

**UNIVERSITY OF ROCHESTER  
AND RELATED ENTITIES**

Consolidated Financial Statements

June 30, 2013 and 2012

UNIVERSITY OF ROCHESTER  
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## Independent Auditor's Report

To the Board of Trustees  
University of Rochester

We have audited the accompanying consolidated financial statements of the University of Rochester and its related entities ("the University"), which comprise the consolidated balance sheets as of June 30, 2013 and June 30, 2012, and the related consolidated statements of activities and of cash flows for the years then ended.

### ***Management's Responsibility for the Consolidated Financial Statements***

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

### ***Auditor's Responsibility***

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

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

### ***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of University of Rochester and its related entities at June 30, 2013 and June 30, 2012, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

As discussed in Note 19 to the consolidated financial statements, the University acquired F.F. Thompson Health System, Inc. effective August 31, 2012 and accounted for it in accordance with ASC 958, *Not-for-Profit Entities*.

*PricewaterhouseCoopers LLP*

Rochester, New York  
October 18, 2013

**UNIVERSITY OF ROCHESTER**  
**AND RELATED ENTITIES**  
**Consolidated Balance Sheet**  
**As of June 30**  
(dollars in thousands)

<b>Assets</b>	<b>2013</b>	<b>2012</b>
Cash and cash equivalents	\$ 486,821	\$ 326,227
Operating investments, at market	179,109	209,016
Accounts receivable, net	299,683	325,773
Inventories, prepaid expenses, and deferred charges	58,993	52,816
Contributions receivable, net	91,577	90,927
Notes receivable, net	48,525	48,347
Other assets	14,355	11,936
Investments held for long-term purposes	1,931,192	1,822,954
Property, plant, and equipment, net	1,729,770	1,561,957
Interest in net assets of foundations	14,647	12,330
Investments in perpetual trusts held by others	51,260	46,877
Total assets	\$ 4,905,932	\$ 4,509,160
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 408,232	\$ 388,337
Advanced receipt of sponsored research revenues	19,440	23,472
Deferred revenue	62,623	50,775
Third-party settlements payable, net	116,623	100,989
Accrued pension, post-retirement, and post-employment	375,907	386,472
Long-term debt	910,684	874,209
Asset retirement obligation	22,876	19,016
Refundable U.S. Government grants for student loans	16,386	16,223
Total liabilities	1,932,771	1,859,493
Net Assets:		
Unrestricted	1,976,574	1,745,673
Temporarily restricted	584,307	509,533
Permanently restricted	412,280	394,461
Total net assets	2,973,161	2,649,667
Total liabilities and net assets	\$ 4,905,932	\$ 4,509,160

See accompanying notes to consolidated financial statements.

**UNIVERSITY OF ROCHESTER  
AND RELATED ENTITIES**  
**Consolidated Statement of Activities**  
**Year Ended June 30, 2013**  
(dollars in thousands)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Operating revenues:				
Tuition and fees	\$ 387,638	\$ -	\$ -	\$ 387,638
Less: scholarships and fellowships	(162,473)	-	-	(162,473)
Net tuition and fees	225,165	-	-	225,165
State and local appropriations	1,632	-	-	1,632
Grants and contracts	400,772	-	-	400,772
Gifts and pledges	33,960	32,197	11,783	77,940
Hospital and faculty practice patient care activities	2,075,553	-	-	2,075,553
Auxiliary enterprises	91,028	-	-	91,028
Interest income and appreciation of operating investments	10,878	-	-	10,878
Educational activities	29,570	-	-	29,570
Royalty income	24,299	-	-	24,299
Other sources	16,932	25	-	16,957
Long-term investment income and gains allocated to operations	86,766	-	-	86,766
Net assets released from restriction	52,648	(51,939)	(709)	-
Total operating revenues	<u>3,049,203</u>	<u>(19,717)</u>	<u>11,074</u>	<u>3,040,560</u>
Operating expenses:				
Salaries and wages	1,475,021	-	-	1,475,021
Fringe benefits	420,403	-	-	420,403
Total compensation	1,895,424	-	-	1,895,424
Supplies	374,058	-	-	374,058
Business and professional	192,725	-	-	192,725
Utilities	53,192	-	-	53,192
Maintenance and facilities costs	130,624	-	-	130,624
Depreciation	184,320	-	-	184,320
Interest	33,441	-	-	33,441
Other	70,022	-	-	70,022
Total operating expenses	<u>2,933,806</u>	<u>-</u>	<u>-</u>	<u>2,933,806</u>
Change in net assets from operating activities	<u>115,397</u>	<u>(19,717)</u>	<u>11,074</u>	<u>106,754</u>
Non-operating activities:				
Long-term investment activities:				
Investment income	15,062	3,249	(126)	18,185
Net appreciation (depreciation)	95,869	85,365	7,543	188,777
Total long-term investment activities	110,931	88,614	7,417	206,962
Long-term investment income and gains allocated for operations	(86,766)	-	-	(86,766)
Loss on extinguishment of debt	(335)	-	-	(335)
Other changes, net	51,315	711	(66)	51,960
Change in valuation of annuities	-	(2,205)	(1,155)	(3,360)
Change in net assets from non-operating activities	<u>75,145</u>	<u>87,120</u>	<u>6,196</u>	<u>168,461</u>
Change in net assets before cumulative effect of acquisition	<u>190,542</u>	<u>67,403</u>	<u>17,270</u>	<u>275,215</u>
Cumulative effect of acquisition	<u>40,359</u>	<u>7,371</u>	<u>549</u>	<u>48,279</u>
Change in net assets	230,901	74,774	17,819	323,494
Beginning net assets	<u>1,745,673</u>	<u>509,533</u>	<u>394,461</u>	<u>2,649,667</u>
Ending net assets	<u>\$ 1,976,574</u>	<u>\$ 584,307</u>	<u>\$ 412,280</u>	<u>\$ 2,973,161</u>

See accompanying notes to consolidated financial statements.

**UNIVERSITY OF ROCHESTER  
AND RELATED ENTITIES**  
**Consolidated Statement of Activities**  
**Year Ended June 30, 2012**  
(dollars in thousands)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Operating revenues:				
Tuition and fees	\$ 360,695	\$ -	\$ -	\$ 360,695
Less: scholarships and fellowships	(151,430)	-	-	(151,430)
Net tuition and fees	209,265	-	-	209,265
State and local appropriations	1,851	-	-	1,851
Grants and contracts	396,145	-	-	396,145
Gifts and pledges	25,747	49,738	36,320	111,805
Hospital and faculty practice patient care activities	1,860,382	-	-	1,860,382
Auxiliary enterprises	88,728	-	-	88,728
Interest income and appreciation of operating investments	5,537	-	-	5,537
Educational activities	28,540	-	-	28,540
Royalty income	34,431	-	-	34,431
Other sources	14,252	-	-	14,252
Long-term investment income and gains allocated to operations	88,390	-	-	88,390
Net assets released from restriction	53,701	(53,365)	(336)	-
Total operating revenues	<u>2,806,969</u>	<u>(3,627)</u>	<u>35,984</u>	<u>2,839,326</u>
Operating expenses:				
Salaries and wages	1,369,458	-	-	1,369,458
Fringe benefits	400,322	-	-	400,322
Total compensation	1,769,780	-	-	1,769,780
Supplies	350,767	-	-	350,767
Business and professional	190,815	-	-	190,815
Utilities	52,253	-	-	52,253
Maintenance and facilities costs	115,087	-	-	115,087
Depreciation	162,742	-	-	162,742
Interest	30,604	-	-	30,604
Other	59,881	-	-	59,881
Total operating expenses	<u>2,731,929</u>	<u>-</u>	<u>-</u>	<u>2,731,929</u>
Change in net assets from operating activities	<u>75,040</u>	<u>(3,627)</u>	<u>35,984</u>	<u>107,397</u>
Non-operating activities:				
Long-term investment activities:				
Investment income	10,036	2,569	(113)	12,492
Net appreciation (depreciation)	(12,466)	5,888	(1,816)	(8,394)
Total long-term investment activities	(2,430)	8,457	(1,929)	4,098
Long-term investment income and gains allocated for operations	(88,390)	-	-	(88,390)
Loss on extinguishment of debt	(636)	-	-	(636)
Other changes, net	(56,620)	262	1,315	(55,043)
Change in valuation of annuities	-	(1,775)	156	(1,619)
Change in net assets from non-operating activities	<u>(148,076)</u>	<u>6,944</u>	<u>(458)</u>	<u>(141,590)</u>
Change in net assets	(73,036)	3,317	35,526	(34,193)
Beginning net assets	1,818,709	506,216	358,935	2,683,860
Ending net assets	<u>\$ 1,745,673</u>	<u>\$ 509,533</u>	<u>\$ 394,461</u>	<u>\$ 2,649,667</u>

See accompanying notes to consolidated financial statements.

**UNIVERSITY OF ROCHESTER  
AND RELATED ENTITIES**  
**Consolidated Statement of Cash Flows**  
**Years Ended June 30**  
(dollars in thousands)

<b>Cash flows from operating activities:</b>	<b>2013</b>	<b>2012</b>
Change in net assets after cumulative effect of acquisition	\$ 323,494	\$ (34,193)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	184,320	162,742
Net depreciation (appreciation) on long-term investment activities	(188,777)	8,394
Gifts of property, plant, equipment and other	(3,813)	(307)
Bond discount amortization	(1,399)	(1,294)
Loss on the extinguishment of debt	335	636
Provision for bad debts	20,204	10,668
Contributed securities	(12,034)	(13,452)
Loss on disposals of property, plant, and equipment	4,799	7,740
Cumulative effect of acquisition	(48,279)	-
Contributions for long-term investments, net	(31,296)	(33,235)
(Increases) / decreases in:		
Operating investments	10,792	(746)
Accounts receivable, net	5,886	(44,272)
Inventories, prepaid expenses, and deferred charges	(6,980)	(3,338)
Contributions receivable, net	3,081	(37,782)
Other assets	(2,749)	3,362
Increases / (decreases) in:		
Accounts payable and accrued expenses	38,306	62,430
Advanced receipt of sponsored research revenues	(4,032)	(2,146)
Deferred revenues	11,848	(1,294)
Third-party settlements payable, net	15,634	4,603
Accrued pension, post-retirement, and post-employment	(10,565)	78,399
Net cash provided by operating activities	308,775	166,915
<b>Cash flows from investing activities:</b>		
Purchases of property, plant, and equipment	(242,327)	(268,986)
Purchases of investments	(920,137)	(509,988)
Proceeds from the sale of investments	996,409	492,165
Increase in investments in perpetual trusts held by others	28	(96)
(Increase) / decrease in notes receivable, net	(178)	(341)
Cash received in acquisition	10,165	-
Net cash used in investing activities	(156,040)	(287,246)
<b>Cash flows from financing activities:</b>		
Net borrowings / (repayments) on lines-of-credit	(434)	435
Principal repayments of long-term debt	(46,508)	(42,652)
Proceeds from issuance of long-term debt	23,482	171,929
Deferred financing costs	(140)	(1,811)
Increase in refundable U.S. Government grants for student loans	163	219
Contributions for long-term investments, net	31,296	33,235
Net cash provided by financing activities	7,859	161,355
<b>Net increase in cash and cash equivalents</b>	160,594	41,024
<b>Cash and cash equivalents, beginning of year</b>	326,227	285,203
<b>Cash and cash equivalents, end of year</b>	\$ 486,821	\$ 326,227
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid during the year for interest on long-term debt	\$ 37,726	\$ 30,288
<b>Non-cash investing and financing activities:</b>		
(Decrease) / increase in construction related payables	\$ (4,368)	\$ 8,164
Assets acquired under capital leases	\$ 4,287	\$ 248

See accompanying notes to consolidated financial statements.

# UNIVERSITY OF ROCHESTER AND RELATED ENTITIES

## Notes to Consolidated Financial Statements

June 30, 2013 and 2012  
(dollars in thousands)

### **(1) Summary of Significant Accounting Policies**

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#### **(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 – Arts, Sciences and Engineering (including the Hajim School of Engineering and Applied Sciences), Margaret Warner Graduate School of Education and Human Development, William E. Simon Graduate School of Business Administration, Eastman School of Music, Memorial Art Gallery, School of Medicine and Dentistry, Strong Memorial Hospital, School of Nursing, Eastman Institute for Oral Health, Health Sciences, and the University of Rochester Medical Faculty Group (URMFG). Included also are Strong Partners Health System, Inc. (and its affiliates), Eastman Dental Center Foundation, Inc., Strong Home Care Group (and its subsidiaries), Crittenden Boulevard Housing Company, Inc., Excell Partners, Inc., Rochester BioVenture Center, Inc., High Tech Rochester, Inc., UR Investment, LLC, eXtensible Catalog Organization, LLC, University of Rochester Real Estate Corporation, UR Equity Holdings, Inc., the Meliora Real Estate Corporation, Spruce Risk Purchasing Group, LLC, and F.F. Thompson Health System, Inc. (including its subsidiaries). All significant interorganizational balances and transactions have been eliminated.

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

The Eastman Dental Center Foundation, Inc. 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 finalizing its activities.

The University is the sole corporate member of Crittenden Boulevard Housing Company, Inc., which was formed to provide affordable housing facilities for graduate students and staff of the University.

The University is the sole corporate member of Excell Partners, Inc., which was formed to support early stage commercial development utilizing



# UNIVERSITY OF ROCHESTER AND RELATED ENTITIES

## Notes to Consolidated Financial Statements

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technologies created at the University of Rochester and other regional colleges and universities.

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

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

The University is the sole member of University of Rochester Investment, LLC, which was formed for the purpose of holding certain University investments.

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

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

In July 2010, UR Equity Holdings, Inc., a for-profit corporation, was formed for the purpose of holding the University's equity interests in startup companies.

In May 2011, the University became the sole corporate member of Meliora Real Estate Corporation, which was formed to support the charitable activities of the University of Rochester by providing financial and operational support to the University through the acquisition, holding and sale of real estate donated to the University and affiliates.

The University is the sole member of Spruce Risk Purchasing Group, LLC, which was formed in October, 2011 for the purpose of procuring insurance coverage for physicians and other healthcare providers affiliated with the University of Rochester Medical Center.

As further described in note 19, in August, 2012, the University became the sole corporate member of F.F. Thompson Health System, Inc. (THS) (including its subsidiaries The Frederick Ferris Thompson Hospital (FFTH), M.M. Ewing Continuing Care Center (CCC), F.F.T. Senior Communities, Inc. (FFTSC), FFTH Properties and Services, Inc. (FFTH Properties), and The F.F. Thompson Foundation, Inc. (FFTF). THS remains the sole member of FFTH, CCC, FFTSC, and FFTF and the sole shareholder of FFTH Properties. The University, THS and THS's affiliates continue as separate and distinct corporations.

### (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: permanently restricted, temporarily restricted, and unrestricted, based upon the existence or absence of donor-imposed restrictions.

Permanently restricted – Net assets subject to donor-imposed stipulations that they be maintained

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permanently by the University. In accordance with the guidance provided in the New York Prudent Management of Institutional Funds Act (NYPMIFA), the University's Board of Trustees, with consideration of the actions, reports, information, advice and counsel provided by its duly constituted committees and appointed officers of the University, has instructed the University to adopt a methodology designed to avoid spending below the historical dollar value of donor-restricted (true) endowment funds, absent explicit donor direction to the contrary. As a result, the University classifies as permanently restricted net assets the original gift value of true endowments plus any subsequent gifts and accumulations made in accordance with the directions of the applicable gift instruments. The portion of true endowment funds that is not classified as permanently restricted net assets is classified as temporarily restricted net assets in accordance with accounting standards.

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. Investment income and gains and losses on permanently restricted net assets are reported as temporarily restricted until appropriated for expenditure in accordance with donor-imposed stipulations. Under NYPMIFA, the appropriation and spending of such income is subject to a standard of prudence, as more fully discussed under the accounting policy note on investments, note 1(i). When a donor restriction expires, that is, when a stipulated time restriction ends or spending 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.
- 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.

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

# UNIVERSITY OF ROCHESTER AND RELATED ENTITIES

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### **(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. Other changes, net consists primarily of adjustments in pension, post-retirement, and post-employment obligations based on actuarially determined liabilities.

### **(f) Cash and Cash Equivalents and Operating Investments**

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

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

### **(g) Inventories**

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

### **(h) Contributions**

Contributions, including unconditional promises, or pledges, are recognized as revenues in the period received. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value at the date of the gift. Contributions to be received after one year are discounted, at a range of 2% to 5%, to their present value. Amortization of the discount is recorded as additional contribution revenue and used in accordance with donor-imposed restrictions, if any, on the contributions. Allowance is made for uncollectible contributions based upon management's judgment and analysis of the creditworthiness of the donors, past collection experience and other relevant factors.

### **(i) Investments and Spending Policy**

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.

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

# UNIVERSITY OF ROCHESTER AND RELATED ENTITIES

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Investment of the University's net assets held for endowment and similar purposes is based upon a total return policy, and the utilization of its endowment resources for current operating and capital needs is related to this policy. Although NYPMIFA does not preclude the University from spending below the original gift value of permanently restricted funds, the University's policy is to spend no more than a stated percentage of fair value of its investment portfolio over time. Accordingly, during fiscal year 2013, the Board of Trustees authorized the use of total return (income and appreciation) from its endowment resources at an aggregate rate of 5.9% (5.9% during fiscal year 2012) of the average fair value of its consolidated investment portfolio for the most recent five years. To the extent that the total return requirement for the current year is not fulfilled by interest and dividends, the University utilizes the appreciation of its endowment net assets for operating purposes. To the extent that the total return requirement for the current year is exceeded by interest and dividends, the University reinvests the excess in its net assets held for endowment.

The University, in compliance with NYPMIFA, notified available donors who had established endowments prior to September 17, 2010, of the new law, and offered these donors the option of requiring the University to maintain historical dollar value for their endowment funds. A minority of donors requested this option; for those who did, the University has designed procedures to ensure that the University maintains historical dollar value.

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

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

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

The University reports gifts of property, plant, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as 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 museum collections. If purchased, collection items are capitalized at cost, and if donated, at their appraised or fair value on the accession date (the date on which the item is accepted

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by the Board of Trustees). There is no depreciation recorded on collection items.

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.

### **(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 2013 and 2012, the fair values for split interest agreements assets are \$85,904 and \$78,750, respectively. Generally, contribution revenues are recognized at the dates the agreements are established and liabilities are recorded for the present value of the estimated future payments to be made to the beneficiaries. The liabilities are adjusted during the term of the trusts for changes in the value of the assets, accretion of the discount and other changes in the estimates of future benefits. The University is also the beneficiary of certain perpetual trusts held and administered by others. The present values of the estimated future cash receipts, which are measured by the fair value of the assets contributed to the trust, are recognized as assets and contribution revenues at the dates the trusts are established. The carrying value of the assets is adjusted for changes in the fair value of the trust assets for both split interest agreements and perpetual trusts.

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.

### **(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.

### **(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.

### **(n) Grants and Contracts**

Revenue from grants and contracts, primarily for research and training programs, is generally

### **(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:

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### 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, 2007.

### Medicaid and Other Third-Party Payors

The New York Health Care Reform Act of 1996 (HCRA), as amended, governs payments to hospitals in New York State (NYS).

Under HCRA, Medicaid, workers compensation, and no-fault payors payment rates are promulgated by the New York State Department of Health (DOH). Fixed payment amounts per inpatient discharge are established based on the patient's assigned case mix intensity similar to a Medicare DRG. 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 December 1, 2009, NYS implemented inpatient reimbursement reform. The reform updated the data utilized to calculate payment rates utilizing All Patient Refined DRGs (APR-DRGs). APR-DRGs

used revised service intensity weights (SIWs) to adjust each APR-DRG for patient acuity. Similar type outpatient reforms were implemented effective December 1, 2008 by connecting outpatient payments to Ambulatory Payment Groups (APGs) which use outpatient SIWs based on types of service and resource consumption.

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

Revenue from Excellus Blue Cross and MVP accounted for approximately 30% and 5%, respectively, of the Hospital's net patient service revenue for the year ended June 30, 2013, and 29% and 6%, respectively, for the year ended June 30, 2012.

Revenue from Medicare and Medicaid programs, including Medicare Advantage and Medicaid Managed Care plans, accounted for approximately 35% and 16%, respectively, of the Hospital's net patient revenue for the fiscal year ended June 30, 2013, and 33% and 17%, respectively, for the year ended June 30, 2012. 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

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monetary fines, civil and criminal penalties and exclusion from the Medicare and Medicaid programs.

Both federal and NYS regulations provide for certain adjustments to current and prior years' payment rates and indigent care pool distributions based on industry-wide and hospital-specific data. The 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 and cannot be reasonably estimated, have not been provided for in the accompanying financial statements. Management believes the amounts recorded in the accompanying financial statements will not be materially affected upon the implementation of such adjustments. During fiscal years 2013 and 2012, the Hospital recognized approximately \$12,200 and \$19,800 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 \$15,000 and \$17,800 related to fiscal years 2013 and 2012, respectively.

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

The University of Rochester Medical Faculty Group (URMFG) is an operating division of the University. In the year ending June 30, 2013, over 1,115 full-time faculty in 18 clinical departments

and two clinical centers participated in patient care at the University of Rochester Medical Center. These full-time faculty physicians handled 868,455 outpatient visits in their offices, mostly on University-owned or leased premises; and covered 35,348 hospital admissions, as well as participated in the coverage of the emergency department handling over 101,184 visits. Payments for these services are derived primarily from third-party insurers including Managed Care companies (18.28%), Medicare (21.26%), Blue Shield (24.92%), Medicaid (11.62%), commercial (9.46%), other (4.75%), and self-pay (9.71%).

In addition to providing clinical outpatient care, the faculty group's mission is met by providing education and teaching. The faculty supervise and instruct 435 University medical students and 822 residents and fellows.

### **(q) Charity Care and Provision for Bad Debts**

As further described in Note 17, the University provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these are not reported as revenue or patient accounts receivable.

The University grants credit without collateral to patients, most of whom are local residents and are insured under third-party arrangements. Additions to the allowance for uncollectible accounts are made by means of the provision for bad debts. Accounts written off as uncollectible are deducted from the allowance and subsequent recoveries are added. The amount of the provision for bad debts is based upon management's assessment of historical and expected net collections, business and economic conditions, trends in Federal and State governmental healthcare coverage and other collection indicators.

### **(r) Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles in the

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United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses during the reporting period. Management's assumptions are primarily related to the appropriate discount rate for the purposes of fair value calculations, allowances for doubtful accounts, self-insured risks, and third-party payor contractual adjustments and allowances. Actual results may differ from those estimates.

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

### **(s) Investment in Net Assets of Foundations**

The University accounts for its interest in the net assets of the James P. Wilmot Foundation, Inc. and the Pluta Cancer Center Foundation, Inc. in accordance with not-for-profit guidance. The guidance establishes standards for transactions in which a donor transfers assets to a not-for-profit organization or charitable trust, which then agrees to transfer those assets, the return on investment of those assets, or both to a beneficiary specified by the donor. Under the accounting guidance, the University is required to recognize the net assets and its share of the change in the net assets of the Foundations. The Foundations support cancer research and various medical services provided to the community.

### **(t) Asset Retirement Obligations**

The University accounts for asset retirement obligations in accordance with asset retirement and

### **(u) 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.

### **(v) Reclassification**

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



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**(2) Net Assets**

Unrestricted net assets consist of the following at June 30:

	<b>2013</b>	<b>2012</b>
Designated:		
University divisions	\$ 1,093,638	\$ 1,045,229
Highland Hospital and affiliates	43,044	3,759
Eastman Dental Center Foundation	25,797	23,602
Total designated	1,162,479	1,072,590
Net investment in property, plant, and equipment	797,188	669,708
Undesignated	16,907	3,375
Total unrestricted net assets	\$ 1,976,574	\$ 1,745,673

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

	<b>2013</b>	<b>2012</b>
Accumulated appreciation on permanently restricted net assets subject to board appropriation and/or purpose restrictions	\$ 435,309	\$ 387,543
Interest in net assets of foundations	14,647	12,330
Other gifts and income subject to:		
Purpose restrictions	37,149	19,670
Time restrictions:		
Contributions receivable	62,102	60,299
Split-interest agreements	35,100	29,691
Total temporarily restricted net assets	\$ 584,307	\$ 509,533

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

	<b>2013</b>	<b>2012</b>
Perpetual endowment funds	\$ 325,508	\$ 310,209
Interests in perpetual trusts held by others	51,260	46,877
Split-interest agreements	2,449	3,077
Perpetual loan funds	3,588	3,670
Contributions receivable	29,475	30,628
Total permanently restricted net assets	\$ 412,280	\$ 394,461

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Endowment net assets consist of the following at June 30, 2013:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor - restricted funds:				
True endowments	\$ -	\$ 434,126	\$ 325,508	\$ 759,634
Term endowments	-	1,183	-	1,183
	-	435,309	325,508	760,817
Funds functioning as endowment (quasi)	904,105	-	-	904,105
Total endowment funds	<u>\$ 904,105</u>	<u>\$ 435,309</u>	<u>\$ 325,508</u>	<u>\$ 1,664,922</u>

Rollforward of endowment net assets from July 1, 2012 to June 30, 2013:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2012	\$ 824,814	\$ 387,543	\$ 310,209	\$ 1,522,566
Investment return:				
Investment income, net of fees	8,237	6,771	-	15,008
Net appreciation	88,822	76,694	-	165,516
Total investment return	97,059	83,465	-	180,524
New gifts and additions	25,950	896	14,700	41,546
Amounts appropriated for expenditure	(51,599)	(37,019)	-	(88,618)
Other changes and reclassifications	7,881	424	599	8,904
Endowment net assets, June 30, 2013	<u>\$ 904,105</u>	<u>\$ 435,309</u>	<u>\$ 325,508</u>	<u>\$ 1,664,922</u>

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Endowment net assets consist of the following at June 30, 2012:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor - restricted funds:				
True endowments	\$ -	\$ 386,425	\$ 310,209	\$ 696,634
Term endowments	-	1,118	-	1,118
	-	387,543	310,209	697,752
Funds functioning as endowment (quasi)	824,814	-	-	824,814
Total endowment funds	<u>\$ 824,814</u>	<u>\$ 387,543</u>	<u>\$ 310,209</u>	<u>\$ 1,522,566</u>

Rollforward of endowment net assets from July 1, 2011 to June 30, 2012:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2011	\$ 861,660	\$ 410,780	\$ 286,849	\$ 1,559,289
Investment return:				
Investment income, net of fees	6,652	5,467	-	12,119
Net appreciation	6,335	5,649	-	11,984
Total investment return	12,987	11,116	-	24,103
New gifts and additions	1,666	920	21,746	24,332
Amounts appropriated for expenditure	(48,759)	(35,597)	-	(84,356)
Other changes and reclassifications	(2,740)	324	1,614	(802)
Endowment net assets, June 30, 2012	<u>\$ 824,814</u>	<u>\$ 387,543</u>	<u>\$ 310,209</u>	<u>\$ 1,522,566</u>

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**(3) Accounts Receivable**

Accounts receivable at June 30 consist of the following:

	<b>2013</b>	<b>2012</b>
Patient care and related activities, net of allowances for doubtful accounts of \$31,355 and \$31,832	\$ 153,835	\$ 144,464
Federal, state and local governments, foundations and companies, net of allowances for doubtful accounts of \$504 and \$541	53,874	41,088
Medical resident FICA refund claim (including interest), net of allowance of \$0 and \$16,818	84	31,718
Student receivables, net of allowances for doubtful accounts of \$3,844 and \$3,287	8,506	4,488
Reinsurance recoveries and other	83,384	104,015
Total accounts receivable	\$ 299,683	\$ 325,773

**(4) Contributions**

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

	<b>2013</b>	<b>2012</b>
Unconditional promises expected to be collected in:		
Less than one year	\$ 7,869	\$ 7,818
One year to five years	70,692	72,385
More than five years	50,669	48,424
Subtotal	129,230	128,627
Less unamortized discount and allowance for uncollectible amounts	(37,653)	(37,700)
Total contributions receivable, net	\$ 91,577	\$ 90,927

assets. If they are received, they generally will be restricted for specific purposes stipulated by the donor, primarily endowments for faculty support, scholarships or general operating support of a particular department or division of the University.

The University expended \$38,035 and \$36,226 for University relations and development for the years ended June 30, 2013 and 2012, respectively.

At June 30, 2013, the University had also received \$180,089 in bequest intentions and certain other conditional promises to give. These intentions and conditional promises to give are not recognized as

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**(5) Notes Receivable**

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

	<b>2013</b>		
	<b>Gross Receivable</b>	<b>Allowance</b>	<b>Net Receivable</b>
Federal student loans	\$ 17,081	\$ 904	\$ 16,177
Institutional student loans	4,472	606	3,866
Other note receivable	28,482	-	28,482
<b>Total</b>	<b>\$ 50,035</b>	<b>\$ 1,510</b>	<b>\$ 48,525</b>

  

	<b>2012</b>		
	<b>Gross Receivable</b>	<b>Allowance</b>	<b>Net Receivable</b>
Federal student loans	\$ 17,009	\$ 904	\$ 16,105
Institutional student loans	4,366	606	3,760
Other note receivable	28,482	-	28,482
<b>Total</b>	<b>\$ 49,857</b>	<b>\$ 1,510</b>	<b>\$ 48,347</b>

Student loan programs are funded by donor contributions, other institutional sources and governmental programs, primarily the Federal Perkins Loan Program. The amounts received from the federal government's portion of the Perkins program are ultimately refundable to the federal government and are reported as a liability on the University's consolidated balance sheet as refundable U.S. Government grants for student loans.

Credit worthiness is not a factor when granting a student a loan from institutional or federal resources; it is based on financial need. However, once the loan is in repayment status, the University monitors the aging of the student loans receivable.

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

grace period following graduation), that may not be collected.

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

**(6) Investments Held for Long-Term Purposes**

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

	<b>2013</b>	<b>2012</b>
Endowment and similar purposes	\$ 1,750,955	\$ 1,601,323
Property, plant and equipment purposes:		
Debt service reserve held by trustees under debt agreements	18,967	17,892
Bond Proceeds not yet expended	44,514	107,394
Other	2,804	4,494
<b>Total property, plant and equipment purposes</b>	<b>66,285</b>	<b>129,780</b>
Other purposes	113,952	91,851
<b>Total investments held for long-term purposes</b>	<b>\$ 1,931,192</b>	<b>\$ 1,822,954</b>

For investment purposes, substantially all investments held for endowment and similar purposes participate in one of several pools, each with its own investment

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policy and objectives. The investment pool assets are owned by the separate endowment and similar funds within each pool based on the percent ownership of each fund to the pool. Income, realized and unrealized gains and losses are distributed based on the percent ownership of the pooled assets measured at fair value.

The University permits several of its investment managers to utilize forward contracts, currency options and futures with the specific authorization of the investment committee of the Board of Trustees. However, the University was not directly engaged in any of the above mentioned derivative transactions as of June 30, 2013 and 2012.

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

Investment fees were \$34,927 and \$33,615 for the years ended June 30, 2013 and 2012, respectively.

**(7) Property, Plant, and Equipment**

As of June 30, 2013 and 2012, the University's investment in property, plant and equipment is as follows:

	<b>2013</b>	<b>2012</b>
Buildings and improvements	\$ 2,318,762	\$ 2,054,701
Land improvements	58,730	45,717
Completed projects under leasehold agreements	18,094	10,148
Equipment owned	1,045,611	911,885
Library books	160,824	151,457
Subtotal	3,602,021	3,173,908
Less accumulated depreciation	2,016,204	1,787,538
Subtotal	1,585,817	1,386,370
Land	11,316	8,817
Museum collections	31,592	30,882
Construction in progress	101,045	135,888
Total property, plant and equipment, net	\$ 1,729,770	\$ 1,561,957

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**(8) Long-term Debt**

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

	<u>2013</u>	<u>2012</u>
Obligations under capital leases - 0.000% to 5.440%	\$ 8,471	\$ 2,665
Urban Development Corporation loan (a)	1,333	1,500
Direct Note Obligation - Series 2003, 5.400% to 5.750% (net of unamortized discount of \$18 in 2013 and \$19 in 2012) (b)	8,582	8,581
Notes payable - Key Bank, 3.550% (c)	1,311	-
Notes payable - 5.990%	5	-
Mortgage payables - 4.000% to 4.745% (d)	4,980	-
Bond payable - COMIDA, 10.000% (e)	532	567
Bond payable - DASNY Series 1994B, 5.500% (f)	8,200	8,700
Bond payable - DASNY Series 2003 A, B, and C, 3.970% (g)	99,880	106,755
Bond payable - OCIDA Series 2003 A & B, 3.045% (h)	11,360	-
Bond payable - DASNY Series 2004 A, 3.000% to 5.250% (net of unamortized premium of \$322 in 2013 and \$337 in 2012) (i)	24,807	25,562
Bond payable - COMIDA, 3.125% to 5.450% (net of unamortized premium of \$461 in 2013 and \$561 in 2012) (j)	25,337	27,981
Bond payable - DASNY Series 2006A-1 and B-1, 3.919% (k)	111,180	111,180
Bond payable - DASNY Series 2007A-1, A-2, B and C, 4.000% to 5.000% (net of unamortized premium of \$6,620 in 2013 and \$6,871 in 2012) (l)	233,553	238,780
Bond payable - DASNY Series 2009A, B, C, D and E, 2.500% to 5.000% (net of unamortized premium of \$1,855 in 2013 and \$2,270 in 2012) (m)	89,699	96,913
Bond payable - DASNY Series 2010, 2.000% to 5.200% (net of unamortized discount of \$59 in 2013 and \$62 in 2012) (n)	10,591	10,938
Bond payable - OCLDC Series 2010, 4.640% (o)	27,472	-
Notes payable - Eastman Theatre Renovation, 0.740% to 2.730% (p)	53,182	53,482
Bond payable - MCIDC Series 2011, 2.000% to 5.000% (net of unamortized premium of \$12,939 in 2013 and \$13,566 in 2012) (q)	167,333	171,766
Notes payable - Manufacturers and Traders Trust Bank, 3.280% (r)	8,196	8,839
Bond payable - DASNY Series 2012, 3.000% (s)	14,680	-
 Total long-term debt	 \$ <u>910,684</u>	 \$ <u>874,209</u>

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

**(a) 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

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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.

### **(b) 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.

### **(c) Notes Payable – Key Bank**

Pursuant to an agreement with a University-related entity (F. F. Thompson Health System, Inc. and affiliates) and Key Bank N. A., Key Bank, N. A. issued a note payable in the amount of \$1,520. The related entity is repaying the indebtedness in monthly installments, which includes interest at 3.55%, for certain construction and renovation activities for the M. M. Ewing Continuing Care Center, Inc. The note matures August 2020.

### **(d) Mortgage Payables**

Pursuant to an agreement with a University-related entity (F. F. Thompson Health System, Inc. and affiliates), F. F. Thompson Health System and Canandaigua National Bank have entered into various mortgage note payables. The mortgages were used to finance certain facilities for F. F. Thompson Health System, Inc. and have varying maturity dates.

### **(e) Bond Payable – COMIDA**

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

### **(f) Bonds Payable – DASNY Series 1994B**

Pursuant to an agreement with a University related entity (Highland Hospital and affiliates) and Dormitory Authority State of New York (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 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.

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 for \$8,357 which expires July 2015.

### **(g) 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 bonds known as the University of Rochester Revenue Bonds, Series 2003, consisting of



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\$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 residential buildings. A portion of the proceeds from Series 2003A also refinanced the remaining portion of the University of Rochester Revenue Bonds, Series 1987.

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

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

On July 31, 2003, the University executed interest rate swaps with third parties. The University entered into interest rate swap agreements to exchange variable rate debt for a fixed rate obligation without the exchange of the underlying principal amount. Generally under this agreement, the counterparty pays the University a variable interest rate equal to 61.50% of one-month LIBOR plus 56 basis points. The University will pay the counterparty a fixed interest rate of 3.97%. These rates are subject to change based upon certain conditions as stated in the swap agreement. The contractual relationship under this agreement will last until July 1, 2033.

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

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

The University has a letter of credit in place for DASNY Series 2003A and 2003C in the amount of \$103,502 with JP Morgan Chase Bank, N.A which expires in March 2015. Of this total, no amounts were outstanding at June 30, 2013 and 2012.

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 in September 2018. Of this total, no amounts were outstanding at June 30, 2013 and 2012.

### **(h) Bonds Payable – OCIDA Series 2003A and B**

Pursuant to an agreement with the University related entity (F. F. Thompson Health Systems, Inc. and affiliates) and Ontario County Industrial Development Agency (OCIDA), OCIDA issued and sold \$4,000 of Series 2003A Variable Rate Civic Facility Revenue Refunding Bonds and \$12,800 of Series 2003B Variable Rate Refunding Bonds.

Series 2003A bonds were used to retire outstanding debt that F. F. Thompson Health System, Inc. and affiliates owed to the Dormitory Authority of the State of New York (DASNY).

Series 2003B bonds were used to construct an addition to and renovate portions of the F. F. Thompson Hospital for the new emergency department and expanded diagnostic imaging, surgery, registration and lobby space.

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In October 2008, the related entity executed interest rate swaps with third parties. The related entity entered into interest rate swap agreements to exchange variable rate debt for a fixed rate obligation without the exchange of the underlying principal amount. Under the agreement, the counterparty pays the related entity a variable interest rate equal to 67.00% of the one-month LIBOR. The related entity will pay the counterparty a fixed interest rate of 3.05%. These rates are subject to change based upon certain conditions as stated in the swap agreement. The contractual relationship under this agreement will last until July 2018.

The bonds are secured by a direct pay letter of credit for \$7,469 with Key Bank, N. A. which expires in July 2015. The related entity entered into a lease agreement with OCIDA, which also acts as collateral for payment of the bonds. Additional collateral is provided by a guaranty agreement under which the related entity is jointly and severally responsible for payment of the bonds.

### (i) 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.

### (j) 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 Orthopedic Operating Room Project and (4) various renovation projects throughout Highland Hospital. These 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.

### (k) Bonds Payable – DASNY Series 2006A-1 and B-1

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

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

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contractual relationship under this agreement will last until July 1, 2027.

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

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

The University has a letter of credit in place in the amount of \$112,642 with Wells Fargo Bank, N.A, which expires in August 2015. The letter of credit has a renewal option that can be exercised every three years. Of this total, no amounts were outstanding as of June 30, 2013 and 2012.

### **(l) 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 James P. Wilmot 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 Aab Cardiovascular Research Institute; (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 residential buildings.

Series 2007A-2 bonds were issued to finance (1) the renovation of the University Advancement and Alumni Center; and (2) the construction of the Robert B. Goergen Hall for Biomedical Engineering and Optics.

Series 2007B bonds were issued to finance (1) the construction of Hospital's portion of the James P. Wilmot 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.

### **(m) Bonds Payable – DASNY Series 2009A, B, C, D and E**

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

Series 2009A bonds were issued to finance (1) fire alarm replacements, sprinkler installations, and renovations in undergraduate halls; (2) renovations to laboratories and offices throughout the River Campus and Medical Center; (3) renovation of 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

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Campus and Medical Center; (6) a portion of the construction of the Saunders Research Building.

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

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

Series 2009D bonds were issued to refinance the outstanding bonds for Series 1999B. The outstanding Series 2009D bonds reached maturity on June 30, 2013 and the bondholders received final payment on July 1, 2013.

Series 2009E bonds were issued to finance a portion of the construction of the Saunders Research Building.

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

### **(n) Bonds Payable - DASNY Series 2010**

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

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

### **(o) Bonds Payable – OCLDC Series 2010**

Pursuant to an agreement with a University related entity (F. F. Thompson Health Systems, Inc. and Ontario County Local Development Corp. (OCLDC)), OCLDC issued and sold \$29,700 of bonds known as Series 2010 Revenue Bonds.

Series 2010 bonds were issued to finance the Frederick Ferris Thompson Hospital expansion and renovation project. Key Bank and First Niagara Bank purchased \$19,700 and \$10,000 of the bonds, respectively. The funds are distributed to the related entity as needed to fund the project costs.

The bond issue is collateralized by an interest in certain buildings and a guaranty agreement where the related entity is jointly and severally responsible for payment of the bonds.

### **(p) Notes Payable – Eastman Theatre Renovation**

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

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

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

### **(q) Bonds Payable – MCIDC Series 2011**

Pursuant to an agreement between the University and Monroe County Industrial Development Corporation

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(MCIDC) dated September 1, 2011, MCIDC issued and sold \$161,660 of bonds known as the University of Rochester Tax-Exempt Revenue Bonds, Series 2011, consisting of \$122,340 Series 2011A bonds and \$39,320 Series 2011B bonds. The Series 2011 bonds were issued at a premium of \$14,088 resulting in proceeds of \$175,748.

Series 2011A bonds were issued to finance (1) the renovation of Danforth Dining Center; (2) the construction of the Ronald Rettner Hall for Media Arts and Innovation to house the University's digital media center and fabrication lab; (3) renovations to laboratories and offices throughout the River Campus and Medical Center campuses; (4) various renovations for Fauver Stadium; (5) various deferred maintenance and renovation projects at the Eastman School of Music and related residential halls; (6) the construction of O'Brien Hall to house undergraduate students; (7) the renovation of various undergraduate and graduate residential facilities; (8) construction of the Raymond F. LeChase Hall to house the University's Warner School of Education; (9) improvements and expansion of the central utilities plant; (10) renovation and modernization of the Medical Center storm sewer infrastructure; and (11) a portion of the James P. Wilmot Cancer Center Vertical Expansion improvements. A portion of Series 2011A was also used to refinance all of the outstanding bonds for Series 2001A.

Series 2011B bonds were issued to finance (1) a portion of the James P. Wilmot Cancer Center Vertical Expansion improvements; (2) the relocation of the Bone Marrow Transplant Unit; (3) the replacement of the air handler equipment within Strong Memorial Hospital; and (4) replacement of certain existing angiographic equipment.

The loan agreement and the obligation of the University to make payments under the loan agreement are general obligations of the University.

### **(r) Notes Payable – Manufacturers and Traders Trust Bank**

Pursuant to an agreement between the University and the Manufacturers and Traders (M & T) Bank dated June 5,

2012, M & T Bank issued \$9,000 of term notes. The note was issued to partially finance the purchase of the Lac de Ville facility. The University is repaying the indebtedness at a fixed rate of 3.28%, maturing April 2026.

The M & T Bank term notes are general, unsecured obligations of the University.

### **(s) Bonds Payable – DASNY Series 2012**

Pursuant to a loan agreement between a University related entity (F. F. Thompson Health System, Inc. and affiliates) and DASNY dated September 12, 2012, DASNY issued and sold \$14,680 of bonds known as F.F.T. Senior Communities, Inc. Revenue Bonds, Series 2012. Series 2012 bonds were issued to refinance the remaining outstanding bonds for Series 2000B.

In September 2012, the related entity executed interest rate swaps with third parties. The related entity entered into interest rate swap agreements to exchange variable rate debt for a fixed rate obligation without the exchange of the underlying principal amount. Under the agreement, the counterparty pays the related entity a variable interest rate equal to 67% of the one-month LIBOR. The related entity will pay the counterparty a fixed interest rate of .0458%. These rates are subject to change based upon certain conditions as stated in the swap agreement. The contractual relationship under this agreement will last until September 2015.

The related entity has a letter of credit in place in the amount of \$14,849 with HSBC Bank USA, which expires in September 2015 at which time the letter is subject to annual renewal.

The proceeds from the Series 2012 bonds and all funds and accounts established, including the mortgage, gross receipts security agreement and the assignment of rents and leases are pledged as security for the payment of the principal, sinking fund installments and interest on the bonds. The obligations of the related entity under the loan agreement are secured by a mortgage on the property and a security interest in the fixtures, furnishings and equipment of the related entity.

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**(t) Required Principal Payments**

Required composite principal payments for long-term debt, net of unamortized discount or premium, for each of the years in the five-year period ending June 30, 2018 and thereafter are as follows:

<u>Maturity</u>	<u>Principal portions of lease payments</u>	<u>Principal portions of debt</u>	<u>Total Principal Payments</u>
2014	\$ 2,062	\$ 34,739	\$ 36,801
2015	2,042	43,422	45,464
2016	1,579	55,346	56,925
2017	1,122	38,513	39,635
2018	886	44,114	45,000
Thereafter	<u>780</u>	<u>686,079</u>	<u>686,859</u>
Total	<u>\$ 8,471</u>	<u>\$ 902,213</u>	<u>\$ 910,684</u>

The University incurred \$33,441 and \$30,604 of interest expense for the years ended June 30, 2013 and 2012, respectively, net of interest capitalization of \$3,513 and \$4,454 for the years ended June 30, 2013 and 2012, respectively.

The University has letter of credit agreements with various financial institutions to purchase the University's variable rate demand bonds in the event they cannot be remarketed. In the event that the bonds covered by these agreements are not remarketable and the agreements are not otherwise renewed, the principal amounts (including variable rate demand bonds not subject to a liquidity facility) would be \$121,106, \$124,614, \$71,950, \$20,610, \$25,030, and \$547,374 for the five year period ending June 30, 2018 and thereafter.

**(u) Fair Value of Long-Term Debt**

The fair value of the University's long-term debt is estimated based upon the amount of future cash flows, discounted using the University's current borrowing rate for similar debt instruments of comparable maturities. The fair value of total long term debt, excluding capital leases, was \$906,866 and \$909,784 at June 30, 2013 and 2012, 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, 2013 were discounted by 2.50% and amounted to \$48,911 (1.75% and \$46,610 in 2012). These liabilities are offset by receivables for the expected insurance direct payments against these claims of \$11,245 at June 30, 2013 (\$9,110 at June 30, 2012). 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 standby letter of credit with JPMorgan Chase Bank to cover potential liabilities under the University's self-insured workers' compensation program.

The University is self-insured for health care benefits. Based on estimates provided by actuaries, the University's obligation for incurred but not reported claims was \$12,229 and \$11,983 as of June 30, 2013 and 2012, respectively. These amounts are included in accounts payable and accrued expenses on the consolidated balance sheet and have not been discounted.

**Retirement Plan – University**

The University provides defined contribution retirement plans to its employees. The University of Rochester's Retirement Program offers four investment company options that are administered by each of the separate investment companies. Under these plans, the University made contributions of \$76,850 and \$73,395 in 2013 and 2012, 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.

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The University incurred post-retirement plan expense of \$12,984 and \$12,492 for the years ended June 30, 2013 and 2012, respectively, which is recorded in fringe benefits expense on the consolidated statement of activities.

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Benefit expense for this plan for the years ended June 30, 2013 and 2012 includes the following components:

	<u>2013</u>	<u>2012</u>
<b>Change in benefit obligation:</b>		
Benefit obligation at beginning of year	\$ 164,702	\$ 141,527
Service cost	3,620	2,824
Interest cost	6,828	7,224
Estimated plan participant contributions	2,330	2,218
Actuarial (gain)/loss	(18,604)	21,005
Benefits paid	<u>(10,393)</u>	<u>(10,096)</u>
 Benefit obligation at end of year	 <u>\$ 148,483</u>	 <u>\$ 164,702</u>
<b>Change in plan assets:</b>		
Fair value of plan assets at beginning of year	\$ -	\$ -
Employer contributions	8,063	7,878
Participant contributions	2,330	2,218
Benefits paid	<u>(10,393)</u>	<u>(10,096)</u>
 Fair value of plan assets at end of year	 <u>\$ -</u>	 <u>\$ -</u>
<b>Components of accrued benefit:</b>		
Funded status	\$ (148,483)	\$ (164,702)
Unrecognized net actuarial loss	19,230	39,360
Unrecognized prior service cost	<u>5,732</u>	<u>6,742</u>
 Accrued benefits	 <u>\$ (123,521)</u>	 <u>\$ (118,600)</u>
<b>Amounts recognized in the consolidated balance sheets consist of:</b>		
Accrued post-retirement benefit cost	\$ (118,600)	\$ (113,986)
Net post-retirement benefit expense	(12,984)	(12,492)
Employer contributions	8,063	7,878
Accrued benefits	<u>\$ (123,521)</u>	<u>\$ (118,600)</u>
Amount recorded in unrestricted net assets	<u>(24,962)</u>	<u>(46,102)</u>
 Net amount recognized in unrestricted net assets	 <u>\$ (148,483)</u>	 <u>\$ (164,702)</u>
<b>Components of net periodic benefit cost:</b>		
Service cost	\$ 3,620	\$ 2,824
Interest cost	6,828	7,224
Amortization of prior service cost	<u>2,536</u>	<u>2,444</u>
 Net periodic benefit cost	 <u>\$ 12,984</u>	 <u>\$ 12,492</u>



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

	<b>Estimated Contributions / Benefit Payments</b>	<b>Estimated 28% Rx Subsidy Payments</b>
2014	\$ 9,507	\$ 716
2015	9,969	791
2016	10,370	874
2017	10,684	969
2018	10,917	930
2019 to 2023	54,621	3,683

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

	<b>2013</b>	<b>2012</b>
Discount rate for obligation	4.75%	4.25%
Expected return on plan assets	N/A	N/A
Rate of compensation increase	N/A	N/A
Health care cost trend rate – initial	9.00%	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 2019 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:

	<b>One Percentage Point Increase</b>	<b>One Percentage Point Decrease</b>
Effect on total of service and interest cost components	\$ 647	\$ (537)
Effect on post-retirement benefit obligation	\$ 4,785	\$ (4,122)

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

Employers are required to recognize the over-funded or under-funded status of defined benefit pension and post-retirement plans as assets or liabilities in its consolidated balance sheet and to recognize changes in that funded status in the year in which the changes occur through changes in unrestricted net assets. In addition, employers are required to measure the funded status of the plan as of the consolidated balance sheet date.

**Post-employment Benefits – University**

Accrued post-employment benefits of the University amounted to \$61,930 and \$75,157 at June 30, 2013 and 2012, respectively.

**Self-insurance Plans – Highland Hospital and Affiliates**

Highland Hospital is self-insured for workers' compensation claim losses and expenses. A letter of credit in the amount of \$8,230 is maintained as security for workers compensation claims. Included in accrued pension, post-retirement, and post-employment at June 30, 2013 and 2012 are accruals of approximately \$15,543 and \$13,193, 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 \$2,852 and \$1,557 at June 30, 2013 and 2012, respectively. This liability has been discounted by 2.0% and 0.75% at June 30, 2013 and 2012, respectively.

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**Retirement Plan – Highland Hospital and Affiliates**

The retirement plan of Highland Hospital 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 funding policy is to contribute annually, an amount consistent with the requirement of the Employee Retirement Income Security Act.

Retirement plan expense of \$10,007 and \$6,160 was incurred for the years ended December 31, 2012 and 2011, respectively, and is recorded in fringe benefits in the consolidated statement of activities. In addition, a pension related benefit other than net periodic pension cost of (\$10,089) and (\$26,651) for the years ending December 31, 2012 and 2011, respectively, was recorded in other changes on the consolidated statement of activities.

Pension expense for this plan for the years ended December 31, 2012 and 2011 includes the following components:

	<b>2012</b>	<b>2011</b>
<b>Change in benefit obligation:</b>		
Benefit obligation at beginning of year	\$ 150,596	\$ 121,482
Service cost	5,247	4,542
Interest cost	6,899	6,586
Actuarial loss	18,314	21,205
Benefits paid	<u>(4,939)</u>	<u>(3,219)</u>
Benefit obligation at end of year	<u>\$ 176,117</u>	<u>\$ 150,596</u>

**Change in plan assets:**

	<b>2012</b>	<b>2011</b>
Fair value of plan assets at beginning of year	\$ 87,665	\$ 84,212
Actual return on plan assets	10,592	(110)
Employer contribution	9,180	7,150
Benefits and expenses paid	<u>(5,143)</u>	<u>(3,587)</u>
Fair value of plan assets at end of year	<u>\$ 102,294</u>	<u>\$ 87,665</u>

	<b>2012</b>	<b>2011</b>
<b>Amounts recognized in the balance sheets consist of:</b>		
Accrued benefits	\$ (4,852)	\$ (4,026)
Amount recognized in unrestricted net assets	<u>(68,971)</u>	<u>(58,905)</u>
Funded Status	<u>\$ (73,823)</u>	<u>\$ (62,931)</u>

**Components of net periodic benefit cost:**

	<b>2012</b>	<b>2011</b>
Service cost	\$ 5,247	\$ 4,542
Interest cost	6,899	6,586
Expected return on plan assets	(7,310)	(7,353)
Amortization loss	<u>5,171</u>	<u>2,385</u>
Net periodic benefit cost	<u>\$ 10,007</u>	<u>\$ 6,160</u>

**The assumptions used for the plan at the measurement date are as follows:**

	<b>2012</b>	<b>2011</b>
Discount rate for obligation	4.07%	4.63%
Discount rate for pension expense	4.63%	5.48%
Investment return assumption (regular)	8.00%	8.00%
Future compensation increase rate	3.60%	3.60%

The pension plan funds are allocated to two money 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 manager categories is as follows:

	<b>2012</b>	<b>2011</b>
<b>Asset category:</b>		
Equity securities	56%	57%
Fixed income securities	39%	38%
Cash and other investments	5%	5%
Total	<u>100%</u>	<u>100%</u>

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Estimated future benefit payments for the years ending December 31:

2013	\$	4,062
2014		4,439
2015		4,984
2016		5,692
2017		6,483
2018 to 2022		45,758
Total estimated future payments	\$	<u>71,418</u>

Highland Hospital expects to contribute \$8,770 to the plan in 2013 and contributed \$8,770 to the plan in 2012.

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

Asset Category	<u>2012</u>	<u>2011</u>
Equity securities	57%	57%
Fixed income securities	38%	38%
Cash and other investments	5%	5%
Total	<u>100%</u>	<u>100%</u>

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

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

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

The following assets were recorded at fair value within the plan assets of Highland Hospital as of December 31, 2012 and 2011, respectively. Fair value for Level 1 is based upon quoted market prices. Level 2 may be based on quoted prices for similar assets and/or inputs other than quoted prices that are observable for the asset or liability.

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The following assets were recorded at fair value within the plan assets of the related entity as of December 31:

Description				<b>2012</b>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<b>Total Fair Value</b>
Cash	\$ 94	\$ -	\$ -	\$ 94
Mutual fund – global balanced asset	50,829	-	-	50,829
Mutual fund – multi asset	-	51,371	-	51,371
Total	<u>\$ 50,923</u>	<u>\$ 51,371</u>	<u>\$ -</u>	<u>\$ 102,294</u>

  

Description				<b>2011</b>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<b>Total Fair Value</b>
Cash	\$ 370	\$ -	\$ -	\$ 370
Mutual fund – global balanced asset	44,116	-	-	44,116
Mutual fund – multi asset	-	43,179	-	43,179
Total	<u>\$ 44,486</u>	<u>\$ 43,179</u>	<u>\$ -</u>	<u>\$ 87,665</u>

**Retirement Plan – F.F. Thompson Health System, Inc.**

F.F. Thompson Health System, Inc. sponsors a noncontributory defined benefit pension plan, the Thompson Health Pension Plan (the Plan), covering all eligible employees. Benefits under the Plan are based on each participant’s years of service and compensation, as defined by the Plan document. The annual measurement date for the Plan is December 31. The funded status of this plan as of December 31, 2012 was \$(16,990).

The annual measurement date for the Plan is December 31. The funded status of this plan as of December 31, 2012 was \$(4,517).

**Retirement Plan – Visiting Nurse Service of Rochester and Monroe County, Inc.**

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

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**(10) Investment in Captive Insurance Company**

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

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

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

	<b>2012</b>	<b>2011</b>
	<b>Audited</b>	<b>Audited</b>
<b>Results of operations</b>		
Net earned premiums	\$ 165,644	\$ 169,622
Expenses	(214,991)	(214,203)
Investment income and realized gains on sales of marketable securities	<u>63,076</u>	<u>48,183</u>
Net income	13,729	3,602
Other comprehensive income / (loss)	<u>57,755</u>	<u>(33,110)</u>
Comprehensive income / (loss)	71,484	(29,508)
Net capital additions from shareholders	<u>89,390</u>	<u>69,900</u>
Change in shareholders' equity	<u>\$ 160,874</u>	<u>\$ 40,392</u>
<b>Financial position</b>		
Total assets	\$ 2,768,977	\$ 2,566,269
Total liabilities	<u>2,339,043</u>	<u>2,297,209</u>
Shareholders' equity	<u>\$ 429,934</u>	<u>\$ 269,060</u>

**(11) Professional Liability Claims**

The University's coverage for professional liability insurance is provided under insurance policies obtained jointly with other universities and teaching hospitals. The primary layer of coverage, as well as the buffer and self-insured layers of excess insurance, were written by MCIC Vermont, Inc. (a Risk Retention Group) formed and directed by the participating insured institutions. Multiple layers of excess insurance were purchased from several different insurance companies. The maximum coverage for the Medical Center is \$221,000 per claim. The per claim coverage amount at each of the five participating institutions has been tailored to their own experience and exposures.

In fiscal year 2012, the University adopted the principles of insurance claim and recovery accounting for professional liability claims. This required liability claims and any anticipated insurance recoveries, to be reported on a gross basis versus the previous practice of netting the recoveries against liability claims. The insurance claims receivable, as calculated by the actuaries, was approximately \$52,511 and \$47,691 as of June 30, 2013 and 2012 respectively, and has been included in other accounts receivable as shown in note 3. A corresponding increase to the accrued professional liability cost has been included in accounts payable and accrued expenses.

Based on estimates provided by the actuaries retained by MCIC Vermont, Inc., the University's obligations for incurred but not reported claims were \$28,148 and \$30,124 as of June 30, 2013 and 2012, respectively. These amounts have not been discounted and are included in accounts payable and accrued expenses on the consolidated balance sheet.

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**(12) Fair Value of Financial Instruments**

The following tables present the fair value of the financial instruments recorded on the consolidated balance sheet as of June 30:

	<u>Quoted Market Prices (Level 1)</u>	<u>Significant Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>	<u>2013 Total Fair Value</u>
<u>Assets</u>				
<b>Total Cash and cash equivalents</b>	\$ -	\$ 159,457	\$ -	\$ 159,457
<b>Operating and long term investments:</b>				
Cash and cash equivalents	144,303	94,992	-	239,295
Debt securities				
Asset backed securities	-	25,597	-	25,597
Bank loans	-	36	-	36
Bond funds	108,204	-	1,990	110,194
Corporate bonds	-	24,534	-	24,534
Government bonds & securities	-	21,052	-	21,052
Mortgage backed bonds	-	2	-	2
Other	6,101	5,328	-	11,429
Common, mutual fund & preferred stock				
Common stock	264,313	1	200	264,514
Equity exchange traded funds	156	-	-	156
Mutual funds (domestic)	7,085	46,667	-	53,752
Mutual funds (global)	-	-	-	-
Mutual funds (international)	134,021	198,503	-	332,524
Preferred stock	-	-	-	-
Real assets	323	-	281,144	281,467
Private equity	-	-	341,182	341,182
Hedge funds	-	58,972	297,439	356,411
Other	17,134	2,283	28,739	48,156
<b>Total operating and long term investments</b>	<u>681,640</u>	<u>477,967</u>	<u>950,694</u>	<u>2,110,301</u>
Interest in net assets of foundations	-	-	14,647	14,647
Trusts held by others	-	-	51,260	51,260
<b>Total assets at fair value</b>	<u>\$ 681,640</u>	<u>\$ 637,424</u>	<u>\$ 1,016,601</u>	<u>\$ 2,335,665</u>
<u>Liabilities</u>				
Interest rate swap payable	\$ -	\$ 28,006	\$ -	\$ 28,006
<b>Total liabilities at fair value</b>	<u>\$ -</u>	<u>\$ 28,006</u>	<u>\$ -</u>	<u>\$ 28,006</u>

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	<u>Quoted Market Prices (Level 1)</u>	<u>Significant Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>	<u>2012 Total Fair Value</u>
<u>Assets</u>				
<b>Total Cash and cash equivalents</b>	\$ -	\$ 26,040	\$ -	\$ 26,040
<b>Operating and long term investments:</b>				
Cash and cash equivalents	143,988	67,980	-	211,968
Debt securities				
Asset backed securities	-	35,543	-	35,543
Bank loans	-	175	-	175
Bond funds	72,678	1,642	2,013	76,333
Corporate bonds	-	49,498	35	49,533
Government bonds & securities	-	63,475	-	63,475
Mortgage backed bonds	-	7,448	-	7,448
Other	5,591	5,464	-	11,055
Common, mutual fund & preferred stock				
Common stock	237,280	-	200	237,480
Equity exchange traded funds	129	-	-	129
Mutual funds (domestic)	14,546	29,821	-	44,367
Mutual funds (global)	4,965	-	-	4,965
Mutual funds (international)	56,888	181,384	-	238,272
Preferred stock	683	-	-	683
Real assets	323	-	291,513	291,836
Private equity	-	-	362,398	362,398
Hedge funds	-	68,168	285,318	353,486
Other	14,317	4,351	24,156	42,824
<b>Total operating and long term investments</b>	<b>551,388</b>	<b>514,949</b>	<b>965,633</b>	<b>2,031,970</b>
Interest in net assets of foundations	-	-	12,330	12,330
Trusts held by others	-	-	46,877	46,877
<b>Total assets at fair value</b>	<b>\$ 551,388</b>	<b>\$ 540,989</b>	<b>\$ 1,024,840</b>	<b>\$ 2,117,217</b>
<u>Liabilities</u>				
Interest rate swap payable	-	37,755	-	37,755
<b>Total liabilities at fair value</b>	<b>\$ -</b>	<b>\$ 37,755</b>	<b>\$ -</b>	<b>\$ 37,755</b>

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

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

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

Investments in perpetual trusts held by others are valued at the fair value of the assets contributed to the trusts and are considered Level 3 assets. The primary unobservable inputs used in the fair value measurement of the foundation and perpetual trust assets are the underlying securities held by the foundations and trusts. Significant fluctuation in the market value of these underlying securities could result in a material change in fair value.

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

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

	<b>Notional Amount</b>	<b>2013 Level 2 Fair Value</b>	<b>2012 Level 2 Fair Value</b>
Accounts payable	\$ 233,975	\$ 28,006	\$ 37,755

Effect of interest swaps on statements of activities:

	<b>2013 Unrealized Gain/(Loss)</b>	<b>2012 Unrealized Gain/(Loss)</b>
Non-operating net appreciation / (depreciation)	\$ 10,752	\$ (12,772)

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



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

	<u>Balance June 30, 2012</u>	<u>Realized Gains/(Losses)</u>	<u>Unrealized Gains/(Losses)</u>	<u>Purchases</u>	<u>Sales</u>	<u>Settlements</u>	<u>Transfers In/(Out) of Level 3</u>	<u>Balance June 30, 2013</u>
Investments:								
Debt securities	\$ 2,048	\$ 1	\$ (23)	\$ -	\$ (36)	\$ -	\$ -	\$ 1,990
Common, mutual fund & preferred stock	200	-	-	-	-	-	-	200
Private equity	362,398	-	(3,377)	36,408	(5,482)	(48,765)	-	341,182
Hedge funds	285,318	10,428	27,715	5,999	(29,896)	(2,125)	-	297,439
Real assets and other	315,669	1,332	(9,066)	33,606	-	(31,658)	-	309,883
Interest in net assets of foundations	12,330	505	655	3,000	(1,843)	-	-	14,647
Investments in perpetual trusts held by others	<u>46,877</u>	<u>1,921</u>	<u>2,490</u>	<u>754</u>	<u>(782)</u>	<u>-</u>	<u>-</u>	<u>51,260</u>
Total fair value	<u>\$ 1,024,840</u>	<u>\$ 14,187</u>	<u>\$ 18,394</u>	<u>\$ 79,767</u>	<u>\$ (38,039)</u>	<u>\$ (82,548)</u>	<u>\$ -</u>	<u>\$ 1,016,601</u>

	<u>Balance June 30, 2011</u>	<u>Realized Gains/(Losses)</u>	<u>Unrealized Gains/(Losses)</u>	<u>Purchases</u>	<u>Sales</u>	<u>Settlements</u>	<u>Transfers In/(Out) of Level 3</u>	<u>Balance June 30, 2012</u>
Investments:								
Debt securities	\$ 1,715	\$ 2	\$ 378	\$ 60	\$ (107)	\$ -	\$ -	\$ 2,048
Common, mutual fund & preferred stock	-	-	-	200	-	-	-	200
Private equity	400,557	(363)	(24,576)	37,080	-	(50,300)	-	362,398
Hedge funds	294,549	5,482	(1,470)	15,763	(23,573)	(5,433)	-	285,318
Real assets and other	280,292	(5)	(9,943)	67,464	-	(22,139)	-	315,669
Interest in net assets of foundations	13,743	31	(213)	2,310	(3,541)	-	-	12,330
Investments in perpetual trusts held by others	<u>49,780</u>	<u>503</u>	<u>(3,502)</u>	<u>637</u>	<u>(541)</u>	<u>-</u>	<u>-</u>	<u>46,877</u>
Total fair value	<u>\$ 1,040,636</u>	<u>\$ 5,650</u>	<u>\$ (39,326)</u>	<u>\$ 123,514</u>	<u>\$ (27,762)</u>	<u>\$ (77,872)</u>	<u>\$ -</u>	<u>\$ 1,024,840</u>

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All net realized and unrealized gains/(losses) in the tables above are reflected in net appreciation/(depreciation) of long-term investment activities in the accompanying statement of activities. Net unrealized gains/(losses) relate to those financial instruments held by the University at June 30, 2013 and 2012.

The University is permitted under US GAAP to estimate the fair value of an investment at the measurement date using the reported NAV without further adjustment unless the entity expects to sell the investment at a value other than NAV or if the NAV is not calculated in accordance with US GAAP. The University's investments in private equity, real estate, and certain hedge funds in the absolute return portfolio are recorded at fair value based on the most current NAV.

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

The guidance also requires additional disclosures to enable users of the financial statements to understand the nature and risk of the University's investments. Furthermore, investments which can be redeemed at NAV by the University on the measurement date or within 90 days are classified as Level 2. Investments which cannot be redeemed on the measurement date or within 90 days are classified as Level 3.

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<u>Strategy</u>	<u>2013 Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice</u>
Hedge funds:				
Long/short	\$ 193,376	\$ -	Quarterly, annually, 1 & 3 year rolling lock-ups	45 - 90 days
Multi-strategy	123,913	-	Quarterly, annually, 1 & 2 year rolling lock-ups	45 - 90 days
Private equity:			<u>Remaining Fund Life</u>	<u>Drawdown Period</u>
Buyouts	221,345	62,015	1 to 10 years	1 to 7 years
Venture capital	92,846	25,587	1 to 12 years	1 to 6 years
Distressed	24,937	8,059	1 to 5 years	1 to 3 years
Real assets:				
Real estate	185,180	38,352	1 to 10 years	1 to 5 years
Natural resources	95,964	53,072	1 to 12 years	1 to 5 years
Total alternative partnerships	937,561	187,085		
Other Alternative Investments:				
Commingled funds of public equities	326,290	-	Monthly	15 - 60 days
Commingled funds of fixed income	2,054	-	NA – held to maturity	NA
Total other alternative investments	328,344	-		
<b>Total alternative investments</b>	<b>\$ 1,265,905</b>	<b>\$ 187,085</b>		

<u>Strategy</u>	<u>2012 Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice</u>
Hedge funds:				
Long/short	\$ 170,004	\$ -	Quarterly, annually, 1 & 3 year rolling lock-ups	45 - 90 days
Multi-strategy	153,511	-	Quarterly, annually, 1 & 2 year rolling lock-ups	45 - 90 days
Private equity:			<u>Remaining Fund Life</u>	<u>Drawdown Period</u>
Buyouts	239,729	60,831	1 to 10 years	1 to 7 years
Venture capital	83,484	19,762	1 to 12 years	1 to 6 years
Distressed	33,182	9,667	1 to 5 years	1 to 3 years
Real assets:				
Real estate	185,899	50,791	1 to 10 years	1 to 5 years
Natural resources	105,614	56,018	1 to 12 years	1 to 5 years
Total alternative partnerships	971,423	197,069		
Other Alternative Investments:				
Commingled funds of public equities	223,021	-	Monthly	15 - 60 days
Commingled funds of fixed income	6,003	-	NA – held to maturity	NA
Total other alternative investments	229,024	-		
<b>Total alternative investments</b>	<b>\$ 1,200,447</b>	<b>\$ 197,069</b>		

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**(13) Lines of Credit**

The University has a \$50,000 committed line of credit agreement with Northern Trust Company that is subject to credit review and renewal. Under this agreement, no amounts were outstanding at June 30, 2013 and 2012, respectively.

The University has a \$75,000 committed line of credit agreement with JPMorgan Chase Bank, N.A. that is subject to credit review and renewal. Under this agreement, no amounts were outstanding at June 30, 2013 and 2012, respectively.

The University has a \$50,000 committed line of credit agreement with U.S. Bank, N.A. that is subject to credit review and renewal. Of this total, \$950 and \$950 were outstanding at June 30, 2013 and 2012, respectively.

The University has \$532 in standby letters of credit with JPMorgan Chase Bank, N.A. to cover potential liabilities of other financial obligations.

**(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, 2013, the University has entered into construction contracts and commitments aggregating \$834,324 (\$687,474 at June 30, 2012) of which \$614,439 (\$573,178 at June 30, 2012) had been fulfilled.

**(15) Leases**

The University leases research laboratories, office space, and equipment under operating leases expiring through August 2023. Rental expense for the years ended June 30, 2013 and 2012 totaling \$36,873 and \$32,583, 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:

	<b>University</b>	<b>Related Entities</b>
2014	\$ 26,731	\$ 4,937
2015	21,288	4,557
2016	13,089	3,969
2017	8,519	3,411
2018	7,764	3,333
Thereafter	30,650	3,045
Total minimum lease payments	\$ 108,041	\$ 23,252

**(16) Scholarships, Grants, and Fellowships**

The University awarded a total of \$162,473 and \$151,430 in scholarships, grants and fellowships during fiscal years 2013 and 2012, respectively. In addition, the University awarded \$25,127 and \$22,407, respectively, of scholarships, grants and fellowships as compensation to the recipients. Of this amount, \$12,027 and \$10,492, 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.

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**(17) Uncompensated Care**

The University's policy is to treat patients in need of medical services without regard to their ability to pay for such services. The University maintains records to identify and monitor the level of uncompensated care it provides. These records include the amount of charges forgone for services and supplies furnished under its charity care policy. In addition to charity care, the University also provides services at rates significantly below the cost of rendering those services. The estimated difference between the cost of services provided to Medicaid patients and the reimbursement from NYS for this patient care is also monitored.

Effective January 1, 2007, the New York State Public Health Law required all hospitals to implement financial aid policies and procedures. The law also required hospitals to develop a summary of its financial aid policies and procedures that must be made publicly available. All standards set forth in the law are minimum standards.

In order to qualify for charity care, patients are expected to submit financial information demonstrating need. In many cases, patients may be unable or unwilling to provide that data. In those cases, the uncompensated care is classified as bad debt expense unless the University is able to obtain information that would indicate the patient appears to be eligible for charity care assistance. In those cases the uncompensated care is recorded as charity care.

The estimated costs of providing charity services is based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The University received funding from NYS to help defray some of the costs of indigent care in the amount of \$13,318 and \$11,788 in 2013 and 2012, respectively.

During the years ended June 30, 2013 and 2012, the following levels of uncompensated care were provided:

	<b>2013</b>	<b>2012</b>
Charity care at cost	\$ 27,728	\$ 26,609
Excess of cost over reimbursement for services provided to Medicaid patients	55,389	50,299
Bad debts expense	24,435	15,138
	\$ 79,824	\$ 65,437

**(18) 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:

	<b>2013</b>	<b>2012</b>
Instruction	\$ 318,347	\$ 313,698
Research	302,371	315,548
Public service	8,287	8,337
Libraries and other academic support	62,211	59,377
Student services	55,018	50,325
Institutional support	100,417	97,600
Hospital and faculty practice patient care	1,993,961	1,795,828
Auxiliary enterprises	93,194	91,216
Total functional expenses	\$ 2,933,806	\$ 2,731,929

**UNIVERSITY OF ROCHESTER  
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June 30, 2013 and 2012  
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**(19) F.F. Thompson Health System, Inc. Acquisition**

On August 31, the University and F.F. Thompson Health System, Inc. (THS) entered into an agreement pursuant to which the University became the sole member of THS. The principal purposes of the alignment are to develop a regional, integrated healthcare delivery system that will maximize quality and efficient cost effective service delivery for the Finger Lakes Region of New York State. Until the acquisition occurred, THS was a New York State not-for-profit corporation and an organization described in Section 501(c)(3) of the Internal Revenue Code. THS, located in Canandaigua, New York, remains the sole member of the following separate corporations:

The Frederick Ferris Thompson Hospital (FFTH) and M.M. Ewing Continuing Care Center (MMECCC) are not-for-profit corporations engaged in providing acute and long-term health care services to the community.

F.F.T Senior Communities, Inc. (FFTSC) is a not-for-profit corporation that is the sponsor of a residential community, consisting of 84 independent living units and 48 enriched living units in Canandaigua, New York.

FFTH Properties and Services, Inc. (FFTH Properties) is a for-profit New York State business corporation organized for the purpose of owning, developing and operating unregulated real property for the benefit of THS. FFTH Properties owns and operates one medical office building in Canandaigua, New York and one medical office building in the town of Farmington, New York.

The F.F. Thompson Foundation, Inc (FFTF) is a not-for-profit corporation which operates exclusively to provide funds for the benefit of the not-for-profit health care organizations in THS.

The alignment was accounted for as an acquisition under the Merger and Acquisition guidance for not-for-profit entities. As such, the University recorded approximately \$45,594 in the cumulative effect of

acquisition line in the consolidated statements of activities. The amount represents the excess of the fair value of assets acquired over the fair value of liabilities assumed, of which \$12,175 reflects the fair value adjustment as of August 31, 2012. The consolidated statements of activities reflect an increase in net assets of \$2,348 from the date of acquisition (August 31, 2012) to the year ended June 30, 2013. No consideration was exchanged for the acquisition.

The fair value of assets acquired, liabilities assumed and the net assets of THS at August 31, 2012 were as follows:

Assets	
Cash and cash equivalents	\$ 10,165
Accounts receivable	11,406
Inventories, prepaid expenses, and deferred charges	5,822
Contributions receivable	1,607
Other assets	589
Investments held for long-term purposes	17,790
Property, plant and equipment	109,246
Total assets acquired	<u>156,625</u>
Liabilities	
Accounts payable and accrued expenses	16,133
Deferred revenue	9,575
Third party settlements payable	5,094
Accrued pension, post-retirement, and post-employment	19,511
Long-term debt	56,533
Asset retirement obligation	898
Total liabilities assumed	<u>107,744</u>
Net Assets	
Unrestricted	42,994
Temporarily restricted	5,338
Permanently restricted	549
Total net assets	<u>48,881</u>
Total liabilities and net assets	<u>\$ 156,625</u>

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A summary of the financial results of THS included in the consolidated statements of activities from the period August 31, 2012 through June 30, 2013 are as follows:

Hospital and patient care activities	\$ 98,137
Other operating revenues	3,801
Total operating revenues	<u>101,938</u>
Total operating expenses	<u>103,400</u>
Change in net assets from operating activities	(1,462)
Change in net assets from non-operating activities	3,810
Change in net assets	<u>\$ 2,348</u>
Increase in unrestricted net assets	2,803
Decrease in temporarily restricted net assets	(455)
Change in net assets	<u>\$ 2,348</u>

A summary of consolidated financial results as if the acquisition had occurred on July 1, 2011 are as follows:

	<u>2013</u>	<u>2012</u>
Total consolidated revenue	\$ <u>3,051,803</u>	\$ <u>2,953,332</u>
Change in unrestricted net assets	\$ 165,942	\$ (67,972)
Change in temporarily restricted net assets	70,732	(3,720)
Change in permanently restricted net assets	<u>17,270</u>	<u>35,526</u>
Change in total net assets	<u>\$ 253,944</u>	<u>\$ (36,166)</u>

THS revenue and changes in net assets included in the table above represent the twelve months ending December 31, 2012 and 2011, respectively.

**(20) Subsequent Events**

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**(a) Bonds Payable – Series 2013**

Pursuant to an agreement between the University and Monroe County Industrial Development Corporation (MCIDC) dated September 19, 2013, MCIDC issued and sold \$264,490 of bonds known as the University of Rochester Revenue Bonds, Series 2013, consisting of \$118,855 Series 2013A bonds, \$74,905 Series 2013B bonds, and \$70,730 Series 2013C bonds. The Series 2013 bonds were issued at a premium of \$5,125 resulting in proceeds of \$269,615.

Series 2013A bonds were issued to finance (1) renovations to laboratories and offices throughout the River Campus and Medical Center; (2) renovation and modernization to various undergraduate and graduate residential facilities; (3) renovation and waterproofing of Rush Rhees Library; (4) various renovations for Fauver Stadium; (5) renovation and modernization of the central utilities plant; (6) renovations and the acquisition of new chillers for South Campus; (7) electrical improvements to the University Data Center; (8) replacement and modernization of fire equipment panels throughout the Eastman School of Music campus; (9) replacement and modernization of various electrical transformers located throughout Strong Memorial Hospital; (10) renovation and modernization of the security building; (11) construction of a 530-space parking lot located near the Southside Living area; (12) renovation and modernization of the Middle Campus Chiller Plant; (13) construction of a parking garage for College Town; and (14) renovation and modernization of the Prosthodontics program at the Eastman School of Oral Health. A portion of Series 2013A was also used to refinance portions of the outstanding bonds for Series 2004A.

Series 2013B bonds were issued to finance (1) the construction of the Golisano Children’s Hospital at Strong Memorial Hospital; (2) the relocation of the existing pharmacy within Strong Memorial Hospital; and (3) the acquisition and renovation of the former Lakeside Memorial Hospital (Strong West) campus.

# UNIVERSITY OF ROCHESTER AND RELATED ENTITIES

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Series 2013C bonds were issued to finance (1) the renovation of the Women's Health Center; (2) the renovation and expansion of the Farmington Data Center; (3) the bookstore and office space improvements at College Town; (4) the replacement of the University's current accounting system; (5) the renovation of the Miller Center located at the Eastman School of Music campus and (6) various renovations throughout the University. A portion of Series 2013C was used to refinance the outstanding debt for Series 2003 Direct Note Obligation and the Series 2004 COMIDA bond and to refinance portions of the Series 2007C, Series 2009B, Series 2009E, and Series 2011A bonds.

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

### **(b) Acquisition of Lakeside Memorial Hospital (Strong West)**

The University entered into an agreement with Lakeside Health System, Inc. to purchase the assets of Lakeside Memorial Hospital, Lakeside Professional Office Building, and other aspects of the Lakeside medical campus located within the Village of Brockport, Town of Sweden for \$2,880. The closing of the agreement occurred on August 14, 2013, when Lakeside Health System, Inc. was absorbed into the University and was renamed Strong West. The purchase of Lakeside Memorial Hospital will be included in the 2014 consolidated statements of the University.