rochester Revenue Bonds, Series 1998A. The Series 1998A bonds were issued at a discount of \$370,389 resulting in proceeds of \$131,244,611 to finance (1) design and construction of a new biomedical research facility of approximately 240,000 square feet; (2) construction of a new entrance to the School of Medicine and Dentistry of approximately 55,000 feet; (3) renovations for laboratory space to approximately 65,000 feet; (4) the acquisition of scientific equipment and furnishings for the new facility and renovated laboratory space; (5) the University-wide telecommunications system and (6) replacement of the chiller at the central utilities plant. Series 1998A also refunded a portion of the University of Rochester Revenue Bonds, Series 1987, which was paid to bondholders on October 2, 1998.

The bonds are secured by the pledge and assignment of certain revenues of the University. These pledged revenues include all tuition, room and board and mandatory fees charged to students. The pledged revenues are subordinate to the prior pledges securing certain other outstanding indebtedness of the University.

(q) Bonds Payable – DASNY Series 1999A

Pursuant to an agreement between the University and DASNY dated August 15, 1999, the DASNY issued and sold \$17,465,000 of bonds known as University of Rochester Revenue Bonds, Series 1999A. The Series 1999A bonds were issued at a discount of \$190,194 resulting in proceeds of \$17,274,806 to finance (1) the implementation of a new Human Resource information system to serve payroll and personnel functions university wide; (2) renovations of existing space for various uses in the School of Medicine and Dentistry and (3) various projects throughout the University designed to improve the accessibility of facilities and to accomplish deferred maintenance items. The Loan Agreement and the obligation of the University to make payments under the Loan Agreement are general obligations of the University. No security interest in any revenues or assets of the University has been granted by the University to the Authority under the Loan Agreement.

(r) Bonds Payable – DASNY Series 1999B

Pursuant to an agreement between the University and DASNY dated August 15, 1999, the DASNY issued and sold \$25,860,000 of bonds known as the University of Rochester, Strong Memorial Hospital Revenue Bonds, Series 1999B. The Series 1999B bonds were issued at a discount of \$306,136 resulting in proceeds of \$25,553,864 to finance (1) the design and construction of a new emergency room at the Hospital; (2) relocation and expansion of the cardiac catheterization laboratory and (3) expansion of existing space for the Hospital clinical laboratories.

The Loan Agreement and the obligation of the University to make payments under the Loan Agreement are general obligations of the University. No security interest in any revenues or assets of the University has been granted by the University to the Authority under the Loan Agreement.

(s) Bonds Payable – DASNY Series 2000A

Pursuant to an agreement between the University and DASNY dated June 1, 2000, the DASNY issued and sold \$45,764,113 of bonds known as the University of Rochester Revenue Bonds, Series 2000A. The Series 2000A bonds were issued at a discount of \$2,240 resulting in proceeds of \$45,761,873 to finance (1) the construction of an addition to the Medical Research Building to expand research space for core programs in the School of Medicine and Dentistry; (2) the renovation of faculty office space and the expansion of instructional facilities of the William E. Simon Graduate School of Business Administration; (3) the upgrading of chilled water supply infrastructure; (4) improvements to faculty office and laboratory space at the University's River Campus and (5) infrastructure repairs at the Eastman School of Music and other facility improvements on the River Campus including the continuation of general deferred maintenance items. Series 2000A also refinanced a portion of the University of Rochester Revenue Bond, Series 1972C which was paid to the bondholders on August 3, 2000.

The Loan Agreement and the obligation of the University to make payments under the Loan Agreement are general obligations of the University. No security interest in any revenues or assets of the University has been granted by the University to the Authority under the Loan Agreement.

**UNIVERSITY OF ROCHESTER
AND RELATED ENTITIES**

Notes to Consolidated Financial Statements

June 30, 2003 and 2002

(t) Bonds Payable – DASNY Series 2001A

Pursuant to an agreement between the University and DASNY dated July 10, 2001, the DASNY issued and sold \$22,920,000 of bonds known as the University of Rochester Revenue Bonds, Series 2001A. The Series 2001A bonds were issued at a discount of \$151,508 resulting in net proceeds of \$22,768,492 to refinance (1) all the outstanding \$184,000 University's Dormitory (Apartment) bonds of 1962, HUD Series D and all the outstanding \$840,000 University's Dormitory (Apartment) bonds of 1966, HUD Series E and (2) a portion of the University of Rochester Revenue Bond, Series 1994A, maturing on and after July 1, 2007. HUD Series D and E were paid on October 1, 2001. DASNY Series 1994A refunding is due on July 1, 2004 in the amount of \$19,640,000.

The Loan Agreement and the obligation of the University to make payments under the Loan Agreement are general obligations of the University. No security interest in any revenues or assets of the University has been granted by the University to the Authority under the Loan Agreement.

(u) Required Principal Payments

Required composite principal payments for long-term debt, net of unamortized discount, for each of the years in the five-year period ending June 30, 2008 and thereafter are as follows (in thousands):

<u>Maturity</u>	<u>Principal portions of lease payments</u>	<u>Principal payments of debt</u>	<u>Total principal payments</u>
2004	\$ 2,122	\$ 33,683	\$ 35,805
2005	1,604	24,446	26,050
2006	1,179	25,967	27,146
2007	852	20,463	21,315
2008	51	21,052	21,103
Thereafter	198	312,480	312,678
Total	<u>\$ 6,006</u>	<u>\$ 438,091</u>	<u>\$ 444,097</u>

The University expended approximately \$24,455,000 and \$26,197,000 for interest for the years ended June 30, 2003 and 2002, respectively, net of interest capitalization of approximately \$167,000 and \$95,000 for the years ended June 30, 2003 and 2002, respectively.

(9) Benefits Plans

Self-insurance Plans – University

The University is self-insured for workers' compensation and medical benefits. Liabilities for asserted and unasserted claims under the workers' compensation program at June 30, 2003 were discounted by 6% and amounted to \$15,123,000.

The University has a \$16.8 million standby letter of credit with JPMorgan Chase Bank to cover potential liabilities under the University's self-insured workers' compensation program.

Effective July 1, 2002, the University converted to a self-insured plan for health care benefits. Based on estimates provided by actuaries, the University's obligation for incurred but not reported claims was \$7,433,000 as of June 30, 2003. This amount has not been discounted.

Retirement Plan – University

Most full-time University employees participate in the retirement plans administered by TIAA-CREF, or in a defined contributions plan sponsored by the University. Under these plans, the University made contributions of approximately \$40,268,000 in 2003 (\$37,605,000 in 2002), which were vested for the benefit of the participants.

Post-retirement Benefit Plan – University

The University's post-retirement benefit plan includes basic medical, major medical, dental coverage and life insurance. Benefit levels differ for current retirees, current employees eligible to retire, and current employees not eligible to retire. The accumulated post-retirement benefit obligation of \$70,623,000, created as of January 1, 1996 by the enactment of the plan, is being amortized over 16 years; the average estimated service lives of plan participants.

The impact on retiree liabilities as a result of the conversion to a self-funded plan for health care benefits is reflected as amendment to the change in benefit obligation.

**UNIVERSITY OF ROCHESTER
AND RELATED ENTITIES**

Notes to Consolidated Financial Statements

June 30, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 101,857	\$ 94,693
Service cost	1,331	1,289
Interest cost	7,254	6,891
Estimated plan participants' contributions	1,206	1,162
Actuarial (gain)/loss	(2,833)	4,599
Benefits paid	(7,490)	(6,777)
Amendments	10,868	-
	<u>\$ 112,193</u>	<u>\$ 101,857</u>
Benefit obligation at end of year		
	<u>\$ 112,193</u>	<u>\$ 101,857</u>
Components of accrued benefit:		
Funded status	\$ (112,193)	\$ (101,857)
Unrecognized net actuarial loss	12,495	15,329
Unrecognized prior service cost	47,816	42,053
	<u>\$ (51,882)</u>	<u>\$ (44,475)</u>
Accrued benefit		
	<u>\$ (51,882)</u>	<u>\$ (44,475)</u>
Components of net periodic benefit cost:		
Service cost	\$ 1,331	\$ 1,289
Interest cost	7,254	6,891
Amortization of prior service cost	5,105	4,426
Net loss	-	84
	<u>\$ 13,690</u>	<u>\$ 12,690</u>
Net periodic benefit cost		
	<u>\$ 13,690</u>	<u>\$ 12,690</u>
Weighted-average assumptions as of June 30:		
Discount rate	6.25%	7.25%
Expected return on plan assets	N/A	N/A

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

	<u>One percentage point increase</u>	<u>One percentage point decrease</u>
Effect on total of service and interest cost components	\$ 364	\$ (354)
Effect on post-retirement benefit obligation	\$ 4,140	\$ (4,248)

Post-employment Benefits – University

Accrued post-employment benefits of the University amounted to \$27,209,000 and \$23,551,000 at June 30, 2003 and 2002, respectively.

Retirement Plan – Related Entity (Highland Hospital and Affiliates)

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

**UNIVERSITY OF ROCHESTER
AND RELATED ENTITIES**

Notes to Consolidated Financial Statements

June 30, 2003 and 2002

Pension expense for this plan for the years ended December 31, 2002 and 2001 (the most recent data available) includes the following components (in thousands):

	<u>2002</u>	<u>2001</u>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 41,697	\$ 36,264
Service cost	1,838	1,571
Interest cost	2,979	2,769
Actuarial loss	8,265	2,525
Benefits paid	<u>(1,333)</u>	<u>(1,432)</u>
Benefit obligation at end of year	<u>\$ 53,446</u>	<u>\$ 41,697</u>
Change in plan assets:		
Fair value of assets, beginning of period	\$ 32,124	\$ 38,155
Actuarial return on plan assets	(2,533)	(4,599)
Benefits paid	<u>(1,333)</u>	<u>(1,432)</u>
Fair value of assets at end of period	<u>\$ 28,258</u>	<u>\$ 32,124</u>
Components of accrued pension liability:		
Funded status	\$ (25,188)	\$ (9,573)
Unrecognized net actuarial loss	18,419	4,870
Unrecognized transition asset	(960)	(1,274)
Unrecognized prior service cost	158	241
Accumulated comprehensive pension expense	(10,266)	---
Intangible asset	(158)	---
Accrued pension liability	<u>\$ (17,995)</u>	<u>\$ (5,736)</u>
Components of net periodic benefit cost:		
Service cost	\$ 1,838	\$ 1,571
Interest cost	2,979	2,769
Expected return on plan assets	(2,836)	(3,386)
Amortization of prior service cost	84	83
Amortization of transition asset	(315)	(314)
Amortization gain	<u>85</u>	<u>(248)</u>
Net periodic benefit cost	<u>\$ 1,835</u>	<u>\$ 475</u>
Weighted-average assumptions as of December 31:		
Discount rate	6.50%	7.25%
Expected return on plan assets	9.00%	9.00%
Rate of compensation increase	4.50%	4.50%

(10) Investment in Insurance Company

The University, together with other universities and teaching hospitals, has formed a captive insurance company (captive) to insure the medical malpractice risks of the shareholders. The University's investment in the captive represents 20% of the voting rights; however, the dissolution provisions of the captive agreement indicate that the University's financial participation (based on percentage of premiums paid) is approximately 9% of the financial results of the captive.

(11) Professional Liability Insurance

The University's coverage for professional liability insurance is provided under insurance policies obtained jointly with other universities and teaching hospitals. The primary layer of coverage, and 10% of the first layer of excess insurance, were written by MCIC Vermont, Inc. (a Risk Retention Group) formed and directed by the participating insured institutions. Multiple layers of excess insurance were purchased from several different insurance companies. The maximum coverage for the Medical Center is \$172,000,000 per claim. The per claim coverage amount at each of the five participating institutions has been tailored to their own experience and exposures.

Based on estimates provided by the actuaries retained by MCIC Vermont, Inc., the University obligations for incurred, but not reported claims were approximately \$12,341,000 and \$10,687,000 as of June 30, 2003 and 2002, respectively.

(12) Fair Value of Financial Instruments

The method and assumptions described below were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate that value. Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

UNIVERSITY OF ROCHESTER AND RELATED ENTITIES

Notes to Consolidated Financial Statements

June 30, 2003 and 2002

Cash and Cash Equivalent, Accounts Receivable, Third-Party Settlements Payable, and Accounts Payable and Accrued Expenses

The carrying amount approximates fair value because of the short maturities of these instruments.

Contributions Receivable

Contributions receivable are recorded at their net present value. See note 1(h) for accounting policies related to contributions receivable.

Investment

Investments are reported at their fair market values. See note 1(i) for accounting policies for determination of fair value of investments.

Notes Receivable

A reasonable estimate of the fair value of notes receivable from students under Federal Government financial assistance programs could not be made because the notes are not salable and can only be assigned to the Federal Government or its designees. The fair value of notes receivable from students under University loan programs approximates carrying value.

Estimated Professional Liability Costs

The carrying amount of this actuarially determined liability approximates fair value.

Long-Term Debt

The fair value of the University's long-term debt is estimated based upon the amount of future cash flows discounted using the University's current borrowing rate for similar debt instruments of comparable maturities. The fair value of total bonds and notes payable was approximately \$508,600,000 million and \$485,900,000 million at June 30, 2003 and 2002, respectively.

credit. Of this \$5 million, \$1,033,000 is currently committed (\$500,000 for the University's Commercial General Liability Policy deductible and \$533,000 for the repayment of obligations to the Urban Development Corporation).

The University has an additional \$40 million line of credit with JPMorgan Chase Bank for emergency purposes of which approximately \$7.8 million is committed for the refinancing of Eastman Place COMIDA bonds and related mortgages in 2003. At June 30, 2002, there was no amount outstanding under this line of credit.

(14) Commitments and Contingencies

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

At June 30, 2003, the University has entered into construction contracts and commitments aggregating approximately \$290,585,000 (\$288,247,000 at June 30, 2002) of which approximately \$263,683,000 (\$268,855,000 at June 30, 2002) had been incurred.

As of June 30, 2003, the University has been awarded grants and contracts totaling approximately \$199,938,000 (\$134,881,000 at June 30, 2002) for which the funds have not been received or expended. Accordingly, these awards are not reflected in the consolidated financial statements, but represent commitments of sponsors, both government and other, to provide funds for specific research and training programs.

(13) Lines and Letters of Credit

The University has a \$5 million line of credit with JPMorgan Chase Bank that can be used for letters of

**UNIVERSITY OF ROCHESTER
AND RELATED ENTITIES**

Notes to Consolidated Financial Statements

June 30, 2003 and 2002

(15) Leases

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

Operating Leases

	<u>University</u>	<u>Related Entity</u>
2004	\$ 10,154	\$ 1,108
2005	8,488	778
2006	8,060	543
2007	6,474	543
2008	5,508	543
Thereafter	<u>23,174</u>	<u>1,895</u>
Total minimum lease payments	<u>\$ 61,858</u>	<u>\$ 5,410</u>

(17) Subsequent Event

Under an agreement with the Dormitory Authority of the State of New York, serial and terms bonds will be issued to refund portions of the Authority's University of Rochester Revenue Bonds Series 1987, Series 1993A, Series 1999A, Series 1999B and to fund various capital projects. The projects on the University's River Campus include deferred maintenance and renovation to various facilities and the expansion of the Laboratory for Laser Energetics building. Medical Center projects include renovations to various facilities in Strong Memorial Hospital and the School of Medicine and Dentistry, construction of an adult intensive care unit, and an expansion of the parking garage.

On July 31, 2003, the University of Rochester executed \$164,425,000 of interest rate swaps with third parties and locked-in a swap rate of 3.97%. The swaps will allow the University to refinance the Series 1987, 1993 and 1994 issues for present value savings of more than \$4,223,000 or 4.92% of par. In addition, the swaps will allow the University to fund approximately \$75 million of new money projects at a favorable cost of capital. The effective date of the swap agreement is November 6, 2003.

(16) Functional Expenses

The University also records expenses according to major classes of program or functions. Functional expenses for the years ended June 30 consisted of the following (in thousands):

	<u>2003</u>	<u>2002</u>
Instruction	\$ 239,323	\$ 227,519
Research	189,311	168,398
Public Service	8,872	8,846
Libraries and other academic support	35,932	33,813
Student services	36,104	34,478
Institutional support	49,120	42,977
Hospital and faculty practice patient care	1,028,278	967,760
Auxiliary enterprises	<u>45,917</u>	<u>43,031</u>
Total functional expenses	<u>\$ 1,632,857</u>	<u>\$ 1,526,822</u>

(THIS PAGE INTENTIONALLY LEFT BLANK)

**SUMMARY OF CERTAIN PROVISIONS
OF THE LOAN AGREEMENT**

[THIS PAGE INTENTIONALLY LEFT BLANK]

SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENT

The following is a brief summary of certain provisions of the Loan Agreement pertaining to the Bonds and the Project. Such summary does not purport to be complete and reference is made to the Loan Agreement for full and complete statements of such and all provisions. Defined terms used herein shall have the meanings ascribed to them in Appendix A.

Duration of Loan Agreement

The Loan Agreement shall remain in full force and effect until no Bonds are Outstanding and until all other payments, expenses and fees payable under the Loan Agreement by the University shall have been made or provision made for the payment thereof; provided, however, that certain liabilities and obligations of the University under the Loan Agreement shall nevertheless survive any such termination. Upon such termination, an Authorized Officer of the Authority shall deliver such documents as may be reasonably requested by the University to evidence such termination and the discharge of its duties under the Loan Agreement, including the satisfaction of any mortgage and the release or surrender of any security interests granted by the University to the Authority pursuant to the Loan Agreement.

(Section 42)

Construction of Projects

The University agrees that, whether or not there are sufficient moneys available to it under the provisions of the Resolution and under the Loan Agreement, the University shall complete the acquisition, design, construction, reconstruction, rehabilitation and improving or otherwise providing and furnishing and equipping of each Project, substantially in accordance with the Contract Documents relating thereto. Subject to the conditions of the Loan Agreement, the Authority will, to the extent of moneys available in the applicable Construction Fund, cause the University to be reimbursed for, or pay, any costs and expenses incurred by the University which constitute Costs of the Project, provided such costs and expenses are approved by an Authorized Officer of the Authority.

(Section 5)

Amendment of a Project; Cost Increases; Additional Bonds

A Project may be amended by the University with the prior written consent of an Authorized Officer of the Authority to decrease, increase or otherwise modify the scope thereof. Any such increase may provide for the addition of any further acquisition, design, construction, reconstruction, rehabilitation, improving, or otherwise providing furnishing and equipping of a Project which the Authority is authorized to undertake.

(Section 6)

Financial Obligations of the University; General and Unconditional Obligation; Voluntary Payments

Except to the extent that moneys are available therefor under the Resolution or the Loan Agreement, including moneys in the Debt Service Fund, but excluding interest accrued but unpaid on investments held in the Debt Service Fund, the University pursuant to the Loan Agreement unconditionally agrees to pay, so long as Bonds are Outstanding, to or upon the order of the Authority, from its general funds or any other moneys legally available to it:

(a) On or before the date of delivery of the Series 2000A Bonds and the Series 1999B Bonds, \$50,000 to be applied against payment of the Authority Fee in connection with the issuance of such Bonds which fee is estimated to be such amount;

(b) On or before the date of delivery of Bonds of a Series, such amount, if any, as is specified in the Series Resolution authorizing the issuance of such Bonds or in the Bond Series Certificate relating to such Bonds, to pay the Costs of Issuance of such Bonds, and other costs in connection with the issuance of such Bonds;

(c) On the twentieth (20th) day of each calendar month commencing on the twentieth (20th) day of the month immediately preceding the date on which such interest becomes due, the sum of (i) interest coming due on Variable Interest Rate Bonds on or prior to the twentieth day of the next succeeding calendar month, assuming that such Variable

Appendix C

Interest Rate Bonds bear interest from the date of such deposit until the interest payment date at a rate per annum equal to the rate per annum for such Bonds on the immediately preceding Business Day, plus one percent per annum, and (ii) the principal and Sinking Fund Installments of Option Bonds and Variable Interest Rate Bonds payable on or prior to the twentieth day of the next succeeding calendar month;

(d) On November 15 immediately preceding the January 1, and on May 15 immediately preceding the July 1, on which interest becomes due on all Bonds, other than Option Bonds and Variable Interest Rate Bonds, interest coming due on such January 1 or July 1 interest payment date for such Bonds;

(e) On May 15 immediately preceding the July 1 on which the principal or a Sinking Fund Installment of Bonds becomes due, other than Option Bonds and Variable Rate Bonds, the principal and Sinking Fund Installments on the Bonds coming due on such July 1;

(f) At least forty-five (45) days with respect to Bonds other than Option Bonds and Variable Interest Rate Bonds and fifteen (15) days with respect to Option Bonds and Variable Interest Rate Bonds prior to any date on which the Redemption Price or purchase price in lieu of redemption of Bonds previously called for redemption or contracted to be purchased is to be paid, the amount required to pay the Redemption Price or purchase price in lieu of redemption of such Bonds;

(g) On December 10 of each Bond Year, one-half (1/2) of the Annual Administrative Fee payable during such Bond Year in connection with each Series of Bonds, and on June 10 of each Bond Year the balance of the Annual Administrative Fee payable during such Bond Year; provided, however, that the Annual Administrative Fee payable shall become effective, with respect to the Series 2000A Bonds and the Series 1999B Bonds on December 10, 1999 and with respect to any other Series of Bonds on the date agreed to by the University and the Authority at the time Bonds of such Series are issued; and, provided, further, that the Annual Administrative Fee with respect to any Series of Bonds payable during the Bond Year during which such Annual Administrative Fee became effective shall be equal to the Annual Administrative Fee with respect to such Series of Bonds multiplied by a fraction the numerator of which is the number of calendar months or parts thereof remaining in such Bond Year and the denominator of which is twelve (12);

(h) Promptly after notice from the Authority, but in any event not later than fifteen (15) days after such notice is given, the amount set forth in such notice as payable to the Authority (i) for the Authority Fee then unpaid, (ii) to reimburse the Authority for payments made pursuant to the Loan Agreement and any expenses or liabilities incurred by the Authority pursuant to the Loan Agreement, (iii) for the costs and expenses incurred to compel full and punctual performance of all the provisions of the Loan Agreement and the Resolution in accordance with the terms thereof, (iv) for the fees and expenses of the Trustee and any Paying Agent in connection with performance of their duties under the Resolution, and (v) for any external costs or expenses attributable to the issuance of a Series of Bonds or the financing or construction of a Project, including but not limited to any fees or other amounts payable under a Remarketing Agreement, a Credit Facility or a Liquidity Facility;

(i) On the date a Series of Bonds is issued, an amount equal to the Authority Fee in connection with issuance of such Series of Bonds;

(j) Promptly upon demand by an Authorized Officer of the Authority (a copy of which shall be furnished to the Trustee), all amounts required to be paid by the University as a result of an acceleration pursuant to the Loan Agreement;

(k) By 5:00 P.M., New York City time, on the day notice thereof is given to the University by the Authority or the Trustee, the amount, in immediately available funds, required to pay the purchase price of Option Bonds tendered for purchase and not remarketed or remarketed at less than the principal amount thereof and which is not to be paid from moneys to be made available pursuant to a Credit Facility or a Liquidity Facility; provided, however, that if such notice is given to the University by 10:00 A.M., New York City time, then such amount shall be paid, in immediately available funds, by 12:30 P.M., New York City time, on such day; provided, further, that, if such notice is given to the University after 3:00 P.M., New York City time, then such amount shall be paid, in immediately available funds, by 10:00 A.M., New York City time, on the next succeeding day;

(l) Promptly upon demand by an Authorized Officer of the Authority, the difference between the amount on deposit in the Arbitrage Rebate Fund available to be rebated in connection with the Bonds of a Series or otherwise available therefor under the Resolution and the amount of rebate, yield reduction payments, interest and penalty, if any, required to be paid to the Department of the Treasury of United States of America in accordance with the Code in connection with the Bonds of such Series; and

(m) Promptly upon demand by an Authorized Officer of the Authority, all amounts required to be paid by the Authority to a Qualified Hedge Provider in accordance with a Qualified Hedge or to reimburse the Authority for any amounts paid to a Qualified Hedge Provider in accordance with a Qualified Hedge.

Subject to the provisions of the Resolution and the Loan Agreement, the University shall receive a credit against the amount required to be paid by the University during a Bond Year pursuant to paragraph (c) or (e) above on account of any Sinking Fund Installments if, prior to the date notice of redemption is given pursuant to the Resolution with respect to Bonds to be redeemed through Sinking Fund Installments on the next succeeding July 1, either (i) the University delivers to the Trustee for cancellation one or more Bonds of the Series and maturity to be so redeemed, or (ii) the Trustee, at the direction of the Authority, has purchased one or more Bonds of the maturity to be so redeemed from amounts on deposit in the Debt Service Fund in accordance with the Resolution. The amount of the credit shall be equal to the principal amount of the Bonds so delivered.

The Authority directs the University, and the University agrees, to make the payments required by paragraphs (c), (d), (e), (f) and (j) above directly to the Trustee for deposit in the Debt Service Fund and application in accordance with the Resolution, the payments required by paragraph (b) above directly to the Trustee for deposit in a Construction Fund or other fund established under the Resolution as directed by an Authorized Officer of the Authority, the payments required by paragraph (l) above directly to the Trustee for deposit in the Arbitrage Rebate Fund, the payments required by paragraph (k) above directly to the Trustee for payment of the purchase price of Option Bonds tendered by the Holders thereof for purchase, the payment required by paragraph (m) above with respect to a Qualified Hedge as directed by an Authorized Officer of the Authority, the payments required by paragraphs (a), (g), (h) and (i) above directly to or upon the order of the Authority.

Notwithstanding any provision in the Loan Agreement or in the Resolution or the Series Resolution to the contrary (except as otherwise specifically provided for in the provisions described under this caption), (i) all moneys paid by the University to the Trustee pursuant to paragraphs (c), (d), (e), (f), (j) and (k) above (other than moneys received by the Trustee pursuant to the Resolution which shall be retained and applied by the Trustee for its own account) shall be received by the Trustee as agent for the Authority in satisfaction of the University's indebtedness to the Authority with respect to the interest on and principal or Redemption Price of the Bonds to the extent of such payment and (ii) the transfer by the Trustee of any moneys (other than moneys described in (i) above) held by it in the Construction Fund to the Debt Service Fund in accordance with the applicable provisions of the Loan Agreement or of the Resolution shall be deemed, upon such transfer, receipt by the Authority from the University of a payment in satisfaction of the University's indebtedness to the Authority with respect to the Redemption Price of the Bonds to the extent of the amount of moneys transferred. Except as otherwise provided in the Resolution, the Trustee shall hold such moneys in trust in accordance with the applicable provisions of the Resolution for the sole and exclusive benefit of the Holders of Bonds, regardless of the actual due date or applicable payment date of any payment to the Holders of Bonds.

The obligations of the University to make payments or cause the same to be made under the Loan Agreement shall be complete and unconditional and the amount, manner and time of making such payments shall not be decreased, abated, postponed or delayed for any cause or by reason of the happening or non-happening of any event, irrespective of any defense or any right of set-off, recoupment or counterclaim which the University may otherwise have against the Authority, the Trustee or any Bondholder for any cause whatsoever including, without limiting the generality of the foregoing, failure of the University to complete a Project or the completion thereof with defects, failure of the University to occupy or use a Project, any declaration or finding that the Bonds or any Series of Bonds are, or the Resolution is, invalid or unenforceable or any other failure or default by the Authority or the Trustee; provided, however, that nothing in the Loan Agreement shall be construed to release the Authority from the performance of any agreements on its part contained in the Loan Agreement or any of its other duties or obligations, and in the event the Authority shall fail to perform any such agreement, duty or obligation, the University may institute such action as it may deem necessary to compel performance or recover damages for non-performance. Notwithstanding the foregoing, the Authority shall have no obligation to perform its obligations under the Loan Agreement to cause advances to be made to reimburse the University for, or to pay, the Costs of the Projects relating to a Project, beyond the extent of moneys available in the Construction Fund established for such Project.

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

Appendix C

An Authorized Officer of the Authority, for the convenience of the University, shall furnish to the University statements of the due date, purpose and amount of payments to be made pursuant to the Loan Agreement. The failure to furnish such statements shall not excuse non-payment of the amounts payable under the Loan Agreement at the time and in the manner provided in the Loan Agreement. The University shall notify the Authority as to the amount and date of each payment made to the Trustee by the University.

The Authority shall have the right in its sole discretion to make on behalf of the University any payment required pursuant to the Loan Agreement which has not been made by the University when due. No such payment by the Authority shall limit, impair or otherwise affect the rights of the Authority under the Loan Agreement arising out of the University's failure to make such payment and no payment by the Authority shall be construed to be a waiver of any such right or of the obligation of the University to make such payment.

The University, if it is not then in default under the Loan Agreement, shall have the right to make voluntary payments in any amount to the Trustee. In the event of a voluntary payment, the amount so paid shall be deposited in accordance with the directions of an Authorized Officer of the Authority in the Debt Service Fund or held by the Trustee for the payment of Bonds in accordance with the Resolution. In making a voluntary payment to be held by the Trustee in accordance with the Resolution, the University may effect such payment by the delivery of Defeasance Securities. Upon any voluntary payment by the University or upon any deposit in the Debt Service Fund made pursuant to the Loan Agreement, the Authority agrees to direct the Trustee to purchase or redeem Bonds in accordance with the Resolution or to give the Trustee irrevocable instructions in accordance with the Resolution with respect to such Series of Bonds; provided, however, that in the event such voluntary payment is in the sole judgment of the Authority sufficient to pay all amounts then due under the Loan Agreement and under the Resolution, including the purchase or redemption of all Bonds Outstanding, or to pay or provide for the payment of all Bonds Outstanding in accordance with the Resolution, the Authority agrees, in accordance with the instructions of the University, to direct the Trustee to purchase or redeem all Bonds Outstanding, or to cause all Bonds outstanding to be paid or to be deemed paid in accordance with the Resolution.

(Section 9)

Consent to Pledge and Assignment

The University consents to and authorizes the assignment, transfer or pledge by the Authority to the Trustee of the Authority's rights to receive certain of the payments required to be made pursuant to the Loan Agreement, any or all security interests granted by the University under the Loan Agreement. All funds and accounts established by the Resolution and pledged thereby to secure any payment or the performance of any obligation of the University under the Loan Agreement or arising out of the transactions contemplated by the Loan Agreement shall be specifically assigned by the Authority to the Trustee. The University further agrees that the Authority may pledge and assign to the Trustee any and all of the Authority's rights and remedies under the Loan Agreement. Upon any pledge and assignment by the Authority to the Trustee authorized by the Loan Agreement, the Trustee shall be fully vested with all of the rights of the Authority so assigned and pledged and may thereafter exercise or enforce, by any remedy provided therefor by the Loan Agreement or by law, any of such rights directly in its own name. Any such pledge and assignment shall be limited to securing the University's obligation to make all payments required by the Loan Agreement and to performing all other obligations required to be performed by the University under the Loan Agreement. Any realization upon any pledge made or security interest granted by the Loan Agreement shall not, by operation of law or otherwise, result in cancellation or termination of the Loan Agreement or the obligations of the University under the Loan Agreement.

(Section 10)

Limitation on Liens

Except as otherwise provided in the Loan Agreement, so long as Bonds shall be Outstanding, the University covenants and agrees that it will not issue, assume or guarantee any Debt secured by Liens upon any Restricted Property or create, incur or assume any Liens upon any Restricted Property to secure Debt, without effectively providing that the University's indebtedness under the Loan Agreement (together with, if the University so determines, any other indebtedness or obligation thereafter created that is not subordinate in right of payment to the University's indebtedness

under the Loan Agreement) shall be secured equally and ratably with or prior to all other obligations secured thereby as long as such Debt shall be so secured, except that the foregoing provisions shall not apply to:

(a) Liens to secure all or any part of the purchase price or the cost of construction of Restricted Property acquired or constructed by the University, provided (i) the Debt secured by any such Lien is non-recourse to the University, (ii) the amount of such Debt does not exceed ninety-five percent (95%) of the purchase price or the cost of construction, (iii) such Debt and related Lien are incurred within ninety (90) days after the acquisition or completion of construction, and (iv) such Lien relates only to the Restricted Property so acquired or constructed;

(b) Liens on Restricted Property existing at the time of acquisition of such Restricted Property by the University, provided (i) the Debt secured by any such Lien is non-recourse to the University, and (ii) the amount of such Debt does not exceed ninety-five percent (95%) of the fair market value (in the opinion of an Authorized Officer of the University) of such Restricted Property;

(c) Liens to secure Debt incurred to the Authority or to secure Bonds, bonds, notes or other obligations issued by the Authority;

(d) With the consent of the Authority, Liens upon Restricted Property, other than the Pledged Revenues, to secure obligations incurred by the University to the issuer of a Credit Facility or a Liquidity Facility or pursuant to an agreement relating thereto; and

(e) Any extension, renewal or replacement (or successive extensions, renewals or replacements), in whole or in part, of any Lien referred to in the foregoing clauses (a) through (d) inclusive or of any Debt secured thereby; provided, that (i) the principal amount of Debt secured thereby shall not exceed the principal amount of Debt so secured at the time of such extension, renewal or replacement, (ii) such extension, renewal or replacement Lien shall be limited to all or part of substantially the same Restricted Property to which the Lien that was extended, renewed or replaced applied (plus improvements on such Restricted Property) and (iii) in the case of any Lien referred to in the foregoing clause (a) or (b), the Debt secured thereby shall be non-recourse to the University.

(Section 11)

Exempted Transactions

Notwithstanding the provisions of the Loan Agreement, the University may issue, assume or guarantee Debt secured by Liens or create, incur or assume Liens to secure Debt, that would otherwise be subject to the restrictions in the Loan Agreement described above in the event that:

(i) the fair market value (in the opinion of an Authorized Officer of the University) of the Restricted Property securing such Debt, together with the aggregate value (as shown on the books and records of the University upon which the most recent audited financial statements of the University are based) of all other Restricted Property of the University securing Debt (other than Restricted Property securing Debt permitted to be secured under the Loan Agreement) does not exceed an amount equal to twenty percent (20%) (or such higher percentage as shall be consented to by an Authorized Officer of the Authority) of the University's total assets (as shown on the most recent audited financial statements of the University); and

(ii) the aggregate principal amount of such Debt, together with the aggregate outstanding principal amount of all other Debt secured by Liens on Restricted Property of the University (other than Debt permitted to be secured under the Loan Agreement), does not exceed an amount equal to twenty-percent (20%) (or such higher percentage as shall be consented to by an Authorized Officer of the Authority) of the University's total assets (as shown on the most recent audited financial statements of the University);

provided that in no event shall the University issue, assume or guarantee any Debt secured by Liens upon the University's stocks, bonds, notes or other investments, or create, incur or assume Liens upon the University's stocks, bonds, notes or other investments to secure Debt (other than Debt incurred to the Authority in connection with bonds, notes or other obligations of the Authority issued under a resolution of the Authority) if at the time such Debt is issued, assumed or guaranteed or such Lien is created, incurred or assumed the market value (in the opinion of an Authorized Officer of the University) of stocks, bonds, notes or other investments subject to Liens, including Liens securing the Debt then proposed to be issued, assumed or guaranteed or the Lien then proposed to be created, incurred or assumed, exceeds ten percent (10%) (or such higher percentage as shall be consented to by an Authorized Officer of the Authority) of (x)

Appendix C

the value (as shown on the most recent audited financial statements of the University) of all stocks, bonds, notes or other investments of the University less (y) one hundred ten percent (110%) of the principal amount of Bonds then Outstanding, or if at the time such Debt is issued, assumed or guaranteed or such Lien is created, incurred or assumed the market value (in the opinion of an Authorized Officer of the University) of stocks, bonds, notes and other investments which are derived from gifts or bequests, not required to pay any item which is a Cost of a Project, held as part of the University's permanent capital, and free and clear of any lien, pledge, charge, security interest or other encumbrance or statutory, contractual or other restriction, is not at least equal to one hundred ten percent (110%) of the principal amount of Bonds then Outstanding.

(Section 12)

Financial Covenants

The University covenants that it shall maintain Available Assets of the University which will be not less than two (2) times the General Liabilities of the University, and it shall deliver to the Authority and the Trustee a certified statement of an Authorized Officer of the University after the close of each quarter of each fiscal year of the University as provided in the Loan Agreement which demonstrates compliance with such covenant; provided, however, the failure of the University to comply with such covenant shall not constitute an Event of Default if the University has complied with the provisions of the Loan Agreement respecting the Management Consultant.

The University covenants that it shall maintain as an asset of the University, stocks, bonds, notes or other similar securities which (a) are free and clear of any pledge, lien, charge, security interest or other encumbrance, (b) are not subject to any statutory, contractual or other restriction, and (c) have a market value at least equal to one hundred twenty percent (120%) of the aggregate principal amount of its outstanding Short Term Debt, and it shall deliver to the Authority and the Trustee a certified statement of an Authorized Officer of the University after the close of each quarter of each fiscal year of the University as provided in the Loan Agreement which demonstrates compliance with such covenant; provided, however, the failure of the University to comply with such covenant shall not constitute an Event of Default if the University has comply with the provisions of the Loan Agreement respecting the Management Consultant.

(Section 13)

Management Consultant

If the University fails to comply with any of the covenants contained in the Loan Agreement in any fiscal year succeeding a fiscal year in which no such failure occurred, the Authority, at its election which shall be exercised within sixty (60) days of notice of such failure, may request the University to engage, at the University's expense, a Management Consultant to review the rates, operations and management of the University and any other matter deemed appropriate by the Authority and to make such recommendations with respect to such rates, operations, management and other matters as will enable the University to comply with such covenants within a reasonable period. The University shall engage a Management Consultant within sixty (60) days of such request by the Authority. Copies of the report and recommendations of the Management Consultant shall be filed with the Authority, the Trustee, the board of trustees of the University and an Authorized Officer of the University no later than one hundred twenty (120) days following the date of engagement of such Management Consultant. The board of trustees of the University and such Authorized Officer of the University shall each deliver to the Authority no later than thirty (30) days following the date of filing with the Authority of the report and recommendations of the Management Consultant a written report setting forth their respective comment and reaction to the report and recommendations of the Management Consultant.

If the University fails to comply with any of the covenants contained in the Loan Agreement in any fiscal year succeeding a fiscal year in which such failure has occurred, the University shall engage within sixty (60) days of such failure, at the University's expense, a Management Consultant to review the rates, operations and management of the University and any other matter deemed appropriate by the Authority and to make such recommendations with respect to such rates, operations, management and other matters as will enable the University to comply with such covenants within a reasonable period. The University shall immediately notify an Authorized Officer of the Authority of such engagement. Copies of the report and recommendations of the Management Consultant shall be filed with the Authority, the Trustee, the board of trustees of the University and an Authorized Officer of the University no later than one hundred twenty (120) days following the date of engagement of such Management Consultant.

The University shall, to the extent feasible, promptly upon its receipt of such recommendations, and subject to applicable requirements or restrictions imposed by law or regulation, revise its rates, fees and charges, its methods of operation or collections or its debt and investment management and shall take such other action as shall be in conformity with such recommendations. The University shall deliver to the Authority and the Trustee:

(i) within forty- five (45) days of receipt of such Management Consultant's report (a) a report setting forth in reasonable detail the steps the University proposes to take to implement the recommendations of such Management Consultant, and (b) a certified copy of a resolution adopted by the board of trustees of the University accepting both the Management Consultant's report and the report prepared by the University as required in clause (a) hereof.

(ii) quarterly reports demonstrating the progress made by the University in implementing the recommendations of the Management Consultant.

If the University complies in all material respects with the reasonable recommendations of the Management Consultant delivered under the Loan Agreement, the University will be deemed to have complied with the covenants contained in the Loan Agreement for the University's fiscal year in which the Management Consultant's report is delivered and the University's succeeding fiscal year.

(Section 14)

Tax-Exempt Status

The University represents that: (i) it is an organization described in Section 501(c)(3) of the Code, or corresponding provisions of prior law and is not a "private foundation," as such term is defined under Section 509(a) of the Code; (ii) it has received a letter or other notification from the Internal Revenue Service to that effect; (iii) such letter or other notification has not been modified, limited or revoked; (iv) it is in compliance with all terms, conditions and limitations, if any, contained in such letter or other notification; (v) the facts and circumstances which form the basis of such letter or other notification as represented to the Internal Revenue Service continue to exist; and (vi) it is exempt from federal income taxes under Section 501(a) of the Code. The University agrees that: (a) it shall not perform any act or enter into any agreement which shall adversely affect such federal income tax status and shall conduct its operations in the manner which will conform to the standards necessary to qualify the University as an organization within the meaning of Section 501(c) (3) of the Code or any successor provision of federal income tax law; and (b) it shall not perform or permit any act or enter into any agreement which could adversely affect the exclusion of interest on the Bonds from federal gross income taxes pursuant to Section 103 of the Code.

The University warrants, represents and covenants that, subject to the Loan Agreement, (i) at least ninety-five percent (95%) of the net proceeds of the Bonds of an issue (calculated in accordance with Section 150(a) (3) of the Code) shall not be used in the trade or business of any person other than an organization described in Section 501(c)(3) of the Code or a state or local governmental unit, and (ii) all property acquired, constructed or renovated with moneys derived from the net proceeds of Bonds will be owned (within the meaning of the Code) by an organization described in Section 501(c)(3) of the Code or a state or local governmental unit.

On each date on which Bonds of a Series are issued, the University shall certify that the principal amount of Bonds and other obligations issued by or for the benefit of the University, the interest on which is intended to be excluded from gross income for purposes of federal income taxes, and which are treated as outstanding for such purposes of the Code, does not exceed the limitation thereon imposed by Section 145(b) of the Code. In addition, the University shall promptly notify the Authority upon the issuance of any notes, bonds or other obligations (other than those issued by the Authority) by or for the benefit of the University, the interest on which is excluded from gross income for the purposes of federal income taxes.

(Section 16)

Use of Projects; Restrictions on Religious Use

Subject to the Tax Certificate, the University agrees that at least ninety-five percent (95%) of each Project shall be used with respect to the Hospital or occupied or used only by or for students or members of the faculty or staff of the University, or, on a temporary basis, persons connected with the Hospital, or educational, research or other activities

Appendix C

incidental to the operations of the University or the Hospital, subject to and consistent with the requirements of Loan Agreement. Subject to the rights, duties and remedies of the Authority under the Loan Agreement, the University shall have sole and exclusive control of, possession of and responsibility for (i) the Projects; (ii) the operation of the Projects and supervision of the activities conducted therein or in connection with any part thereof; and (iii) the maintenance, repair and replacement of the Projects.

The University agrees that with respect to any Project or portion thereof, so long as such Project or portion thereof exists and unless and until such Project or portion thereof is sold for the fair market value thereof, such Project or portion thereof shall not be used for sectarian religious instruction or as a place of religious worship or in connection with any part of a program of a school or department of divinity for any religious denomination; provided, however, that the foregoing restriction shall not prohibit the free exercise of any religion; and provided, further, that if at any time hereafter, in the opinion of Bond Counsel, the then applicable law would permit a Project or portion thereof to be used without regard to the above stated restriction, said restriction shall not apply to such Project and each portion thereof. The Authority and its agents may conduct such inspections as an Authorized Officer of the Authority deems necessary to determine whether any Project or any portion or real property thereof financed by Bonds is being used for any purpose proscribed by the Loan Agreement. The University further agrees that prior to any disposition of any portion of a Project for less than fair market value, it shall execute and record in the appropriate real property records an instrument subjecting, to the satisfaction of the Authority, the use of such portion of such Project to the restriction that (i) so long as such portion of such Project (and, if included in the Project, the real property on or in which such portion of such Project is situated) shall exist and (ii) until such portion of such Project is sold or otherwise transferred to a person who purchases the same for the fair market value thereof at the time of such sale or transfer, such portion of such Project shall not be used for sectarian religious instruction or as a place of religious worship or used in connection with any part of the program of a school or department of divinity of any religious denomination. The instrument containing such restriction shall further provide that such restriction may be enforced at the instance of the Authority or the Attorney General of the State, by a proceeding in any court of competent jurisdiction, by injunction, mandamus or by other appropriate remedy. The instrument containing such restriction shall also provide that if at any time thereafter, in the opinion of Bond Counsel, the then applicable law would permit such portion of a Project, or the real property on or in which such portion is situated, to be used without regard to the above stated restriction, then said restriction shall be without any force or effect. For the purposes of this heading an involuntary transfer or disposition of a Project or a portion thereof, upon foreclosure or otherwise, shall be considered a sale for the fair market value thereof.

(Sections 20 and 21)

Covenant as to Insurance

The University shall procure and maintain, or cause to be procured and maintained, to the extent reasonably obtainable, from responsible insurers, insurance of the type and in the amounts customarily maintained by institutions for higher education providing programs substantially similar to those of the University. The University is not prohibited by the Loan Agreement from self-insuring against any risk. In the event the University fails to provide such insurance, the Authority may elect at any time thereafter to procure and maintain the insurance at the expense of the University.

(Section 23)

Financial Information

The University shall also furnish to the Authority and the Trustee within sixty (60) days after the end of each of the first three (3) quarters of the University's fiscal year a statement certified by an Authorized Officer of the University, and within one hundred twenty (120) days after the end of such fiscal year an audited statement, setting forth the Available Assets and General Liabilities of the University at the end of such fiscal year. The University shall also furnish to the Authority and the Trustee as promptly as practicable after the end of each fiscal quarter, but not later than thirty (30) days thereafter, a certified statement by an Authorized Officer of the University, which shall state as of the end of such fiscal quarter (i) the market value of the bonds, notes, debentures or other similar securities owned by the University which comply with the requirements of the Loan Agreement, (ii) the outstanding principal amount of Short Term Debt calculated in accordance with the Loan Agreement, and (iii) whether the University is in compliance with the provisions

of the Loan Agreement. At the request of an Authorized Officer of the Authority, the University shall submit documentation supporting the conclusions and statements contained in any such certified statements.

(Section 26)

Defaults and Remedies

As used in the Loan Agreement the term “Event of Default” shall mean:

(a) the University shall default in the timely payment of any amount payable pursuant to the Loan Agreement or the payment of any other amounts required to be delivered or paid in accordance with the Loan Agreement or the Resolution, and such default continues for a period in excess of ten (10) days;

(b) the University defaults in the due and punctual performance of any other covenant contained in the Loan Agreement and such default continues for thirty (30) days after written notice requiring the same to be remedied shall have been given by the Authority or the Trustee, provided that, if in the determination of the Authority such default cannot be corrected within such thirty (30) day period but can be corrected by appropriate action, it shall not constitute an Event of Default if corrective action is instituted by the University within such period and is diligently pursued until the default is corrected;

(c) as a result of any default in payment or performance required of the University or any Event of Default under the Loan Agreement, whether or not declared, continuing or cured, the Authority shall be in default in the payment or performance of any of its obligations under the Resolution or an “Event of Default” (as defined in the Resolution) shall have been declared under the Resolution so long as such default or Event of Default shall remain uncured or the Trustee or Holders of the Bonds shall be seeking the enforcement of any remedy under the Resolution as a result thereof;

(d) the University shall (i) be generally not paying its debts as they become due, (ii) file, or consent by answer or otherwise to the filing against it of, a petition under the United States Bankruptcy Code or under any other bankruptcy or insolvency law of any jurisdiction, (iii) make a general assignment for the benefit of its general creditors, (iv) consent to the appointment of a custodian, receiver, trustee or other officer with similar powers of itself or of any substantial part of its property, (v) be adjudicated insolvent or be liquidated, or (vi) take corporate action for the purpose of any of the foregoing;

(e) a court or governmental authority of competent jurisdiction shall enter an order appointing, without consent by the University, a custodian, receiver, trustee or other officer with similar powers with respect to it or with respect to any substantial part of its property, or an order for relief shall be entered in any case or proceeding for liquidation or reorganization or otherwise to take advantage of any bankruptcy or insolvency law of any jurisdiction, or ordering the dissolution, winding-up or liquidation of the University, or any petition for any such relief shall be filed against the University and such petition shall not be dismissed within ninety (90) days;

(f) the charter of the University shall be suspended or revoked;

(g) a petition shall be filed by the University with the Board of Regents of the State or other governmental authority having jurisdiction over the University to dissolve the University;

(h) an order of dissolution of the University shall be made by the Board of Regents of the State, the legislature of the State of New York or other governmental authority having jurisdiction over the University which order shall remain undismitted or unstayed for an aggregate of thirty (30) days;

(i) a petition shall be filed with a court having jurisdiction for an order directing the sale, disposition or distribution of all or substantially all of the property belonging to the University which petition shall remain undismitted or unstayed for an aggregate of ninety (90) days;

(j) an order of a court having jurisdiction shall be made directing the sale, disposition or distribution of all or substantially all of the property belonging to the University, which order shall remain undismitted or unstayed for the earlier of (x) three (3) business days prior to the date provided for in such order for such sale, disposition or distribution or (y) an aggregate of thirty (30) days from the date such order shall have been entered; or

(k) a final judgment for the payment of money which in the reasonable judgment of the Authority will materially adversely affect the rights of the Holders of the Bonds shall be rendered against the University and at any time after thirty (30) days from the entry thereof, (i) such judgment shall not have been discharged, or (ii) the University shall not have

Appendix C

taken and be diligently prosecuting an appeal therefrom or from the order, decree or process upon which or pursuant to which such judgment shall have been granted or entered, and shall not have caused, within thirty (30) days, the execution of or levy under such judgment, order, decree or process or the enforcement thereof to have been stayed pending determination of such appeal.

Upon the occurrence of an Event of Default the Authority may take any one or more of the following actions:

- (a) declare all sums payable by the University under the Loan Agreement immediately due and payable;
- (b) direct the Trustee to withhold any and all payments, advances and reimbursements from the proceeds of Bonds or any Construction Fund or otherwise to which the University may otherwise be entitled under the Loan Agreement and in the Authority's sole discretion apply any such proceeds or moneys for such purposes as are authorized by the Resolution;
- (c) withhold any or all further performance under the Loan Agreement;
- (d) maintain an action against the University under the Loan Agreement to recover any sums payable by the University or to require its compliance with the terms of the Loan Agreement;
- (e) to the extent permitted by law, (i) enter upon a Project and complete the construction of any Project in accordance with the plans and specifications with such changes therein as the Authority may deem appropriate and employ watchmen to protect the Projects, all at the risk, cost and expense of the University, consent to such entry being given by the University by the Loan Agreement, (ii) at any time discontinue any work commenced in respect of the construction of any Project or change any course of action undertaken by the University and not be bound by any limitations or requirements of time whether set forth in the Loan Agreement or otherwise, (iii) assume any construction contract made by the University in any way relating to the construction of any Project and take over and use all or any part of the labor, materials, supplies and equipment contracted for by the University, whether or not previously incorporated into the construction of such Project, and (iv) in connection with the construction of any Project undertaken by the Authority pursuant to the provisions of this paragraph (e), (x) engage builders, contractors, architects, engineers and others for the purpose of furnishing labor, materials and equipment in connection with the construction of such Project, (y) pay, settle or compromise all bills or claims which may become liens against a Project or against any moneys of the Authority applicable to the construction of a Project, or which have been or may be incurred in any manner in connection with completing the construction of a Project or for the discharge of liens, encumbrances or defects in the title to a Project or against any moneys of the Authority applicable to the construction of a Project, and (z) take or refrain from taking such action under the Loan Agreement as the Authority may from time to time determine. The University shall be liable to the Authority for all sums paid or incurred for construction of any Project whether the same shall be paid or incurred pursuant to the provisions of this paragraph (e) or otherwise, and all payments made or liabilities incurred by the Authority under the Loan Agreement of any kind whatsoever shall be paid by the University to the Authority upon demand. For the purpose of exercising the rights granted by this subparagraph during the term of the Loan Agreement, the University irrevocably constitutes and appoints the Authority its true and lawful attorney-in-fact to execute, acknowledge and deliver any instruments and to do and perform any acts in the name and on behalf of the University; and
- (f) take any action necessary to enable the Authority to realize on its liens under the Loan Agreement or by law, and any other action or proceeding permitted by the terms of the Loan Agreement or by law.

All rights and remedies given or granted to the Authority in the Loan Agreement are cumulative, non-exclusive and in addition to any and all rights and remedies that the Authority may have or may be given by reason of any law, statute, ordinance or otherwise, and no failure to exercise or delay in exercising any remedy shall effect a waiver of the Authority's right to exercise such remedy thereafter.

At any time before the entry of a final judgment or decree in any suit, action or proceeding instituted on account of any Event of Default or before the completion of the enforcement of any other remedies under the Loan Agreement, the Authority may annul any declaration made or action taken pursuant to the Loan Agreement and its consequences if such Events of Default shall be cured. No such annulment shall extend to or affect any subsequent default or impair any right consequent thereto.

(Section 29)

**SUMMARY OF CERTAIN PROVISIONS
OF THE RESOLUTION**

[THIS PAGE INTENTIONALLY LEFT BLANK]

SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION

The following is a brief summary of certain provisions of the Resolution pertaining to the Bonds and the Project. Such summary does not purport to be complete and reference is made to the Resolution for full and complete statements of such and all provisions. Defined terms used herein shall have the meanings ascribed to them in Appendix A.

Contract with Bondholders

With respect to the Bonds, in consideration of the purchase and acceptance of any and all of the Bonds authorized to be issued under the Resolution by those who shall hold or own the same from time to time, the Resolution shall be deemed to be and shall constitute a contract among the Authority, the Trustee and the Holders from time to time of such Bonds, and the pledge and assignment made in the Resolution and the covenants and agreements set forth to be performed by or on behalf of the Authority shall be for the equal and ratable benefit, protection and security of the Holders of any and all of such Bonds, all of which, regardless of the time or times of their issue or maturity, shall be of equal rank without preference, priority or distinction of any such Bonds, over any other thereof except as expressly provided in or permitted by the Resolution.

(Section 1.03)

Pledge Made by Resolution

The proceeds from the sale of the Bonds, the Revenues and all funds and accounts, excluding the Arbitrage Rebate Fund, established by the Resolution and any Series Resolution, are pledged to the Trustee as security for the payment of the principal, Sinking Fund Installments, if any, and Redemption Price of and interest on the Bonds and as security for the performance of any other obligation of the Authority under the Resolution and any Series Resolution, all in accordance with the provisions of the Resolution and any Series Resolution. The pledge of the Revenues shall also be for the benefit of each Facility Provider as security for the payment of any amounts payable to such Facility Provider under the Resolution; provided, however, that such pledge shall, in all respects, be subject and subordinate to the rights and interest therein of the Bondholders. The pledge made by the Resolution is valid, binding and perfected from the time when the pledge attaches and the proceeds from the sale of the Bonds, the Revenues and the funds and accounts established by the Resolution (excluding the Arbitrage Rebate Fund) shall immediately be subject to the lien of such pledge without any physical delivery thereof or further act, and the lien of such pledge shall be valid, binding and perfected as against all parties having claims of any kind in tort, contract or otherwise against the Authority irrespective of whether such parties have notice thereof. No instrument by which such pledge is created nor any financing statement need be recorded or filed. The Bonds shall be special obligations of the Authority payable solely from and secured by a pledge of the proceeds from the sale of the Bonds, the Revenues and the funds and accounts established by the Resolution (excluding the Arbitrage Rebate Fund), which pledge shall constitute a first lien thereon.

(Section 5.01)

Establishment of Funds and Accounts

The following funds and separate accounts within funds are established by the Resolution and shall be held and maintained by the Trustee:

Construction Fund;
Debt Service Fund; and
Arbitrage Rebate Fund.

Accounts and subaccounts within each of the foregoing funds and accounts, in addition to the accounts and subaccounts, if any, required to be established by the Resolution or by any Series Resolution, may be established from time to time in accordance with any Series Resolution, any Bond Series Certificate or upon direction to the Trustee by an Authorized Officer of the Authority for accounting purposes or any other purpose. All moneys at any time deposited in any fund, account or subaccount created and pledged by the Resolution, other than the Arbitrage Rebate Fund, or by

Appendix D

any Series Resolution or required thereby to be created shall be held in trust for the benefit of the Holders of Bonds, but shall nevertheless be disbursed, allocated and applied solely for the uses and purposes provided in the Resolution.

(Section 5.02)

Application of Bond Proceeds and Allocation Thereof

Upon the receipt of the proceeds from the sale of a Series of Bonds, the Authority shall apply such proceeds as specified in the Resolution and in the Series Resolution authorizing such Series or the Bond Series Certificate relating to such Series.

Accrued interest, if any, received upon the delivery of a Series of Bonds shall be deposited in the Interest Account unless all or any portion of such amount is to be otherwise applied as specified in the Series Resolution authorizing such Series or the Bond Series Certificate relating to such Series.

(Section 5.03)

Construction Funds

As soon as practicable after the delivery of each Series of Bonds, there shall be deposited in the Construction Fund or Funds established for the Project or Projects in connection with which such Series of Bonds was issued the amount required to be deposited therein pursuant to the Series Resolution authorizing the issuance of such Series or the Bond Series Certificate relating to such Series. Except as otherwise provided in the Resolution and in any applicable Series Resolution or Bond Series Certificate, moneys deposited in the Construction Fund shall be used only to pay the Costs of Issuance and the Costs of the Project for which such fund was established.

Upon receipt by the Trustee of a certificate relating to the completion of a Project, the moneys, if any, then remaining in the Construction Fund relating to such Project, after making provision in accordance with the direction of an Authorized Officer of the Authority for the payment of any Costs of Issuance and Costs of the Projects in connection with such Project then unpaid, shall be paid or applied by the Trustee as follows and in the following order of priority:

First: Upon the direction of an Authorized Officer of the Authority, to the Arbitrage Rebate Fund, the amount set forth in such direction; and

Second: To the Debt Service Fund, to be applied in accordance with the Resolution, any balance remaining.

(Section 5.04)

Deposit and Allocation of Revenues

The Revenues and any other moneys, which by any of the provisions of the Loan Agreement are required to be paid to the Trustee, shall upon receipt by the Trustee be deposited or paid to the Trustee as follows in the following order of priority:

First: To the Debt Service Fund (i) in the case of Revenues received during the period from the beginning of each Bond Year until December 31 thereof, the amount, if any, necessary to make the amount in the Debt Service Fund equal to (a) the interest on Outstanding Bonds payable on or prior to the next succeeding January 1, including the interest estimated by the Authority to be payable on Variable Interest Rate Bonds on and prior to the next succeeding January 1, (b) the Sinking Fund Installments of Outstanding Option Bonds becoming due and payable on or prior to the next succeeding January 1, and (c) the purchase price or Redemption Price of Outstanding Bonds theretofore contracted to be purchased or called for redemption pursuant to the Resolution on or prior to the next succeeding January 1, plus accrued interest thereon to the date of purchase or redemption; and (ii) in the case of Revenues received thereafter and until the end of such Bond Year, the amount, if any, necessary to make the amount in the Debt Service Fund equal to (a) the interest on and the principal and Sinking Fund Installments of Outstanding Bonds becoming due and payable on or prior to the next succeeding July 1, including the interest estimated by the Authority to be payable on Variable Interest Rate Bonds on and prior to such July 1 and (b) the purchase price or Redemption Price of Outstanding Bonds theretofore contracted to be purchased or called for redemption pursuant to the Resolution on or prior to the next succeeding July 1, plus accrued interest thereon to the date of purchase or redemption; and

Second: To the Authority, unless otherwise paid, such amounts as are payable to the Authority for: (i) any expenditures of the Authority for fees and expenses of auditing, and fees and expenses of the Trustee and Paying Agents, all as required by the Resolution, (ii) all other expenditures reasonably and necessarily incurred by the Authority in connection with the financing of the Projects, including expenses incurred by the Authority to compel full and punctual performance of all the provisions of the Loan Agreement in accordance with the terms thereof, and (iii) any fees of the Authority; but only upon receipt by the Trustee of a certificate signed by an Authorized Officer of the Authority, stating in reasonable detail the amounts payable to the Authority pursuant to this paragraph Second.

The Trustee shall notify the Authority and the University promptly after making the payments required by paragraphs First and Second of this subdivision, of any balance of Revenues then remaining. After making the payments required by paragraphs First and Second of this subdivision, the balance, if any, of the Revenues then remaining shall, upon the direction of an Authorized Officer of the Authority, be paid by the Trustee to the Construction Fund or the Debt Service Fund, or paid to the University, in the respective amounts set forth in such direction. Any amounts paid to the University shall be free and clear of any pledge, lien, encumbrance or security interest created by the Resolution or by the Loan Agreement.

(Section 5.05)

Debt Service Fund

The Trustee shall on or before the Business Day preceding each interest payment date pay to itself and any other Paying Agents out of the Debt Service Fund:

- (a) the interest due and payable on all Outstanding Bonds on such interest payment date;
- (b) the principal amount due and payable on all Outstanding Bonds on such interest payment date; and
- (c) the Sinking Fund Installments or other amounts related to a mandatory redemption, if any, due and payable on all Outstanding Bonds on such interest payment date.

The amounts paid out pursuant to this subdivision shall be irrevocably pledged to and applied to such payments.

Notwithstanding the provisions of this subdivision, the Authority may, at any time subsequent to July 1 of any Bond Year but in no event less than forty-five (45) days prior to the succeeding date on which a Sinking Fund Installment is scheduled to be due, direct the Trustee to purchase, with moneys on deposit in the Debt Service Fund, at a price not in excess of par plus interest accrued and unpaid to the date of such purchase, Term Bonds to be redeemed from such Sinking Fund Installment. Any Term Bond so purchased shall be canceled upon receipt thereof by the Trustee and evidence of such cancellation shall be given to the Authority. The principal amount of each Term Bond so canceled shall be credited against the Sinking Fund Installment due on such date, provided that such Term Bond is canceled by the Trustee prior to the date on which notice of redemption is given.

Notwithstanding the provisions of this subdivision, the University pursuant to the Loan Agreement may deliver, at any time subsequent to July 1 of any Bond Year, but in no event less than forty-five (45) days prior to the succeeding date on which a Sinking Fund Installment is scheduled to be due, to the Trustee for cancellation one or more Term Bonds of the Series and maturity to be so redeemed on such date from such Sinking Fund Installment. Any Term Bond so delivered to the Trustee shall be canceled upon receipt thereof by the Trustee and evidence of such cancellation shall be given to the Authority. The principal amount of each Term Bond so canceled shall be credited against the Sinking Fund Installment due on such date; *provided, however*, that such Term Bond is canceled by the Trustee prior to the date on which notice of redemption is given.

Moneys in the Debt Service Fund in excess of the amount required to pay the principal of Outstanding Bonds payable on or prior to the next succeeding July 1, the interest on Outstanding Bonds payable on the next succeeding interest payment date and the purchase price or Redemption Price of Outstanding Bonds theretofore contracted to be purchased or called for redemption, plus accrued interest thereon to the date of purchase or redemption, shall be retained therein or applied by the Trustee in accordance with the direction of an Authorized Officer of the Authority to: (i) the purchase of Outstanding Bonds of any Series at purchase prices not exceeding the Redemption Price applicable on the next interest payment date on which such Bonds are redeemable, plus accrued and unpaid interest to such date, at such times and in

Appendix D

such manner as an Authorized Officer of the Authority shall direct; (ii) to the redemption of Bonds as provided in the Resolution, at the Redemption Prices specified in the Series Resolution authorizing the issuance of such Bonds or the Bond Series Certificate relating to such Bonds; or (iii) to the defeasance of the Bonds in accordance with the Resolution.

(Section 5.06)

Arbitrage Rebate Fund

The Trustee shall deposit to the Arbitrage Rebate Fund any moneys delivered to it by the University for deposit therein and, notwithstanding any other provisions of the Resolution, shall transfer to the Arbitrage Rebate Fund, in accordance with the directions of an Authorized Officer of the Authority, moneys on deposit in any other funds held by the Trustee under the Resolution at such times and in such amounts as set forth in such directions.

Moneys on deposit in the Arbitrage Rebate Fund shall be applied by the Trustee in accordance with the direction of an Authorized Officer of the Authority to make payments to the Department of the Treasury of the United States of America at such times and in such amounts as the Authority shall determine to be required by the Code to be rebated to the Department of the Treasury of the United States of America. Moneys which an Authorized Officer of the Authority determines to be in excess of the amount required to be so rebated shall be deposited to the Debt Service Fund in accordance with the directions of such Authorized Officer.

If and to the extent required by the Code, the Authority shall periodically, at such times as may be required to comply with the Code, determine the amount of Excess Earnings with respect to each Series of Bonds and direct the Trustee to (i) transfer from any other of the funds and accounts held by the Trustee under the Resolution and deposit to the Arbitrage Rebate Fund, all or a portion of the Excess Earnings with respect to each Series of Bonds and (ii) pay out of the Arbitrage Rebate Fund to the Department of the Treasury of the United States of America the amount, if any, required by the Code to be rebated thereto.

(Section 5.07)

Application of Moneys in Certain Funds for Retirement of Bonds

Notwithstanding any other provisions of the Resolution, if at any time the amounts held in the Debt Service Fund are sufficient to pay the principal or Redemption Price of all Outstanding Bonds and the interest accrued and unpaid and to accrue on such Bonds to the next date on which all such Bonds are redeemable, or to make provision pursuant to the Resolution for the payment of the Outstanding Bonds at the maturity or redemption dates thereof, the Trustee shall so notify the Authority and the University. Upon receipt of such notice, the Authority may (i) direct the Trustee to redeem all such Outstanding Bonds, whereupon the Trustee shall proceed to redeem or provide for the redemption of such Outstanding Bonds in the manner provided for redemption of such Bonds by the Resolution and by each Series Resolution as provided in the Resolution, or (ii) give the Trustee irrevocable instructions in accordance with the Resolution and make provision for the payment of the Outstanding Bonds at the maturity or redemption dates thereof in accordance therewith.

(Section 5.08)

Investment of Funds

Moneys held under the Resolution by the Trustee, if permitted by law, shall, as nearly as may be practicable, be invested by the Trustee, upon direction of the Authority given or confirmed in writing, signed by an Authorized Officer of the Authority (which direction shall specify the amount thereof to be so invested), in Government Obligations or Exempt Obligations; provided that each such investment shall permit the moneys so deposited or invested to be available for use at the times at which the Authority reasonably believes such moneys will be required for the purposes of the Resolution.

In lieu of the investments of moneys in obligations authorized in the preceding paragraph, the Trustee shall, to the extent permitted by law, upon direction of the Authority given or confirmed in writing, signed by an Authorized Officer

of the Authority, invest moneys in the Construction Fund in (i) interest-bearing time deposits, certificates of deposit or other similar investment arrangements including, but not limited to, written repurchase agreements relating to Government Obligations, with banks, trust companies, savings banks, savings and loan associations, or securities dealers approved by the Authority the liquidation of which is subject to the Securities Investors Protection Corporation or other similar corporation; (ii) Exempt Obligations or (iii) Investment Agreements; provided that (w) each such investment shall permit the moneys so deposited or invested to be available for use at the times at, and in the amounts in, which the Authority reasonably believes such moneys will be required for the purposes of the Resolution, (x) all moneys in each such interest-bearing time deposit, certificate of deposit or other similar investment arrangement shall be continuously and fully secured by ownership of or a security interest in Government Obligations of a market value determined by the Trustee or its agent on a daily valuation equal to the amount deposited or invested including interest accrued thereon, (y) the obligations securing such interest-bearing time deposit or certificate of deposit or which are the subject of such other similar investment arrangement shall be deposited with and held by the Trustee or an agent of the Trustee approved by an Authorized Officer of the Authority, and (z) the Government Obligations securing such time deposit or certificate of deposit or which are the subject of such other similar investment arrangement shall be free and clear of claims of any other person.

Obligations purchased or other investments made as an investment of moneys in any fund or account held by the Trustee under the provisions of the Resolution shall be deemed at all times to be a part of such fund or account and the income or interest earned, profits realized or losses suffered by a fund or account due to the investment thereof shall be retained in, credited or charged, as the case may be, to such fund or account.

In computing the amount in any fund or account held by the Trustee under the provisions of the Resolution, obligations purchased as an investment of moneys therein or held therein shall be valued at par or the market value thereof, plus accrued interest, whichever is lower.

Notwithstanding anything to the contrary in the Resolution, the Authority, in its discretion, may direct the Trustee to, and the Trustee upon receipt of such direction shall, sell, present for redemption or exchange any investment held by the Trustee pursuant to the Resolution and the proceeds thereof may be reinvested as provided in the Resolution. Except as otherwise provided in the Resolution, the Trustee shall sell at the best price obtainable, or present for redemption or exchange, any investment held by it pursuant to the Resolution whenever it shall be necessary in order to provide moneys to meet any payment or transfer from the fund or account in which such investment is held. The Trustee shall advise the Authority and the University in writing, on or before the fifteenth (15th) day of each calendar month, of the amounts required to be on deposit in each fund and account under the Resolution and of the details of all investments held for the credit of each fund and account in its custody under the provisions of the Resolution as of the end of the preceding month and as to whether such investments comply with the provisions of the Resolution. The details of such investments shall include the par value, if any, the cost and the current market value of such investments as of the end of the preceding month. The Trustee shall also describe all withdrawals, substitutions and other transactions occurring in each such fund and account in the previous month.

(Section 6.02)

Refunding Bonds and Additional Obligations

All or any portion of one or more Series of Refunding Bonds may be authenticated and delivered upon original issuance to refund all Outstanding Bonds, one or more Series of Outstanding Bonds, a portion of a Series of Outstanding Bonds or a portion of a maturity of a Series of Outstanding Bonds. The Authority may issue Refunding Bonds in an aggregate principal amount sufficient, together with other moneys available therefor, to accomplish such refunding and to make such deposits required by the provisions of the Resolution and of the Series Resolution authorizing such Series of Refunding Bonds or the Bond Series Certificate relating to such Series of Refunding Bonds.

The proceeds, including accrued interest, of Refunding Bonds shall be applied simultaneously with the delivery of such Refunding Bonds in the manner provided in or as determined in accordance with the Series Resolution authorizing such Refunding Bonds or the Bond Series Certificate relating to such Series of Refunding Bonds.

Appendix D

The Authority reserves the right to issue bonds, notes or any other obligations or otherwise incur indebtedness pursuant to other and separate resolutions or agreements of the Authority, so long as such bonds, notes or other obligations are not, or such other indebtedness is not, except as provided in the Resolution, entitled to a charge or lien or right prior or equal to the charge or lien created by the Resolution, or prior or equal to the rights of the Authority and Holders of Bonds as provided by the Resolution.

(Sections 2.04 and 2.05)

Creation of Liens

Except as permitted by the Resolution, the Authority shall not create or cause to be created any lien or charge prior or equal to that of the Bonds on the proceeds from the sale of the Bonds, the Revenues or the funds and accounts established by the Resolution or by any Series Resolution which are pledged by the Resolution; provided, however, that nothing contained in the Resolution shall prevent the Authority from (i) issuing bonds, notes or other obligations or otherwise incurred indebtedness under another and separate resolution or agreement so long as the charge or lien created thereby is not prior or equal to the charge or lien created by the Resolution, and (ii) incurring obligations with respect to a Credit Facility or a Liquidity Facility which are secured by a lien upon and pledge of the Revenues which lien and pledge is of equal priority with the lien created and the pledge made by the Resolution.

(Section 7.06)

Tax Exemption; Rebates

In order to maintain the exclusion from gross income for purposes of federal income taxation of interest on the Bonds of such Series as the Authority may designate, the Authority shall comply with the provisions of the Code applicable to the Bonds of such Series, including without limitation the provisions of the Code relating to the computation of the yield on investments of the Gross Proceeds of the Bonds of such Series, reporting of earnings on the Gross Proceeds of the Bonds of such Series, and rebates of Excess Earnings to the Department of the Treasury of the United States of America. In furtherance of the foregoing, the Authority shall comply with the provisions of the Tax Certificate with respect to such Series of Bonds.

In connection with the foregoing, the Authority shall not take any action or fail to take any action, which would cause the Bonds of such Series to be “arbitrage bonds” within the meaning of Section 148(a) of the Code; nor shall any part of the proceeds of the Bonds of such Series or any other funds of the Authority be used directly or indirectly to acquire any securities or obligations the acquisition of which would cause any such Bond to be an “arbitrage bond” within the meaning of Section 148(a) of the Code.

In connection with the foregoing, the Authority shall make any and all payments required to be made to the United States Department of the Treasury in connection with the Bonds of such Series pursuant to Section 148(f) of the Code from amounts on deposit in the Arbitrage Rebate Fund and available therefor.

Notwithstanding any other provision of the Resolution to the contrary, the Authority’s failure to comply with the provisions of the Code applicable to the Bonds of a Series shall not entitle the Holders of Bonds of any other Series, or the Trustee acting on their behalf, to exercise any right or remedy provided to Bondholders under the Resolution based upon the Authority’s failure to comply with the provisions of this subdivision or of the Code.

(Section 7.13)

Event of Default

Each of the following constitutes an “event of default” under the Resolution and each Series Resolution if:

(a) Payment of the principal, Sinking Fund Installment, if any, or Redemption Price of any Bond shall not be made when the same shall become due and payable, either at maturity or by proceedings for redemption or otherwise; or

(b) Payment of an installment of interest on any Bond shall not be made when the same shall become due and payable; or

(c) The Authority shall default in the due and punctual performance of the rebate covenants contained in the Resolution, and, as a result thereof, the interest on the Bonds of a Series shall no longer be excludable from gross income under Section 103 of the Code; or

(d) The Authority shall default in the due and punctual performance of any other of the covenants, conditions, agreements and provisions contained in the Resolution or in the Bonds or in any Series Resolution on the part of the Authority to be performed and such default shall continue for thirty (30) days after written notice specifying such default and requiring same to be remedied shall have been given to the Authority by the Trustee, which may give such notice in its discretion and shall give such notice at the written request of the Holders of not less than twenty-five percent (25%) in principal amount of the Outstanding Bonds, unless, if such default is not capable of being cured within thirty (30) days, the Authority has commenced to cure such default within said thirty (30) days and diligently prosecutes the cure thereof; or

(e) An "Event of Default", as defined in the Loan Agreement, arising out of or resulting from the failure of the University to comply with the requirements of the Loan Agreement shall have occurred and is continuing and all sums payable by the University under the Loan Agreement shall have been declared to be immediately due and payable, which declaration shall not have been annulled.

(Section 11.02)

Acceleration of Maturity

Upon the happening and continuance of any event of default (other than under paragraph (c) under the heading "Event of Default" above), then and in every such case the Trustee may, and upon the written request of the Holders of not less than twenty-five percent (25%) in principal amount of the Outstanding Bonds shall, by a notice in writing to the Authority, declare the principal of and interest on all of the Outstanding Bonds to be due and payable. At the expiration of thirty (30) days from the giving of notice of such declaration, such principal and interest shall become and be immediately due and payable, anything in the Resolution or in the Bonds or any Series Resolution to the contrary notwithstanding. At any time after the principal of the Bonds shall have been so declared to be due and payable, and before the entry of final judgment or decree in any suit, action or proceeding instituted on account of such default, or before the completion of the enforcement of any other remedy under the Resolution, the Trustee may with the written consent of the Holders of not less than twenty-five percent (25%) in principal amount of the Bonds not then due by their terms and then Outstanding and by written notice to the Authority, annul such declaration and its consequences if: (i) moneys shall have accumulated in the Debt Service Fund sufficient to pay all arrears of interest, if any, upon all of the Outstanding Bonds (except the interest accrued on such Bonds since the last interest payment date); (ii) moneys shall have accumulated and be available sufficient to pay the charges, compensation, expenses, disbursements, advances and liabilities of the Trustee and any Paying Agent; (iii) all other amounts then payable by the Authority under the Resolution and under each Series Resolution shall have been paid or a sum sufficient to pay the same shall have been deposited with the Trustee; and (iv) every other default known to the Trustee in the observance or performance of any covenant, condition or agreement contained in the Resolution (other than a default in the payment of the principal of such Bonds then due only because of a declaration under this Section) or in the Bonds or any Series Resolution shall have been remedied to the satisfaction of the Trustee. No such annulment shall extend to or affect any subsequent default or impair any right consequent thereon.

(Section 11.03)

Enforcement of Remedies

Upon the happening and continuance of any event of default, then and in every such case, the Trustee may proceed, and upon the written request of the Holders of not less than twenty-five percent (25%) in principal amount of the Outstanding Bonds or, in the case of the happening and continuance of an Event of Default described in subparagraph (c) under the heading "Event of Default" above, upon the written request of the Holders of not less than twenty-five percent (25%) in principal amount of the Outstanding Bonds of the Series affected thereby, shall proceed (subject to the provisions of the Resolution), to protect and enforce its rights and the rights of the Holders of the Bonds under the laws

of the State or under the Resolution or under any Series Resolution by such suits, actions or special proceedings in equity or at law, either for the specific performance of any covenant contained under the Resolution and under any Series Resolution or in aid or execution of any power therein granted, or for an accounting against the Authority as if the Authority were the trustee of an express trust, or for the enforcement of any proper legal or equitable remedy as the Trustee shall deem most effectual to protect and enforce such rights.

In the enforcement of any remedy under the Resolution and under each Series Resolution the Trustee shall be entitled to sue for, enforce payment of, and receive any and all amounts then, or during any default becoming, and at any time remaining, due from the Authority for principal or interest or otherwise under any of the provisions of the Resolution or of any Series Resolution or of the Bonds, with interest on overdue payments of the principal of or interest on the Bonds at the rate or rates of interest specified in such Bonds, together with any and all costs and expenses of collection and of all proceedings under the Resolution and under any Series Resolution and under such Bonds, without prejudice to any other right or remedy of the Trustee or of the Holders of such Bonds, and to recover and enforce judgment or decree against the Authority but solely as provided in the Resolution and in any Series Resolution and in such Bonds, for any portion of such amounts remaining unpaid, with interest, costs and expenses, and to collect in any manner provided by law, the moneys adjudged or decreed to be payable.

(Section 11.04)

Priority of Payments After Default

If at any time the moneys held by the Trustee under the Resolution and under each Series Resolution shall not be sufficient to pay the principal of and interest on the Bonds as the same become due and payable (either by their terms or by acceleration of maturity under the provisions of the Resolution), such moneys together with any moneys then available or thereafter becoming available for such purpose, whether through exercise of the remedies provided for in the Resolution or otherwise, shall be applied (after first depositing in the Arbitrage Rebate Fund all amounts to be deposited therein and then paying all amounts owing to the Trustee under the Resolution) as follows:

(a) Unless the principal of all the Bonds shall have become due and payable, all such moneys shall be applied:

First: To the payment to the persons entitled thereto of all installments of interest then due, in the order of the maturity of the installments of such interest, and, if the amount available shall not be sufficient to pay in full any installment, then to the payment ratably, according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or preference;

Second: To the payment to the persons entitled thereto of the unpaid principal, Sinking Fund Installments or Redemption Price of any of the Bonds which shall have become due whether at maturity or by call for redemption, in the order of their due dates, and, if the amount available shall not be sufficient to pay in full Bonds due on any date, then to the payment ratably, according to the amount of principal, Sinking Fund Installments or Redemption Price due on such date, to the persons entitled thereto, without any discrimination or preference.

(b) If the principal of all of the Bonds shall have become or been declared due and payable, all such money shall be applied to the payment of the principal and interest then due and unpaid upon the bonds, without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto, without any discrimination or preference except as to the difference in the respective rates of interest specified in the Bonds.

The provisions of this subdivision are in all respects subject to the provisions of the Resolution.

Whenever moneys are to be applied by the Trustee pursuant to the provisions of this subdivision, such moneys shall be applied by the Trustee at such times, and from time to time, as the Trustee in its sole discretion shall determine, having due regard to the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. The setting aside of such moneys in trust for the proper purpose shall constitute proper application by the Trustee, and the Trustee shall incur no liability whatsoever to the Authority, to any Bondholder or to any other person for any delay in applying any such moneys so long as the Trustee acts with reasonable diligence, having due regard to the circumstances, and ultimately applies the same in accordance with such provisions

of the Resolution as may be applicable at the time of application by the Trustee. Whenever the Trustee shall exercise such discretion in applying such moneys, it shall fix the date (which shall be on an interest payment date unless the Trustee shall deem another date more suitable) upon which such application is to be made, and upon such date interest on the amounts of principal to be paid on such date shall cease to accrue. The Trustee shall give such notice as it may deem appropriate of the fixing of any such date. The Trustee shall not be required to make payment to the Holder of any Bond unless such Bond shall be presented to the Trustee for appropriate endorsement.

(Section 11.05)

Termination of Proceedings

In case any proceedings taken by the Trustee on account of any default shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Trustee, then and in every such case the Authority, the Trustee and the Bondholders shall be restored to their former positions and rights under the Resolution, respectively, and all rights, remedies, powers and duties of the Trustee shall continue as though no such proceeding had been taken.

(Section 11.06)

Bondholders' Direction of Proceedings

Anything in the Resolution to the contrary notwithstanding, the Holders of a majority in principal amount of the Outstanding Bonds shall have the right by an instrument in writing executed and delivered to the Trustee, to direct the method and place of conducting all remedial proceedings to be taken by the Trustee under the Resolution and under each Series Resolution, provided such direction shall not be otherwise than in accordance with law or the provisions of the Resolution and of each Series Resolution and the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Bondholders not parties to such direction.

(Section 11.07)

Limitation of Rights of Individual Bondholders

No Holder of any of the Bonds shall have any right to institute any suit, action or proceeding in equity or at law for the execution of any trust under the Resolution, or for any other remedy under the Resolution unless such Holder previously shall have given to the Trustee written notice of the event of default on account of which such suit, action or proceeding is to be instituted, and unless also the Holders of not less than twenty-five percent (25%) in principal amount of the Outstanding Bonds, or, in the case of an event of default under paragraph (c) under the heading ("Event of Default" above, the Holders of not less than twenty-five percent (25%) in principal amount of the Outstanding Bonds of the Series affected thereby, shall have made written request to the Trustee after the right to exercise such powers or right of action, as the case may be, shall have accrued, and shall have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers granted by the Resolution or to institute such action, suit or proceeding in its or their name, and unless, also, there shall have been offered to the Trustee reasonable security and indemnity against the costs, expenses, and liabilities to be incurred therein or thereby, and the Trustee shall have refused or neglected to comply with such request within a reasonable time. Such notification, request and offer of indemnity are by the Resolution declared in every such case, at the option of the Trustee, to be conditions precedent to the execution of the powers and trusts of the Resolution or for any other remedy under the Resolution. It is understood and intended that no one or more Holders of the Bonds secured by the Resolution shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Resolution or to enforce any right under the Resolution except in the manner provided in the Resolution, and that all proceedings at law or in equity shall be instituted and maintained for the benefit of all Holders of the Outstanding Bonds. Notwithstanding any other provision of the Resolution, the Holder of any Bond shall have the right which is absolute and unconditional to receive payment of the principal of (and premium, if any) and interest on such Bond on the respective stated maturities expressed in such Bond (or, in the case of redemption, on the redemption date) and to institute suit for the enforcement of any such payment, and such right shall not be impaired without the consent of such Holder.

(Section 11.08)

Modification and Amendment Without Consent

The Authority may adopt at any time or from time to time Series Resolutions or Supplemental Resolutions for any one or more of the following purposes, and any such Series Resolution or Supplemental Resolution shall become effective in accordance with its terms upon the filing with the Trustee of a copy thereof certified by an Authorized Officer of the Authority:

(a) To provide for the issuance of a Series of Bonds pursuant to the provisions of the Resolution and to prescribe the terms and conditions pursuant to which such Bonds may be issued, paid or redeemed;

(b) To add additional covenants and agreements of the Authority for the purpose of further securing the payment of the Bonds, provided such additional covenants and agreements are not contrary to or inconsistent with the covenants and agreements of the Authority contained in the Resolution;

(c) To prescribe further limitations and restrictions upon the issuance of Bonds and the incurring of indebtedness by the Authority which are not contrary to or inconsistent with the limitations and restrictions thereon theretofore in effect;

(d) To surrender any right, power or privilege reserved to or conferred upon the Authority by the terms of the Resolution, provided that the surrender of such right, power or privilege is not contrary to or inconsistent with the covenants and agreements of the Authority contained in the Resolution;

(e) To confirm, as further assurance, any pledge under the Resolution, and the subjection to any lien, claim or pledge created or to be created by the provisions of the Resolution, of the Revenues or of any other moneys, securities or funds;

(f) To modify any of the provisions of the Resolution or of any previously adopted Series Resolution in any other respects, provided that such modifications shall not be effective until after all Bonds of any Series of Bonds Outstanding as of the date of adoption of such Supplemental Resolution or Series Resolution shall cease to be Outstanding, and all Bonds issued under such resolutions shall contain a specific reference to the modifications contained in such subsequent Resolutions; or

(g) With the consent of the Trustee, to cure any ambiguity or defect or inconsistent provision in the Resolution or to insert such provisions clarifying matters or questions arising under the Resolution as are necessary or desirable in the event any such modifications are not contrary to or inconsistent with the Resolution as theretofore in effect, or to modify any of the provisions in the Resolution or in any previously adopted Series Resolution in any other respect, provided that such modification shall not adversely affect the interests of the Holders in any material respect.

(Section 9.01)

Supplemental Resolutions Effective With Consent of Bondholders

The provisions of the Resolution may also be modified or amended at any time or from time to time by a Supplemental Resolution, subject to the consent of Bondholders in accordance with and subject to the provisions of the Resolution, such Supplemental Resolution to become effective upon the filing with the Trustee of a copy thereof certified by an Authorized Officer of the Authority.

(Section 9.02)

Powers of Amendment

Any modification or amendment of the Resolution and of the rights and obligations of the Authority and of the Holders of the Bonds under the Resolution, in any particular, may be made by a Supplemental Resolution, with the written consent given as provided in the Resolution, (i) of the Holders of at least a majority in principal amount of the Bonds Outstanding at the time such consent is given, or (ii) in case less than all of the several Series of Bonds then Outstanding are affected by the modification or amendment, of Holders of at least a majority in principal amount of the Bonds of each Series so affected and Outstanding at the time such consent is given, or (iii) in case the modification or amendment changes the amount or date of any Sinking Fund Installment, of the Holders of at least a majority in principal amount of the Bonds of the particular Series, maturity and interest rate entitled to such Sinking Fund Installment Outstanding at the time such consent is given; provided, however, that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any specified like Series and maturity remain Outstanding, the consent

of the Holders of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds under the Resolution. No such modification or amendment may permit a change in the terms of redemption or maturity of the principal of any Outstanding Bond or of any installment of interest thereon or a reduction in the principal amount or the Redemption Price thereof or in the rate of interest thereon without the consent of the Holder of such Bond, or shall reduce the percentages or otherwise affect the classes of Bonds the consent of the Holders of which is required to effect any such modification or amendment. For the purposes of this Section, a Series shall be deemed to be affected by a modification or amendment of the Resolution if the same adversely affects or diminishes the rights of the Holders of Bonds of such Series. The Trustee may in its discretion determine whether or not in accordance with the foregoing provisions Bonds of any particular Series or maturity would be affected by any modification or amendment of the Resolution and any such determination shall be binding and conclusive on the Authority and all Holders of Bonds. The Trustee may receive an opinion of counsel, including an opinion of Bond Counsel, as conclusive evidence as to whether Bonds of any particular Series or maturity would be so affected by any such modification or amendment of the Resolution.

(Section 10.01)

Consent of Bondholders

The Authority may at any time adopt a Supplemental Resolution making a modification or amendment permitted by the provisions of the Resolution to take effect when and as provided in the Resolution. A copy of such Supplemental Resolution (or brief summary thereof or reference thereto in form approved by the Trustee) together with a request the Holders of Bonds for their consent thereto in form satisfactory to the Trustee is required promptly after adoption to be mailed by the Authority to the Holders of Bonds and be published at least once a week for two (2) successive weeks (but failure to mail such copy and request will not affect the validity of the Supplemental Resolution when consented to as provided in the Resolution). Such Supplemental Resolution shall not be effective unless and until (i) there shall have been filed with the Trustee (a) the written consents of Holders of the percentages of Outstanding Bonds specified in the Resolution and (b) an opinion of Bond Counsel stating that such Supplemental Resolution has been duly and lawfully adopted and filed by the Authority in accordance with the provisions of the Resolution, is authorized or permitted by the Resolution, and is valid and binding upon the Authority and enforceable in accordance with its terms, and (ii) a notice shall have been published as provided in the Resolution. Each such consent shall be effective only if accompanied by proof of the holding or owning at the date of such consent, of the Bonds with respect to which such consent is given, which proof shall be such as is permitted by the Resolution. A certificate or certificates by the Trustee filed with the Trustee that it has examined such proof and that such proof is sufficient in accordance with the Resolution shall be conclusive that the consents have been given by the Holders of the Bonds described in such certificate or certificates of the Trustee. Any consent shall be binding upon the Holder of the Bonds giving such consent and, anything in the Resolution to the contrary notwithstanding, upon any subsequent Holder of such Bonds and of any Bonds issued in exchange therefor (whether or not such subsequent Holder thereof has notice thereof), unless such consent is revoked in writing by the Holder of such Bonds giving such consent or a subsequent Holder thereof by filing with the Trustee, prior to the time when the written statement of the Trustee provided for in the Resolution is filed, such revocation and, if such Bonds are transferable by delivery, proof that such Bonds are held by the signer of such revocation in the manner permitted by the Resolution. The fact that a consent has not been revoked may likewise be proved by a certificate of the Trustee filed with the Trustee to the effect that no revocation thereof is on file with the Trustee. At any time after Holders of the required percentages of Bonds shall have filed their consents to the Supplemental Resolution, the Trustee shall make and file with the Authority and the University a written statement that the Holders of such required percentages of Bonds have filed such consents. Such written statement shall be conclusive that such consents have been so filed. At any time thereafter notice, stating in substance that the Supplemental Resolution (which may be referred to as a Supplemental Resolution adopted by the Authority on a stated date, a copy of which is on file with the Trustee) has been consented to by the Holders of the required percentages of Bonds and will be effective as provided in the Resolution, shall be given to the Bondholders by the Authority by mailing such notice to the Bondholders (but failure to mail such notice shall not prevent such Supplemental Resolution from becoming effective and binding as in the Resolution provided) and by publishing the same at least once not more than ninety (90) days after the Holders of the required percentages of Bonds shall have filed their consents to the Supplemental Resolution and the written statement of the Trustee hereinabove provided for is filed. The Authority shall file with the Trustee proof of the publication of such

Appendix D

notice, and, if the same shall have been mailed to the Bondholders, of the mailing thereof. A transcript, consisting of the papers required or permitted by the Resolution to be filed with the Trustee, shall be proof of the matters therein stated. Such Supplemental Resolution making such amendment or modification shall be deemed conclusively binding upon the Authority, the Trustee, each Paying Agent and the Holders of all Bonds at the expiration of thirty (30) days after the filing with the Trustee of the proof of the first publication of such last mentioned notice, except in the event of a final decree of a court of competent jurisdiction setting aside such Supplemental Resolution in a legal action or equitable proceeding for such purpose commenced within such thirty (30) day period; provided, however, that the Authority, the Trustee and any Paying Agent during such thirty (30) day period and any such further period during which any such action or proceeding may be pending shall be entitled in their reasonable discretion to take such action, or to refrain from taking such action, with respect to such Supplemental Resolution as they may deem expedient.

(Section 10.02)

Modifications by Unanimous Consent

The terms and provisions of the Resolution and the rights and obligations of the Authority and of the Holders of the Bonds under the Resolution may be modified or amended in any respect upon the adoption and filing with the Trustee by the Authority of a copy of a Supplemental Resolution certified by an Authorized Officer and the consent of the Holders of all of the Bonds then Outstanding, such consent to be given as provided in the Resolution, except that no notice to Bondholders either by mailing or publication shall be required.

(Section 10.03)

Amendment of Loan Agreement

Except as otherwise provided in this subdivision, the Loan Agreement may be amended, changed, modified or altered without the consent of the Holders of Outstanding Bonds or the Trustee.

The Loan Agreement may be amended, changed, modified or altered with the consent of the Trustee but without the consent of the Holders of Outstanding Bonds to provide necessary changes in connection with the acquisition, construction, reconstruction, rehabilitation and improvement, or otherwise providing, furnishing and equipping, of any facilities constituting a part of the Projects or which may be added to the Projects or the issuance of Bonds, to cure any ambiguity, or to correct or supplement any provisions contained in the Loan Agreement, which may be defective or inconsistent with any other provisions contained in the Resolution or in the Loan Agreement.

The Loan Agreement may not be amended, changed, modified, altered or terminated so as to materially adversely affect the interest of the Holders of the Outstanding Bonds without the prior written consent of (a) the Holders of at least a majority in aggregate principal amount of the Bonds then Outstanding, or (b) in case less than all of the several Series of Bonds then Outstanding are affected by the modifications or amendments, the Holders of not less than a majority in aggregate principal amount of the Bonds of each Series so affected then Outstanding; provided, however, that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any specified Series remain Outstanding, the consent of the Holders of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds under this subdivision; provided further, however, that no such amendment, change, modification, alteration or termination will reduce the percentage of the aggregate principal amount of Outstanding Bonds the consent of the Holders of which is a requirement for any such amendment, change, modification, alteration or termination, or decrease the amount of any payment required to be made by the University under the Loan Agreement that is to be deposited with the Trustee or extend the time of payment thereof.

Prior to execution by the Authority of any amendment, a copy thereof certified by an Authorized Officer of the Authority shall be filed with the Trustee.

For the purposes of this subdivision, a Series shall be deemed to be adversely affected by an amendment, change, modification or alteration of the Loan Agreement if the same adversely affects or diminishes the rights of the Holders of the Bonds of such Series in any material respect. The Trustee may in its discretion determine whether or not, in accordance with the foregoing provisions, Bonds of any particular Series would be adversely affected in any material

respect by any amendment, change, modification or alteration, and any such determination shall be binding and conclusive on the University, the Authority and all Holders of Bonds.

For the purposes of this subdivision, the purchasers of the Bonds of a Series, whether purchasing as underwriters, for resale or otherwise, upon such purchase from the Authority, may consent to an amendment, change, modification, termination or waiver permitted by this subdivision with the same effect as a consent given by the Holder of such Bonds.

For the purposes of this subdivision, the Trustee shall be entitled to rely upon an opinion of counsel, which counsel shall be satisfactory to the Trustee, with respect to whether any amendment, change, modification or alteration adversely affects the interests of any Holders of Bonds then Outstanding in any material respect.

(Section 7.11)

Defeasance

If the Authority shall pay or cause to be paid to the Holders of the Bonds of a Series the principal, Sinking Fund Installments, if any, or Redemption Price of and interest thereon, at the times and in the manner stipulated therein, in the Resolution, and in the applicable Series Resolution and Bond Series Certificate, then the pledge of the Revenues or other moneys and securities by the Resolution pledged to such Series of Bonds and all other rights granted by the Resolution to such Series of Bonds shall be discharged and satisfied. In such event, the Trustee shall, upon the request of the Authority, execute and deliver such documents to evidence such discharge and satisfaction as may be reasonably required by the Authority, and all moneys or other securities held by it pursuant to the Resolution and to the applicable Series Resolution which are not required for the payment or redemption of Bonds of such Series shall be paid or delivered by the Trustee as follows: first, to the Arbitrage Rebate Fund, the amount required to be deposited therein in accordance with the direction of an Authorized Officer of the Authority; second, to the Authority the amount certified by an Authorized Officer of the Authority to be then due or past due pursuant to the Loan Agreement in payment of any fees and expenses of the Authority or pursuant to any indemnity; and, then, the balance thereof to the University. The moneys and securities so paid or delivered shall be released from any trust, pledge, lien, encumbrance or security interest created by the Resolution or by the Loan Agreement.

Bonds for the payment or redemption of which moneys shall have been set aside and shall be held in trust by the Trustee (through deposit by the Authority of funds for such payment or redemption or otherwise) at the maturity or redemption date thereof shall be deemed to have been paid within the meaning and with the effect expressed in the preceding paragraph. All Outstanding Bonds of any Series or any maturity within a Series or a portion of a maturity within a Series shall prior to the maturity or redemption date thereof be deemed to have been paid within the meaning and with the effect expressed in the preceding paragraph if (a) in case any of such Bonds are to be redeemed on any date prior to their maturity, the Authority shall have given to the Trustee, in form satisfactory to it, irrevocable instructions to publish as provided in the Resolution notice of redemption on such date of such Bonds, (b) there shall have been deposited with the Trustee either moneys in an amount which shall be sufficient, or Defeasance Securities the principal of and interest on which when due will provide moneys which, together with the moneys, if any, deposited with the Trustee at the same time, shall be sufficient to pay when due the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, and interest due and to become due on such Bonds on and prior to the redemption date or maturity date thereof, as the case may be, (c) the Trustee shall have received the written consent to such defeasance of each Facility Provider which has given written notice to the Trustee and the Authority that amounts advanced under a Credit Facility or Liquidity Facility issued by it or the interest thereon have not been repaid to such Facility Provider, and (d) in the event such Bonds are not by their terms subject to redemption within the next succeeding sixty (60) days, the Authority shall have given the Trustee in form satisfactory to it irrevocable instructions to publish, as soon as practicable, at least twice, at an interval of not less than seven (7) days between publications, in an Authorized Newspaper a notice to the Holders of such Bonds that the deposit required by (b) above has been made with the Trustee and that such Bonds are deemed to have been paid in accordance with this subdivision and stating such maturity or redemption date upon which moneys are to be available for the payment of the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, of and interest on such Bonds. The Authority shall give written notice to the Trustee of its selection of the maturity payment of which shall be made in accordance with this subdivision. The Trustee shall select the Bonds of like Series and maturity payment of which shall be made in accordance with this subdivision in the manner provided

in the Resolution. Neither the Defeasance Securities nor moneys deposited with the Trustee pursuant to the Resolution nor principal or interest payments on any such Defeasance Securities shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, of and interest on such Bonds; provided that any moneys received from such principal or interest payments on such Defeasance Securities deposited with the Trustee, if not then needed for such purpose, shall, to the extent practicable and subject to any applicable tax covenant, be reinvested in Defeasance Securities maturing at times and in amounts sufficient to pay when due the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, of and interest to become due on such Bonds on and prior to such redemption date or maturity date thereof, as the case may be; and provided further, however, that moneys and Defeasance Securities may be withdrawn and used by the Authority for any purpose upon (i) the simultaneous substitution therefor of either moneys in an amount which shall be sufficient, or Defeasance Securities the principal of and interest on which when due will provide moneys which without regard to reinvestment, together with the moneys, if any, held by or deposited with the Trustee at the same time, shall be sufficient to pay when due the principal, Sinking Fund Installments, if any, or Redemption price, if applicable, and interest due and to become due on such Bonds on and prior to the redemption date or maturity date thereof, as the case may be, and (ii) receipt by the Trustee of a letter or other written report of a firm of independent certified public accountants verifying the accuracy of the arithmetical computations which establish the adequacy of such moneys and Defeasance Securities for such purpose. Any income or interest earned by, or increment to, the investment of any such moneys so deposited, shall, to the extent certified by the Trustee to be in excess of the amounts required by the Resolution to pay the principal, Sinking Fund Installments, if any, Redemption Price, if applicable, of and interest on such Bonds, as realized, be paid by the Trustee as follows: first, to the Arbitrage Rebate Fund, the amount required to be deposited therein in accordance with the direction of an Authorized Officer of the Authority; second, to each Facility Provider the Provider Payments which have not been repaid, pro rata, based upon the respective Provider Payments then unpaid to each Facility Provider; third, to the Authority the amount certified by an Authorized Officer of the Authority to be then due or past due pursuant to the Loan Agreement for fees and expenses of the Authority or pursuant to any indemnity; and, then, the balance thereof to the University, and any such moneys so paid by the Trustee shall be released of any trust, pledge, lien, encumbrance or security interest created by the Resolution or by the Loan Agreement.

Anything in the Resolution to the contrary notwithstanding, any moneys held by the Trustee in trust for the payment and discharge of any of the Bonds of a Series or the interest thereon which remain unclaimed for one (1) year after the date when all of the Bonds of such Series have become due and payable either at their stated maturity dates or by call for earlier redemption, if such moneys were held by the Trustee at such date, or for one (1) year after the date of deposit of such moneys if deposited with the Trustee after such date when all of the Bonds of such Series become due and payable, shall, at the written request of the Authority, be repaid by the Trustee to the Authority as its absolute property and free from trust, and the Trustee shall thereupon be released and discharged; provided, however, that, before being required to make any such payment to the Authority, the Trustee may, at the expense of the Authority cause to be published in an Authorized Newspaper a notice that such moneys remain unclaimed and that, after a date named in such notice, which date shall be not less than thirty (30) nor more than sixty (60) days after the date of publication of such notice, the balance of such moneys then unclaimed shall be returned to the Authority.

(Section 12.01)

Certain Provisions Relating to Capital Appreciation Bonds and Deferred Income Bonds

For the purposes of (i) receiving payment of the Redemption Price if a Capital Appreciation Bond is redeemed prior to maturity, (ii) receiving payment of a Capital Appreciation Bond if the principal of all Bonds is declared immediately due and payable following an "event of default", as provided in the Resolution or (iii) computing the principal amount of Bonds held by the registered owner of a Capital Appreciation Bond in giving to the Authority, the University or the Trustee any notice, consent, request, or demand pursuant to the Resolution for any purpose whatsoever, the then current Accreted Value of such Bond shall be deemed to be its principal amount. The amount payable at any time with respect to the principal of and interest on any Capital Appreciation Bond shall not exceed the Accreted Value thereof at such time. For purposes of receiving payment of the Redemption Price or principal of a Capital Appreciation Bond called for redemption prior to maturity or the principal of which has been declared to be immediately due and payable pursuant to the Resolution, the difference between the Accreted Value of such Bond when the Redemption Price or principal thereof is due upon such redemption or declaration and the principal of such Bond on the date the Bonds of the Series of which it is a part were first issued shall be deemed not to be accrued and unpaid interest thereon.

For the purposes of (i) receiving payment of the Redemption Price if a Deferred Income Bond is redeemed, or (ii) receiving payment of a Deferred Income Bond if the principal of all Bonds is declared immediately due and payable following an “event of default,” as provided in the Resolution or (iii) computing the principal amount of Bonds held by the registered owner of a Deferred Income Bond in giving to the Authority or the Trustee any notice, consent, request, or demand pursuant to the Resolution for any purpose whatsoever, the then current Appreciated Value of such Bond shall be deemed to be its principal amount. The amount payable at any time prior to the Interest Commencement Date with respect to the principal of and interest on any Deferred Income Bond shall not exceed the Appreciated Value thereof at such time. For purposes of receiving payment prior to the Interest Commencement Date of the Redemption Price or principal of a Deferred Income Bond called for redemption prior to maturity or the principal of which has been declared to be immediately due and payable pursuant to the Resolution, the difference between the Appreciated Value of such Bond when the Redemption Price or principal thereof is due upon such redemption or declaration and the principal of such Bond on the date the Bonds were first issued shall be deemed not to be accrued and unpaid interest thereon.

(Section 14.06)

[THIS PAGE INTENTIONALLY LEFT BLANK]

**PROPOSED FORM OF APPROVING
OPINION OF BOND COUNSEL**

Appendix E

[THIS PAGE INTENTIONALLY LEFT BLANK]

PROPOSED FORM OF APPROVING OPINION OF BOND COUNSEL

Upon delivery of the Series 2004A Bonds, Hawkins Delafield & Wood LLP, Bond Counsel to the Authority, proposes to issue its legal opinion in substantially the following form:

HAWKINS DELAFIELD & WOOD LLP
67 WALL STREET
NEW YORK 10005

[Closing Date]

Dormitory Authority of the
State of New York
515 Broadway
Albany, New York 12207

Ladies and Gentlemen:

We have examined a record of proceedings relating to the issuance of \$45,000,000 aggregate principal amount of University of Rochester Revenue Bonds, Series 2004A (the “Series 2004A Bonds”) of the Dormitory Authority of the State of New York (the “Authority”), a body corporate and politic constituting a public benefit corporation of the State of New York created and existing under the Dormitory Authority Act, being Chapter 524 of the Laws of New York of 1944, as amended (the “Act”).

The Series 2004A Bonds are issued under and pursuant to the Act, the University of Rochester Revenue Bond Resolution adopted by the Authority on August 11, 1999 (the “Resolution”), and the University of Rochester Series Resolution Authorizing Up To \$45,000,000 Series 2004A Bonds adopted by the Authority on July 21, 2004 (the “Series 2004A Resolution”). The Resolution and the Series 2004A Resolution are herein collectively referred to as the “Resolutions.”

The Series 2004A Bonds are dated, mature, are payable, bear interest and are subject to redemption as provided in the Resolutions and the Bond Series Certificate (as defined in the Resolution) of the Authority fixing the terms and details of the Series 2004A Bonds.

The Authority has reserved the right to issue additional bonds on the terms and conditions and for the purposes stated in the Resolution. Under and subject to the provisions of the Resolution, the Series 2004A Bonds and all bonds heretofore and hereafter issued under the Resolution rank and will rank equally as to security and payment.

We are of the opinion that:

1. The Authority has been duly created and is validly existing under the Act and has the right, power and authority to adopt the Resolutions and the Resolutions have been duly and lawfully adopted by the Authority, are in full force and effect and are valid and binding upon the Authority and enforceable in accordance with their terms.

2. The Resolution creates the valid pledge which it purports to create of the proceeds of the sale of the bonds issued under the Resolution, the Revenues and all funds and accounts established by the Resolution (other than the Arbitrage Rebate Fund, as defined in the Resolution), including the investments thereof and the proceeds of such investments, if any, subject only to the provisions of the Resolution permitting the application thereof to the purposes and on the terms and conditions set forth in the Resolution.

3. The Series 2004A Bonds have been duly and validly authorized and issued by the Authority and are valid and binding special obligations of the Authority, payable solely from the sources provided therefor in the Resolutions.

4. The Series 2004A Bonds are not a debt of the State of New York, and the State of New York is not liable thereon, nor shall the Series 2004A Bonds be payable out of funds of the Authority other than those pledged for the payment of the Series 2004A Bonds.

Appendix E

5. The Loan Agreement dated as of August 11, 1999 between the Authority and the University of Rochester (the “University”), as supplemented and amended to the date hereof (the “Loan Agreement”), has been duly authorized, executed and delivered by the Authority and, assuming due authorization, execution and delivery thereof by the University, constitutes a legal, valid and binding obligation of the Authority enforceable in accordance with its terms.

6. Under existing statutes and court decisions, interest on the Series 2004A Bonds is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”). Under the Code, interest on the Series 2004A Bonds is not treated as a preference item in calculating alternative minimum taxable income for purposes of the alternative minimum tax applicable to individuals and corporations; such interest, however, is includable in the adjusted current earnings of certain corporations for purposes of computing the alternative minimum tax imposed on such corporations by the Code. Also, under existing statutes, interest on the Series 2004A Bonds is exempt from personal income taxes imposed by the State of New York or any political subdivision thereof (including The City of New York). In rendering the opinions in this paragraph 6, we have relied upon and assumed (i) the material accuracy of the representations, statements of intention and reasonable expectations, and certifications of fact, contained in the federal tax compliance documents delivered on the date hereof by the Authority and the University with respect to the use of proceeds of the Series 2004A Bonds and the investment of certain funds, and other matters affecting the exclusion of interest on the Series 2004A Bonds from gross income for federal income tax purposes under Section 103 of the Code, and (ii) compliance by the Authority and the University with procedures and covenants set forth in the federal tax compliance documents and with the tax covenants set forth in the Resolutions as to such matters. Under the Code, failure to comply with such procedures and covenants may cause the interest on the Series 2004A Bonds to be included in gross income for federal income tax purposes, retroactive to the date of issuance of the Series 2004A Bonds, irrespective of the date on which such noncompliance occurs or is ascertained.

7. “Original issue discount” (“OID”) is the excess of the sum of all amounts payable at the stated maturity of a Series 2004A Bond (excluding certain “qualified stated interest” that is unconditionally payable at least annually at prescribed rates) over the issue price of that maturity (in general, the “issue price” of a maturity means the first price at which a substantial amount of those Bonds of that maturity was sold (excluding sales to bond houses, brokers, or similar persons acting in the capacity as underwriters, placement agents, or wholesalers)). For any Series 2004A Bonds having OID (a “Discount Bond”), OID that is properly allocable to the owners of the Discount Bonds is excluded from gross income for federal income tax purposes to the same extent as other interest on the Series 2004A Bonds. In general, under Section 1288 of the Code, OID on a Discount Bond accrues under a constant yield method, based on periodic compounding of interest over prescribed accrual periods at least annually, using a compounding rate determined by reference to the yield on that Discount Bond. An owner’s adjusted basis in a Discount Bond is increased by accrued OID for purposes of determining gain or loss on sale, exchange, or other disposition of such Bond.

Except as stated in paragraphs 6 and 7 above, we express no opinion as to any federal, state or local tax consequences arising with respect to the Series 2004A Bonds or the ownership or disposition thereof. Furthermore, we express no opinion as to the effect of any action hereafter taken or not taken in reliance upon an opinion of counsel other than ourselves on the exclusion from gross income for federal income tax purposes of interest on the Series 2004A Bonds, or under state and local tax law.

In rendering this opinion, we are advising you that the enforceability of rights and remedies with respect to the Series 2004A Bonds, the Resolutions and the Loan Agreement may be limited by bankruptcy, insolvency and other laws affecting creditors’ rights or remedies heretofore or hereafter enacted and is subject to general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

We have examined an executed Series 2004A Bond and, in our opinion, the form of said Series 2004A Bond and its execution are regular and proper.

Very truly yours,