

**UNIVERSITY OF ROCHESTER
AND RELATED ENTITIES**

Consolidated Financial Statements

June 30, 2018 and 2017

UNIVERSITY OF ROCHESTER
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Report of Independent Auditors

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, 2018 and 2017, and the related consolidated statements of activities and of cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the University of Rochester and its related entities as of June 30, 2018 and 2017, and their changes in net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

Rochester, New York
October 12, 2018

**UNIVERSITY OF ROCHESTER
AND RELATED ENTITIES
Consolidated Balance Sheet
June 30, 2018 and 2017
(dollars in thousands)**

Assets	2018	2017
Cash and cash equivalents	\$ 260,503	\$ 310,514
Short-term investments	435,453	460,525
Accounts receivable, net	500,009	415,307
Inventories, prepaid expenses, and deferred charges	77,512	69,646
Contributions receivable, net	104,573	93,930
Notes receivable, net	18,126	19,822
Other assets	49,424	40,969
Investments held for long-term purposes	2,596,687	2,474,288
Property, plant and equipment, net	2,171,006	2,091,083
Interest in net assets of foundations	18,837	17,740
Investments in perpetual trusts held by others	60,852	59,462
	<u>60,852</u>	<u>59,462</u>
Total assets	<u>\$ 6,292,982</u>	<u>\$ 6,053,286</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 516,906	\$ 485,938
Deferred revenue	83,028	79,158
Third-party settlements payable, net	152,077	148,069
Accrued pension, post-retirement, and post-employment	561,639	578,234
Long-term debt	1,222,514	1,255,923
Asset retirement obligation	36,879	30,060
Refundable U.S. Government grants for student loans	14,631	16,662
	<u>14,631</u>	<u>16,662</u>
Total liabilities	2,587,674	2,594,044
Net Assets:		
Unrestricted	2,384,483	2,234,422
Temporarily restricted	723,428	661,267
Permanently restricted	597,397	563,553
	<u>597,397</u>	<u>563,553</u>
Total net assets	<u>3,705,308</u>	<u>3,459,242</u>
Total liabilities and net assets	<u>\$ 6,292,982</u>	<u>\$ 6,053,286</u>

See accompanying notes to consolidated financial statements.

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating revenues:				
Tuition and fees	\$ 494,362	\$ -	\$ -	\$ 494,362
Less: scholarships and fellowships	(225,767)	-	-	(225,767)
Net tuition and fees	268,595	-	-	268,595
Grants and contracts	411,388	-	-	411,388
Gifts and pledges	26,784	48,451	25,727	100,962
Hospital and faculty practice patient care	3,246,429	-	-	3,246,429
Auxiliary enterprises	140,365	-	-	140,365
Interest income and apprec. of short-term investments	25,677	-	-	25,677
Educational activities	21,287	-	-	21,287
Other sources	82,182	-	-	82,182
Long-term investment income and gains allocated to operations	102,171	-	-	102,171
Net assets released from restriction	82,259	(85,826)	3,567	-
Total operating revenues	4,407,137	(37,375)	29,294	4,399,056
Operating expenses:				
Salaries and wages	2,043,466	-	-	2,043,466
Fringe benefits	573,279	-	-	573,279
Total compensation	2,616,745	-	-	2,616,745
Supplies	714,704	-	-	714,704
Business and professional	299,294	-	-	299,294
Utilities	60,971	-	-	60,971
Maintenance and facilities costs	150,888	-	-	150,888
Depreciation	230,618	-	-	230,618
Interest	41,390	-	-	41,390
Other	186,490	-	-	186,490
Total operating expenses	4,301,100	-	-	4,301,100
Change in net assets from operating activities	106,037	(37,375)	29,294	97,956
Non-operating activities:				
Long-term investment activities:				
Investment income (loss)	11,367	1,353	(177)	12,543
Net appreciation	105,587	98,344	4,864	208,795
Total long-term investment activities	116,954	99,697	4,687	221,338
Long-term investment income and gains allocated for operations	(102,171)	-	-	(102,171)
Loss on extinguishment of debt	(26,760)	-	-	(26,760)
Other changes, net	51,242	(828)	(303)	50,111
Change in valuation of annuities	(747)	34	25	(688)
Change in net assets from non-operating activities	38,518	98,903	4,409	141,830
Change in net assets before acquisition	144,555	61,528	33,703	239,786
Excess of assets acquired over liabilities assumed in acquisition	5,506	633	141	6,280
Change in net assets	150,061	62,161	33,844	246,066
Beginning net assets	2,234,422	661,267	563,553	3,459,242
Ending net assets	<u>\$ 2,384,483</u>	<u>\$ 723,428</u>	<u>\$ 597,397</u>	<u>\$ 3,705,308</u>

See accompanying notes to consolidated financial statements.

**UNIVERSITY OF ROCHESTER
AND RELATED ENTITIES**
Consolidated Statement of Activities
For The Year Ended June 30, 2017
(dollars in thousands)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Operating revenues:				
Tuition and fees	\$ 475,519	\$ -	\$ -	\$ 475,519
Less: scholarships and fellowships	(212,589)	-	-	(212,589)
Net tuition and fees	262,930	-	-	262,930
Grants and contracts	373,488	-	-	373,488
Gifts and pledges	21,845	40,849	30,269	92,963
Hospital and faculty practice patient care	2,930,909	-	-	2,930,909
Auxiliary enterprises	123,241	-	-	123,241
Interest income and apprec. of short-term investments	28,247	-	-	28,247
Educational activities	15,317	-	-	15,317
Other sources	65,269	20	-	65,289
Long-term investment income and gains allocated to operations	98,467	-	-	98,467
Net assets released from restriction	68,068	(70,251)	2,183	-
Total operating revenues	<u>3,987,781</u>	<u>(29,382)</u>	<u>32,452</u>	<u>3,990,851</u>
Operating expenses:				
Salaries and wages	1,900,936	-	-	1,900,936
Fringe benefits	523,238	-	-	523,238
Total compensation	2,424,174	-	-	2,424,174
Supplies	620,441	-	-	620,441
Business and professional	248,746	-	-	248,746
Utilities	59,569	-	-	59,569
Maintenance and facilities costs	136,698	-	-	136,698
Depreciation	224,197	-	-	224,197
Interest	44,384	-	-	44,384
Other	144,832	-	-	144,832
Total operating expenses	<u>3,903,041</u>	<u>-</u>	<u>-</u>	<u>3,903,041</u>
Change in net assets from operating activities	<u>84,740</u>	<u>(29,382)</u>	<u>32,452</u>	<u>87,810</u>
Non-operating activities:				
Long-term investment activities:				
Investment income/ (loss)	11,560	122	(121)	11,561
Net appreciation	142,043	126,106	9,609	277,758
Total long-term investment activities	153,603	126,228	9,488	289,319
Long-term investment income and gains allocated for operations	(98,467)	-	-	(98,467)
Gain/(loss) on extinguishment of debt	(8,088)	-	-	(8,088)
Other changes, net	30,493	(166)	(52)	30,275
Change in valuation of annuities	-	(21,576)	(387)	(21,963)
Change in net assets from non-operating activities	<u>77,541</u>	<u>104,486</u>	<u>9,049</u>	<u>191,076</u>
Change in net assets	<u>162,281</u>	<u>75,104</u>	<u>41,501</u>	<u>278,886</u>
Beginning net assets	2,072,141	586,163	522,052	3,180,356
Ending net assets	<u>\$ 2,234,422</u>	<u>\$ 661,267</u>	<u>\$ 563,553</u>	<u>\$ 3,459,242</u>

See accompanying notes to consolidated financial statements.

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

	2018	2017
Cash flows from operating activities:		
Change in net assets	\$ 246,066	\$ 278,886
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	230,618	224,197
Net appreciation on investment activities	(226,544)	(300,559)
Gifts of property, plant, equipment and other	(951)	(1,474)
Bond discount amortization	(5,881)	(3,480)
Loss on the extinguishment of debt	26,760	8,088
Provision for bad debts	50,341	42,940
Loss on disposals of property, plant, and equipment	3,565	2,288
Cumulative effect of acquisition	(6,280)	-
Contributions for long-term investment, net	(63,535)	(65,714)
Increases in:		
Accounts receivable, net	(130,094)	(72,195)
Inventories, prepaid expenses and deferred charges	(7,051)	(8,526)
Contributions receivable, net	(5,592)	(1,205)
Other assets	(8,208)	(1,637)
Increases/(decreases) in:		
Accounts payable and accrued expenses	38,219	26,341
Deferred revenues	3,870	(4,119)
Third-party settlements payable, net	2,377	(6,152)
Accrued pension, post-retirement, and post-employment	(16,595)	5,940
Net cash provided by operating activities	131,085	123,619
Cash flows from investing activities:		
Purchases of property, plant and equipment	(308,800)	(317,461)
Purchases of investments	(1,259,180)	(1,901,840)
Proceeds from the sale of investments	1,341,914	1,960,981
(Increase)/decrease in investments in perpetual trusts held by others	(53)	156
Decrease in notes receivable, net	1,696	29,660
Cash received in acquisition	2,531	-
Net cash used in investing activities	(221,892)	(228,504)
Cash flows from financing activities:		
Net borrowings on lines-of-credit	4,011	8,203
Principal repayments of long-term debt	(304,933)	(274,701)
Proceeds from issuance of long-term debt	279,356	339,095
Deferred financing costs	858	(336)
Increase in refundable U.S. Government grants for student loans	(2,031)	203
Contributions for long-term investment, net	63,535	65,714
Net cash provided by financing activities	40,796	138,178
Net increase/(decrease) in cash and cash equivalents	(50,011)	33,293
Cash and cash equivalents, beginning of year	310,514	277,221
Cash and cash equivalents, end of year	\$ 260,503	\$ 310,514
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest on long-term debt	\$ 38,660	\$ 51,808
Non-cash investing and financing activities:		
Increase/(decrease) in construction related payables	\$ (6,565)	\$ 5,211
Assets acquired under capital leases	\$ 1,651	\$ 465

See accompanying notes to consolidated financial statements.

UNIVERSITY OF ROCHESTER AND RELATED ENTITIES

Notes to Consolidated Financial Statements

June 30, 2018 and 2017
(dollars in thousands)

(1) Summary of Significant Accounting Policies

(a) General

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

(b) Basis of Presentation

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

The University is the sole member of SPHS, which is the sole member of Highland Hospital of Rochester (including its subsidiaries 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 its subsidiaries.

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

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

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

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

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

The University of Rochester Real Estate Corporation (URREC) is a not-for-profit, wholly-owned special purpose organization formed to acquire, develop or renovate real property projects to benefit and support the charitable purposes of the University. The URREC facilitated a New Markets Tax Credit financing arrangement which ended in fiscal year 2017, for the renovation of the Eastman Theatre housed inside the Eastman School of Music.

The University is the sole stockholder of UR Equity Holdings, Inc., a for-profit corporation that was formed for the purpose of holding the University's equity interests in startup companies.

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

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

On January 1, 2016, the University became the sole corporate member of Livingston Health Care System, Inc., including Noyes Memorial Hospital and subsidiaries (Noyes) and the Memorial Hospital of William F. and Gertrude F. Jones, Inc. (Jones).

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

(c) Basis of Accounting

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

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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 trustee balances under long-term debt agreements and matching funds under student loan programs of the federal government. In addition, grants and contracts for the performances of certain services or functions are reported in the unrestricted net asset category.
- Many of the funds, which are unrestricted for accounting purposes, carry internal designations to specific divisions of the University, and therefore are not treated operationally as unrestricted funds.
- 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. Unrelated activities and income, including certain laboratory and facility rentals and income from limited partnerships in the long term investment pool, are subject to federal and state “Unrelated Business Income Tax”. The University regularly evaluates its tax position and does not believe it has any uncertain tax positions that require disclosure or adjustment to the consolidated financial statements.

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The Tax Cuts and Jobs Act (the Act) was enacted on December 22, 2017. The Act impacts the University in several ways, including a new excise tax on executive compensation, increases to unrelated business taxable income (UBTI) by the amount of certain fringe benefits for which a deduction is not allowed, changes to the net operating loss rules, repeal of the alternative minimum tax, and the computation of UBTI separately for each unrelated trade or business. Further, the Act reduces the US federal corporate tax rate and federal corporate unrelated business income tax rate from 35% to 21%. The overall impact of the Act remains uncertain and the full impact of the Act will not be known until further regulatory guidance is provided to assist the University with calculating income and excise tax liabilities. The University continues to evaluate the impact of tax reform on the consolidated financial statements.

(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 Short-Term 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.

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

(g) Inventories

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

(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 6%, to their present value. Amortization of the discount is recorded as additional contribution revenue and used in accordance with donor-imposed restrictions, if any, on the contributions. Allowance is

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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 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.

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 2018, the Board of Trustees authorized the use of total return (income and appreciation) from its endowment resources at an aggregate rate of 5.7% (5.7% during fiscal year 2017) 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.

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. Construction in progress costs are capitalized if the costs increase the square footage and/or useful life of the asset. The University capitalizes interest during periods of construction. Expenses incurred to restore property, plant, and equipment to like new condition or extends the useful life of the asset are capitalized. Minor renovations are expensed as incurred and are recorded within the University's statement of activities.

The University reviews property, plant, and equipment for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable.

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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 is not subject to depreciation. Estimated useful lives for non-research assets are as follows:

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

The University reports gifts of property, plant, and equipment as 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 by the Board of Trustees). There is no depreciation recorded on collection items.

(l) Split Interest Agreements and Perpetual Trusts

The University's split interest agreements with donors consist primarily of gift annuities, unitrusts, charitable remainder annuity trusts, and life income agreements. Assets held under these agreements are included in investments held for long-term purposes and investments in perpetual trusts held by others. For fiscal years 2018 and 2017, the fair values for split interest agreements assets are \$125,871 and \$123,096, 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 based actuarial estimates of the lives of the beneficiaries and the relative value of the agreements. 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. For fiscal years 2018 and 2017, deferred gift liabilities of \$73,028 and \$74,857, respectively, are included in accounts payable and accrued expenses. The University is also the beneficiary of certain perpetual trusts held and administered by others. The present values of the estimated future cash receipts, which are measured by the fair value of the assets contributed to the trust, are recognized as assets and contribution revenues at the dates the trusts are established. The carrying value of the assets is adjusted for changes in the fair value of the trust assets for both split interest agreements and perpetual trusts.

(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. Under federal law, the authority for schools to make new Perkins Loans ended on September 30, 2017, and final disbursements were permitted

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through June 30, 2018. The University is now required to return excess federal funds on an annual basis as Perkins Loans mature.

(n) Grants and Contracts

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

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

(o) Benefit Plans

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

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

(p) Hospital and Faculty Practice Patient Care Activities

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

Medicare

Under the Medicare program, the Hospitals receive reimbursement under a prospective payment system (PPS) for inpatient services. Under the hospital inpatient PPS, fixed payment amounts per inpatient discharge are established based on the patient's assigned diagnosis related group (DRG). When the estimated cost of treatment for certain patients is higher than the average, providers typically will receive additional "outlier" payments. The Hospitals also receive reimbursement under a prospective payment system for certain medical outpatient services, based on service groups, called ambulatory payment classifications (APCs). Other outpatient services are based upon a fee schedule and/or actual costs. The Hospitals' Medicare cost reports are subject to audit by a fiscal intermediary. Such audits have been done through December 31, 2009 for Strong Memorial Hospital; December 31, 2014 for Highland Hospital; December 31, 2015 for FFT Hospital; December 31, 2014 for Memorial Hospital of William F. and Gertrude F. Jones, Inc.; December 31, 2015 for Noyes Memorial Hospital; and December 31, 2014 for St. James Mercy Hospital.

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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 Hospitals' 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 Blue Cross and MVP Health Care accounted for approximately 29% and 5%, respectively, of the Hospitals' net patient service revenue for the year ended June 30, 2018, and 30% and 5%, respectively, for the year ended June 30, 2017.

Revenue from Medicare and Medicaid programs, including Medicare Advantage and Medicaid Managed Care plans, accounted for approximately 35% and 16%, respectively, of the Hospitals' net patient revenue for the fiscal year ended June 30, 2018, and 35% and 16%, respectively, for the year ended June 30, 2017. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by material amounts in the near term. The Hospitals believe that they are in compliance, in all material respects, with all applicable laws and regulations and are not aware of any pending or threatened investigations involving allegations of potential wrongdoing. Compliance with such laws and regulations can be subject to future government review and interpretation. Non-compliance with such laws and regulations could result in repayments of amounts improperly reimbursed, substantial monetary fines, civil and criminal penalties and exclusion from the Medicare and Medicaid programs.

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

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such adjustments. During fiscal years 2018 and 2017, the Hospitals recognized approximately \$41,831 and \$19,308, respectively, of net patient service revenue as a result of changes in estimates related to third-party settlements. In addition, the Hospitals recognized additional third-party payables of approximately \$31,121 and \$7,988 related to fiscal years 2018 and 2017, 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.

(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 University 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 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, the inputs utilized in determining the fair value of investments allowances for doubtful accounts, self-insured risks, and third-party payor contractual adjustments and allowances. Actual results may differ from those estimates.

(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 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.

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(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 appreciation/depreciation in the statements of activities. The University selected the combination of variable rate bond issues and interest rate swap agreements to obtain fixed rate financing at the lowest available cost at the time of the transactions. The University is exposed to credit loss in the event of nonperformance by the counterparty to its long-term rate swaps. The interest rate swaps do not qualify for cash flow hedge accounting.

(v) Reclassification

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

(w) New Authoritative Pronouncements

In May 2014, the FASB issued ASU 2014-09 - Revenue from Contracts with Customers (Topic 606). This standard implements a single framework for recognition of all revenue earned from customers. This framework ensures that entities appropriately reflect the consideration to which they expect to be entitled in exchange for goods and services by allocating transaction price to identified performance obligations and recognizing revenue as performance obligations are satisfied. Qualitative and quantitative disclosures are required to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The standard is effective for the fiscal year ending June 30, 2019.

In August 2016, the FASB issued ASU 2016-14 - Presentation of Financial Statements for Not-for-Profit Entities. Under the new guidance, the existing three-category classification of net assets will be collapsed into two categories: with donor restrictions and without donor restrictions. Endowments that have a current fair value that is less than the original gift amount (underwater) will be classified in net assets with donor restrictions and expanded disclosures will be required. Additional requirements include disclosure of board-designated net assets, expanded reporting to present expenses by function and natural classification and eliminating the disclosure of investment expenses that are netted against investment returns. The standard is effective for the fiscal year ending June 30, 2019.

In June 2018, the FASB issued ASU 2018-08 - Clarifying the scope and the accounting guidance for contributions received and contributions made (Topic 958). The amendments assist in evaluating whether transactions should be accounted for as contributions or as exchange transactions subject to other guidance and in determining whether a contribution is conditional. The new standard is effective for contributions received for the fiscal year ending June 30, 2019.

In February 2016, the FASB issued ASU 2016-02 - Leases (Topic 842) to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The standard is effective for the fiscal year ending June 30, 2020. The University is currently evaluating the impact its adoption will have on the consolidated financial statements.

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

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(2) Net Assets

Unrestricted net assets consist of the following at June 30:

	<u>2018</u>	<u>2017</u>
Designated:		
University divisions	\$ 1,291,390	\$ 1,309,517
Highland Hospital and affiliates	91,937	57,943
Eastman Dental Center Foundation	<u>27,753</u>	<u>27,743</u>
Total designated	1,411,080	1,395,203
Net investment in property, plant, and equipment	911,613	805,101
Undesignated	<u>61,790</u>	<u>34,118</u>
Total unrestricted net assets	\$ <u>2,384,483</u>	\$ <u>2,234,422</u>

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

	<u>2018</u>	<u>2017</u>
Accumulated appreciation on permanently restricted net assets subject to purpose restrictions	\$ 587,170	\$ 539,632
Interest in net assets of foundation	18,837	17,740
Other gifts and income subject to:		
Purpose restrictions	11,105	9,064
Time restrictions:		
Contributions receivable	58,169	50,814
Split-interest agreements	<u>48,147</u>	<u>44,017</u>
Total temporarily restricted net assets	\$ <u>723,428</u>	\$ <u>661,267</u>

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

	<u>2018</u>	<u>2017</u>
Perpetual endowment funds	\$ 484,282	\$ 456,570
Interests in perpetual trusts held by others	60,852	59,319
Split-interest agreements	2,000	674
Perpetual loan funds	3,859	3,874
Contributions receivable	<u>46,404</u>	<u>43,116</u>
Total permanently restricted net assets	\$ <u>597,397</u>	\$ <u>563,553</u>

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Endowment net assets consist of the following at June 30, 2018:

	<u>Unrestricted</u>	<u>Temporary Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor - Restricted Funds				
True	\$ -	\$ 581,861	\$ 484,282	\$ 1,066,143
Term	-	5,309	-	5,309
Subtotal	-	587,170	484,282	1,071,452
Funds Functioning as Endowment	1,106,416	-	-	1,106,416
Total Endowment Funds	<u>\$ 1,106,416</u>	<u>\$ 587,170</u>	<u>\$ 484,282</u>	<u>\$ 2,177,868</u>

Roll forward of endowment net assets from July 1, 2017 to June 30, 2018:

	<u>Unrestricted</u>	<u>Temporary Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 1,047,985	\$ 539,632	\$ 456,570	\$ 2,044,187
Investment return:				
Investment income, net of fees	7,917	7,478	-	15,395
Net appreciation	93,944	90,104	658	184,706
Total investment return	101,861	97,582	658	200,101
New gifts and additions	9,037	3,283	29,625	41,945
Amounts appropriated for expenditure	(55,487)	(51,674)	-	(107,161)
Other changes and reclassifications	3,020	(1,653)	(2,571)	(1,204)
Endowment net assets, end of year	<u>\$ 1,106,416</u>	<u>\$ 587,170</u>	<u>\$ 484,282</u>	<u>\$ 2,177,868</u>

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Endowment net assets consist of the following at June 30, 2017:

	<u>Unrestricted</u>	<u>Temporary Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor - Restricted Funds				
True	\$ 311	\$ 536,523	\$ 456,570	\$ 993,404
Term	-	3,109	-	3,109
Subtotal	311	539,632	456,570	996,513
Funds Functioning as Endowment	\$ 1,047,674	\$ -	\$ -	\$ 1,047,674
Total Endowment Funds	<u>1,047,985</u>	<u>539,632</u>	<u>456,570</u>	<u>2,044,187</u>

Roll forward of endowment net assets from July 1, 2016 to June 30, 2017:

	<u>Unrestricted</u>	<u>Temporary Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 964,017	\$ 469,391	\$ 425,386	\$ 1,858,794
Investment return				
Investment income, net of fees	7,036	6,282	60	13,378
Net appreciation	127,146	116,548	2,137	245,831
Total investment return	134,182	122,830	2,197	259,209
New gifts and additions	8,339	1,186	31,723	41,248
Amounts appropriated for expenditure	(54,695)	(47,579)	-	(102,274)
Other changes and reclassifications	(3,858)	(6,196)	(2,736)	(12,790)
Endowment net assets, end of year	<u>\$ 1,047,985</u>	<u>\$ 539,632</u>	<u>\$ 456,570</u>	<u>\$ 2,044,187</u>

(3) Accounts Receivable

Accounts receivable at June 30 consist of the following:

	<u>2018</u>	<u>2017</u>
Patient care and related activities, net of allowances for doubtful accounts of \$162,081 and \$116,227	\$ 279,665	\$ 226,674
Federal, state and local governments, foundations and companies, net of allowances for doubtful accounts of \$1,000 and \$1,422	80,198	69,415
Student receivables, net of allowances for doubtful accounts of \$3,274 and \$5,102	5,627	4,932
Reinsurance recoveries and other	134,519	114,286
Total accounts receivable	<u>\$ 500,009</u>	<u>\$ 415,307</u>

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(4) Contributions

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

	<u>2018</u>	<u>2017</u>
Unconditional promises expected to be collected in:		
Less than one year	\$ 10,303	\$ 14,194
One year to five years	66,474	45,472
More than five years	<u>69,165</u>	<u>76,706</u>
Subtotal	145,942	136,372
Less unamortized discount and allowance for uncollectible amounts	<u>(41,369)</u>	<u>(42,442)</u>
Total contributions receivable, net	\$ <u>104,573</u>	\$ <u>93,930</u>

At June 30, 2018, the University had also received \$266,914 in bequest intentions and certain other conditional promises to give. These intentions and conditional promises to give are not recognized as assets. If they are received, they generally will be restricted for specific purposes stipulated by the donor, primarily endowments for faculty support, scholarships or general operating support of a particular department or division of the University.

The University expended \$40,183 and \$40,239 for University relations and development for the years ended June 30, 2018 and 2017, respectively.

(5) Notes Receivable

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

	<u>2018</u>		
	<u>Gross Receivable</u>	<u>Allowance</u>	<u>Net Receivable</u>
Federal student loans	\$ 15,178	\$ 904	\$ 14,274
Institutional student loans	<u>4,458</u>	<u>606</u>	<u>3,852</u>
Total	<u>\$ 19,636</u>	<u>\$ 1,510</u>	<u>\$ 18,126</u>
	<u>2017</u>		
	<u>Gross Receivable</u>	<u>Allowance</u>	<u>Net Receivable</u>
Federal student loans	\$ 16,784	\$ 904	\$ 15,880
Institutional student loans	<u>4,548</u>	<u>606</u>	<u>3,942</u>
Total	<u>\$ 21,332</u>	<u>\$ 1,510</u>	<u>\$ 19,822</u>

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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. Under federal law, the authority for schools to make new Perkins Loans ended on September 30, 2017, and final disbursements were permitted through June 30, 2018. The University is now required to return excess federal funds on an annual basis as Perkins Loans mature. The University refunded \$1,976 to the federal government through June 30, 2018.

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.

(6) Investments Held for Long-Term Purposes

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

		<u>2018</u>		<u>2017</u>
Endowment and similar purposes	\$	2,303,539	\$	2,167,284
Property, plant, and equipment purposes:				
Debt service reserve held by trustees under debt agreements		26,559		25,093
Bond proceeds not yet expended		67,814		103,225
Other		621		453
Total property, plant, and equipment purposes		<u>94,994</u>		<u>128,771</u>
Other purposes		<u>198,154</u>		<u>178,233</u>
Total investments held for long-term purposes	\$	<u>2,596,687</u>	\$	<u>2,474,288</u>

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

The University permits several of its investment managers to utilize forward contracts, currency options and futures with the specific authorization of the investment committee of the Board of Trustees. However, the University was not directly engaged in any of the above mentioned derivative transactions as of June 30, 2018 and 2017.

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 \$62,790 and \$45,935 for the years ended June 30, 2018 and 2017, respectively.

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(7) Property, Plant, and Equipment

As of June 30, 2018 and 2017, the University's investment in property, plant, and equipment is as follows:

	<u>2018</u>	<u>2017</u>
Buildings and improvements	\$ 3,043,267	\$ 2,913,179
Land improvements	76,370	69,308
Leasehold improvements	76,186	65,858
Equipment owned	1,437,501	1,305,501
Library books	207,725	197,718
Subtotal	<u>4,841,049</u>	<u>4,551,564</u>
Less accumulated depreciation	2,846,223	2,666,238
Subtotal	<u>1,994,826</u>	<u>1,885,326</u>
Land	19,084	13,520
Museum collections	38,179	37,492
Construction in progress	118,917	154,745
Total property, plant, and equipment, net	<u>\$ 2,171,006</u>	<u>\$ 2,091,083</u>

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(8) Long-Term Debt

The following is a summary of the University's long-term indebtedness as of June 30, including unamortized premiums of \$84,356 and \$73,227 and bond issuance costs of \$10,445 and \$10,210, respectively:

	<u>2018</u>	<u>2017</u>
Bond payable - DASNY Series 1994B, 5.50% (a)	\$ 5,124	\$ 5,801
Bond payable - DASNY Series 2003, 3.97% (b)	60,893	69,184
Bond payable - OCIDA Series 2003, 3.05% (c)	-	9,400
Bond payable - LCIDA Series 2005, 5.00% to 6.00% (d)	4,907	5,143
Bond payable - DASNY Series 2006, 3.92% (e)	51,338	61,473
Bond payable - LCIDA Series 2007, LIBOR + 110% (f)	1,158	1,904
Bond payable - DASNY Series 2009, 2.50% to 5.00% (g)	12,021	14,113
Bond payable - DASNY Series 2010, 2.00% to 5.20% (h)	8,403	8,725
Bond payable - OCLDC Series 2010, 4.64% (i)	-	26,200
Bond payable - MCIDC Series 2011, 2.00% to 5.00% (j)	25,613	83,257
Bond payable - DASNY Series 2012, 3.00% (k)	12,765	13,170
Bond payable - MCIDC Series 2013, 0.05% to 5.31% (l)	78,757	250,559
Bond payable - MCIDC Series 2015, 0.87% to 5.00% (m)	300,980	314,742
Bond payable - MCIDC Series 2015, 3.00% to 4.125% (n)	37,552	38,711
Bond payable - MCIDC Series 2017, 3.37% to 5.00% (o)	281,321	286,894
Bond payable - MCIDC Series 2017, 3.00% to 5.00% (p)	243,680	-
Bond payable - OCLDC Series 2017, 2.79% to 3.30% (q)	34,422	-
Urban Development Corporation loan (r)	500	667
Notes payables, 0.00% to 7.00%	654	1,351
Mortgage payables, 2.98% to 5.04%	7,011	7,239
Notes payable - Manufacturers and Traders Trust Bank, 3.28% (s)	5,143	5,786
Note payable - New York Life Series 2017A, 3.56% (t)	47,621	49,192
Obligations under capital leases, 0.00% to 5.97%	2,651	2,412
Total long-term debt	<u>\$ 1,222,514</u>	<u>\$ 1,255,923</u>

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

(a) 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 \$7,233 which expires July 2020 and has a renewal option.

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(b) Bonds Payable – DASNY Series 2003

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 \$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 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 refinanced the 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 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 individual letters of credit in place for DASNY Series 2003A and 2003C that total \$53,964 with JP Morgan Chase Bank, N.A, which expire in March 2019 with a renewal option. Of this total, no amounts were outstanding at June 30, 2018 and 2017.

The University has a letter of credit in place for DASNY Series 2003B in the amount of \$16,582 with HSBC Bank, N.A which expires in September 2021 with a renewal option. Of this total, no amounts were outstanding at June 30, 2018 and 2017.

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(c) Bonds Payable – OCIDA Series 2003

Pursuant to an agreement with a 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). These bonds matured July 2013.

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.

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 ended July 2018.

The bonds were secured by a direct letter of credit for \$9,498 with Key Bank, N. A. The related entity entered into a lease agreement with OCIDA, which acted as collateral for payment of the bonds. Additional collateral was provided by a guaranty agreement under which the related entity is jointly and severally responsible for payment of the bonds.

During fiscal year 2018, the outstanding bonds for Series 2003 were refinanced under Series 2017, which were issued through the Ontario County Local Development Corporation.

(d) Bonds Payable – LCIDA Series 2005

Pursuant to an agreement with a University related entity (Livingston Health Care System, Inc.) and Livingston County Industrial Development Agency (LCIDA), LCIDA issued and sold \$9,050 of bonds known as Series 2005 Civic Facility Revenue Bonds. These bonds were issued at a premium of \$422, resulting in proceeds of \$9,472.

The bond issue is collateralized by substantially all assets of Livingston Health Care System, Inc. and a guaranty agreement where the related entity is jointly and severally responsible for payment of the bonds.

(e) Bonds Payable – DASNY Series 2006

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

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the Bond Market Association (BMA) Municipal Swap Index. The University will pay the counterparty a fixed interest rate of 3.92%. 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, 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 University has individual letters of credit in place for DASNY Series 2006A-1 and 2006B-1 that total \$62,861 with Barclays Bank, PLC, which expire in August 2019. The letter of credit has a renewal option that can be exercised. Of this total, no amounts were outstanding as of June 30, 2018 and 2017.

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

(f) Bonds Payable – LCIDA Series 2007

Pursuant to an agreement with a University related entity (Livingston Health Care System, Inc.) and LCIDA, LCIDA issued and sold \$5,025 of bonds known as Series 2007A Industrial Development Tax Exempt Revenue Bonds and \$2,385 of bonds known as Series 2007B Industrial Development Taxable Revenue Bonds.

In December 2007, 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 110.00% 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 2019.

The bonds are secured by a direct pay letter of credit for \$1,240 with HSBC Bank, N.A. which expires in July 2019 and has a renewal option. The bond issue is collateralized by substantially all assets and revenues and a guaranty agreement where the related entity is jointly and severally responsible for payment of the bonds.

(g) Bonds Payable – DASNY Series 2009

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

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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 bondholders received final payment in July 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.

(h) 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: (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.

(i) 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.

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.

During fiscal year 2018, the outstanding bonds for Series 2010 were refinanced under Series 2017, which were issued through the Ontario County Local Development Corporation.

(j) Bonds Payable – MCIDC Series 2011

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

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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.

During fiscal year 2018, portions of the outstanding bonds for Series 2011A and 2011B were refinanced under Series 2017C&D. A loss on extinguishment due to bond refinancing of \$780 was recognized.

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

(k) 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 November 2015, 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 1.62%. 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 November 2025.

The related entity has a letter of credit in place in the amount of \$12,912 with HSBC Bank USA, which expires in September 2021, at which time the letter of credit is subject to annual renewal and approval.

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.

(l) Bonds Payable – MCIDC Series 2013

Pursuant to an agreement between the University and 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 and waterproofing of Rush Rhees Library; (2) improvements to the Data Center B-Side electrical system; (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) modernization of the Laboratory for Laser

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Energetics consisting of the acquisition of new chillers and necessary infrastructure upgrades; (7) the renovation of various undergraduate and graduate residential facilities; (8) construction of the College Town parking garage; (9) improvements to the central utilities plant and infrastructure; (10) renovation and modernization of the Hospital electrical transformers; (11) renovations to the Security Building; (12) renovations to the Middle Campus chiller plant and necessary infrastructure upgrades; (13) construction of the Southside parking lot; and (14) modernization of the Eastman Institute of Oral Health Prosthodontics Program. A portion of Series 2013A was used to refinance a portion of the outstanding bonds for Series 2004A.

Series 2013B bonds were issued to finance: (1) construction of the Golisano Children's Hospital at Strong; (2) the relocation of the Hospital Pharmacy; and (3) the acquisition of the former Lakeside Health System (Strong West) campus.

Series 2013C bonds were issued to finance: (1) the purchase of the Women's Health Center building; (2) renovations and expansion of the Second Data Center; (3) construction of the new Barnes & Noble bookstore located at College Town; (4) construction of office space located within College Town; (5) the replacement of the University's legacy financial records system; and (6) various deferred maintenance and renovation projects at the Eastman School of Music and related residential halls. A portion of Series 2013C was used to refinance (1) all of the outstanding 2003 Direct Note Obligation notes; (2) all of the outstanding 2004 COMIDA bonds; (3) a portion of the outstanding bonds for Series 2007C; (4) a portion of the outstanding bonds for Series 2009B; (5) a portion of the outstanding bonds for Series 2009E; and (6) a portion of the outstanding bonds for Series 2011A. A portion of Series 2013C was used to reimburse the University for all or a portion of the amounts paid to bondholders on July 1, 2013 for amounts owed under Series 2007C, 2009B, 2009A, and 2011A.

During fiscal year 2018, portions of the outstanding bonds for Series 2013A and 2013B were refinanced under Series 2017C&D. A loss on extinguishment due to bond refinancing of \$25,980 was recognized.

(m) Bonds Payable – MCIDC Series 2015

Pursuant to an agreement between the University and MCIDC dated June 24, 2015, MCIDC issued and sold \$296,320 of bonds known as the University of Rochester Revenue Bonds, Series 2015, consisting of \$174,665 Series 2015A bonds, \$48,120 Series 2015B bonds, and \$73,535 Series 2015C bonds. The Series 2015 bonds were issued at a premium of \$25,773 resulting in proceeds of \$322,093.

Series 2015A bonds were issued to finance: (1) renovation and modernization of the Engineering Quadrangle; (2) renovation and relocation of the engineering departments throughout the River Campus and the replacement of the Hopeman Engineering building emergency generator; (3) renovations to Frederick Douglass Dining and Student Center; (4) modernization of the Digital Humanities Center within Rush Rhees Library; (5) improvements to the central utilities plant and infrastructure; (6) renovation of various offices, classrooms, and laboratories throughout the River Campus, Memorial Art Gallery and the Eastman School of Music; (7) replacement of the University Public Safety dispatch system; (8) construction of research space for the Aab Cardiovascular Research Institute; and (9) modernization of the Eastman Dental Center and office space at the Eastman Institute for Oral Health. A portion of Series 2015A was used to refinance: (1) all of the outstanding bonds for Series 2004A; (2) all of the outstanding bonds for Series 2007A-1; and (3) a portion of the outstanding bonds for Series 2007A-2.

Series 2015B bonds were issued to finance: (1) construction of the Imaging Sciences Building on the South Campus; (2) renovation and modernization of the sterile processing department; and (3) construction for the neonatal intensive care unit within Strong Memorial Hospital. A portion of Series 2015B was used to refinance a portion of the outstanding bonds for Series 2007B.

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Series 2015C bonds were issued to finance: (1) the renovation and modernization of various off-site leasehold improvements; (2) construction of Wegmans Hall, which includes the Goergen Institute for Data Science; (3) renovation of the boat storage facility and student space facilities at Brooks Crossing; (4) installation and acquisition of telephones and security cameras within College Town; and (5) various unit renovation projects within Strong Memorial Hospital. A portion of Series 2015C was used to reimburse the University for amounts owed under the ordinary bank loan to JP Morgan Chase, which was a component of the New Market Tax Credit financing structure.

(n) Bonds Payable - MCIDC Series 2015

Pursuant to an agreement with a University related entity (Highland Hospital and affiliates) and MCIDC dated September 1, 2016; MCIDC issued and sold \$38,645 of bonds known as Tax-Exempt Revenue Bonds, Series 2015. The Series 2015 bonds were issued at a net premium of \$1,825 resulting in proceeds of \$40,470.

Series 2015 bonds were issued to finance: (1) the construction and equipping of an approximately 38,500 square foot expansion of the hospital facility; (2) the construction of various areas in the operating and post-anesthesia care units; (3) construction of future space for a possible additional interventional radiology room and a platform for a possible replacement of the existing MRI machine within the hospital; and (4) acquisition of various equipment and fixtures for the hospital. A portion of Series 2015 refinanced the outstanding bonds for the Series 2004 COMIDA bonds.

(o) Bonds Payable – MCIDC Series 2017

Pursuant to an agreement between the University and MCIDC dated April 5, 2017, MCIDC issued and sold \$255,610 of bonds known as the University of Rochester Tax-Exempt Revenue Bonds, Series 2017, consisting of \$159,485 Series 2017A bonds and \$96,125 Series 2017B bonds. The Series 2017 bonds were issued at a premium of \$33,830 resulting in proceeds of \$289,440.

Series 2017A bonds were issued to finance: (1) construction of Genesee Hall, which will house residential students and provide athletic space, along with ancillary and related site improvements; (2) renovation of various office, classroom, athletic, and laboratory facilities for the River Campus; (3) renovation and modernization of the concourse, press box, and fencing of Fauver Stadium, along with ancillary and related site improvements; (4) design of a two to four story addition to Hutchison Hall; (5) renovation and modernization of various classroom facilities at Rush Rhees Library relating to the writing, speaking and argument program; (6) renovation and modernization of various classroom facilities for the audio and music engineering program; (7) renovation and modernization of various office and classrooms at the Simon Business School; (8) deferred maintenance, replacement, renovation, and modernization of replacement windows and elevators throughout River Campus; (9) central utility infrastructure improvements; and (10) deferred maintenance renovations for the Eastman School of Music. A portion of Series 2017A was used to refinance: (1) all of the outstanding bonds for Series 2007A-2 due on or after July 1, 2017; and (2) a portion of the outstanding bonds for Series 2009A, Series 2009B, Series 2009E, and Series 2011A.

Series 2017B bonds were issued to finance: (1) renovation and modernization of various clinic and office renovations for the Eastman School of Oral Health; (2) renovation and modernization of the pediatric intensive care unit and operating rooms within the Golisano Children's Hospital; (3) renovation, equipping, and modernization of various facilities throughout Strong Memorial Hospital. A portion of Series 2017B was used to refinance: (1) all of the outstanding bonds for Series 2007C due on or after July 1, 2017; and (2) a portion of the outstanding bonds for Series 2009C, and Series 2011B.

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(p) Bonds Payable – MCIDC Series 2017

Pursuant to an agreement between the University and MCIDC dated December 14, 2017, MCIDC issued and sold \$221,055 of bonds known as the University of Rochester Tax-Exempt Revenue Bonds, Series 2017, consisting of \$134,280 Series 2017C bonds and \$86,775 Series 2017D bonds. The Series 2017 bonds were issued at a premium of \$25,068 resulting in proceeds of \$246,123.

Series 2017C bonds were used to refinance: (1) a portion of the outstanding bonds for Series 2011A due on or after July 1, 2023; and (2) a portion of the outstanding bonds for Series 2013A due on or after July 1, 2025.

Series 2017D bonds were used to refinance: (1) a portion of the outstanding bonds for Series 2011B due on or after July 1, 2023; and (2) a portion of the outstanding bonds for Series 2013B due on or after July 1, 2025.

(q) Bonds Payable – OCLDC Series 2017

Pursuant to an agreement with a University related entity (F. F. Thompson Health Systems, Inc.) OCLDC issued and sold \$35,880 of bonds known as Series 2017A Revenue Refunding Bonds, consisting of \$33,400 Series 2017A bonds and \$2,480 Series 2017B bonds.

Series 2017A bonds were issued to refinance: (1) the outstanding bond for Series 2010 and (2) a portion of the outstanding bonds for Series 2003. Series 2017B bonds were used to refinance a portion of the outstanding bonds for Series 2003.

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

(r) Urban Development Corporation Loan

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

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

(s) 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.

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(t) Notes Payable – NYL Series 2017A

Pursuant to an agreement between the University and New York Life Investors, LLC (NYL) dated April 6, 2017, NYL issued and sold \$49,307 of notes known as the University of Rochester Series A Senior Notes. The University is repaying the indebtedness at a fixed rate of 3.56%, maturing July 2047.

The Series 2017A Senior Notes are general, unsecured obligations of the University.

Series 2017A notes were issued to finance: (1) replacement of the University’s legacy student system; (2) expansion of existing laboratories located at Bailey Road; (3) building improvements and renovations for the Bailey Road Building; (4) renovations for various off-site leasehold improvements; (5) renovations for Messinger Hall located within the Eastman School of Music; (6) renovations for academic program space for the River Campus; (7) construction of Genesee Hall, which will house residential students and provide athletic space, along with ancillary and related site improvements; and (8) capitalized interest borrowed for the interest payment due July 2017.

(u) 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, 2023 and thereafter are as follows:

	Principal portions of lease payments	Principal portions of debt	Total
2019	\$ 1,130	\$ 65,360	\$ 66,490
2020	516	64,063	64,579
2021	372	65,664	66,036
2022	327	61,686	62,013
2023	283	58,384	58,667
Thereafter	23	904,706	904,729
Total	\$ 2,651	\$ 1,219,863	\$ 1,222,514

The University incurred \$41,390 and \$44,384 of interest expense for the years ended June 30, 2018 and 2017, respectively, net of interest capitalization of \$1,754 and \$1,931 for the years ended June 30, 2018 and 2017, respectively.

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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 as follows:

	Principal portions of lease payments		Principal portions of debt		Total
2019	\$ 1,130		\$ 123,140		\$ 124,270
2020	516		94,292		94,808
2021	372		50,611		50,983
2022	327		57,067		57,394
2023	283		46,514		46,797
Thereafter	23		848,239		848,262
Total	<u>\$ 2,651</u>		<u>\$ 1,219,863</u>		<u>\$ 1,222,514</u>

(9) Benefits Plans

(a) Self-insurance Plans – University

The University is self-insured for workers' compensation. Based on estimates provided by actuaries, liabilities for asserted and unasserted claims under the workers' compensation program at June 30, 2018 were discounted by 2.9% and amounted to \$54,487 (2.3% and \$53,642 in 2017). These liabilities are offset by receivables for the expected insurance direct payments against these claims of \$14,240 at June 30, 2018 (\$14,203 at June 30, 2017). The liabilities are included in accrued pension, post-retirement, and post-employment liabilities, and the receivables are included in other assets on the consolidated balance sheet. The University has a surety bond with Liberty Mutual Insurance Company to cover potential liabilities under the University's self-insured workers' compensation program.

The University is self-insured for health care benefits. Based on estimates provided by actuaries, the University's obligation for incurred but not reported claims was \$13,773 and \$12,623 as of June 30, 2018 and 2017, respectively. These amounts are included in accounts payable and accrued expenses on the consolidated balance sheet and have not been discounted.

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

Highland Hospital and affiliates are self-insured for workers' compensation claim losses and expenses. A letter of credit in the amount of \$8,884 is maintained as security for workers compensation claims. Based on estimates provided by actuaries, liabilities for asserted and unasserted claims under the workers' compensation program at June 30, 2018 were discounted by 2.8% and amounted to \$11,138 (2.3% and \$14,063 in 2017). These liabilities are offset by receivables for the expected insurance direct payments against these claims of \$3,962 at June 30, 2018 (\$4,684 at June 30, 2017). 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.

(c) Post-employment Benefits – University

The University's accrued post-employment benefits, inclusive mostly of workers' compensation and disability benefits, amounted to \$69,851 and \$65,424 at June 30, 2018 and 2017, respectively, and are recorded in accrued pension, post-retirement and post-employment on the consolidated balance sheet.

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(d) Post-retirement Benefit Plan – University

The University's post-retirement benefit plan includes basic medical, major medical, dental coverage, and life insurance. Benefit levels differ for current retirees, current employees eligible to retire, and current employees not eligible to retire. The University incurred post-retirement plan expense of \$23,019 and \$23,256 for the years ended June 30, 2018 and 2017, respectively, which is recorded in fringe benefits expense on the consolidated statement of activities. The benefit obligation for this plan for the years ended June 30, 2018 and 2017 includes the following components:

	2018	2017
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 236,948	\$ 213,595
Service cost	9,263	9,066
Interest cost	8,778	8,191
Plan participants' contributions	5,243	3,792
Actuarial (gain)/loss	(20,918)	15,185
Benefits paid	(16,761)	(13,432)
Medicare Part D prescription drug federal subsidy	550	551
Benefit obligation at end of year	\$ 223,103	\$ 236,948
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ -	\$ -
Employer contributions	10,968	9,089
Plan participants' contributions	5,243	3,792
Medicare Part D prescription drug federal subsidy	550	551
Benefits paid	(16,761)	(13,432)
Fair value of plan assets at end of year	\$ -	\$ -
Components of accrued benefit:		
Funded status	\$ (223,103)	\$ (236,948)
Net actuarial loss	58,905	84,175
Prior service cost	857	1,483
Accrued benefits	\$ (163,341)	\$ (151,290)
Amounts recognized in the consolidated balance sheets consist of:		
Accrued post-retirement benefit cost	\$ (151,290)	\$ (137,123)
Net post-retirement benefit expense	(23,019)	(23,256)
Employer contributions	10,968	9,089
Accrued benefits	(163,341)	(151,290)
Amount recorded in unrestricted net assets	(59,762)	(85,658)
Net amount recognized in the consolidated balance sheet	\$ (223,103)	\$ (236,948)
Components of net periodic benefit cost:		
Service cost	\$ 9,263	\$ 9,066
Interest cost	8,778	8,191
Amortization of prior service cost	625	724
Amortization of net actuarial loss	4,353	5,275
Net periodic benefit cost	\$ 23,019	\$ 23,256
Amounts recorded in unrestricted net assets:		
Net (gain)/loss during period	\$ (20,918)	\$ 15,185
Amortization recognition	(4,353)	(5,275)
Prior service cost/(credit)	(625)	(724)
Total amount recognized in other non-operating expense	\$ (25,896)	\$ 9,186

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The estimated net actuarial loss and prior service cost for the defined benefit plan that will be amortized from unrestricted net assets into net periodic benefit cost in fiscal 2019 are \$2,529 and \$330 respectively. Estimated future contributions, benefit payments, and prescription subsidy receipts are as follows:

	<u>Estimated Contributions / Benefit Payments</u>		<u>Estimated Rx Subsidy Receipts</u>
2019	\$ 12,452	\$	519
2020	13,053		548
2021	13,535		574
2022	14,009		602
2023	14,304		631
2024 to 2028	75,326		2,755

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

	<u>2018</u>	<u>2017</u>
Discount rate for obligation	4.25%	3.75%
Expected return on plan assets	N/A	N/A
Rate of compensation increase	N/A	N/A
Health care cost trend rate -		
Initial pre age 65	7.00%	7.25%
Initial post age 65	6.00%	5.70%
Initial post age 65 (Medicare Advantage)	5.00%	N/A
Initial prescription drug	10.25%	10.50%
Health care cost trend rate - Final	3.90%	3.90%
Year final trend rate is reached	2075	2075

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

	<u>One Percentage Point Increase</u>	<u>One Percentage Point Decrease</u>
Effect on total of service and interest cost components	\$ 2,334	\$ (1,923)
Effect on post-retirement benefit obligation	\$ 19,712	\$ (16,577)

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.

(e) Retirement Plan – University

The University provides a 403(b) defined contribution retirement plan to its employees. The University of Rochester's Retirement Program is administered and record kept by TIAA-CREF. Under this plan, the University made contributions of \$103,256 and \$93,215 in 2018 and 2017, respectively, which were vested for the benefit of the participants.

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(f) Retirement Plans – Highland Hospital and Affiliates

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

Retirement plan expense of \$11,756 and \$16,998 was incurred for the fiscal years ended June 30, 2018 and 2017, respectively, and is recorded in fringe benefits in the consolidated statements of activities. In addition, a pension related benefit (charge) other than net periodic pension cost of \$21,572 and \$32,657 for the fiscal years ended June 30, 2018 and 2017, respectively, was recorded in other changes on the consolidated statement of activities.

The following tables present the changes in the plan benefit obligation and the fair value of the plan assets for the years ended June 30, 2018 and 2017 and the funded status of the plan at June 30, 2018 and 2017.

	<u>2018</u>	<u>2017</u>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 229,005	\$ 241,357
Service cost	6,408	5,755
Interest cost	7,495	8,600
Actuarial (gain)/loss	(16,152)	(17,453)
Benefits paid	(19,071)	(9,254)
Benefit obligation at end of year	<u>\$ 207,685</u>	<u>\$ 229,005</u>
Accumulated benefit obligation	<u>\$ 197,494</u>	<u>\$ 216,661</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ 136,714	\$ 122,827
Actual return on plan assets	7,566	12,561
Employer contribution	8,779	10,580
Benefits and expenses paid	(19,071)	(9,254)
Fair value of plan assets at end of year	<u>\$ 133,988</u>	<u>\$ 136,714</u>
Amounts recognized in the balance sheet consists of:		
Accrued benefit cost	\$ (19,455)	\$ (16,478)
Amount recognized in unrestricted net assets (other non-operating expense)	(54,242)	(75,813)
Funded Status	<u>\$ (73,697)</u>	<u>\$ (92,291)</u>
Components of net periodic benefit cost:		
Service cost	\$ 6,408	\$ 5,755
Interest cost	7,495	8,600
Expected return on plan assets	(9,826)	(9,457)
Amortization of unrecognized loss	7,679	12,100
Net periodic benefit cost	<u>\$ 11,756</u>	<u>\$ 16,998</u>

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

	<u>2018</u>	<u>2017</u>
Discount rate for obligation	4.31%	3.83%
Discount rate for pension expense	3.83%	3.61%
Future compensation increase rate	3.00%	3.60%
Long-term rate of return on plan assets	7.00%	7.50%

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

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

Asset category:	<u>2018</u>	<u>2017</u>
Equity securities	60%	60%
Fixed income securities	17%	21%
Cash and other investments	23%	19%
Total	<u>100%</u>	<u>100%</u>

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

Asset category:	<u>2018</u>	<u>2017</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.

Scheduled estimated future benefit payments are as follows:

	<u>Pension Benefits</u>
2019	\$ 7,554
2020	8,382
2021	9,287
2022	10,127
2023	10,840
2024 to 2028	62,597
Total estimated future payments	<u>\$ 108,787</u>

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Highland Hospital expects to contribute \$8,575 to the Plan in 2019. The plan assets for Highland Hospital are invested with an outside trustee for the sole benefit of the plan participants. Investments are directed by the Hospital or by investment managers appointed by the Highland Hospital. They are managed to maximize total return while maintaining a prudent level of risk.

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

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

The following assets were recorded at fair value within the pension assets of the Hospital as of June 30, 2018 and 2017:

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

		2017				
Description	Level 1	Level 2	Level 3	NAV	Total Fair Value	
Cash	\$ 3,045	\$ -	\$ -	\$ -	\$ 3,045	
Mutual fund – Global Asset Allocation	65,751	-	-	-	65,751	
Mutual fund – Multi Asset	-	-	-	67,918	67,918	
Total	\$ 68,796	\$ -	\$ -	\$ 67,918	\$ 136,714	

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

In addition, Highland Hospital has a 403(b) plan and the cost was \$3,190 and \$2,655 in 2018 and 2017, respectively, and is recorded in benefits expense on the consolidated statement of activities.

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

F.F. Thompson Health System, Inc. sponsors a noncontributory defined benefit pension plan, the Thompson Health Pension Plan (the FFT Plan), covering all eligible employees. Benefits under the FFT Plan are based on each participant's years of service and compensation, as defined by the FFT Plan document. Effective December 31, 2017, the accrued benefits and participation of employees were frozen. The FFT Plan was remeasured at December 31, 2017 and a curtailment gain of \$2,351 was recognized. The funded status of the FFT plan as of December 31, 2017 and 2016 was \$(15,856) and \$(16,434), respectively.

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

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

The annual measurement date for the Plan is December 31. The funded status of this plan as of December 31, 2017 and 2016 was \$(3,346) and \$(4,249), respectively.

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

The Hospital sponsors a noncontributory defined benefit pension plan (plan) covering all eligible employees. The plan was amended to state that Hospital employees hired after December 31, 2006 were no longer eligible to participate in the plan. Additionally, the plan was amended to freeze benefit accruals effective March 31, 2011 for all participants. The annual measurement date for the Plan is December 31. The funded status of this plan as of December 31, 2017 and 2016 was \$(9,014) and \$(10,233), respectively.

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

The System has a noncontributory defined benefit pension plan that covers all eligible employees as of November 30, 2002. Effective November 2002, the Plan was amended to freeze participation and benefit accruals. The annual measurement date for the Plan is December 31. The funded status of this plan as of December 31, 2017 and 2016 was \$(3,914) and \$(4,233), respectively.

(10) Investment in Captive Insurance Company

The University, together with other universities and teaching hospitals, has formed a captive insurance company, MCIC Vermont, Inc. (captive) to insure the professional liability risks of the shareholders. The University's investment in the captive represents 20% of the voting rights; however, the dissolution provisions of the captive agreement indicate that the University's financial participation (based on percentage of premiums paid) is approximately 7% of the financial results of the captive. Due to the University's significant influence in the captive, the investment in the captive has been recorded

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under the equity method. For fiscal years 2018 and 2017, the University has recorded \$29,852 and \$29,669, respectively, in investments held for long-term purposes

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

(11) Professional Liability Claims

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

The insurance claims receivable, as calculated by the actuaries, was approximately \$41,809 and \$41,812 as of June 30, 2018 and 2017, 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 \$32,568 and \$32,014 as of June 30, 2018 and 2017, 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:

	Quoted Market Prices (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	NAV as Practical Expedient (NAV)	2018 Total Fair Value
Assets					
Total Cash and cash equivalents	\$ 11,481	\$ -	\$ -	\$ -	\$ 11,481
Short and long-term investments					
Cash and cash equivalents	143,421	2,021	-	-	145,442
Debt securities					
Asset backed securities	-	13,712	-	-	13,712
Bank loans	-	5,536	-	-	5,536
Bond funds	117,047	6,087	-	-	123,134
Corporate bonds	1,615	168,167	-	-	169,782
Government bonds & securities	4,993	31,715	-	-	36,708
Other	9,039	4,475	-	-	13,514
Common stock and mutual funds					
Common stock	249,656	-	-	200	249,856
Equity exchange traded funds	2,065	-	-	-	2,065
Mutual funds (domestic)	6,554	56,692	-	-	63,246
Mutual funds (international)	104,663	329,215	-	-	433,878
Real assets	69,097	-	-	259,647	328,744
Private equity	-	-	-	540,161	540,161
Hedge funds	-	55,275	-	770,342	825,617
Other	30,355	9,569	-	40,821	80,745
Total short and long term investments	738,505	682,464	-	1,611,171	3,032,140
Interest in net assets of foundations	-	-	18,837	-	18,837
Trusts held by others	-	-	60,852	-	60,852
Total assets at fair value	\$ 749,986	\$ 682,464	\$ 79,689	\$ 1,611,171	\$ 3,123,310
Liabilities					
Interest rate swap payable	\$ -	\$ 9,143	\$ -	\$ -	\$ 9,143
Total liabilities at fair value	\$ -	\$ 9,143	\$ -	\$ -	\$ 9,143

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	Quoted Market Prices (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	NAV as Practical Expedient (NAV)	2017 Total Fair Value
Assets					
Total cash and cash equivalents	\$ 25,277	\$ -	\$ -	\$ -	\$ 25,277
Short and long-term investments					
Cash and cash equivalents	271,112	1,559	-	-	272,671
Debt securities					
Asset backed securities	-	21,132	-	-	21,132
Bank loans	-	14,314	-	-	14,314
Bond funds	68,339	6,680	-	-	75,019
Corporate bonds	1,683	194,416	-	-	196,099
Government bonds & securities	5,118	28,375	-	-	33,493
Other	7,853	9,043	-	-	16,896
Common, stock and mutual funds					
Common stock	266,382	-	-	200	266,582
Equity exchange traded funds	2,654	-	-	-	2,654
Mutual funds (domestic)	13,282	66,727	-	-	80,009
Mutual funds (international)	66,763	324,105	-	-	390,868
Real assets	323	-	-	259,070	259,393
Private equity	-	-	-	446,284	446,284
Hedge funds	-	49,257	-	732,382	781,639
Other	28,358	8,963	-	40,439	77,760
Total short and long-term investments	\$ 731,867	\$ 724,571	\$ -	\$ 1,478,375	\$ 2,934,813
Interest in net assets of foundations	-	-	17,740	-	17,740
Trusts held by others	-	-	59,462	-	59,462
Total assets at fair value	\$ 757,144	\$ 724,571	\$ 77,202	\$ 1,478,375	\$ 3,037,292
Liabilities					
Interest rate swap payable	-	15,558	-	-	15,558
Total liabilities at fair value	\$ -	\$ 15,558	\$ -	\$ -	\$ 15,558

(a) Fair Value Level 1

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

(b) Fair Value Level 2

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

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Interest rate swaps are valued using both observable and unobservable inputs, such as quotations received from the counterparty, dealers or brokers, whenever available and considered reliable. In instances where models are used, the value of the interest rate swap depends upon the contractual terms of, and specific risks inherent in, the instrument as well as the availability and reliability of observable inputs. Such inputs include market prices for reference securities, yield curves, credit curves, measures of volatility, prepayment rates, assumptions for nonperformance risk, and correlations of such inputs. The University's interest rate swap arrangements have inputs which can generally be corroborated by market data and are therefore classified within Level 2. The notional amount of the University's interest rate swaps was \$126,515. The effects of the interest rate swaps included in non-operating net appreciation/(depreciation) on the consolidated statements of activities were \$5,805 and \$8,341 for the years ended June 30, 2018 and 2017, respectively. 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.

(c) Fair Value Level 3

Level 3 investments have significant unobservable inputs, as they trade infrequently or not at all. The inputs into the determination of fair value are based upon the best information in the circumstance and may require significant management judgment. Investments included in Level 3 consist primarily of the University's interest in net assets of foundations and trusts held by others as discussed in note 1. Changes to the fair values using unobservable inputs as of June 30, 2018 and 2017 are included in the table below. All net realized and unrealized gains/(losses) are reflected in net appreciation/(depreciation) of long-term investment activities in the accompanying statement of activities.

	Interest in net assets of foundations	Investments in perpetual trusts held by others	Total fair value
Balance June 30, 2016	\$ 16,473	\$ 52,306	\$ 68,779
Net appreciation / (depreciation)	1,267	7,156	8,423
Balance June 30, 2017	17,740	59,462	77,202
Net appreciation / (depreciation)	1,097	1,390	2,487
Balance June 30, 2018	\$ 18,837	\$ 60,852	\$ 79,689

(d) Net Asset Value

The net asset value (NAV) represents the University's ownership interest in certain alternative investments. As a practical expedient, the University uses its ownership interest in the NAV to determine the fair value of all alternative investments that do not have a readily determinable fair value, and have financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company. The NAV of these investments is determined by the general partner and is based upon appraisal or other estimates that require judgment. If no public market exists for the investment securities, the general partner will take into consideration, among other things, prices of recent significant transactions of similar securities, and subsequent developments concerning the companies to which the securities relate. The University has performed significant due diligence around these investments to ensure that NAV is an appropriate measure of fair value as of June 30.

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The following tables provide additional information about alternative investments at NAV.

Strategy	2018 Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice
Hedge funds:				
Long/short	\$ 316,785	\$ 8,500	Quarterly, Annually, 1 & 3 Year Rolling Lock-ups	45 - 90 Days
Multi-strategy	242,413	-	Quarterly, Annually, 1 & 2 Year Rolling Lock-ups	45 - 90 Days
Private equity:				
			Remaining Fund Life	Drawdown Period
Buyouts	266,935	149,207	1 to 10 years	1 to 7 years
Venture capital	218,530	45,859	1 to 12 years	1 to 6 years
Distressed	54,696	45,097	1 to 5 years	1 to 3 years
Real assets:				
Real estate	112,920	47,522	1 to 10 years	1 to 5 years
Natural resources	146,728	56,897	1 to 12 years	1 to 5 years
Total alternative partnerships	1,359,007	353,082		
Other Alternative Investments:				
Commingled funds of public equities	211,144	16,000	Monthly	15 - 60 Days
Other	41,020	-	NA - held to maturity	NA
Total other alternative investments	252,164	16,000		
Total alternative investments	\$1,611,171	\$ 369,082		

Strategy	2017 Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice
Hedge funds:				
Long/short	\$ 280,657	\$ 8,000	Quarterly, annually, 1 & 3 year rolling lock-ups	45 - 90 days
Multi-strategy	251,976	8,000	Quarterly, annually, 1 & 2 year rolling lock-ups	45 - 90 days
Private equity:				
			Remaining Fund Life	Drawdown Period
Buyouts	229,074	154,385	1 to 10 years	1 to 7 years
Venture capital	167,461	40,210	1 to 12 years	1 to 6 years
Distressed	49,076	43,569	1 to 5 years	1 to 3 years
Real assets:				
Real estate	127,559	49,043	1 to 10 years	1 to 5 years
Natural resources	131,511	79,229	1 to 12 years	1 to 5 years
Total alternative partnerships	1,237,314	382,436		
Other Alternative Investments:				
Commingled funds of public equities	199,749	20,000	Monthly	15 - 60 days
Other	41,312	-	NA – held to maturity	NA
Total other alternative investments	241,061	20,000		
Total alternative investments	\$1,478,375	\$ 402,436		

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(13) Lines of Credit

The University has a \$75,000 committed line of credit agreement with JPMorgan Chase Bank, N.A. that is subject to annual credit review and renewal. Under this agreement, \$12,000 was outstanding at June 30, 2018 and \$7,800 was outstanding at June 30, 2017.

The University has a \$50,000 committed line of credit agreement with U.S. Bank, N.A. that is subject to annual credit review and renewal. Under this agreement, no amounts were outstanding at June 30, 2018 and 2017.

The University has a \$50,000 committed line of credit agreement with KeyBank, N.A. that is subject to annual credit review and renewal. Under this agreement, no amounts were outstanding at June 30, 2018 and 2017.

The University has \$534 in standby letters of credit with JPMorgan Chase Bank, N.A. that are subject to annual credit review and renewal to cover potential liabilities of other financial obligations. No amounts were outstanding at June 30, 2018 and 2017.

The University has \$378 in standby letters of credit with JP Morgan Chase Bank, N. A. that are subject to annual credit review and renewal to cover potential liabilities related to the construction of the Imaging Science Building. No amounts were outstanding at June 30, 2018 and 2017.

(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, 2018, the University has entered into construction contracts and commitments aggregating \$1,107,539 (\$1,032,950 at June 30, 2017) of which \$1,007,723 (\$959,141 at June 30, 2017) had been fulfilled.

(15) Leases

The University leases laboratories, office space, medical offices, and equipment for educational, research and patient care purposes under operating leases expiring through 2032. Rental expense for the years ended June 30, 2018 and 2017 totaling \$63,091 and \$61,532, 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:

	<u>University</u>	<u>Related Entities</u>	<u>Total</u>
2019	\$ 41,292	\$ 9,637	\$ 50,929
2020	28,043	5,439	33,482
2021	22,898	4,777	27,675
2022	19,400	4,025	23,425
2023	15,204	2,930	18,134
Thereafter	47,105	11,266	58,371
Total minimum lease payments	\$ 173,942	\$ 38,074	\$ 212,016

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(16) Scholarships, Grants, and Fellowships

The University awarded a total of \$225,767 and \$212,589 in scholarships, grants, and fellowships during fiscal years 2018 and 2017, respectively. In addition, the University awarded \$7,977 and \$7,450, respectively, of scholarships, grants, and fellowships as compensation to the recipients. Of this amount, \$7,141 and \$7,294, respectively, of the total scholarships, grants, and fellowships awarded were specifically funded by federal, state, or private gifts or grants, or by investment income and gains earned on investments held for endowment and similar purposes and utilized under the University's total return spending policy.

(17) 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 \$22,205 and \$26,989 in 2018 and 2017, respectively.

During the years ended June 30, 2018 and 2017, the following levels of uncompensated care were provided:

	<u>2018</u>	<u>2017</u>
Charity care at cost	\$ <u>32,668</u>	\$ <u>28,141</u>
Excess of cost over reimbursement for services provided to Medicaid patients	107,879	102,830
Bad debts expense	<u>54,848</u>	<u>43,096</u>
	\$ <u><u>162,727</u></u>	\$ <u><u>145,926</u></u>

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(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:

	<u>2018</u>	<u>2017</u>
Instruction	\$ 370,096	\$ 364,293
Research	303,255	288,409
Public service	18,419	17,880
Libraries and other academic support	70,686	62,006
Student services	72,362	66,649
Institutional support	130,843	135,636
Hospital and faculty practice patient care	3,207,430	2,846,929
Auxiliary enterprises	128,009	121,239
Total functional expenses	\$ 4,301,100	\$ 3,903,041

The expenses for operations and maintenance of facilities and depreciation related to property, plant, and equipment are allocated to functional categories based on square footage. Interest expense is allocated based on the assignment of the functional category assigned to the capital project. The amounts allocated for operations and maintenance were approximately \$69,359 and \$69,005 for the fiscal years ended June 30, 2018 and 2017, respectively.

Student financial assistance is shown as a component of instruction expense unless the assistance is for tuition and mandatory fees. If the assistance is for tuition and mandatory fees, the amounts are recorded as scholarship allowance, which reduces tuition revenue.

(19) Student Health Plan

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

	<u>July 1 - July 31</u> <u>(prior plan year)</u>	<u>August 1 - June 30</u> <u>(current plan year)</u>	<u>2018</u> <u>Fiscal year total</u>
Total Premium Revenue	n/a	\$ 9,723	\$ 9,723
Expenses			
Medical and prescription drug expense	n/a	7,430	7,430
Health center capitation	n/a	-	-
Administrative fees	n/a	1,867	1,867
Total Expenses	n/a	\$ 9,297	\$ 9,297
Net income from health plan operations	n/a	\$ 426	\$ 426

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The University has established reserves with the amounts necessary to satisfy obligations of the plan. Based on an analysis and recommendation of a qualified actuary, and with the approval of New York State, the reserve for medical claims incurred but not reported (IBNR) is maintained at an amount not less than 18% of expected medical claims and 5% of expected pharmacy drug claims. In addition, a separate contingency reserve has been established for the purpose of satisfying unexpected obligations in the event of termination of the plan. The contingency reserve is maintained at an amount not less than 5% of the total current plan year premiums and is invested in the University's endowment. NYS requires that the assets of the contingency reserve consist of certain investments of the types specified in Section 1404 of NYSIL. The changes in the unearned premiums and SHIP reserves during the fiscal year ended June 30, 2018 are presented below.

	Unearned Premiums	IBNR Reserve	Contingency Reserve
Balance as of July 1	\$ -	\$ 1,208	\$ 471
Balance as of June 30	379	1,071	486
Net Change	\$ 379	\$ (137)	\$ 15

(20) Subsequent Events

The University has performed an evaluation of subsequent events through October 12, 2018, the date on which the financial statements were issued.