2008–2009 Financial Statements

University of Rochester and Related Entities

Table of Contents

2008–2009 Financial Statements
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Detail,
Strong Auditorium

Message from the CFO

PHOTO: RICHARD BAKER

December 2009

To: The President and The Board of Trustees

The University of Rochester, like all other institutions, was affected by the turbulent economic conditions that dominated the 2008–09 fiscal year. The financial statements contained in this document reveal that the University successfully weathered the economic storm and remains in a solid position.

The decline in total net assets of $488 million over the prior year is the result of financial market factors, the largest of which is the decline in the value of the University's investment portfolio. The University's core operations performed well, achieving an increase in net assets of $30 million. Its hospitals continue to operate with positive margins. The academic divisions had a successful year in terms of enrollment, and sponsored research funding continued to grow.

The University's liquidity positions have been carefully managed by the administration and closely monitored by the University's Board of Trustees. Throughout the economic crisis, the University's liquidity, both in terms of its endowment and its operating capital, remained adequate. In August 2008, the University's credit rating was upgraded by Moody's to Aa3. That rating and the A+ rating by Standard & Poor's were confirmed in July 2009 in conjunction with the University's Series 2009 Bond Issue.

Management's response to budgetary implications of the financial downturn is evidenced not only in the favorable operating results for fiscal year 2008–09 but also in the planning during the course of the year for the 2009–10 budget. Capital projects not already begun were placed on hold. With external funding sources confirmed and the return to more normal debt markets, several projects have been allowed to proceed. Cost-reduction programs were implemented in each of the divisions. In every instance, the objective has been to maintain the quality of the University's core activities. University-wide cost-reduction programs focused on energy conservation, purchasing price savings, and reduction in overhead expense.

The final quarter of the fiscal year saw improvement in the capital markets that has continued into the initial months of the new fiscal year. Yet, the effects of the economic downturn will continue to pose challenges to all sectors of the economy. Having weathered the severe economic storm of 2008–09, the University of Rochester is focused on successfully meeting these continuing challenges and is determined to move forward to achieve the goals of its strategic plans.

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

The Eastman
School of Music

PHOTO: RICHARD BAKER

Financial Statements Highlights

Summary

The effects of the global economic crisis are reflected in the University's financial statements for fiscal year 2009. While the University of Rochester's net assets declined because of financial market factors, its core operations continued to perform well.

The decrease in *total* net assets was $488.3 million comprised of a positive, yet modest, increase in net assets from operations of almost $30 million and a decrease of $518.1 million in net assets from non-operating activities. The return on the University's endowment portfolio was negative 19.8%.

Major balance sheet highlights included a decrease in cash and operating investments of approximately $49 million. The year-end balance of $317.6 million provided adequate operating liquidity for the University. It was anticipated that about $25 million of FY 2009 capital expenditures would be reimbursed with the Series 2009 bond issuance that closed after July 1, 2009, further improving liquidity. The University's long-term investment portfolio (primarily the endowment) was $488 million less than a year ago. Early in fiscal 2009, the University restructured certain of its variable rate debt to eliminate auction rate debt and remove other costs and risks.

Results of Operations

Revenues

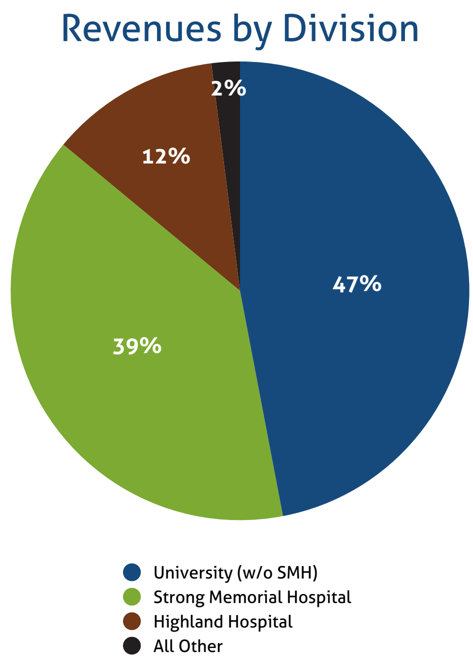
Consolidated operating revenues increased by 2.5% over the prior year to $2.48 billion. Tuition and fees, grants and contracts, and combined hospital and faculty practice patient care revenues accounted for most of the increase while royalty income and gifts and pledges were both down by 34% from the prior year.

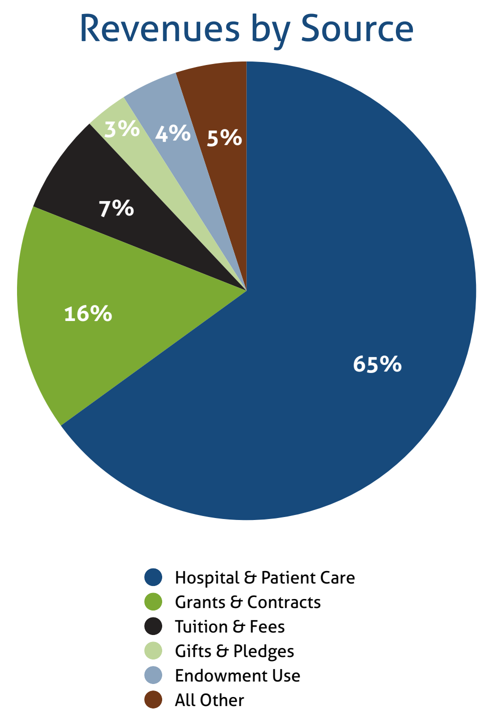
Tuition and fee revenues (net) were $180.1 million, 11.5% greater than last year. The year-over-year increase in gross tuition for the College was $18.5 million, or 11% over last year. This increase reflects both rate increases and increases in student enrollment. Composite financial aid rates were 40.1% and 40.2% for fiscal years 2009 and 2008, respectively. Gifts and pledges revenues decreased by 34% to $65.2 million due to the downturn in the economy; however, gifts from the Board of Trustees remained particularly strong. Hospital and faculty practice patient care revenues, which constitute the largest aggregate revenue line item, were approximately $1.6 billion. The major components were Strong Memorial Hospital ($958.2 million), the University of Rochester Medical Faculty Group ($323.3 million), and Highland Hospital ($276.9 million).

Selected Financial Trends

(dollars in millions)

		FY09		FY08		FY07
Consolidated operating revenues	$	2,478.2	$	2,418.6	$	2,295.4
Consolidated operating expenses	$	2,448.4	$	2,338.7	$	2,177.1
Consolidated investments held for long-term purposes	$	1,393.8	$	1,881.7	$	1,989.9
Return on endowment		(19.8%)		(0.1%)		19.4%
Consolidated changes in net assets:						
From operating activities	$	29.8	$	79.9	$	118.3
From all other non-operating activities		(518.1)		(114.2)		201.9
Total increase/(decrease) to net assets	**$**	**(488.3)**	**$**	**(34.3)**	**$**	**320.2**
Consolidated total net assets	**$**	**2,211.2**	**$**	**2,699.5**	**$**	**2,733.9**





The University's grants and contracts revenues increased by 5.1% over the prior year. Government-sponsored grants and contracts account for about 80% of the $385.1 million revenue shown on the Statement of Activities. Federal grants and contracts revenues increased by 8.5% to $291.0 million. Expenditures from awards from the Department of Health and Human Services and the Department of Energy increased 6% and 8%, respectively. University revenues derived from royalties decreased from $64.9 million to $43 million year-over-year due primarily to a $12 million payment received in the prior year for a one-time settlement and the expiration of the domestic patent on a vaccine technology.

Expenses

Consolidated operating expenses increased by 4.7% to $2.45 billion for the year ended June 30, 2009 (compared to the 7.1% year-over-year increase reported last year). Compensation and related fringe benefits expenses were $1.53 billion and represented a 5.7% increase over last year, reflective of the annual wage and salary program increases of approximately 3% as well as staff growth. In response to the global economic crisis, a number of cost reduction initiatives were put into place at midyear. These included a general hiring freeze and other focused cost reductions. Savings from purchased goods and services were the result of successfully negotiated price concessions from vendors. Supplies expenses, comprised primarily of medical/pharmaceutical and laboratory supplies, increased by 6.9% due primarily to patient care volume increases. Business and professional expenses were $210.5 million, a decrease of just over 2% from last year. The decrease was attributable to the reduction of royalty income for the faculty/inventor share, which is recorded as business and professional expense.

Capital-related expenses such as depreciation and interest (combined) increased by 2.9% from last year. The increase to depreciation expense was due to the large number of construction projects completed during FY 2008. Interest expense decreased due to additional accruals for Series 2000 deferred interest bonds made in FY 2008.

Related entities and affiliates

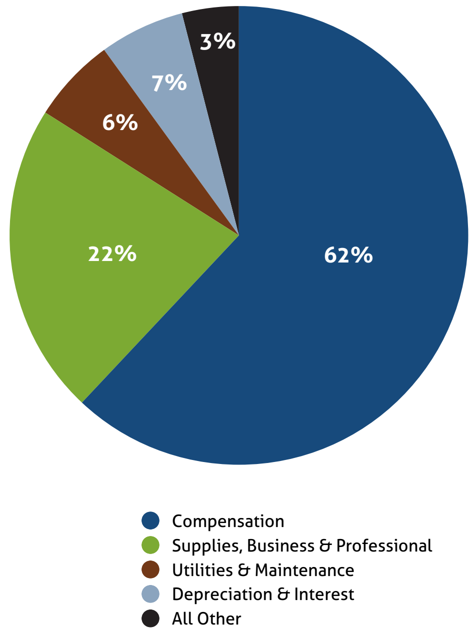
The combined operating activities of the related and affiliate organizations represent about 14% of total consolidated operating revenues and approximately 5.2% of total consolidated net assets. Within the affiliated group, Highland Hospital (and subsidiaries) generated operating revenues of $296.1 million followed by Visiting Nurse Service, Inc. (VNS) with $44.7 million. Both Highland Hospital and VNS have defined benefit plans that resulted in decreases to net assets of approximately $32 million from investment losses and discount rate reductions.

Financial Condition

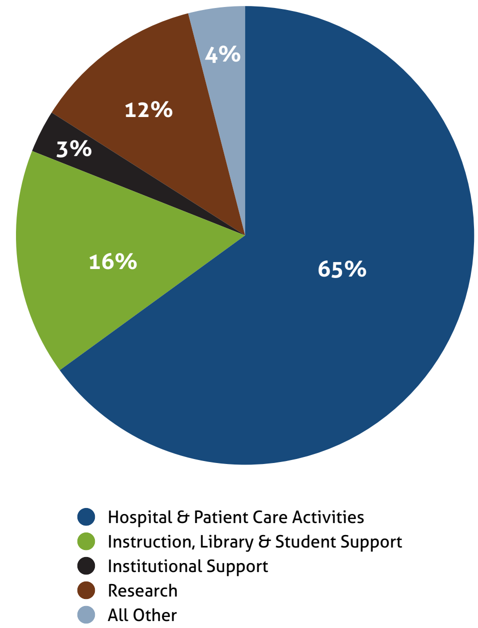
Assets

Consolidated total assets decreased by 13% from FY 2008 to $3.59 billion at June 30, 2009. The decreases in major asset categories, such as cash position and long-term investment balances, reflect the downturn in the financial markets. These decreases more than offset increases in property, plant, and equipment (net), accounts receivable, and contributions receivable. About half of the $49 million decrease in cash position (cash and cash equivalents and operating cash) was the result of capital spending in anticipation of approved external financing (approximately $25 million was reimbursed by the Series 2009 bonds issued in July 2009) while the negative returns on the operating investment portfolio accounted for the rest of the decline. Long-term investments decreased by $488 million, driven by investment returns and use of endowment for operations. The FY 2009 return on the University's endowment was a negative 19.8% (compared to –0.1% in the prior year). Detailed information regarding the University's endowment may be found on the Endowment Web page, www.rochester.edu/endowment/report_2009.html. Capital project plans were

Expenses by Natural Class



Expenses by Functional Class



carefully prioritized and resulted in consolidated capital spending of $174.4 million for the year compared to $241.8 million last year. Included in this year's spending total was $14.3 million for renovations to the Eastman Theatre, $10.0 million for the PRISM project, $4.6 million for the Clinical and Translational Sciences Building, $4.3 million for the new Data Center, and over $63 million for equipment and library acquisitions.

Liabilities and Net Assets

Consolidated liabilities totaled approximately $1.38 billion representing a decrease of 3.5% over last year. Accounts payable and accrued expenses decreased by $23.8 million due to lower construction project expenditures (less payable to contractors at year end) and the pay down of the $25 million line of credit used for endowment liquidity. Offsetting these decreases was the increase in the mark-to-market position of the University's interest rate swaps ($10.0 million). Accrued pension and post-retirement/employment obligations increased by $46.1 million to $237.3 million at June 30, 2009. This increase was attributable to negative asset performance of the Highland Hospital and Visiting Nurse Service defined benefit pension plans ($32 million) and a drop in the discount rates used to project the University's post-retirement obligations (6.75% to 6.25%).

Long-term debt decreased by $39.3 million to $643.7 million at June 30, 2009, due to scheduled debt service payments. Early into FY 2009 and in connection with certain debt restructuring, the University's credit ratings were reviewed. The University received a ratings upgrade from Moody's from A1 to Aa3 with stable outlook; Standard & Poor's rating was maintained at A+ with stable outlook. These ratings were reaffirmed in July 2009. The University issued bonds in July 2009 that provided approximately $79 million of new money in support of critical projects.

The fiscal challenges the University faced this past year were unique in recent history. While financial market factors resulted in net asset declines, operations continued to produce positive margins. At year end, the University remains on a strong financial footing.

Douglas W. Wylie
University Controller

James P. Wilmot
Cancer Center

PHOTO: KEN HUTH

Report of Independent Auditors

To the Board of Trustees
University of Rochester

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of activities and of cash flows present fairly, in all material respects, the financial position of the University of Rochester (the "University") at June 30, 2009 and 2008, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 12 to the accompanying consolidated financial statements, as of July 1, 2008, the University adopted Financial Accounting Standards Board (FASB) Statement No. 157, Fair Value Measurements.

PricewaterhouseCoopers LLP

October 12, 2009

George Eastman Statue, Eastman Quadrangle

PHOTO: BRANDON VICK

Consolidated Financial Statements

Consolidated Balance Sheet

As of June 30 (dollars in thousands)

ASSETS	2009	2008
Cash and cash equivalents	$ 135,447	$ 188,264
Operating investments, at market	182,153	178,251
Collateral held for securities lending	62,062	103,656
Accounts receivable, net	280,708	264,513
Inventories, prepaid expense and deferred charges	47,794	53,968
Contributions receivable, net	57,004	45,119
Notes receivable, net	19,566	19,561
Other assets	12,044	12,740
Investments held for long-term purposes	1,393,771	1,881,683
Property, plant and equipment, net	1,349,270	1,315,340
Interest in net assets of foundation	11,653	16,859
Investments in perpetual trusts held by others	40,691	51,324
Total assets	$ 3,592,163	$ 4,131,278

LIABILITIES		
Accounts payable and accrued expenses	$ 259,230	$ 283,092
Advanced receipt of sponsored research revenues	30,454	30,811
Deferred revenue	51,306	53,100
Third-party settlements payable, net	62,181	54,022
Securities lending liabilities	63,390	103,656
Accrued pension, post-retirement, and post-employment	237,320	191,205
Long-term debt	643,734	682,974
Asset retirement obligation	17,326	16,999
Refundable U.S. Government grants for student loans	15,984	15,870
Total liabilities	1,380,925	1,431,729

NET ASSETS		
Unrestricted	1,724,361	2,159,147
Temporarily restricted	178,666	242,367
Permanently restricted	308,211	298,035
Total net assets	2,211,238	2,699,549
Total liabilities and net assets	$ 3,592,163	$ 4,131,278

See accompanying notes to consolidated financial statements.

Consolidated Statement of Activities

Year Ended June 30, 2009 (dollars in thousands)

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

See accompanying notes to consolidated financial statements.

Consolidated Statement of Activities

Year Ended June 30, 2008 (dollars in thousands)

OPERATING REVENUES	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
Tuition and fees	$ 269,926	$ -	$ -	$ 269,926
Less: scholarships and fellowships	(108,378)	-	-	(108,378)
Net tuition and fees	161,548	-	-	161,548
State and local appropriations	1,796	-	-	1,796
Grants and contracts	366,278	-	-	366,278
Gifts and pledges	33,646	37,050	28,037	98,733
Hospital and faculty practice patient care activities	1,514,571	-	-	1,514,571
Auxiliary enterprises	69,155	-	-	69,155
Interest income and appreciation/(depreciation) of operating investments	12,192	-	-	12,192
Educational activities	30,027	-	-	30,027
Royalty income	64,921	-	-	64,921
Other sources	14,225	-	-	14,225
Long-term investment income and gains allocated to operations	85,195	-	-	85,195
Net assets released from restriction	37,255	(37,268)	13	-
Total operating revenues	2,390,809	(218)	28,050	2,418,641
OPERATING EXPENSES				
Salaries and wages	1,143,813	-	-	1,143,813
Fringe benefits	302,858	-	-	302,858
Total compensation	1,446,671	-	-	1,446,671
Supplies	296,107	-	-	296,107
Business and professional	215,045	-	-	215,045
Utilities	54,201	-	-	54,201
Maintenance and facilities costs	89,950	-	-	89,950
Depreciation	127,622	-	-	127,622
Interest	35,352	-	-	35,352
Other	73,787	-	-	73,787
Total operating expenses	2,338,735	-	-	2,338,735
Change in net assets from operating activities	**52,074**	**(218)**	**28,050**	**79,906**
NON-OPERATING ACTIVITIES				
Long-term investment activities:				
Investment income	19,938	1,678	48	21,664
Net depreciation	(35,817)	(327)	(6,594)	(42,738)
Total long-term investment activities	(15,879)	1,351	(6,546)	(21,074)
Long-term investment income and gains allocated for operations	(85,195)	-	-	(85,195)
Other changes, net	(1,442)	-	(267)	(1,709)
Change in valuation of annuities	-	(6,312)	44	(6,268)
Change in net assets from non-operating activities	**(102,516)**	**(4,961)**	**(6,769)**	**(114,246)**
Change in net assets	**(50,442)**	**(5,179)**	**21,281**	**(34,340)**
Beginning net assets	**2,209,589**	**247,546**	**276,754**	**2,733,889**
Ending net assets	**$ 2,159,147**	**$ 242,367**	**$ 298,035**	**$ 2,699,549**

See accompanying notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Years Ended June 30 (dollars in thousands)

CASH FLOWS FROM OPERATING ACTIVITIES	2009	2008
Change in net assets	$ (488,311)	$ (34,340)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	136,648	127,622
Net depreciation on long-term investment activities	396,492	42,738
Gifts of property, plant, equipment and other	(2,361)	(2,479)
Bond discount amortization	(379)	(381)
Loss on the extinguishment of debt	7,037	-
Provision for bad debts	24,607	29,909
Contributed securities	(3,162)	(14,981)
Loss on disposals of property, plant, and equipment	5,267	4,674
(Increases) / decreases in:		
Operating investments	(14,026)	38,826
Accounts receivable, net	(40,802)	(44,438)
Inventories, prepaid expenses and deferred charges	(97)	1,718
Contributions receivable, net	(12,224)	(11,182)
Other assets	411	1,717
Increases / (decreases) in:		
Accounts payable and accrued expenses	1,218	14,642
Advanced receipt of sponsored research revenues	(357)	1,175
Deferred revenues	(1,794)	2,343
Third-party settlements payable, net	8,159	(14,437)
Accrued post-employment and post-retirement benefits	46,115	5,051
Contributions for long-term investment, net	(35,240)	(37,032)
Net cash provided by operating activities	27,201	111,145
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(186,609)	(234,401)
Purchase of investments	(602,590)	(1,145,732)
Proceeds from the sale of investments	735,175	1,246,880
(Increase) / decrease in investments in perpetual trusts held by others	(81)	80
(Increase) in notes receivable, net	(5)	(1,005)
Net cash used in investing activities	(54,110)	(134,178)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net (repayments) / borrowings on lines of credit	(20,196)	25,441
Principal repayments of long-term debt	(133,782)	(31,857)
Proceeds from issuance of long-term debt	93,780	-
Deferred financing costs	(1,064)	(198)
Increase in refundable U.S. Government grants for student loans	114	52
Contributions for long-term investment, net	35,240	37,032
Net cash (used in) / provided by financing activities	(25,908)	30,470
Net (decrease) / increase in cash and cash equivalents	**(52,817)**	**7,437**
Cash and cash equivalents, beginning of year	**188,264**	**180,827**
Cash and cash equivalents, end of year	**$ 135,447**	**$ 188,264**
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest on long-term debt	$ 31,755	$ 33,377
Non-cash investing and financing activities		
(Decrease) / increase in construction related payables	$ (15,078)	$ 776
Assets acquired under capital leases	$ 818	$ 6,670

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

(1) Summary of Significant Accounting Policies

(a) General

The University of Rochester (the University) is a private 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 (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 Systems, Inc. (and its affiliates), Eastman Dental Center Foundation, Inc., Strong Home Care Group (and its subsidiaries), Excell Partners, Inc., and Rochester BioVenture Center, Inc. All significant interorganizational balances and transactions have been eliminated.

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

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

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

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

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

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

In November 2007, the University became the sole corporate member of High Tech Rochester, Inc. (HTR), which is a not-for-profit economic development organization that promotes the creation and growth of technology companies through support services and incubation facilities and provides consulting services for manufacturers.

(c) Basis of Accounting

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

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

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

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

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

- Uses of certain unrestricted net assets are committed through contractual agreements. Such amounts primarily consist of required trusteed balances under long-term debt agreements and matching funds under student loan programs of the federal government. In addition, grants and contracts for the performances of certain services or functions are reported in the unrestricted net asset category.

- Many of the funds, which are unrestricted for accounting purposes, carry internal designations to specific divisions of the University, and therefore are not treated operationally as unrestricted funds.
- Certain accumulated net investment gains earned on permanently restricted net assets are included within unrestricted net assets. In accordance with New York State law, the appropriation and spending of such gains, absent donor directives, is subject to a standard of prudence, as more fully discussed under the accounting policy note on investments, note 1(I).
- The Board of Trustees, through voluntary resolutions, has set aside portions of the University's unrestricted net assets to function as endowment, for property, plant, and equipment purposes and for other specific operating purposes.

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

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

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

(D) Income Taxes

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

(E) Operations

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

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

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

(F) Cash and Cash Equivalents and Operating Investments

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

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

(G) Inventories

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

(H) Contributions

Contributions, including unconditional promises, or pledges, are recognized as revenues in the period received. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value at the date of gift. Contributions to be received after one year are discounted, at a range of 4% 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 judgment 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 fair value as described further in note 12.

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

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

Investment of the University's net assets held for endowment and similar purposes is based upon a total return policy, and the utilization of its endowment resources for current operating and capital needs is related to this policy. Accordingly, during both 2009 and 2008, the University Board of Trustees authorized the use of total return (income and appreciation) from its endowment resources at a rate of 6.6% of the average fair value of its consolidated investment portfolio for the most recent five years. To the extent that the total return requirement for the current year is not fulfilled by interest and dividends, the University utilizes the appreciation of its endowment and similar net assets for operating purposes. To the extent that the total return requirement for the current year is exceeded by interest and dividends, the University reinvests the excess in its net assets held for endowment and similar purposes.

Notes to Consolidated Financial Statements (DOLLARS IN THOUSANDS) 17

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

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

(j) Property, Plant, and Equipment

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

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

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

(k) Museum Collections

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

(l) Split Interest Agreements and Perpetual Trusts

The University's split interest agreements with donors consist primarily of gift annuities, unitrusts, charitable remainder annuity trusts, and life income agreements. Assets held under these agreements are included in investments held for long-term purposes and investments in perpetual trusts held by others. For fiscal years 2009 and 2008, the fair values are \$56,642 and \$67,776, respectively. Generally, contribution revenues are recognized at the dates the agreements are established and liabilities are recorded for the present value of the estimated future payments to be made to the beneficiaries. The liabilities are adjusted during the term of the trusts for changes in the value of the assets, accretion of the discount and other changes in the estimates of future benefits. The University is also the beneficiary of certain perpetual trusts held and administered by others. The present values of the estimated future cash receipts, which are measured by the fair value of the assets contributed to the trust, are recognized as assets and contribution revenues at the dates the trusts are established. 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 re-loaned after cash collections. These funds are ultimately refundable to the government and are recognized as a liability in the accompanying consolidated balance sheet.

(n) Grants and Contracts

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

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

(o) Benefit Plans

The University provides certain health care and life insurance benefits to retired employees and spouses under a defined benefit plan. Benefits include basic medical and major medical coverage. Certain categories of retirees receive dental coverage and group life insurance.

Such post-retirement benefits are accounted for as a form of deferred compensation over the estimated service lives of employees.

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

(p) Hospital and Faculty Practice Patient Care Activities

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

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

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

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

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

Revenue from Blue Cross and Preferred Care accounted for approximately 26% and 10%, respectively, of the Hospital's net patient service revenue for the year ended June 30, 2009, and 26% and 8%, respectively, for the year ended June 30, 2008.

Revenue from Medicare and Medicaid programs accounted for approximately 31% and 16%, respectively, of the Hospital's net patient revenue for the fiscal year ended June 30, 2009, and 32% and 16%, respectively, for the year ended June 30, 2008. Laws and regulation governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by material amounts in the near term. The Hospital believes that it is in compliance, in all material respects, with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. Compliance with such laws and regulations can be subject to future government review and interpretation. Non-compliance with such laws and regulations could result in repayments of amounts improperly reimbursed, substantial monetary fines, civil and criminal penalties, and exclusion from the Medicare and Medicaid programs.

Both federal and New York State regulations provide for certain adjustments to current and prior years' payment rates and indigent care pool distributions based on industry-wide and hospital-specific data. The Hospital has established estimates based on information presently available of the amounts due to or from Medicare, Medicaid, workers compensation, and no-fault payors and amounts due from the indigent care pool for such adjustments. Those adjustments which can be reasonably estimated have been provided for in the accompanying financial statements. The Hospital has estimated the potential impact of such adjustments based on the most recent information available. However, those which are either (a) without current specific regulations to implement such adjustments, or (b) are dependent upon certain future events, cannot be reasonably estimated and have not been provided for in the accompanying financial statements. Management believes the amounts recorded in the accompanying financial statements will not be materially affected upon the implementation of such adjustments. During fiscal years 2009 and 2008, the Hospital recognized approximately $8,000 and $24,400 of net patient service revenue as a result of changes in estimates related to third-party settlements. In addition, the Hospital recognized additional third-party payables of approximately $8,400 and $6,100 related to fiscal years 2009 and 2008, respectively.

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

Notes to Consolidated Financial Statements (DOLLARS IN THOUSANDS) 19

The University of Rochester Medical Faculty Group (URMFG) is an operating division of the University. In the year ending June 30, 2009, over 1,002 full-time faculty in 18 clinical departments and 2 clinical centers participated in patient care at the University of Rochester Medical Center. These full-time faculty physicians handled 858,408 outpatient visits in their offices, mostly on University-owned or leased premises; and covered 36,561 hospital admissions, as well as participated in the coverage of the emergency department handling over 97,968 visits. Payments for these services are derived primarily from third-party insurers including Managed Care companies (33.7%), Medicare (25.6%), Blue Shield (18.0%), Medicaid (8.3%), commercial (6.9%), other (4.9%), and self-pay (2.6%).

In addition to providing clinical outpatient care, the faculty group's mission is met by providing education and teaching. The faculty supervise and instruct 426 University medical students and 723 residents and fellows.

(q) Use of Estimates

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

(s) Asset Retirement Obligations

The University accounts for asset retirement obligations in accordance with SFAS No. 143, *Accounting for Asset Retirement Obligations*, and FAS Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations—An Interpretation of FASB Statement No. 143*. This standard primarily affects the way the University accounts for asbestos-related removal costs. The University accrues for asset retirement obligations in the period in which they are incurred if sufficient information is available to reasonably estimate the fair value of the obligation. Over time, the liability is accreted to its settlement value. Upon settlement of the liability, the University will recognize a gain or loss for any difference between the settlement amount and liability recorded.

(t) Derivative Instruments and Hedging Activities

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

(u) Reclassification

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

(2) Net Assets

Unrestricted net assets consist of the following at June 30:

	2009	2008
Designated:		
University divisions	$ 975,427	$ 1,378,366
Highland Hospital and affiliates	79,875	99,989
Eastman Dental Center Foundation	45,515	52,312
Other related entities	(22,081)	(11,187)
Total designated	1,078,736	1,519,480
Net investment in property, plant and equipment	592,857	543,865
Undesignated	52,768	95,802
Total unrestricted net assets	$ 1,724,361	$ 2,159,147

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

	2009	2008
Accumulated appreciation on permanently restricted net assets subject to purpose restrictions	$ 84,457	$ 132,363
Interest in net assets of foundation	11,654	16,859
Related entities	3,132	3,893
Other gifts and income subject to:		
Purpose restrictions	12,400	16,577
Time restrictions:		
Contributions receivable	42,252	36,048
Split-interest agreements	24,771	36,627
Total temporarily restricted net assets	$ 178,666	$ 242,367

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

	2009	2008
Perpetual endowment funds	$ 244,869	$ 232,941
Interests in perpetual trusts held by others	40,691	51,529
Related entities	3,617	3,200
Split-interest agreements	2,619	894
Perpetual loan funds	3,639	3,685
Contributions receivable	12,776	5,786
Total permanently restricted net assets	$ 308,211	$ 298,035

During fiscal year 2009, the University adopted FASB Staff Position (FSP) FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), and Enhanced Disclosures for All Endowment Funds Net Asset Classification.* The FSP applies to not-for-profit organizations with donor-restricted endowment funds and is effective for fiscal years ending after December 15, 2008. The following tables provide the enhanced disclosures required under FSP FAS 117-1.

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

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

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

	UNRESTRICTED	TEMPORARY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
Endowment net assets, July 1, 2008	$ 1,264,154	$ 132,363	$ 232,941	$ 1,629,458
Investment return:				
Investment income, net of fees	11,821	1,765	-	13,586
Net appreciation / (depreciation)	(303,762)	(38,126)	(2,317)	(344,205)
Total investment return	(291,941)	(36,361)	(2,317)	(330,619)
New gifts	672	-	12,838	13,510
Amounts appropriated for expenditure	(85,222)	(7,434)	-	(92,656)
Other changes and reclassifications	9,292	(4,111)	1,407	6,588
Endowment net assets, June 30, 2009	$ 896,955	$ 84,457	$ 244,869	$ 1,226,281

(3) Accounts Receivable

Accounts receivable at June 30 consist of the following:

	2009	2008
Patient care and related activities, net of allowances for doubtful accounts of $33,019 and $37,061	$ 176,995	$ 157,743
Federal, state and local governments, foundations and companies, net of allowances for doubtful accounts of $490 and $355	48,375	49,746
Student receivables, net of allowances for doubtful accounts of $2,061 and $2,075	6,482	7,971
Royalties and other	48,856	49,053
Total accounts receivable	$ 280,708	$ 264,513

(4) Contributions

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

	2009	2008
Unconditional promises expected to be collected in:		
Less than one year	$ 3,029	$ 12,227
One year to five years	54,068	31,216
More than five years	9,334	7,626
Subtotal	66,431	51,069
Less unamortized discount and allowance for uncollectible amounts	(9,427)	(5,950)
Total contributions receivable, net	$ 57,004	$ 45,119

At June 30, 2009, the University had also received $17,078 in bequest intentions and certain other conditional promises to give. These intentions and conditional promises to give are not recognized as assets. If they are received, they will generally be restricted for specific purposes stipulated by the donor, primarily endowments for faculty support, scholarships, or general operating support of a particular department or division of the University.

The University expended $29,662 and $26,908 for University relations and development for the years ended June 30, 2009 and 2008, respectively.

Notes to Consolidated Financial Statements (DOLLARS IN THOUSANDS) 21

(5) Notes Receivable

Student loans receivable at June 30, 2009 and 2008, are reported net of allowances for doubtful loans of $1,510 and $1,412, respectively. The allowance is intended to provide for loans, both in repayment status and not yet in repayment status (borrowers are still in school or in the grace period following graduation), that may not be collected.

(6) Investments Held for Long-Term Purposes

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

	2009	2008
Endowment and similar purposes	$ 1,282,924	$ 1,722,211
Property, plant and equipment purposes:		
Debt service reserve held by trustees under debt agreements	21,702	31,563
Other	23,568	49,976
Total property, plant and equipment purposes	45,270	81,539
Other purposes	65,577	77,933
Total investments held for long-term purposes	$ 1,393,771	$ 1,881,683

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, 2009 and 2008, respectively, the University had commitments of $382,545 and $507,341 for which capital calls had not been exercised. Such commitments generally have fixed expiration dates or other termination clauses.

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 "fair 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 fair values of investments held for endowment and similar purposes:

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

2008	FAIR VALUE	COST	NET GAINS (LOSSES)
End of year	$ 1,722,211	$ 1,457,137	$ 265,074
Beginning of year	$ 1,732,437	$ 1,299,552	$ 432,885
Unrealized depreciation, net			(167,811)
Realized net gains for year			150,119
Net decrease for year			$ (17,692)

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.

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

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

Investment fees were $26,890 and $38,736 for the years ended June 30, 2009 and 2008, respectively.

(7) Property, Plant, and Equipment

As of June 30, 2009 and 2008, the University's investment in property, plant, and equipment is as follows:

	2009	2008
Buildings and improvements	$ 1,763,417	$ 1,643,486
Land improvements	41,233	37,384
Completed projects under leasehold agreements	6,998	5,246
Equipment owned	727,032	702,093
Library books	125,673	117,638
Subtotal	2,664,353	2,505,847
Less accumulated depreciation	1,456,786	1,369,892
Subtotal	1,207,567	1,135,955
Land	7,860	7,718
Museum collections	29,955	29,444
Construction in progress	103,888	142,223
Total property, plant and equipment, net	$ 1,349,270	$ 1,315,340

(8) Long-term Debt

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

	2009	2008
Obligations under capital lease agreements, 3.414% to 7.85%, (a)	$ 22,565	$ 27,252
Urban Development Corporation loan, (b)	2,000	2,167
Note payable, 7.60%, (c)	18	52
Direct Note Obligation, Series 2003, 5.40% to 5.75% (net of unamortized discount of $25 in 2009 and $26 in 2008), (d)	8,575	8,574
Bonds Payable – COMIDA, 10.00%, (e)	653	676
Bonds payable – DASNY Series 1994, 7.625%, (f)	-	8,495
Bonds payable – DASNY Series 1994B, 5.50%, (g)	10,025	10,415
Bonds payable – DASNY Series 1997A, 3.75% to 5.00% (net of unamortized premium of $573 in 2009 and $608 in 2008), (h)	2,623	10,338
Bonds payable – DASNY Series 1998A, 3.50% to 5.25% (net of unamortized discount of $41 in 2009 and $43 in 2008), (i)	22,656	27,853
Bonds payable – DASNY Series 1999B, 3.70% to 5.72% (net of unamortized discount of $49 in 2009 and $62 in 2008), (j)	3,681	4,488
Bonds payable – DASNY Series 2000A, 4.50% to 6.05%, (k)	7,036	7,036
Bonds payable – DASNY Series 2001A, 2.90% to 5.00% (net of unamortized discount of $83 in 2009 and $92 in 2008), (l)	16,716	18,378
Bonds payable – DASNY Series 2003A, B, and C, 3.97%, (m)	130,350	136,675
Bonds payable – DASNY Series 2004A, 3.00 to 5.25% (net of unamortized premium of $384 in 2009 and $399 in 2008), (n)	27,629	28,264
Bonds payable – COMIDA, 3.125% to 5.450% (net of unamortized premium of $861 in 2009 and $961 in 2008), (o)	35,931	38,175
Bonds payable – DASNY Series 2006 A-1 and B-1, 3.919%, (p)	111,180	111,180
Bonds payable – DASNY Series 2007A-1, A-2, B, and C, 4.00% to 5.00% (net of unamortized premium of $7,622 in 2009 and $7,872 in 2008), (q)	242,096	242,956
Total long-term debt	$ 643,734	$ 682,974

(a) Obligations Under Capital Lease Agreements

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

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

(b) Urban Development Corporation Loan

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

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

(c) Note Payable—HSBC

Pursuant to an agreement between a University related entity and HSBC Bank, USA dated July 2007, HSBC issued a note payable of $99 for various information technology purchases. The note is being repaid at an interest rate of 7.60% on the unpaid balance through December 2009.

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

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

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

(e) Bond Payable—COMIDA

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

(f) Bonds Payable—DASNY Series 1994

Pursuant to an agreement with a University related entity (Highland Hospital and affiliates) and DASNY dated July 1, 1994, DASNY issued and sold $11,790 of FHA-Insured Mortgage Revenue Bonds, Series 1994.

The related entity repaid the bonds in full in April 2009. A net gain on debt extinguishment of $815 was recognized.

(g) Bonds Payable—DASNY Series 1994B

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

During fiscal year 2009, the Series 1994B bonds were remarketed and converted from a fixed interest rate to a variable interest rate determined by the bond agent. The terms related to principal repayment did not change. A loss on debt extinguishment due to bond restructuring of $707 was recognized.

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

(h) Bonds Payable—DASNY Series 1997A

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

During fiscal year 2006, a portion of the Series 1997A bonds were refinanced as a result of the issuance of Series 2006A-1.

The bonds are collateralized 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 collateralizing outstanding indebtedness of the University.

(i) Bonds Payable—DASNY Series 1998A

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

A portion of the Series 1998A bonds were refinanced as a result of the issuances of Series 2006A-1 and Series 2007C during fiscal years 2006 and 2007, respectively.

The bonds are collateralized 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 collateralizing certain other outstanding indebtedness of the University.

(j) Bonds Payable—DASNY Series 1999B

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

During fiscal year 2006, a portion of the Series 1999B bonds were refinanced as a result of the issuance of Series 2006B-1.

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

(k) Bonds Payable—DASNY Series 2000A

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

During fiscal year 2006, a portion of the Series 2000A bonds were refinanced as a result of the issuance of Series 2006A-1.

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

(l) Bonds Payable—DASNY Series 2001A

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

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

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

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

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

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

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

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

During fiscal year 2009, the Series 2003A, B, and C bonds were restructured and converted from an auction rate to a variable rate as determined by the remarketing agent. The terms related to principal repayment did not change. A loss on debt extinguishment due to bond restructuring of $4,126 was recognized.

The University has interest rate swap agreements with third parties to exchange variable rate debt for fixed rate obligations without the exchange of the underlying principal amount. Net payments or receipts under the swap agreements are recorded as an adjustment to interest expense. As of June 30, 2009, the fair value of the interest rate swap was a liability of $11,993 (liability of $5,900 as of June 30, 2008), and was included in accounts payable and accrued expenses on the consolidated balance sheet. The contractual relationship under this agreement will last until July 1, 2033.

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

The University has a letter of credit in place for DASNY Series 2003A and 2003C in the amount of $103,502 with JPMorgan Chase Bank, N.A, which expires in September 2011. Of this total, no amounts were outstanding at June 30, 2009 and 2008.

The University has a letter of credit in place for DASNY Series 2003B in the amount of $34,745 with HSBC Bank, N.A, which expires September 2013. Of this total, no amounts were outstanding at June 30, 2009 and 2008.

(n) Bonds Payable—Series 2004A

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

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

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

(o) Bonds Payable—COMIDA

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

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

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

During fiscal year 2009, the Series 2006A-1 and B-1 bonds were restructured and converted from an auction rate to a variable rate as determined by the remarketing agent. The terms related to principal repayment did not change. A loss on debt extinguishment due to bond restructuring of $2,696 was recognized.

The University has an interest rate swap agreement with a third party to exchange variable rate debt for a fixed rate obligation without the exchange of an underlying principal amount. Net payments or receipts under the swap agreement are recorded as an adjustment to interest expense. As of June 30, 2009, the fair value of the interest rate swap was a liability of $7,466 (liability of $3,591 as of June 30, 2008), and was included in accounts payable and accrued expenses on the consolidated balance sheet. The contractual relationship under this agreement will last until July 1, 2027.

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

Notes to Consolidated Financial Statements (DOLLARS IN THOUSANDS) 25

Prior to the restructuring during fiscal year 2009, the University had a liquidity facility in place for DASNY Series 2006A-1 and 2006B-1 in the amount of $111,180 with Wachovia Bank, N.A. Of this total, no amounts were outstanding at June 30, 2009, and $38,490 was outstanding at June 30, 2008.

As a result of the restructuring, the University has a letter of credit in the amount of $112,642 with Bank of America, N.A, which expires on September 10, 2011. Of this total, no amounts were outstanding as of June 30, 2009 and 2008.

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

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

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

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

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

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

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

(r) Required Principal Payments

Required composite principal payments for long-term debt, net of unamortized discount or premium, for each of the years in the five-year period ending June 30, 2014, and thereafter are as follows:

MATURITY	PRINCIPAL PORTIONS OF LEASE PAYMENTS	PRINCIPAL PAYMENTS OF DEBT	TOTAL PRINCIPAL PAYMENTS
2010	$ 4,692	$ 17,441	$ 22,133
2011	3,977	21,072	25,049
2012	3,030	21,871	24,901
2013	1,385	22,017	23,402
2014	633	24,749	25,382
Thereafter	8,848	514,019	522,867
Total	$ 22,565	$ 621,169	$ 643,734

The University incurred $31,114 and $35,352 of interest expense for the years ended June 30, 2009 and 2008, respectively, net of interest capitalization of $1,677 and $1,386 for the years ended June 30, 2009 and 2008, respectively.

The University has letter of credit agreements with various financial institutions to purchase the University's variable rate demand bonds in the event they cannot be remarketed. In the event that the bonds covered by these agreements were not remarketable and the agreements were not otherwise renewed, the principal amounts due in the principal debt service payments table (including variable rate demand bonds not subject to a liquidity facility) would be $22,133, $205,929, $27,651, $42,202, $11,897, and $333,922.

(s) Fair Value of Long-Term Debt

The fair value of the University's long-term debt is estimated based upon the amount of future cash flows, discounted using the University's current borrowing rate for similar debt instruments of comparable maturities. The fair value of total long term debt, excluding capital leases, was $590,239 and $641,305 at June 30, 2009 and 2008, respectively.

(9) Benefits Plans

Self-insurance Plans—University

The University is self-insured for workers' compensation. Based on estimates provided by actuaries, liabilities for asserted and unasserted claims under the workers' compensation program at June 30, 2009, were discounted by 3.75% and amounted to $38,262 (3.5% and $36,951 in 2008). These liabilities are offset by receivables for the expected insurance direct payments against these claims of $6,955 at June 30, 2009 ($6,523 at June 30, 2008). The liabilities are included in accrued pension, post-retirement, and post-employment liabilities, and the receivables are included in other assets on the consolidated balance sheet. The University has a $30,972 standby letter of credit with JPMorgan Chase Bank to cover potential liabilities under the University's self-insured workers' compensation program.

The University is self-insured for health care benefits. Based on estimates provided by actuaries, the University's obligation for incurred but not reported claims was $11,269 and $11,433 as of June 30, 2009 and 2008, respectively. These amounts are included in accounts payable and accrued expenses on the consolidated balance sheet and have 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 $63,570 and $59,619 in 2009 and 2008, respectively, which were vested for the benefit of the participants.

Post-retirement Benefit Plan—University

The University's post-retirement benefit plan includes basic medical, major medical, dental coverage, and life insurance. Benefit levels differ for current retirees, current employees eligible to retire, and current employees not eligible to retire.

The University incurred post-retirement plan expense of $14,770 and $13,596 for the years ended June 30, 2009 and 2008, respectively, which is recorded in fringe benefits expense on the consolidated statement of activities.

Benefit expense for this plan for the years ended June 30, 2009 and 2008, includes the following components:

CHANGE IN BENEFIT OBLIGATION	2009	2008
Benefit obligation at beginning of year	$ 112,877	$ 106,165
Service cost	2,256	2,792
Interest cost	7,395	7,676
Estimated plan participant contributions	1,749	1,799
Actuarial (gain)/loss	9,724	5,308
Benefits paid	(8,405)	(9,426)
Amendments	-	(1,437)
Benefit obligation at end of year	$ 125,596	$ 112,877
CHANGE IN PLAN ASSETS		
Fair value of plan assets at beginning of year	$ -	$ -
Employer contributions	6,656	7,627
Participant contributions	1,749	1,799
Benefits paid	(8,405)	(9,426)
Fair value of plan assets at end of year	$ -	$ -
COMPONENTS OF ACCRUED BENEFIT		
Funded status	$ (125,596)	$ (112,877)
Unrecognized net actuarial (gain)/loss	13,274	3,550
Unrecognized prior service cost	15,941	21,060
Accrued benefits	$ (96,381)	$ (88,267)
AMOUNTS RECOGNIZED IN THE CONSOLIDATED BALANCE SHEETS CONSIST OF		
Accrued post-retirement benefit cost	$ (88,267)	$ (78,900)
Net post-retirement benefit expense	(14,770)	(13,596)
Net benefits paid	6,656	7,627
Accrued benefits paid at end of year	(96,381)	(84,869)
Amount recorded in unrestricted net assets	(29,215)	(28,008)
Net amount recognized in unrestricted net assets	$ (125,596)	$ (112,877)
COMPONENTS OF NET PERIODIC BENEFIT COST		
Service cost	$ 2,256	$ 2,234
Interest cost	7,395	6,141
Amortization of prior service cost	5,119	5,221
Net periodic benefit cost	$ 14,770	$ 13,596

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

	ESTIMATED CONTRIBUTIONS/ BENEFIT PAYMENTS	ESTIMATED 28% Rx SUBSIDY PAYMENTS
2010	$ 7,924	$ 1,071
2011	8,458	1,172
2012	8,985	1,272
2013	9,582	1,350
2014	10,115	1,413
2015 to 2019	54,017	3,491

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

	2009	2008
Discount rate for obligation	6.25%	6.75%
Expected return on plan assets	N/A	N/A
Rate of compensation increase	N/A	N/A
Health care cost trend rate—initial	10.00%	10.00%
Health care cost trend rate—final	4.50%	4.50%

The rate increase in health care costs was assumed to decrease to 4.50% in 2015 and to remain at that level thereafter.

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

	ONE PERCENTAGE POINT INCREASE	ONE PERCENTAGE POINT DECREASE
Effect on total of service and interest cost components	$ 574	$ (496)
Effect on post-retirement benefit obligation	$ 4,429	$ (3,991)

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

In September 2006, the Financial Accounting Standards Board issued SFAS No. 158, *Employer's Accounting for Defined Benefit Pension and Other Post-retirement Plans,* which is an amendment of SFAS No's 87, 88, 106, and 132(R). SFAS No. 158 requires employers to recognize the over-funded or under-funded status of defined benefit pension and post-retirement plans as assets or liabilities in its consolidated balance sheet and to recognize changes in that funded status in the year in which the changes occur through changes in unrestricted net assets. This statement also requires an employer to measure the funded status of the plan as of the consolidated balance sheet date.

The University adopted the measurement date provisions of SFAS No. 158 and changed the measurement date for its defined benefit post-retirement plan to June 30 from March 31 beginning in fiscal year 2008. The University elected the alternative transition method for the change in measurement date. The impact of the adoption resulted in a decrease of $3,399 in unrestricted net assets, which was recorded as other change in non-operating activities in the 2008 consolidated statement of activities.

Post-employment Benefits—University

Accrued post-employment benefits of the University amounted to $56,189 and $56,091 at June 30, 2009 and 2008, respectively.

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

A related entity is self-insured for workers' compensation claim losses and expenses. A letter of credit in the amount of $1,045 is maintained as security for workers compensation claims. Included in liabilities at June 30, 2009 and 2008, are accruals of approximately $4,938 and $4,489, respectively, for specific incidents to the extent that they have been asserted or are probable of assertion and can be reasonably estimated. These liabilities are offset by a receivable for the expected insurance direct payments against these claims of $797 and $673 at June 30, 2009 and 2008, respectively. This liability has been discounted by 2.75% and 3.5% at June 30, 2009 and 2008, respectively.

Notes to Consolidated Financial Statements (DOLLARS IN THOUSANDS) 27

Retirement Plan—Related Entity (Highland Hospital and Affiliates)

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

Retirement plan expense of $2,320 and $3,566 was incurred for the years ended December 31, 2008 and 2007, respectively, and is recorded in benefits expense in the consolidated statement of activities.

Pension expense for this plan for the years ended December 31, 2008 and 2007 (the most recent data available), includes the following components:

CHANGE IN BENEFIT OBLIGATION	2008	2007
Benefit obligation at beginning of year	$ 80,128	$ 79,654
Service cost	4,067	3,403
Interest cost	6,331	4,606
Actuarial loss	5,238	(5,412)
Benefits paid	(2,718)	(2,123)
Benefit obligation at end of year	$ 93,046	$ 80,128
CHANGE IN PLAN ASSETS		
Fair value of plan assets at beginning of year	$ 72,125	$ 60,019
Actual return on plan assets	(16,291)	8,655
Employer contribution	3,233	6,002
Benefits paid	(2,718)	(2,228)
Administrative expenses paid	(188)	(323)
Fair value of plan assets at end of year	$ 56,161	$ 72,125
AMOUNTS RECOGNIZED IN THE BALANCE SHEETS CONSIST OF		
Accrued benefits cost	$ (2,122)	$ (3,045)
Unrestricted net assets	(34,763)	(4,958)
Funded status	$ (36,885)	$ (8,003)
COMPONENTS OF NET PERIODIC BENEFIT COST		
Service cost	$ 3,271	$ 3,403
Interest cost	5,098	4,606
Expected return on plan assets	(6,049)	(5,156)
Amortization gain/loss	-	713
Net periodic benefit cost	$ 2,320	$ 3,566
WEIGHTED-AVERAGE ASSUMPTIONS AS OF SEPTEMBER 30		
Discount rate for obligation	6.09%	6.32%
Discount rate for pension expense	6.50%	5.85%
Investment return assumption (regular)	8.50%	8.50%
Future compensation increase rate	3.80%	3.80%

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

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

WEIGHTED-AVERAGE ASSUMPTIONS	2008	2007
Equity securities	61%	59%
Fixed income securities	38%	39%
Cash and other investments	1%	2%
Total	100%	100%

The related entity expects to contribute $5,700 to the plan in 2009. Estimated future benefit payments for the years ending December 31:

2009	$ 2,313
2010	2,451
2011	2,672
2012	2,990
2013	3,494
2014 to 2017	25,407
Total estimated future payments	$ 39,327

The related entity adopted the measurement date provisions of SFAS No. 158 and changed the measurement date for its defined benefit retirement plan to December 31 from September 30 beginning in 2008. The related entity elected the alternative transition method for the change in measurement date. The impact of the adoption resulted in a decrease of $558 in unrestricted net assets, which was recorded as other change in non-operating activities in the 2008 consolidated statement of activities.

(10) Investment in Captive Insurance Company

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

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

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

RESULTS OF OPERATION	2008	2007
Net earned premiums	$ 262,438	$ 243,204
Expenses	(289,199)	(284,240)
Investment income and realized gains on sales of marketable securities	23,410	47,996
Net (loss)/ income	$ (3,351)	$ 6,960
FINANCIAL POSITION		
Total assets	$ 1,990,066	$ 2,065,502
Total liabilities	1,985,492	1,820,728
Shareholders' Equity	$ 4,574	$ 244,774

(11) Professional Liability Insurance

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

Based on estimates provided by the actuaries retained by MCIC Vermont, Inc., the University's obligations for incurred, but not reported claims were $37,756 and $34,541 as of June 30, 2009 and 2008, respectively. These amounts are included in accounts payable and accrued expenses on the consolidated balance sheet.

(12) Fair Value of Financial Instruments

Effective July 1, 2008, the University adopted SFAS No. 157, *Fair Value Measurements*, which defines fair value, establishes a framework of measuring fair value, and expands disclosures related to fair value measurements. Fair value is defined under SFAS No. 157 as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants.

Assets and liabilities recorded at fair value in the balance sheet are categorized based upon the level of judgment associated with the inputs used to measure fair value. An asset or liability's categorization within the fair value hierarchy is based on the lowest level of observable inputs to its valuation. Hierarchical levels, defined by SFAS No. 157, are directly related to the amount of subjectivity associated with the inputs to fair valuation of these assets and liabilities as follows:

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

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

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

The following table presents the financial instruments carried at fair value as of June 30, 2009, on the consolidated balance sheet by the SFAS No. 157 hierarchy defined above:

	QUOTED MARKET PRICES (LEVEL 1)	SIGNIFICANT OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)	2009 TOTAL FAIR VALUE	2008 TOTAL FAIR VALUE
ASSETS					
Cash and cash equivalents	$ -	$ 41,895	$ -	$ 41,895	$ 13,435
Collateral held for securities lending	-	62,062	-	62,062	103,656
Operating investments and investments held for long-term purposes:					
Cash & cash equivalents	26,852	14,363	-	41,215	50,432
Debt securities	-	273,452	731	274,183	314,597
Stocks	196,096	226,716	-	422,812	688,663
Real assets	-	-	196,533	196,533	204,089
Private equity	-	-	266,046	266,046	286,465
Hedge funds	-	-	359,446	359,446	502,623
Other	-	4,513	11,176	15,689	13,065
Total operating investments and investments held for long-term purposes	222,948	519,044	833,932	1,575,924	2,059,934
Interest in net assets of foundation	-	-	11,653	11,653	16,859
Investments in perpetual trusts held by others	-	-	40,691	40,691	51,324
Total assets at fair value	$ 222,948	$ 623,001	$ 886,276	$ 1,732,225	$ 2,245,208
LIABILITIES					
Interest rate swap payable	$ -	$ 19,751	$ -	$ 19,751	$ 9,292
Total liabilities at fair value	$ -	$ 19,751	$ -	$ 19,751	$ 9,292

Notes to Consolidated Financial Statements (DOLLARS IN THOUSANDS) 29

The following is a description of the valuation methodologies for assets and liabilities measured at fair value.

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

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

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

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

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

The following table is a rollforward of the consolidated balance sheet amounts for financial instruments classified by the University within Level 3 of the fair value hierarchy defined above.

	BALANCE JUNE 30, 2008	NET REALIZED AND UNREALIZED GAINS/(LOSSES)	PURCHASES, SALES AND SETTLEMENTS, NET	TRANSFERS IN/(OUT) OF LEVEL 3	BALANCE JUNE 30, 2009
Investments:					
Debt securities	$ 452	$ 24	$ 255	$ -	$ 731
Private equity	286,465	(60,515)	38,976	1,120	266,046
Hedge funds	502,623	(79,695)	(55,882)	(7,600)	359,446
Real assets and other	217,175	(58,178)	48,290	422	207,709
Interest in net assets of foundation	16,859	(3,946)	-	(1,260)	11,653
Investments in perpetual trusts held by others	51,324	(10,714)	81	-	40,691
Total Fair Value	$ 1,074,898	$ (213,024)	$ 31,720	$ (7,318)	$ 886,276

All net realized and unrealized gains/(losses) in the table above are reflected in net appreciation/(depreciation) of long-term investment activities in the accompanying statement of activities. Net unrealized gains/(losses) relate to those financial instruments held by the University at June 30, 2009. The following table presents the net unrealized gains/(losses) by type of investment:

Debt securities	$ 25
Private equity	(60,501)
Hedge funds	(117,978)
Real assets and other	(58,414)
Interest in net assets of foundation	(4,712)
Investments in perpetual trusts held by others	(12,794)
Total	$ (254,374)

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS 159). The standard permits entities to choose to measure many financial instruments and certain other items at fair value. The standard is effective for fiscal years beginning after November 15, 2007. Management has elected not to adopt SFAS 159.

(13) Lines of Credit

The University has a maximum $50,000 line of credit agreement with Northern Trust Company that is subject to annual credit review and renewal. Under this agreement, no amounts were outstanding at June 30, 2009, and $25,000 was outstanding at June 30, 2008.

The University has a $75,000 committed 364 day revolving credit agreement with JPMorgan Chase Bank, N.A. that is subject to annual credit review and renewal. Of this total, $7,494 and $1,616 were outstanding at June 30, 2009 and 2008, respectively.

(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, 2009, the University has entered into construction contracts and commitments aggregating $550,093 ($457,032 at June 30, 2008) of which $430,522 ($389,998 at June 30, 2008) had been incurred.

(15) Leases

The University leases research labs, office space, and equipment under operating leases expiring through August 2023. Rental expense for the years ended June 30, 2009 and 2008 totaling $24,239 and $22,268, respectively, is included in the accompanying consolidated statements of activities.

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

	UNIVERSITY	RELATED ENTITIES
2010	$ 25,646	$ 3,513
2011	21,354	3,230
2012	19,448	3,069
2013	17,129	3,008
2014	14,138	2,832
Thereafter	60,402	12,049
Total minimum lease payments	$ 158,117	$ 27,701

(16) Scholarships, Grants, and Fellowships

The University awarded a total of $120,240 and $108,378 in scholarships, grants, and fellowships during fiscal years 2009 and 2008, respectively. In addition, the University awarded $18,329 and $16,520, respectively, of scholarships, grants, and fellowships as compensation to the recipients. Of this amount, $18,764 and $17,748, respectively, of the total scholarships, grants, and fellowships awarded were specifically funded by federal, state, or private gifts or grants, or by investment income and gains earned on investments held for endowment and similar purposes and utilized under the University's total return spending policy.

(17) Functional Expenses

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

	2009	2008
Instruction	$ 296,425	$ 292,979
Research	297,448	291,640
Public service	9,487	8,690
Libraries and other academic support	55,819	49,492
Student services	44,732	41,251
Institutional support	82,842	74,657
Hospital and faculty practice patient care	1,581,334	1,504,387
Auxiliary enterprises	80,287	75,639
Total functional expenses	$ 2,448,374	$ 2,338,735

(18) Subsequent Events

Pursuant to an agreement between the University and First Niagara Bank dated July 14, 2009, the University has an additional $25,000 committed 364 day revolving credit agreement, which is subject to annual credit review and renewal.

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

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

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

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

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

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

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

The University has performed an evaluation of subsequent events through October 12, 2009, the date on which the consolidated financial statements were issued.

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CURRENT AS OF NOVEMBER 1, 2009

University of Rochester and Related Entities (Consolidated)

Wholly-Owned Related Entities

University of Rochester

Includes:

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 & Dentistry
Strong Memorial Hospital
School of Nursing
Eastman Dental Center
Health Affairs
University of Rochester Medical Faculty Group (URMFG)

Strong Partners Health System, Inc.

Eastman Dental Center Foundation, Inc.

Strong Home Care Group

Includes:

Visiting Nurse Service of Rochester and Monroe County, Inc.
Community Care of Rochester

Excell Partners, Inc.

Rochester BioVenture Center, Inc.

High Tech Rochester, Inc.

Affiliated Entities

Highland Hospital of Rochester

Subsidiaries:
The Highland Foundation, Inc.
Highland Facilities Development Corporation
Medical Administrative Associates, Inc. (dba Highland Apothecary)

The Highlands Living Center, Inc. (dba Meadowbrook Adult Daycare at the Highlands)

Highland Community Development Corporation (dba Highlands at Pittsford and Laurelwood at the Highlands)

The Meadows at Westfall, Inc. (dba The Highlands at Brighton)

as of June 30, 2009

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