

SUPPLEMENT TO THE REOFFERING CIRCULAR
relating to
\$111,180,000
DORMITORY AUTHORITY OF THE STATE OF NEW YORK
UNIVERSITY OF ROCHESTER REVENUE BONDS, SERIES 2006

Consisting of:

\$94,130,000 University of Rochester Revenue Bonds, Series 2006A-1 CUSIP Number: 6499032J9*
\$17,050,000 University of Rochester Revenue Bonds, Series 2006B-1 CUSIP Number: 6499032L4*

This Supplement to the Reoffering Circular (this “Supplement”) amends and supplements the Reoffering Circular of the Dormitory Authority of the State of New York (“DASNY”), dated September 3, 2008, as supplemented to the date hereof (the “Reoffering Circular”), a copy of which is attached hereto as EXHIBIT 1. The Reoffering Circular was issued in connection with the reoffering by DASNY of its University of Rochester Revenue Bonds, Series 2006 (the “Series 2006 Bonds”), consisting of the Series 2006A-1 Bonds, issued in the original principal amount of \$94,130,000, of which \$72,010,000 are currently outstanding, and the Series 2006B-1 Bonds, issued in the original principal amount of \$17,050,000, of which \$14,530,000 are currently outstanding. The Reoffering Circular is incorporated herein by reference and constitutes an integral part of this Supplement. All capitalized terms used and not otherwise defined in this Supplement have the same meanings assigned to them in the Reoffering Circular.

The University of Rochester (the “University”) intends to replace the existing direct-pay letters of credit in effect for the Series 2006 Bonds (the “Existing Letters of Credit”) issued by Wells Fargo Bank, National Association (“Wells Fargo”) with Alternate Facilities in the form of two separate irrevocable direct-pay letters of credit (the “Barclays Letters of Credit”) to be issued by Barclays Bank PLC (“Barclays Bank”) to the Trustee, effective on August 7, 2015 (the “Substitution Date”). In accordance with the respective Bond Series Certificates and as described in the Reoffering Circular, the Series 2006 Bonds will be subject to mandatory tender and remarketing on the Substitution Date. Barclays Capital Inc. (“Barclays”) will continue to act as Remarketing Agent for both the Series 2006A-1 Bonds and the Series 2006B-1 Bonds.

This Supplement sets forth certain information in connection with the replacement of the Existing Letters of Credit with the Barclays Letters of Credit. The Barclays Letters of Credit will be issued pursuant to a Letter of Credit and Reimbursement Agreement, dated as of August 7, 2015 (the “Barclays Reimbursement Agreement”), between Barclays Bank and the University. The Barclays Letters of Credit irrevocably authorize draws in accordance with their terms. Each Barclays Letter of Credit will permit the Trustee to draw an amount sufficient to pay, when due, the principal, Sinking Fund Installments and Tender Price of and up to 63 days interest on the applicable Series of the Series 2006 Bonds bearing interest at a Weekly Interest Rate or a Daily Interest Rate computed at the rate of 12% per annum. Each Barclays Letter of Credit will expire, unless extended or earlier terminated as described herein, on August 7, 2019.

All references in the Reoffering Circular to the Bank, the Letters of Credit, and the Reimbursement Agreement shall hereafter refer to Barclays Bank, the Barclays Letters of Credit, and the Barclays Reimbursement Agreement, respectively. All references in the Reoffering Circular to Citibank Global Markets Inc. and/or Lehman Brothers Inc. as Remarketing Agent shall hereafter refer to Barclays.

Upon the issuance of the Barclays Letters of Credit, the Series 2006 Bonds are expected to be assigned a long-term rating of “Aa1” by Moody’s Investors Service (“Moody’s”) and a long-term rating of “AAA” by Standard & Poor’s Ratings Services, a division of the McGraw Hill Companies, Inc. (“Standard & Poor’s”) and a short-term rating of “V-MIG1” by Moody’s and a short-term rating of “A-2” by Standard & Poor’s. See “PART 16 – RATINGS” in this Supplement.

This Supplement sets forth certain information with respect to Barclays Bank, the Barclays Letters of Credit and the Barclays Reimbursement Agreement only. No information contained in the Reoffering Circular concerning the Series 2006 Bonds, the University or DASNY has been updated or confirmed in connection with the issuance of the Alternate Facilities.

THE SERIES 2006 BONDS ARE NOT A DEBT OF THE STATE OF NEW YORK (THE “STATE”) AND THE STATE IS NOT LIABLE ON THE SERIES 2006 BONDS. DASNY HAS NO TAXING POWER.

Barclays, as Remarketing Agent

Dated: August 3, 2015

* A CUSIP number has been assigned by an organization not affiliated with DASNY, the University or the Remarketing Agent and is included solely for the convenience of the Holders of the Series 2006 Bonds. None of DASNY, the University or the Remarketing Agent is responsible for the selection or uses of this CUSIP number, nor is any representation made as to its correctness on the Series 2006 Bonds or as indicated above.

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AMENDMENTS TO THE REOFFERING CIRCULAR

The section of the Reoffering Circular entitled “PART 1 – INTRODUCTION – Security for the Series 2006 Bonds” is deleted in its entirety and replaced with the following:

Security for the Series 2006 Bonds

On the Substitution Date, the University will cause to be delivered to The Bank of New York Mellon, New York, New York, as Trustee, two separate irrevocable direct-pay letters of credit (each, a “Letter of Credit” and collectively, the “Letters of Credit”) to be issued by Barclays Bank PLC (the “Bank”) to additionally secure the respective Series of the Series 2006 Bonds to which such Letters of Credit apply.

Each Letter of Credit will be issued pursuant to the terms of the Letter of Credit and Reimbursement Agreement dated as of August 7, 2015 (the “Reimbursement Agreement”) between the University and the Bank. Each Letter of Credit will be issued in an amount equal to the Outstanding principal amount of the Series 2006A-1 Bonds or the Series 2006B-1 Bonds, as applicable, together with 63 days’ interest thereon computed at the rate of twelve percent (12%) per annum. The Bank will also advance funds under each Letter of Credit to the Trustee up to the principal amount of the applicable Series 2006 Bonds, together with 63 days’ interest thereon computed at the rate of twelve percent (12%) per annum in order to pay the Tender Price of such Series 2006 Bonds tendered and not remarketed.

Each Letter of Credit only secures the applicable Series of the Series 2006 Bonds while such Series 2006 Bonds bear interest at a Daily Interest Rate or a Weekly Interest Rate.

Each Letter of Credit will expire four (4) years following the Substitution Date unless extended or earlier terminated upon the occurrence of certain events described herein. Each Letter of Credit constitutes a “Credit Facility,” a “Liquidity Facility” and a “Direct-Pay Credit Facility” and the Bank constitutes a “Facility Provider,” a “Credit Facility Provider” and a “Liquidity Facility Provider” under the terms of the Resolution, the related Series 2006 Resolution and the related Bond Series Certificate. See “PART 2 – SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2006 BONDS.”

The Resolution authorizes the issuance by the Authority, from time to time, of Bonds in one or more Series, each such Series to be authorized by a separate Series Resolution. All Bonds issued under the Resolution rank on a parity and share equally and ratably in the security provided by the Resolution. Each Letter of Credit will secure only the Series of Series 2006 Bonds to which it relates. See “PART 2 – SOURCE OF PAYMENT AND SECURITY FOR THE BONDS – Issuance of Additional Bonds.”

The Series 2006 Bonds are not a debt of the State nor is the State liable thereon. The Authority has no taxing power. Neither the State nor the Authority has any responsibility to make payments with respect to the Series 2006 Bonds except for the Authority’s responsibility to make payments from moneys received from the University pursuant to the Loan Agreement and from amounts held in the funds and accounts under the Resolution and pledged therefor.

The Section of the Reoffering Statement entitled “PART 2 – SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2006 BONDS – The Letters of Credit” is hereby deleted in its entirety and replaced with the following:

The Letters of Credit

The following description is subject in all respects to the complete terms of the Letters of Credit.

The Bank will deliver a Letter of Credit to the Trustee with respect to each Series of the Series 2006 Bonds on the Substitution Date. Subject to the terms and conditions set forth in each Letter of Credit, each Letter of Credit will be issued by the Bank pursuant to the Reimbursement Agreement. Each Letter of Credit constitutes the irrevocable obligation of the Bank to pay to the Trustee upon timely requests up to the principal amount (including the Tender Price) of the Series 2006A-1 Bonds or the Series 2006B-1 Bonds, as applicable, and up to 63 days of interest accrued on the Series 2006A-1 Bonds or the Series 2006B-1 Bonds, as applicable, bearing interest at a Daily Interest Rate or a Weekly Interest Rate (computed at a rate of interest of 12% per annum, based on a year of 365 days) (collectively, the “Available Amount”).

Subject to the provisions contained in the immediately following paragraph, each drawing under a Letter of Credit shall reduce the Available Amount of the applicable Letter of Credit by the amount of such drawing.

After a drawing for the payment of the unpaid principal amount of the Series 2006 Bonds, whether at a maturity or upon redemption or acceleration thereof, the Available Amount of the applicable Letter of Credit shall be reduced permanently and automatically by an amount equal to the amount so drawn. After a drawing for the payment of interest on the Series 2006 Bonds, the payment of the principal amount of which is made with the proceeds of a drawing described in the preceding sentence, the Available Amount of the applicable Letter of Credit shall be reduced permanently and automatically, in an amount equal to 63 days’ interest (calculated at the rate of 12% per annum, based on a year of 365 days) accrued on the amount of the principal drawing, such reductions of the Available Amount of the applicable Letter of Credit to be effective on the date of such payment by the Bank. Except as otherwise described in the preceding sentence, the Available Amount of each Letter of Credit shall be automatically reinstated in the full amount of a drawing for interest payable on the Series 2006 Bonds at the close of business on the eighth (8th) calendar day following the payment of such drawing, subject to (i) any subsequent reductions in the Available Amount pursuant to the terms of such Letter of Credit, (ii) notice given by the Bank and received by the Trustee prior to such eighth (8th) calendar day (A) that an Event of Default has occurred and is continuing under the Reimbursement Agreement and, as a result thereof, there shall be no reinstatement and (B) which directs the Trustee to give notice of a mandatory tender in accordance with the Resolution, or (iii) such eighth (8th) calendar day falling after the Letter of Credit Expiration Date.

Each Letter of Credit will automatically terminate at the Bank’s close of business upon the earliest of (a) the date of payment by the Bank of the final Drawing available to be made thereunder which is not subject to reinstatement, (b) August 7, 2019 (unless extended), (c) following receipt by the Trustee of notice from the Bank specifying the occurrence of an Event of Default under the Reimbursement Agreement and directing the Trustee to cause a mandatory tender of the Series 2006 Bonds, on the fifteenth (15th) day after receipt by the Trustee of such notice, or (d) receipt by the Bank of a written notice from the Trustee that: (a) no Series 2006 Bonds of the applicable Series to which such Letter of Credit relates remain outstanding and unpaid, or (b) the Trustee has received a substitute Letter of Credit and the conditions precedent under the Resolution for the acceptance of a substitute Letter of Credit have been satisfied, or (c) all of the Series 2006 Bonds of the applicable Series to which such Letter of Credit relates have been converted to another interest rate other than a Daily Interest Rate or a Weekly Interest Rate.

For a summary of certain provisions of the Reimbursement Agreement, see “APPENDIX E – SUMMARY OF CERTAIN PROVISIONS OF THE REIMBURSEMENT AGREEMENT” herein.

For information concerning the Bank, see “PART 4 – THE BANK” herein.

The section of the Reoffering Circular entitled “PART 4 – THE BANK” is deleted in its entirety and replaced with the following:

PART 4 - THE BANK

The information under this heading has been provided solely by the Bank and is believed to be reliable. This information has not been verified independently by the Authority or the Remarketing Agent. The Authority and the Remarketing Agent make no representation whatsoever as to the accuracy, adequacy or completeness of such information.

Barclays Bank PLC (Bank) is a public limited company registered in England and Wales under number 1026167. The liability of the members of Barclays Bank PLC is limited. It has its registered head office at 1 Churchill Place, London, E14 5HP, United Kingdom (telephone number +44 (0)20 7116 1000). Barclays Bank PLC was incorporated on 7 August 1925 under the Colonial Bank Act 1925 and on 4 October 1971 was registered as a company limited by shares under the Companies Acts 1948 to 1967. Pursuant to The Barclays Bank Act 1984, on 1 January 1985, Barclays Bank was re-registered as a public limited company and its name was changed from ‘Barclays Bank International Limited’ to ‘Barclays Bank PLC’.

Barclays Bank PLC (together with its subsidiary undertakings (Bank Group)) is engaged in personal banking, credit cards, corporate and investment banking, wealth and investment management services. The Bank Group is structured around four core businesses: Personal and Corporate Banking, Barclaycard, Africa Banking and the Investment Bank. Businesses and assets which no longer fit the Bank Group’s strategic objectives, are not expected to meet certain returns criteria and/or offer limited growth opportunities to Barclays PLC (together with its subsidiary undertakings (Group)), have been reorganised into Barclays Non-Core. These assets are designated for exit or run-down over time. The whole of the issued ordinary share capital of Barclays Bank PLC is beneficially owned by Barclays PLC. Barclays PLC is the ultimate holding company of the Group.

The short term unsecured obligations of Barclays Bank PLC are rated A-2 by Standard & Poor’s Credit Market Services Europe Limited, P-1 by Moody’s Investors Service Ltd. and F1 by Fitch Ratings Limited and the long-term unsecured unsubordinated obligations of Barclays Bank PLC are rated A- by Standard & Poor’s Credit Market Services Europe Limited, A2 by Moody’s Investors Service Ltd. and A by Fitch Ratings Limited.

Based on the Bank Group’s audited financial information for the year ended 31 December 2014¹, the Bank Group had total assets of £1,358,693m (2013: £1,344,201m), total net loans and advances² of £470,424m (2013: £474,059m), total deposits³ of £486,258m (2013: £487,647m), and total shareholders’ equity of £66,045m (2013: £63,220m) (including non-controlling interests of £2,251m (2013: £2,211m)). The profit before tax from continuing operations of the Bank Group for the year ended 31 December 2014 was £2,309m (2013: £2,885m) after credit impairment charges and other provisions of £2,168m (2013: £3,071m). The financial information in this paragraph is extracted from the audited consolidated financial statements of the Bank for the year ended 31 December 2014.

Based on the Bank Group’s unaudited financial information for the six months ended 30 June 2015, the Bank Group had total assets of £1,197,555m (30 June 2014: £1,315,492m), total net loans and advances² of £475,826m (30 June 2014: £486,385m), total deposits³ of £494,423m (30 June 2014: £505,873m), and total shareholders’ equity of £65,710m (30 June 2014: £65,119m) (including non-controlling interests of £2,153m (30 June 2014: £2,130m)). The profit before tax from continuing operations of the Bank Group for the six months ended 30 June 2015 was £3,147m (30 June 2014: £2,504m) after credit impairment charges and other provisions of £973m (30 June 2014: £1,086m). The financial information in this paragraph is extracted from the unaudited consolidated financial statements of the Bank for the six months ended 30 June 2015.

¹ As noted in the financial statements of the Bank for the year ended 31 December 2014, the prior year (2013) has been restated to reflect the IAS 32 (revised) standard.

² Total net loans and advances include balances relating to both bank and customer accounts.

³ Total deposits include deposits from bank and customer accounts.

The delivery of the information concerning Barclays Bank PLC and the Bank Group herein shall not create any implication that there has been no change in the affairs of Barclays Bank PLC and the Bank Group since the date hereof, or that the information contained or referred to herein is correct as of any time subsequent to its date.

Barclays Bank PLC is responsible only for the information contained in this Part 4 of this Reoffering Circular and did not participate in the preparation of, or in any way verify the information contained in, any other part of this Reoffering Circular. Accordingly, Barclays Bank PLC assumes no responsibility for and makes no representation or warranty as to the accuracy or completeness of information contained in any other part of this Reoffering Circular.

The section of the Reoffering Circular entitled “Part 13 – LEGAL MATTERS” is deleted in its entirety and replaced with the following:

PART 13 – LEGAL MATTERS

Certain legal matters incidental to the authorization and issuance of the Series 2006 Bonds by the Authority were subject to the approval of Hawkins Delafield & Wood LLP, New York, NY, Bond Counsel, which delivered its approving opinion in connection with the initial issuance of the Series 2006 Bonds on March 16, 2006. As a condition to the substitution of the Facilities for the Series 2006 Bonds, Hawkins Delafield & Wood LLP will deliver its opinion to the effect that such substitutions will not impair the exclusion of interest on the Series 2006 Bonds from gross income of the owners of such Bonds for purposes of federal income taxation. Copies of the approving opinion delivered by Bond Counsel in connection with the issuance of the Series 2006 Bonds and the proposed form of the opinion to be delivered on the Substitution Date are set forth in Appendix F hereto.

Certain legal matters will be passed upon for the University by its counsel, Bond, Schoeneck & King, PLLC, Rochester, New York. Certain legal matters will be passed upon for the Remarketing Agent by its counsel, Winston & Strawn LLP, New York, New York. Certain legal matters will be passed upon for the Bank by its counsel, McDermott Will & Emery LLP, New York, New York.

The section of the Reoffering Circular entitled “Part 14 – CONTINUING DISCLOSURE” is deleted in its entirety and replaced with the following:

PART 14 – CONTINUING DISCLOSURE

So long as the Series 2006 Bonds bear interest at the Daily Interest Rate or the Weekly Interest Rate, the Series 2006 Bonds are exempt from Rule 15c2-12 (the “Rule”) promulgated by the Securities and Exchange Commission (the “Commission”), and the Authority and the University will not be required to provide any continuing disclosure in accordance with the Rule. In connection with certain fixed rate debt, the University has entered into one or more Continuing Disclosure Agreements and has agreed to file certain information and notices of the occurrence of certain enumerated events with the Electronic Municipal Market Access (“EMMA”) system of the Municipal Securities Rulemaking Board (“MSRB”) or any other entity designated or authorized by the Commission to receive reports pursuant to the Rule.

The section of the Reoffering Circular entitled “Part 15 – REMARKETING” is deleted in its entirety and replaced with the following:

PART 15 – REMARKETING

Barclays, as Remarketing Agent for the Series 2006 Bonds, has agreed, pursuant to the terms and conditions of a Firm Remarketing Agreement dated August 6, 2015 to purchase the Series 2006 Bonds from the Authority at an aggregate purchase price of par plus accrued interest and to make a public offering of the Series 2006 Bonds. Barclays will be obligated to purchase all such Series 2006 Bonds tendered on the Substitution Date.

The section of the Reoffering Circular entitled “PART 16 – RATINGS” is deleted in its entirety and replaced with the following:

PART 16 – RATINGS

Upon the issuance of the respective Letters of Credit by the Bank, the Series 2006 Bonds are expected to be assigned a long-term rating of “Aa1” by Moody’s Investors Service (“Moody’s”) and a long-term rating of “AAA” by Standard & Poor’s Ratings Services, a division of the McGraw Hill Companies, Inc. (“Standard & Poor’s”). The long-term ratings are based upon a joint correlation of the credit of the University and the Bank. The University is currently rated “Aa3” by Moody’s and “AA-” by Standard & Poor’s. The Series 2006 Bonds are expected to be assigned a short-term rating of “V-MIG1” by Moody’s and a short-term rating of “A-2” by Standard & Poor’s. Such ratings reflect only the views of such organizations and any desired explanation of the significance of such ratings should be obtained from the rating agencies at the following addresses: Moody’s, 7 World Trade Center at 250 Greenwich Street, New York, New York 10007; and Standard & Poor’s, 55 Water Street, New York, New York 10041. There is no assurance that such ratings will prevail for any given period of time or that they will not be revised downward or withdrawn entirely by either or both of such rating agencies if, in the judgment of either or both of them, circumstances so warrant. Any such downward revision or withdrawal of such rating or ratings may have an adverse effect on the market price of the Series 2006 Bonds.

MISCELLANEOUS

Appendix E to the Reoffering Circular is deleted in its entirety and replaced with “APPENDIX E – SUMMARY OF CERTAIN PROVISIONS OF THE REIMBURSEMENT AGREEMENT” attached to this Supplement. Such Appendix E has been prepared by McDermott Will & Emery LLP, counsel to Barclays Bank. The information regarding the Barclays Letters of Credit in this Supplement contained under the heading “PART 2 – SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2006 BONDS – The Letters of Credit” of the Reoffering Circular also has been furnished by McDermott Will & Emery LLP, New York, New York, counsel to Barclays Bank. The information regarding Barclays Bank in this Supplement amending Part 4 of the Reoffering Circular has been furnished by Barclays Bank. No representation is made herein by DASNY, the University or the Remarketing Agent as to the accuracy or adequacy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof. None of DASNY, the University or the Remarketing Agent has made any independent investigation of the Bank.

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**SUMMARY OF CERTAIN PROVISIONS OF THE
REIMBURSEMENT AGREEMENT**

The following is a summary of certain provisions of the Reimbursement Agreement to which reference is made for the complete provisions thereof. All term used in this summary and not defined in this Reoffering Circular have the respective meanings ascribed to such terms in the Reimbursement Agreement.

The University has entered into a Letter of Credit and Reimbursement Agreement, dated as of August 7, 2015, with the Bank (the “*Reimbursement Agreement*”), pursuant to which the Bank has agreed to issue the Letters of Credit. Under the terms of the Reimbursement Agreement, the University has agreed to reimburse the Bank for draws under the Letters of Credit and to comply with the other covenants, provisions and terms set forth therein.

Pursuant to the Reimbursement Agreement, the occurrence of any of the following events, shall constitute an “Event of Default” thereunder:

(a) The University shall fail to pay when due any Reimbursement Obligations payable under the Reimbursement Agreement, including any interest thereon; or

(b) The University shall fail to observe or perform any covenant contained in Sections 5.01(a), 5.01(b), 5.01(g), or 5.02 of the Reimbursement Agreement; or

(c) The University shall fail to observe or perform any other covenant or term contained in the Reimbursement Agreement and such default shall not be waived or cured within thirty (30) days after knowledge by the University or receipt of written notice of such default from the Bank; provided, however such failure shall not constitute an Event of Default if such failure is subject to cure but cannot be reasonably remedied within said thirty (30) day period and the University shall have commenced to cure such failure within said thirty (30) day period and shall have thereafter diligently proceeded with such cure and such failure is remedied within sixty (60) days of such knowledge or notice; and provided further that any waiver may be granted or withheld by the Bank in its sole discretion; or

(d) The University shall fail to pay any Obligations (other than Reimbursement Obligations) due under the Reimbursement Agreement and such default continues for a period of ten (10) Business Days after the Bank provides written notice to the University; or

(e) (i) Any of Moody’s, S&P or Fitch shall downgrade their respective long-term ratings of any Parity Debt to below “Baa3” (or its equivalent) by Moody’s, “BBB-” (or its equivalent) by S&P, or “BBB-” (or its equivalent) by Fitch, (ii) any of Moody’s, S&P or Fitch shall suspend or withdraw its ratings of any Parity Debt for credit related reasons relating to the University, or (iii) one hundred twenty (120) days after the long-term rating assigned to any Parity Debt shall be reduced below “Baa1” by Moody’s or below “BBB+” by S&P or Fitch; or

(f) Any representation, warranty or certification made by the University in the Reimbursement Agreement or the Financing Documents shall prove to have been incorrect, incomplete or misleading in any material respect when made or deemed made; or

(g) Any default on the part of the University shall remain unwaived or uncured beyond the expiration of any applicable notice and/or grace period, under any of the Financing Documents; or

(h) Default by the University in the payment of any amount due in respect of any Indebtedness owed to the Bank or default by the University in the payment of any amount due in respect of any other Indebtedness having a principal amount in excess of fifteen million Dollars (\$15,000,000) (measured in the case of any Parity Swap Contract by the notional amount thereof), as and when the same shall become due, or default under any mortgage, agreement or other instrument under or pursuant to which such Indebtedness is incurred or issued, and continuance of such default beyond the period of grace, if any, allowed with respect thereto, or the occurrence of any default, event of default or other similar condition or event (however described) with respect to the University under any such mortgage, agreement or other instrument which results in such Indebtedness becoming, or being

capable of becoming, immediately due and payable (or, with respect to any Parity Swap Contract, which results in such Parity Swap Contract being terminated early or being capable of being terminated early); or

(i) The University shall be dissolved; or the University shall (i) commence a voluntary case or other proceeding seeking liquidation, reorganization, arrangement, adjustment, winding-up, dissolution, composition or other similar relief with respect to itself or its debts under any bankruptcy, insolvency, reorganization or other similar law for the relief of debtors now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official for it or a substantial part of its property, (ii) consent to any such relief or to the appointment of or taking possession by any such official in an involuntary case or other proceeding commenced against it, (iii) fail generally to pay or admit in writing its inability to pay its indebtedness as it becomes due, (iv) make a general assignment for the benefit of creditors, or (v) take (through an authorized officer or representative) any official action to authorize any of the foregoing; or

(j) (i) An involuntary case or other proceeding shall be commenced against the University seeking liquidation, reorganization or other relief with respect to it or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property and either (A) the University shall consent in writing to such action or (B) such case shall not be dismissed within sixty (60) days, (ii) an order for relief shall be entered against the University under the federal bankruptcy laws as now or hereafter in effect or pursuant to any other State or federal laws concerning insolvency or of similar purpose, (iii) a final and non-appealable debt moratorium, debt adjustment, debt restructuring or comparable extraordinary restriction with respect to the payment of principal or interest on the indebtedness of the University shall be declared or imposed pursuant to a finding or ruling by the University, the United States of America, the State, any instrumentality thereof or any other Governmental Authority of competent jurisdiction over the University, or (iv) the issuance, under the laws of any state or under the laws of the United States of America, of an order of rehabilitation, liquidation or dissolution of the University; or

(k) Any writ, attachment, execution or similar process shall be issued or levied against the University or any of its property for an amount in excess of \$20,000,000, and any such writ, attachment, execution or similar process shall not be paid, released, vacated or fully bonded within thirty (30) days after its issue or levy; or

(l) Except as described in Section 4.01(l) of the Reimbursement Agreement, the University or any of its Subsidiaries, if any, shall fail to meet its minimum funding requirements under ERISA with respect to any employee benefit plan in an amount in excess of \$20,000,000 (or other class of benefit which the PBGC has elected to insure) or any such plan shall be the subject of termination proceedings (whether voluntary or involuntary) and there shall result from such termination proceedings a liability of the University to the PBGC in an amount in excess of \$20,000,000; or

(m) A senior officer of the University shall (i) claim, in writing, that the Reimbursement Agreement or any of the other Financing Documents or any material provision therein shall cease to be legal, valid or enforceable in any material respect or (ii) repudiate the obligations under the Reimbursement Agreement, the Bonds or any of the Financing Documents to which the University is a party; or

(n) The University or any Governmental Authority with jurisdiction over the University shall initiate any legal proceedings to seek an adjudication that the Reimbursement Agreement, the Bonds, the Financing Documents or the obligation to pay or repay any Indebtedness issued pursuant to the Resolution is not valid or not binding on the University; or

(o) Any court of competent jurisdiction or other Governmental Authority with jurisdiction to rule on the validity of the Reimbursement Agreement, the Bonds or the Financing Documents, shall announce, find or rule that the Reimbursement Agreement, the Bonds, or any of the Financing Documents is not valid or not binding on the University and such announcement, finding or ruling is final and non-appealable; or

(p) There shall be entered against the University any final and non-appealable judgment which, singly or with any other final judgment or judgments against the University then remaining unpaid for a period of sixty (60) days exceeds \$20,000,000; or

(q) Any “Event of Default” (as defined in the Resolution or the Loan Agreement) shall have occurred or any failure or default by the University shall have occurred under any of the other Financing Documents and shall have continued beyond the expiration of any applicable notice and/or grace period; or

(r) A ruling, assessment, notice of deficiency or technical advice by the Internal Revenue Service shall be rendered to the effect that interest on the Bonds is included in the gross income of the Bondholder(s) of the Bonds; or

(s) The occurrence of an “Event of Default” (as defined in the applicable Bank Agreement) under a Bank Agreement with respect to a provision substantially similar to an Event of Default provided for in Section 6.01(h), (k), (l) or (p) of the Reimbursement Agreement, wherein such substantially similar provision is tested against a threshold that is less than the threshold set forth in the Reimbursement Agreement.

Upon the occurrence of an Event of Default and, at any time thereafter, during the continuance of such Event of Default, the Bank may exercise any one or more of the following rights and remedies (all of which shall be cumulative):

(a) Declare all Obligations to be, and such amounts shall thereupon become, immediately due and payable without presentment, demand, protest or other notice of any kind, all of which are waived by the University, provided that upon the occurrence of an Event of Default under Section 6.01(i) or (j) of the Reimbursement Agreement, such acceleration shall automatically occur without notice; and/or

(b) Notify the Trustee of such Event of Default and direct the Trustee to give notice of mandatory tender for purchase pursuant to Section A-504 of the Resolution, with such notice to include the date of such mandatory tender for purchase, which shall be a day not more than 15 calendar days after the date of such notice; and/or

(c) Enforce the provisions of the Reimbursement Agreement by legal proceedings for the specific performance of any covenant or agreement contained therein or for the enforcement of any other appropriate legal or equitable remedy. The Bank may recover damages caused by any breach by the University of the provisions of the Reimbursement Agreement, including court costs, reasonable attorneys’ fees and other costs and expenses incurred in the enforcement of the obligations of the University thereunder; and/or

(d) Exercise all other rights and remedies which the Bank may have under any agreement with the University or under applicable law.

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FORMS OF OPINIONS OF BOND COUNSEL TO THE AUTHORITY

**OPINION OF BOND COUNSEL
DELIVERED UPON ISSUANCE OF THE SERIES 2006 BONDS**

Upon delivery of the Series 2006 Bonds, Hawkins Delafield & Wood LLP, Bond Counsel to the Authority, issued its approving opinion with respect to the Series 2006 Bonds substantially in the following form:

HAWKINS DELAFIELD & WOOD LLP
67 WALL STREET
NEW YORK, NEW YORK 10005

March 16, 2006

Dormitory Authority of the
State of New York
515 Broadway
Albany, New York 12207

Ladies and Gentlemen:

We have examined a record of proceedings relating to the issuance of \$94,130,000 aggregate principal amount of University of Rochester Revenue Bonds, Series 2006A-1 (the "Series 2006A-1 Bonds") and \$17,050,000 aggregate principal amount of University of Rochester Revenue Bonds, Series 2006B-1 (the "Series 2006B-1 Bonds" and, collectively with the Series 2006A-1 Bonds, the "Series 2006 Bonds") of the Dormitory Authority of the State of New York (the "Authority"), a body corporate and politic constituting a public benefit corporation of the State of New York created and existing under the Dormitory Authority Act, being Chapter 524 of the Laws of New York of 1944, as amended (the "Act").

The Series 2006 Bonds are issued under and pursuant to the Act, the University of Rochester Revenue Bond Resolution adopted by the Authority on August 11, 1999, as amended (the "Bond Resolution"), as supplemented by series resolutions adopted by the Authority on January 25, 2006, authorizing the Series 2006A-1 Bonds and the Series 2006B-1 Bonds, respectively (collectively, the "Series 2006 Resolutions"), and series certificates of the Authority fixing the terms and the details of the Series 2006A-1 Bonds and the Series 2006B-1 Bonds (collectively, the "Series 2006 Bond Series Certificates"). The Bond Resolution, the Series 2006 Resolutions and the Series 2006 Bond Series Certificates are herein collectively referred to as the "Resolutions."

The Series 2006 Bonds are dated, mature, are payable, bear interest and are subject to redemption and purchase as provided in the Resolutions.

The Authority has reserved the right to issue additional bonds on the terms and conditions and for the purposes stated in the Bond Resolution. Under and subject to the provisions of the Bond Resolution, the Series 2006 Bonds and all bonds heretofore and hereafter issued under the Bond Resolution rank and will rank equally as to security and payment.

We are of the opinion that:

1. The Authority has been duly created and is validly existing under the Act and has the right, power and authority to adopt the Resolutions and the Resolutions have been duly and lawfully adopted by the

Authority, are in full force and effect and are valid and binding upon the Authority and enforceable in accordance with their terms.

2. The Bond Resolution creates the valid pledge which it purports to create of the proceeds of the sale of the bonds, the Revenues and all funds and accounts established by the Bond Resolution (other than the Arbitrage Rebate Fund, as defined in the Bond Resolution), including the investments thereof and the proceeds of such investments, if any, subject only to the provisions of the Bond Resolution permitting the application thereof to the purposes and on the terms and conditions set forth in the Bond Resolution.

3. The Series 2006 Bonds have been duly and validly authorized and issued by the Authority and are valid and binding special obligations of the Authority, payable solely from the sources provided therefor in the Resolutions.

4. The Series 2006 Bonds are not a debt of the State of New York, and the State of New York is not liable thereon, nor shall the Series 2006 Bonds be payable out of funds of the Authority other than those pledged for the payment of the Series 2006 Bonds.

5. The Loan Agreement dated as of August 11, 1999, between the Authority and the University of Rochester (the "University"), as supplemented and amended to the date hereof (the "Loan Agreement"), has been duly authorized, executed and delivered by the Authority and, assuming due authorization, execution and delivery thereof by the University, constitutes a legal, valid and binding obligation of the Authority enforceable in accordance with its terms.

6. Under existing statutes and court decisions, interest on the Series 2006 Bonds is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"). Under the Code, interest on the Series 2006 Bonds is not treated as a preference item in calculating alternative minimum taxable income for purposes of the alternative minimum tax applicable to individuals and corporations; such interest, however, is includable in the adjusted current earnings of certain corporations for purposes of computing the alternative minimum tax imposed on such corporations by the Code. Also, under existing statutes, interest on the Series 2006 Bonds is exempt from personal income taxes imposed by the State of New York or any political subdivision thereof (including The City of New York). In rendering the opinions in this paragraph 6, we have relied upon and assumed (i) the material accuracy of the representations, statements of intention and reasonable expectations, and certifications of fact, contained in the federal tax compliance documents delivered on the date hereof by the Authority and the University and others with respect to the use of proceeds of the Series 2006 Bonds and the investment of certain funds, and other matters affecting the exclusion of interest on the Series 2006 Bonds from gross income for federal income tax purposes under Section 103 of the Code, and (ii) compliance by the Authority and the University with procedures and covenants set forth in the federal tax compliance documents and with the tax covenants set forth in the Resolutions as to such matters. In addition, we have relied on the opinion of counsel to the University regarding, among other matters, the current qualifications of the University as an organization described in Section 501(c)(3) of the Code. Under the Code, failure to comply with such procedures and covenants may cause the interest on the Series 2006 Bonds to be included in gross income for federal income tax purposes, retroactive to the date of issuance of the Series 2006 Bonds, irrespective of the date on which such noncompliance occurs or is ascertained.

Except as stated in paragraph 6 above, we express no opinion as to any federal, state or local tax consequences arising with respect to the Series 2006 Bonds or the ownership or disposition thereof. Furthermore, we express no opinion as to the effect of any action hereafter taken or not taken in reliance upon an opinion of counsel other than ourselves on the exclusion from gross income for federal income tax purposes of interest on the Series 2006 Bonds, or under state and local tax law. Under the Series 2006 Bond Series Certificates, certain action such as a change in interest rate periods or auction rate periods requires an opinion of bond counsel that such action will not impair the exclusion of interest on the Series 2006 Bonds from gross income for purposes of federal income taxation or the exemption of interest on the Series 2006 from personal income taxation under the laws of the State of New York (subject to customary exceptions).

This opinion is issued as of the date hereof, and we assume no obligation to update, revise or supplement this opinion as to the effect of any action hereafter taken or not taken, or any facts or circumstances, or any changes in law or in interpretations thereof, that may hereafter arise or occur, or for any other reason.

In rendering this opinion, we are advising you that the enforceability of rights and remedies with respect to the Series 2006 Bonds, the Resolutions and the Loan Agreement may be limited by bankruptcy, insolvency and other laws affecting creditors' rights or remedies heretofore or hereafter enacted and is subject to general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

We have examined an executed Series 2006A-1 Bond and Series 2006B-1 Bond and, in our opinion, the form of said Series 2006 Bonds and their execution are regular and proper.

Very truly yours,

**PROPOSED FORM OF OPINION OF BOND COUNSEL
TO BE DELIVERED UPON THE SUBSTITUTION OF
THE LIQUIDITY FACILITIES AND CREDIT FACILITIES
FOR THE SERIES 2006 BONDS**

Upon the substitution of the Liquidity Facilities and Credit Facilities for the Series 2006 Bonds, Hawkins Delafield & Wood LLP, Bond Counsel to the Authority, proposes to issue its legal opinion in substantially the following form:

HAWKINS DELAFIELD & WOOD LLP
28 LIBERTY STREET
NEW YORK, NEW YORK 10005

August 7, 2015

Dormitory Authority of the
State of New York
515 Broadway
Albany, New York 12207

The Bank of New York Mellon,
as Trustee
101 Barclay Street
New York, New York 10286

Ladies and Gentlemen:

On March 16, 2006, we delivered our final approving opinion (the “2006 Approving Opinion”) as bond counsel to the Dormitory Authority of the State of New York (the “Authority”) with respect to the issuance by the Authority of \$94,130,000 aggregate principal amount of University of Rochester Revenue Bonds, Series 2006A-1 (the “Series 2006A-1 Bonds”) and \$17,050,000 aggregate principal amount of University of Rochester Revenue Bonds, Series 2006B-1 (the “Series 2006B-1 Bonds” and, together with the Series 2006A-1 Bonds, the “Series 2006 Bonds”).

The Series 2006 Bonds were issued under and pursuant to the Dormitory Authority Act, being Chapter 524 of the Laws of New York of 1944, as amended (the “Act”), the University of Rochester Revenue Bond Resolution adopted by the Authority on August 11, 1999, which was amended and restated on May 28, 2008 (the “Bond Resolution”), as supplemented by series resolutions adopted by the Authority on January 25, 2006 and amended and restated on July 23, 2008, authorizing the Series 2006A-1 Bonds and the Series 2006B-1 Bonds, respectively (collectively, the “Series Resolutions”), and series certificates of the Authority fixing the terms and the details of the Series 2006A-1 Bonds and the Series 2006B-1 Bonds, respectively, each dated as of February 17, 2006, as supplemented on March 15, 2006, and amended and restated on September 10, 2008 (collectively, the “Series Certificates”). The Bond Resolution, the Series Resolutions and the Series Certificates are herein collectively referred to as the “Resolutions.” Unless otherwise defined in this opinion, all capitalized terms used herein shall have the meanings ascribed thereto in the Resolutions.

The Series 2006 Bonds currently bear interest at a weekly rate of interest, and are secured by separate irrevocable direct pay letters of credit for each series issued by Wells Fargo Bank, National Association, which provide both credit and liquidity support for the respective Series 2006 Bonds (the “Existing Facilities”). Pursuant to the Resolutions and the Loan Agreement, dated as of August 11, 1999, as amended and supplemented, including as supplemented by the Supplemental Loan Agreement, dated as of January 26, 2006, as amended and restated (collectively, the “Loan Agreement”), each by and between the Authority and the University of Rochester (the “University”), the University has elected to replace the Existing Facilities with separate irrevocable direct pay letters of credit to be issued by Barclays Bank PLC (the “Alternate Facilities”). In connection with the replacement of the

Existing Facilities with the Alternate Facilities (the “Substitution”) on the date hereof, the Outstanding Series 2006 Bonds will be subject to mandatory tender and reoffered (the “Reoffered Bonds”) in connection therewith.

We are delivering this opinion in connection with the Substitution.

We are of the opinion that the Substitution of the Existing Facilities with the Alternate Facilities is permitted under the Resolutions.

We have not been asked to, and we do not, express any opinion as to whether, as of the date hereof, the interest on the Reoffered Bonds is excluded from gross income for Federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”). We are of the opinion, however, that, under existing statutes and court decisions, the Substitution, in and of itself, will not impair (a) the exclusion of interest from gross income for Federal income tax purposes under Section 103 of the Code on any Reoffered Bonds, the interest on which is otherwise excluded from gross income for Federal income tax purposes under Section 103 of the Code, and (b) the exemption of interest on any Reoffered Bonds from personal income taxes imposed by the State of New York or any political subdivision thereof (including The City of New York).

Except as stated above, we express no opinion regarding any Federal, state or local tax consequences with respect to the Reoffered Bonds. We wish to advise you that our opinion is limited to the Substitution on August 7, 2015 and does not extend to any other event or matter occurring subsequent to the delivery of our 2006 Approving Opinion on March 16, 2006.

This opinion is given as of the date hereof and we assume no obligation to update, revise or supplement this opinion to reflect any future action, fact or circumstance, or change in law or interpretation, or otherwise. We express no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for Federal income tax purposes of interest on the Reoffered Bonds, or under state and local tax law.

Very truly yours,

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REOFFERING CIRCULAR

(See attached)

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EXISTING ISSUES
REOFFERED



\$111,180,000	
DORMITORY AUTHORITY OF THE STATE OF NEW YORK	
UNIVERSITY OF ROCHESTER REVENUE BONDS, SERIES 2006	
Consisting of:	
\$94,130,000 SERIES 2006A-1	\$17,050,000 SERIES 2006B-1
Date of Reoffering: September 10, 2008	Date of Reoffering: September 10, 2008
Due: July 1, 2027	Due: July 1, 2024
CUSIP (1) 6499032J9	CUSIP (1) 6499032L4
Price: 100%	Price: 100%

The University of Rochester Revenue Bonds, Series 2006A-1 (the "Series 2006A-1 Bonds") and Series 2006B-1 (the "Series 2006B-1 Bonds") and, together with the Series 2006A-1 Bonds, the "Series 2006 Bonds") were issued on March 16, 2006 as Variable Interest Rate Bonds and are subject to mandatory tender for purchase and remarketing due to the substitution of the Credit Facilities and Liquidity Facilities on September 10, 2008 (the "Substitution Date").

Payment and Security: The Series 2006 Bonds are special obligations of the Dormitory Authority of the State of New York (the "Authority"), payable from, and secured by a pledge of (i) certain payments to be made under the Loan Agreement dated as of August 11, 1999, as amended and supplemented (the "Loan Agreement") between University of Rochester (the "University") and the Authority, and (ii) all funds and accounts (except the Arbitrage Rebate Fund and any Bond Purchase Fund) established under the Authority's University of Rochester Revenue Bond Resolution, adopted August 11, 1999, as amended and restated (the "Resolution"), and with respect to the Series 2006A-1 Bonds, the University of Rochester Series 2006A-1 Resolution authorizing the Series 2006A-1 Bonds, adopted January 25, 2006, as amended and restated (the "Series 2006A-1 Resolution"), and with respect to the Series 2006B-1 Bonds, the University of Rochester Series 2006B-1 Resolution authorizing the Series 2006B-1 Bonds, adopted January 25, 2006, as amended and restated (the "Series 2006B-1 Resolution" and together with the Series 2006A-1 Resolution, the "Series Resolutions").

The Loan Agreement is a general obligation of the University and requires the University to pay, in addition to the fees and expenses of the Authority and the Trustee, amounts sufficient to pay the principal and Redemption Price of and interest on all Bonds issued under the Resolution, including the principal of and interest on the Series 2006 Bonds, as such payments become due.

On and after the Substitution Date, the Series 2006 Bonds will be additionally secured by, and principal, Sinking Fund Installments and Tender Price of and interest on the Series 2006 Bonds will be payable from amounts drawn by The Bank of New York Mellon, New York, New York, as Trustee and Tender Agent under two separate irrevocable direct pay letters of credit (each a "Letter of Credit" and collectively, the "Letters of Credit") issued by Bank of America, N.A. (the "Bank").



Each Letter of Credit will permit the Trustee to draw an amount sufficient to pay, when due, the principal, Sinking Fund Installments and Tender Price of and up to 40 days' interest on the applicable Series of the Series 2006 Bonds bearing interest at a Weekly Interest Rate computed at the rate of 12% per annum. Each Letter of Credit will expire, unless extended or earlier terminated as described herein, on September 10, 2011.

The Series 2006 Bonds are not a debt of the State of New York nor is the State liable thereon. The Authority has no taxing power.

Description: The Series 2006 Bonds will be reoffered on the Substitution Date as Variable Interest Rate Bonds and Option Bonds and as fully registered Bonds in denominations of \$100,000 or any integral multiple of \$5,000 in excess thereof. For the period commencing on the Substitution Date through and including the following Tuesday, the Series 2006A-1 Bonds will bear interest at the rate per annum determined by Citigroup Global Markets Inc., the Remarketing Agent for the Series 2006A-1 Bonds. For the period commencing on the Substitution Date through and including the following Tuesday, the Series 2006B-1 Bonds will bear interest at the rate per annum determined by Lehman Brothers Inc., the Remarketing Agent for the Series 2006B-1 Bonds. Thereafter, the Series 2006 Bonds will bear interest at a Weekly Interest Rate for each weekly period commencing on and including Wednesday of each week and ending on and including the next succeeding Tuesday until converted to another Interest Rate Period. Each Weekly Interest Rate for the Series 2006 Bonds will be determined by their respective Remarketing Agents on Tuesday of each week (or the next succeeding Business Day, if such Tuesday is not a Business Day). Interest on the Series 2006 Bonds is payable on the first Wednesday of each calendar month (or the next succeeding Business Day, if such Wednesday is not a Business Day), commencing on October 1, 2008.

The Interest Rate Period applicable to each Series of the Series 2006 Bonds may be changed to another Interest Rate Period at the times and in the manner set forth herein. Unless otherwise set forth herein, the descriptions of the Series 2006 Bonds and the related documents included herein generally relate only to the terms and provisions which are applicable while the Series 2006 Bonds bear interest at a Weekly Interest Rate.

The Series 2006 Bonds have been issued under a Book-Entry Only System, registered in the name of Cede & Co., as nominee for The Depository Trust Company ("DTC"). Individual purchases of beneficial interests in the Series 2006 Bonds will be made in book-entry form (without certificates). So long as DTC or its nominee is the registered owner of the Series 2006 Bonds, payments of the principal, Tender Price and Redemption Price of and interest on the Series 2006 Bonds will be made directly to DTC or its nominee. Disbursement of such payments to DTC participants is the responsibility of DTC and disbursement to beneficial owners is the responsibility of DTC participants. See "PART 3 - THE SERIES 2006 BONDS - Book-Entry Only System" herein.

Tenders for Purchase and Redemption: The Series 2006 Bonds are subject to tender for purchase and optional redemption prior to maturity as more fully described herein.

Tax Exemption: On March 16, 2006, Hawkins Delafield & Wood LLP, Bond Counsel to the Authority, rendered its opinion in connection with the original issuance of the Series 2006 Bonds to the effect that under existing statutes and court decisions, and assuming continuing compliance with certain tax covenants described herein, (i) interest on the Series 2006 Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code") (ii) interest on the Series 2006 Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations; and (iii) interest on the Series 2006 Bonds is exempt from personal income taxes imposed by the State of New York and any political subdivision thereof (including The City of New York). In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the Authority, to be rendered on the Substitution Date, the substitution of the Credit Facilities and Liquidity Facilities (collectively, the "Facilities") with respect to the Series 2006 Bonds, in and of itself, will not impair (a) the exclusion of interest from gross income for Federal income tax purposes pursuant to Section 103 of the Code on any Series 2006 Bonds, the interest on which is otherwise excluded from gross income for Federal income tax purposes under Section 103 of the Code, and (b) the exemption of interest on any Series 2006 Bonds from personal income taxes imposed by the State of New York or any political subdivision thereof, including The City of New York. See "PART 10 - TAX EXEMPTION" herein.

In connection with the substitution of the Facilities for the Series 2006 Bonds, certain legal matters will be passed upon by Hawkins Delafield & Wood LLP, New York, New York, Bond Counsel. Certain legal matters will be passed upon for the University by its counsel, Nixon Peabody, LLP, Rochester, New York. Certain legal matters will be passed upon for the Remarketing Agents by their counsel, Orrick, Herrington & Sutcliffe LLP, New York, New York. Certain legal matters will be passed upon for the Bank by its counsel, Harris Beach PLLC, Albany, New York. The Authority expects to complete the substitution of the Facilities and the remarketing of the Series 2006 Bonds in New York, New York on September 10, 2008.

Citi Remarketing Agent For the Series 2006A-1 Bonds	Lehman Brothers Remarketing Agent For the Series 2006B-1 Bonds
--	---

September 3, 2008

(1) A CUSIP number has been assigned by an organization not affiliated with the Authority or the University and is included solely for the convenience of the Holders of the Series 2006 Bonds. Neither the Authority nor the University is responsible for the selection or uses of this CUSIP number, nor is any representation made as to its correctness on the Series 2006 Bonds or as indicated above.

No dealer, broker, salesperson or other person has been authorized by the Authority, the University, the Bank or the Remarketing Agents to give any information or to make any representations with respect to the Series 2006 Bonds, other than the information and representations contained in this Reoffering Circular. If given or made, any such information or representations must not be relied upon as having been authorized by the Authority, the University or the Remarketing Agents.

This Reoffering Circular does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be a sale of the Series 2006 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

Certain information in this Reoffering Circular has been supplied by the University, the Bank and other sources that the Authority believes are reliable. Neither the Authority nor the Remarketing Agents guarantee the accuracy or completeness of such information, and such information is not to be construed as a representation of the Authority or of the Remarketing Agents.

The University has reviewed the parts of this Reoffering Circular describing the University, the Hospital/Medical Center and Principal and Interest Requirements. It is a condition to the sale of and the delivery of the Series 2006 Bonds that the University certify to the Remarketing Agents and the Authority that, as of the date of this Reoffering Circular and of delivery of the Series 2006 Bonds, such parts do not contain any untrue statements of a material fact and do not omit to state a material fact necessary in order to make the statements made therein, in the light of the circumstances under which the statements are made, not misleading. The University makes no representation as to the accuracy or completeness of any other information included in this Reoffering Circular.

Other than with respect to information concerning the Bank contained in "PART 4 – THE BANK" none of the information in this Reoffering Circular has been supplied or verified by the Bank, and the Bank makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the Series 2006 Bonds; or (iii) the tax status of the interest on the Series 2006 Bonds.

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

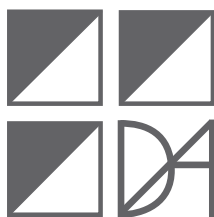
The order and placement of material in this Reoffering Circular, including its appendices, are not to be deemed a determination of relevance, materiality or importance, and all material in this Reoffering Circular, including its appendices, must be considered in its entirety.

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

IN CONNECTION WITH THE OFFERING OF THE SERIES 2006 BONDS, THE REMARKETING AGENT MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICES OF THE SERIES 2006 BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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DORMITORY AUTHORITY - STATE OF NEW YORK
PAUL T. WILLIAMS, JR. – EXECUTIVE DIRECTOR

515 BROADWAY, ALBANY, N.Y. 12207
GAIL H. GORDON, ESQ – CHAIR

REOFFERING CIRCULAR RELATING TO
\$111,180,000
DORMITORY AUTHORITY OF THE STATE OF NEW YORK
UNIVERSITY OF ROCHESTER REVENUE BONDS, SERIES 2006

Consisting of:

\$94,130,000
University of Rochester
Revenue Bonds, Series 2006A-1

\$17,050,000
University of Rochester
Revenue Bonds, Series 2006B-1

PART 1 – INTRODUCTION

Purpose of the Reoffering Circular

The purpose of this Reoffering Circular, including the cover page and appendices, is to provide information about the Authority, the Bank and the University, in connection with the reoffering of \$94,130,000 principal amount of the Authority's University of Rochester Revenue Bonds, Series 2006A-1 (the "Series 2006A-1 Bonds") and \$17,050,000 principal amount of the Authority's University of Rochester Revenue Bonds, Series 2006B-1 (the "Series 2006B-1 Bonds" and together with the Series 2006A-1 Bonds, the "Series 2006 Bonds").

On March 16, 2006, the Series 2006 Bonds were issued by the Authority in their current par amounts pursuant to the Resolution, their respective Series Resolutions and the Act. Proceeds from the Series 2006 Bonds were used to refund bonds previously issued by the Authority for the benefit of the University. The Series 2006 Bonds were initially issued as Variable Interest Rate Bonds in the Weekly Interest Rate Period.

Pursuant to the terms of the applicable Bond Series Certificates, dated as of February 17, 2006, if certain conditions are met on September 10, 2008 (the "Substitution Date"), from and after the Substitution Date, the Series 2006 Bonds will be payable from amounts drawn by the Trustee under the respective Letters of Credit. On the Substitution Date, the \$94,130,000 aggregate principal amount of Outstanding Series 2006A-1 Bonds and the \$17,050,000 aggregate principal amount of Outstanding Series 2006B-1 Bonds will be subject to mandatory tender by the Holders thereof for purchase at a price equal to 100% of the principal amount thereof plus accrued interest.

Since their date of issuance, the payment of principal of and interest on each Series of the Series 2006 Bonds when due has been insured under a financial guaranty insurance policy (the "Policies") issued by MBIA Insurance Corporation ("MBIA"). Effective on the Substitution Date, the Policies as they relate to such Series of the Series 2006 Bonds will be cancelled and MBIA will have no liability and no person will have a claim against MBIA for payments of principal and interest on the Series 2006 Bonds to be made after such Substitution Date.

The following is a brief description of certain information concerning the Series 2006 Bonds, the Authority, the Bank and the University. A more complete description of such information and additional information that may affect decisions to invest in the Series 2006 Bonds is contained throughout this Reoffering Circular, which should be read in its entirety. Certain terms used in this Reoffering Circular are defined in Appendix A hereto. Unless otherwise set forth herein, the descriptions of the Series 2006 Bonds

and the related documents included herein generally relate only to the terms and provisions which are applicable while the Series 2006 Bonds bear interest at a Weekly Interest Rate.

Authorization of Issuance

The Series 2006 Bonds were issued pursuant to the Resolution, the Series Resolutions and the Act. In addition to the Series 2006 Bonds, the Resolution authorizes the issuance of other Series of Bonds to pay other Costs of one or more Projects, to pay the Costs of Issuance of such Series of Bonds and to refund all or a portion of Outstanding Bonds or other notes or bonds of the Authority issued for the benefit of the University. The Bonds permitted to be issued under the Resolution include Capital Appreciation Bonds, Deferred Income Bonds, Option Bonds and Variable Interest Rate Bonds. All Bonds issued under the Resolution rank on a parity with each other and are secured equally and ratably with each other. See PART 2 – “SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2006 BONDS.”

On September 3, 2008, the University of Rochester Revenue Bonds, Series 2003A and the University of Rochester Revenue Bonds, Series 2003B were converted from an Auction Rate to a Daily Interest Rate.

Contemporaneously with the reoffering of the Series 2006 Bonds, the University of Rochester Revenue Bonds, Series 2003C issued under the Resolution are being converted from an Auction Rate to a Weekly Interest Rate. Such Bonds are subject to mandatory tender and are expected to be reoffered on or about September 10, 2008.

The Authority

The Authority is a public benefit corporation of the State, created for the purpose of financing and constructing a variety of public-purpose facilities for certain educational and not-for-profit institutions. See “PART 7 - THE AUTHORITY.”

The University

The University of Rochester (the “University”) is an independent, coeducational, nonsectarian, nonprofit institution of higher education and research chartered by the Board of Regents of the State. The University is located in Rochester, New York. See “PART 5 - THE UNIVERSITY” and “Appendix B - Consolidated Financial Statements of the University of Rochester and Related Entities (With Independent Auditors’ Report Thereon).”

The Hospital/Medical Center

The University Medical Center, an integrated division of the University of Rochester, consists of Strong Memorial Hospital (the “Hospital”) and four other divisions. The Hospital is the largest acute care general hospital in Rochester and serves both as a regional/national tertiary care community hospital and a specialized referral center for a 14-county area. The Hospital is currently licensed for a total of 739 beds. See “PART 6 - THE HOSPITAL/MEDICAL CENTER” and “Appendix B - Consolidated Financial Statements of the University of Rochester and Related Entities (With Independent Auditors’ Report Thereon).”

Amended and Restated Documents

On May 28, 2008, the Authority adopted the Second Supplemental Resolution authorizing the amendment and restatement of the Resolution, which Second Supplemental Resolution was consented to by the Trustee in accordance with the terms of the Resolution.

On July 23, 2008, the Authority adopted the Supplemental Series 2006A-1 Resolution and the Supplemental Series 2006B-1 Resolution, each of which authorizes the amendment and restatement of the Series Resolutions under which the Series 2006 Bonds were originally issued. The Series Resolutions, as amended and restated, authorize the execution by an officer of the Authority of an Amended and Restated Bond Series Certificate for each Series of the Series 2006 Bonds. It is expected that an Amended and Restated Bond Series Certificate with respect to each Series of the Series 2006 Bonds will be executed on

the Substitution Date in order to accommodate the direct-pay letter of credit structure being utilized upon the substitution of the Facilities for the Series 2006 Bonds and to eliminate references to the Policies being terminated on the Substitution Date and provisions relating thereto.

The Resolution provides that amendments to any previously adopted series resolution may be made with the written consent of the Holders of at least a majority in principal amount of the Series of Bonds affected by the amendments and Outstanding at the time such consent is given. The Resolution further provides that the purchasers of Bonds of a Series, whether purchasing as underwriters, for resale or otherwise, upon such purchase from the Authority, may consent to such modifications or amendments with the same effect as a consent given by the Holder of such Bonds permitted by the Resolution.

Citigroup Global Markets Inc., as the initial purchaser of the Series 2006A-1 Bonds upon the tender and remarketing of the Series 2006A-1 Bonds on the Substitution Date, has agreed to give its consent to the amendments provided in the Amended and Restated Series 2006A-1 Resolution pursuant to the Supplemental Series 2006A-1 Resolution, and to the amendments provided in the related Amended and Restated Bond Series Certificate, simultaneously with the reoffering of the Series 2006A-1 Bonds. Similarly, Lehman Brothers Inc., as the initial purchaser of the Series 2006B-1 Bonds upon the tender and remarketing of the Series 2006B-1 Bonds on the Substitution Date, has agreed to give its consent to the amendments provided in the Amended and Restated Series 2006B-1 Resolution pursuant to the Supplemental Series 2006B-1 Resolution, and to the amendments provided in the related Amended and Restated Bond Series Certificate, simultaneously with the reoffering of the Series 2006B-1 Bonds.

This Reoffering Circular describes the terms of the Series 2006 Bonds as provided for in the Amended and Restated Resolution, the Amended and Restated Series Resolutions and the Amended and Restated Bond Series Certificates and all references to the Resolution, the Series Resolutions and the Bond Series Certificates are to such documents as amended and restated. Certain terms of the Resolution, the Series Resolutions and the Bond Series Certificates as amended and restated, are summarized in Appendix D to this Reoffering Circular. By purchasing the Series 2006 Bonds, a purchaser will be deemed to have consented to the amendment of the applicable Series Resolution and the applicable Bond Series Certificate.

The Series 2006 Bonds

The Series 2006A-1 Bonds are being reoffered as Variable Interest Rate Bonds and will bear interest from September 10, 2008 to and including the following Tuesday at a rate per annum determined by Citigroup Global Markets Inc., as remarketing agent for the Series 2006A-1 Bonds (the “Series 2006A-1 Remarketing Agent”). Thereafter, the Series 2006A-1 Bonds will bear interest at the Weekly Interest Rate to be determined by the Series 2006A-1 Remarketing Agent from time to time in accordance with the applicable Bond Series Certificate, unless the method of determining interest on the Series 2006A-1 Bonds is converted to another Interest Rate Period. The Series 2006A-1 Bonds will mature on July 1, 2027.

The Series 2006B-1 Bonds are being reoffered as Variable Interest Rate Bonds and will bear interest from September 10, 2008 to and including the following Tuesday at a rate per annum determined by Lehman Brothers Inc., as remarketing agent for the Series 2006B-1 Bonds (the “Series 2006B-1 Remarketing Agent” and together with the Series 2006A-1 Remarketing Agent, the “Remarketing Agents”). Thereafter, the Series 2006B-1 Bonds will bear interest at the Weekly Interest Rate to be determined by the Series 2006B-1 Remarketing Agent from time to time in accordance with the applicable Bond Series Certificate, unless the method of determining interest on the Series 2006B-1 Bonds is converted to another Interest Rate Period. The Series 2006B-1 Bonds will mature on July 1, 2024.

The Weekly Interest Rate will be determined by the respective Remarketing Agents on Tuesday of each week (or the next succeeding Business Day, if such Tuesday is not a Business Day) and while in the Weekly Interest Rate Period, interest on the Series 2006 Bonds will be payable on the first Wednesday of each calendar month (or the next succeeding Business Day, if such Wednesday is not a Business Day). At the election of the Authority upon the written direction of the University, the Interest Rate Period applicable to each Series of the Series 2006 Bonds may be converted to another Interest Rate Period upon satisfaction of the terms and conditions described herein.

During any period of time in which the Series 2006 Bonds bear interest at the Weekly Interest Rate, the Series 2006 Bonds are subject to optional and mandatory tender for purchase at a price equal to 100% of the principal amount of such Series 2006 Bonds plus accrued and unpaid interest thereon to the date of purchase (the "Tender Price"). The Tender Price is payable from (i) proceeds of the remarketing of the Series 2006 Bonds, (ii) to the extent remarketing proceeds are insufficient to pay the Tender Price, from moneys obtained under the Liquidity Facility required for each Series of the Series 2006 Bonds under the terms of the respective Bond Series Certificate, and (iii) if the provider of the Liquidity Facility fails to pay the Tender Price, from moneys furnished by or on behalf of the University in accordance with the Resolution and Loan Agreement.

For a more complete description of the Series 2006 Bonds, the determination of interest rates, conversion to another Interest Rate Period and optional and mandatory tenders, see "PART 3 - THE SERIES 2006 BONDS."

This Reoffering Circular, in general, describes the Series 2006 Bonds only while bearing interest at a Weekly Interest Rate.

Payment of the Series 2006 Bonds

The Series 2006 Bonds are special obligations of the Authority payable from certain payments to be made by the Bank under the Letters of Credit and, if such amounts are insufficient, from the Revenues which consist of certain payments to be made by the University under the Loan Agreement, which payments are pledged and assigned to the Trustee. All other Bonds which have been and may be issued under the Resolution are also payable from the Revenues. The Loan Agreement is a general obligation of the University. See "PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2006 BONDS - Payment of the Series 2006 Bonds." For information on Outstanding Bonds previously issued under the Resolution, see "PART 5 - THE UNIVERSITY - University Indebtedness and Swaps."

Security for the Series 2006 Bonds

On the Substitution Date, the University will cause to be delivered to The Bank of New York Mellon, New York, New York, as Trustee, two separate irrevocable direct pay letters of credit (each a "Letter of Credit" and collectively, the "Letters of Credit") to be issued by Bank of America, N.A. (the "Bank") to additionally secure the respective Series of the Series 2006 Bonds to which such Letters of Credit apply.

Each Letter of Credit will be issued pursuant to the terms of the Letter of Credit Reimbursement Agreement dated as of September 10, 2008 (the "Reimbursement Agreement") between the University and the Bank. Each Letter of Credit will be issued in an amount equal to the principal amounts of the Series 2006A-1 Bonds and the Series 2006B-1 Bonds, as applicable, together with 40 days' interest thereon computed at the rate of twelve percent (12%) per annum. The Bank will also advance funds under each Letter of Credit to the Trustee up to the principal amount of the applicable Series 2006 Bonds, together with 40 days' interest thereon computed at the rate of twelve percent (12%) per annum in order to pay the Tender Price of such Series 2006 Bonds tendered and not remarketed.

Each Letter of Credit only secures the applicable Series of the Series 2006 Bonds while such Series 2006 Bonds bear interest at a Daily Interest Rate or a Weekly Interest Rate.

Each Letter of Credit will expire three (3) years following the Substitution Date unless extended or earlier terminated upon the occurrence of certain events described herein. Each Letter of Credit constitutes a "Credit Facility," a "Liquidity Facility" and a "Direct-Pay Credit Facility" and the Bank constitutes a "Facility Provider," a "Credit Facility Provider" and a "Liquidity Facility Provider" under the terms of the Resolution, the related Series 2006 Resolution and the related Bond Series Certificate. See "PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2006 BONDS."

The Resolution authorizes the issuance by the Authority, from time to time, of Bonds in one or more Series, each such Series to be authorized by a separate Series Resolution. All Bonds issued under the Resolution rank on a parity and share equally and ratably in the security provided by the Resolution. Each Letter of Credit will secure only the Series of Series 2006 Bonds to which it relates. See "PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE BONDS - Issuance of Additional Bonds."

The Series 2006 Bonds are not a debt of the State nor is the State liable thereon. The Authority has no taxing power. Neither the State nor the Authority has any responsibility to make payments with respect to the Series 2006 Bonds except for the Authority's responsibility to make payments from moneys received from the University pursuant to the Loan Agreement and from amounts held in the funds and accounts under the Resolution and pledged therefor.

Covenants

The University has covenanted in the Loan Agreement that it will maintain (i) Available Assets of the University which will be not less than 200% of the General Liabilities of the University, and (ii) as an asset of the University, unencumbered, unrestricted securities, the market value of which is at least equal to 120% of the aggregate principal amount of its outstanding Short Term Debt. The University is required to demonstrate compliance with such covenants by filing quarterly certificates with the Authority. Failure by the University to comply with any of the foregoing covenants will not constitute an event of default under the Loan Agreement or the Resolution if the University complies with the provisions relating to a Management Consultant as provided in the Loan Agreement. See "PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2006 BONDS - Covenants - *Ratio of Available Assets to General Liabilities*" and "*- Maintenance of Assets.*"

The University has also covenanted in the Loan Agreement that, except to the extent permitted under the Loan Agreement, it will not encumber its assets to secure indebtedness. For a summary of the circumstances in which the University may encumber its assets, see "PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2006 BONDS - Covenants - *Limitation on Liens.*" Failure by the University to comply with such covenant will constitute an event of default under the Loan Agreement.

PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2006 BONDS

Set forth below is a narrative description of certain contractual provisions relating to the source of payment of and security for the Series 2006 Bonds. These provisions have been summarized and this description does not purport to be complete. Reference should be made to the Act, the Loan Agreement, the Resolution, the applicable Series Resolutions, the applicable Bond Series Certificates, the Letters of Credit and the Reimbursement Agreement. Copies of the Loan Agreement, the Resolution, the Series Resolutions, the Bond Series Certificates, the Letters of Credit and the Reimbursement Agreement are on file with the Authority and the Trustee. See also "Appendix C - Summary of Certain Provisions of the Loan Agreement" and "Appendix D - Summary of Certain Provisions of the Amended and Restated Resolution" for a more complete statement of the rights, duties and obligations of the parties thereto.

Payment of the Series 2006 Bonds

The Series 2006 Bonds and all other Bonds which have been or may be issued under the Resolution are special obligations of the Authority. The principal and Sinking Fund Installments of and interest on the Series 2006 Bonds and all other Bonds which have been or may be issued under the Resolution are payable from the Revenues, which consist of payments to be made by the University pursuant to the Loan Agreement on account of the principal, Sinking Fund Installments, if any, and Redemption Price of and interest on the Bonds. The Revenues and the right to receive them have been pledged to the Trustee for the benefit of the Bondholders. While the Letters of Credit are in effect, the payment of the principal of and interest on the Series 2006 Bonds, and, to the extent remarketing proceeds are insufficient for such purpose, the payment of the Tender Price of the Series 2006 Bonds tendered for purchase, will be payable from amounts drawn under the applicable Letter of Credit.

The Loan Agreement is a general obligation of the University. For as long as the Series 2006 Bonds bear interest at a Daily Interest Rate or a Weekly Interest Rate, the Loan Agreement obligates the University to make payments on account of principal and Sinking Fund Installments of and interest on the Series 2006 Bonds at least three (3) Business Days preceding the date on which such principal, Sinking Fund Installments and interest become due. The Authority has directed, and the University has agreed, to

make such payments directly to the Trustee. Such payments are to be applied by the Trustee to the payment of the principal, and Sinking Fund Installments of and interest on the Series 2006 Bonds or, while the Letters of Credit are in effect, to reimburse the Bank for amounts drawn under the Letters of Credit to pay the principal and Sinking Fund Installments of and interest on the Series 2006 Bonds in accordance with the Resolution. The University is also obligated under the terms of the Loan Agreement to pay the Tender Price of the Series 2006 Bonds tendered for purchase and not remarketed if and to the extent that the provider of the Liquidity Facility required to be in effect for any Series 2006 Bonds bearing interest at a Daily Interest Rate or a Weekly Interest Rate does not pay such Tender Price.

Security for the Series 2006 Bonds

Since their date of issuance, the payment of principal of and interest on each Series of the Series 2006 Bonds when due has been insured under a financial guaranty insurance policy (the "Policies") issued by MBIA Insurance Corporation ("MBIA"). Effective on the Substitution Date, the Policies as they relate to such Series of the Series 2006 Bonds will be cancelled and MBIA will have no liability and no person will have a claim against MBIA for payments of principal and interest on the Series 2006 Bonds to be made after such Substitution Date.

The Series 2006 Bonds are secured by the Letters of Credit applicable to each Series of the Series 2006 Bonds and by the pledge and assignment of the Revenues, all funds and accounts authorized and established under or pursuant to the Resolution and the applicable Series Resolutions (with the exception of the Arbitrage Rebate Fund and the Bond Purchase Fund). With respect to the pledge and assignment of the Revenues and the funds and accounts under the Resolution, the Series 2006 Bonds are on a parity with all other Bonds which have been or may be issued under the Resolution.

At all times while the Series 2006 Bonds are in a Weekly Interest Rate Period, the University is required under the terms of the applicable Bond Series Certificates to obtain and maintain a Liquidity Facility providing for the payment of the Tender Price of the Series 2006 Bonds tendered for purchase in the event remarketing proceeds are insufficient for such purpose. The Letters of Credit constitute Liquidity Facilities (as well as Credit Facilities) for purposes of the Bond Series Certificates.

None of the Resolution, the Series Resolutions or the Bond Series Certificates requires the University to provide credit support for the Series 2006 Bonds. Upon the expiration or earlier termination of the Letters of Credit, the University will be required to obtain a Liquidity Facility (referred to as an "Alternate Liquidity Facility") for each Series of the Series 2006 Bonds, and may, at its option, provide for delivery to the Trustee of a Credit Facility in order to provide credit support for the payment of principal and Sinking Fund Installments of and interest on the Series 2006 Bonds. Upon the expiration, termination or substitution of a Liquidity Facility or a Credit Facility in effect for the Series 2006 Bonds, including the Letters of Credit, the Series 2006 Bonds will be subject to mandatory tender for purchase as described herein under the heading "PART 3 – THE SERIES 2006 BONDS - Description of the Series 2006 Bonds – Mandatory Tender of the Series 2006 Bonds."

The Letters of Credit

The following description is subject in all respects to the complete terms of the Letters of Credit.

The Bank will deliver a Letter of Credit to the Trustee with respect to each Series of the Series 2006 Bonds on the Substitution Date. Each Letter of Credit will be issued by the Bank pursuant to the Reimbursement Agreement. Each Letter of Credit constitutes the irrevocable obligation of the Bank to pay to the Trustee upon timely requests up to the principal amount (including the Tender Price) of the Series 2006A-1 Bonds and the Series 2006B-1 Bonds, as applicable and up to 40 days of interest accrued on the Series 2006A-1 Bonds or the Series 2006B-1 Bonds, as applicable bearing interest at a Daily Interest Rate or a Weekly Interest Rate (computed at a rate of interest of 12% per annum, based on a year of 365 days) (collectively, the "Available Amount").

Subject to the provisions contained in the immediately following paragraph, each drawing under the Letter of Credit shall reduce the Available Amount by the amount of such drawing.

After a drawing for the payment of the unpaid principal amount of the Series 2006 Bonds, whether at a maturity or upon redemption or acceleration thereof, the Available Amount of the applicable Letter of Credit shall be reduced permanently and automatically by an amount equal to the amount so drawn. After a drawing for the payment of interest on the Series 2006 Bonds, the payment of the principal amount of which is made with the proceeds of a drawing described in the preceding sentence, the Available Amount of the applicable Letter of Credit shall be reduced permanently and automatically, in an amount equal to 40 days' interest (calculated at the rate of 12% per annum, based on a year of 365 days) accrued on the amount of the principal drawing, such reductions of the Available Amount of the applicable Letter of Credit to be effective on the date of such payment by the Bank. Except as otherwise described in the preceding sentence, the Available Amount of each Letter of Credit shall be automatically reinstated in the full amount of a drawing for interest payable on the Series 2006 Bonds at the close of business on the calendar day of the payment of such drawing.

Each Letter of Credit will automatically terminate upon the earliest of: (i) the honoring by the Bank of the final drawing available to be made under the applicable Letter of Credit which is not subject to reinstatement; (ii) receipt of a written notice from the Trustee that: (a) no Series 2006 Bonds of the applicable Series to which such Letter of Credit relates remain outstanding and unpaid, or (b) that the Trustee has received a substitute Letter of Credit and the conditions precedent under the Resolution for the acceptance of a substitute Letter of Credit have been satisfied, or (c) all of the Series 2006 Bonds of the applicable Series to which such Letter of Credit relates have been converted from a Weekly Interest Rate Period to another interest rate other than a Daily Interest Rate Period or a Weekly Interest Rate Period; or (iii) September 10, 2011.

For a summary of certain provisions of the Reimbursement Agreement, see "Appendix E – Summary of Certain Provisions of the Reimbursement Agreement" herein.

For information concerning the Bank, see "PART 4 – THE BANK" herein.

Covenants

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

Ratio of Available Assets to General Liabilities

The University has covenanted that it will maintain the ratio of its Available Assets to its General Liabilities of at least 2.00 to 1.00. As of June 30, 2007, the ratio of the University's Available Assets to its General Liabilities was approximately 2.86 to 1.00. The University is required to demonstrate compliance with this covenant by filing quarterly certificates with the Authority. Failure by the University to comply with this covenant will not constitute an event of default under the Loan Agreement or the Resolution if the University complies with the provisions relating to a Management Consultant as provided in the Loan Agreement. See "Appendix B - Consolidated Financial Statements of the University of Rochester and Related Entities (With Independent Auditors' Reports Thereon)" and "Appendix C - Summary of Certain Provisions of the Loan Agreement - Financial Covenants and Management Consultant."

Maintenance of Assets

The University has covenanted that it will maintain, as an asset of the University, securities derived from gifts and bequests which are free and clear of any pledge, lien, charge, security interest or other encumbrance, which are not subject to any statutory, contractual or other restriction, and which have a market value of at least 120% of the aggregate principal amount of outstanding Short Term Debt. The University is required to demonstrate compliance with this covenant by filing quarterly certificates with the Authority. Failure by the University to comply with this covenant will not constitute an event of default

under the Loan Agreement or the Resolution if the University complies with the provisions relating to a Management Consultant as provided in the Loan Agreement. See “Appendix B - Consolidated Financial Statements of the University of Rochester and Related Entities (With Independent Auditors’ Reports Thereon)” and “Appendix C - Summary of Certain Provisions of the Loan Agreement - Financial Covenants and Management Consultant.”

Limitation on Liens

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

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

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

Events of Default and Acceleration

The following are events of default under the Resolution: (i) a default in the payment of the principal, Sinking Fund Installment, if any, or Redemption Price of or interest on any Bond; (ii) a default by the Authority in the due and punctual performance of the tax covenants contained in the Resolution, as a result of which the interest on Bonds of a Series is no longer excludable from gross income under the Code; (iii) a default by the Authority in the due and punctual performance of any other of the covenants, conditions, agreements and provisions contained in the Bonds or in the Resolution or any Series Resolution on the part of the Authority to be performed and the continuance of such default for 30 days after written notice

specifying such default and requiring the same to be remedied shall have been given to the Authority by the Trustee, which may give such notice in its discretion and shall give such notice at the written request of the Holders of not less than 25% in principal amount of the Outstanding Bonds (iv) an event of default under the Loan Agreement shall have been declared and is continuing and all sums payable by the University under the Loan Agreement have been declared immediately due and payable (unless such declaration has been annulled). Unless otherwise specified above, an event of default under the Loan Agreement is not an event of default under the Resolution.

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

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

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

Upon the occurrence of an Event of Default under the Resolution, the Bank shall be recognized as the registered owner of the Series 2006 Bonds for the purpose of exercising all rights and privileges available to Bondholders, including the right to institute any suit, action or proceeding at law or in equity under the same terms as a bondholder in accordance with the provisions of the Resolution.

Issuance of Additional Bonds

In addition to the Series 2006 Bonds, the Resolution authorizes the issuance of other Series of Bonds to finance one or more projects and for other specified purposes including to refund Outstanding Bonds or other notes or bonds of the Authority issued on behalf of the University. The Bonds which may be issued include Capital Appreciation Bonds, Deferred Income Bonds, Option Bonds and Variable Interest Rate Bonds. For information on Outstanding Bonds previously issued under the Resolution, see "PART 5 – THE UNIVERSITY – University Indebtedness and Swaps."

General

The Series 2006 Bonds are not a debt of the State nor is the State liable thereon. The Authority has no taxing power. The Authority has never defaulted in the timely payment of principal or sinking fund installments of or interest on its bonds or notes. See "PART 7 - THE AUTHORITY."

PART 3 - THE SERIES 2006 BONDS

Set forth below is a narrative description of certain provisions relating to the Series 2006 Bonds. These provisions have been summarized and this description does not purport to be complete. Reference should be made to the Resolution, the Series Resolutions, the Bond Series Certificates and the Loan Agreement, copies of which are on file with the Authority and the Trustee. See also "Appendix C - Summary of Certain Provisions of the Loan Agreement" and "Appendix D - Summary of Certain Provisions of the Amended and Restated Resolution" for a more complete description of certain provisions of the Series 2006 Bonds.

General

The Series 2006 Bonds were issued by the Authority pursuant to the Act, the Resolution, the applicable Series Resolution and the applicable Bond Series Certificate. The Series 2006 Bonds are dated and will mature as set forth on the cover page of this Reoffering Circular.

The Series 2006 Bonds are fully registered bonds without coupons and will be remarketed in denominations of \$100,000 or any integral multiple of \$5,000 in excess thereof. The Series 2006 Bonds are registered in the name of and held by Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"), pursuant to DTC's Book-Entry Only System. So long as DTC or its nominee, Cede & Co., is the registered owner of the Series 2006 Bonds, payments of the principal, Tender Price and Redemption Price of and interest on the Series 2006 Bonds will be made by the Trustee directly to Cede & Co. Disbursement of such payments to the DTC Participants (as hereinafter defined) is the responsibility of DTC and disbursement of such payments to the Beneficial Owners of the Series 2006 Bonds is the responsibility of the DTC Participants and the Indirect Participants (as hereinafter defined). See "Book-Entry Only System" below. If the Series 2006 Bonds are not registered in the name of DTC or its nominee, Cede & Co., the principal, Tender Price or Redemption Price of Series 2006 Bonds will be payable at the principal corporate trust office of The Bank of New York Mellon, New York, New York, as Trustee, Paying Agent and Tender Agent upon presentation and surrender of such Series 2006 Bonds to it. Interest on the Series 2006 Bonds will be payable by check or draft mailed to the registered owners thereof or, at the request of a an owner, by wire transfer to the wire transfer address within the continental United States to which such owner has, not less than five (5) days prior to the applicable Record Date, requested the Trustee to wire such interest.

The Series 2006 Bonds may be exchanged for other Series 2006 Bonds of the same Series in any other authorized denominations upon payment of a charge sufficient to reimburse the Authority or the Trustee for any tax, fee or other governmental charge required to be paid with respect to such exchange and for the cost of preparing the new bond, and otherwise as provided in the Resolution. The Authority will not be obligated to make any exchange or transfer of Series 2006 Bonds (i) during the period beginning on the Record Date next preceding an Interest Payment Date for such Series 2006 Bonds and ending on such Interest Payment Date or (ii) after the date next preceding the date on which the Trustee commences selection of Series 2006 Bonds for redemption.

Description of the Series 2006 Bonds

General

The Series 2006A-1 Bonds will be reoffered as Variable Interest Rate Bonds that, after an initial period commencing on the Substitution Date to and including the following Tuesday (herein referred to as "Initial Rate Period"), will bear interest at the Weekly Interest Rates as determined from time to time by the Series 2006A-1 Remarketing Agent, unless and until the Interest Rate Period for the Series 2006A-1 Bonds is converted to another Interest Rate Period as described herein.

The Series 2006B-1 Bonds will be reoffered as Variable Interest Rate Bonds that, after an initial period commencing on the Substitution Date to and including the following Tuesday (also referred to herein as an "Initial Rate Period"), will bear interest at the Weekly Interest Rates as determined from time to time by the

Series 2006B-1 Remarketing Agent, unless and until the Interest Rate Period for the Series 2006B-1 Bonds is converted to another Interest Rate Period.

Unless otherwise set forth herein, the descriptions of the Series 2006 Bonds and the related documents included herein generally relate only to the terms and provisions which are applicable while the Series 2006 Bonds bear interest in the Weekly Interest Rate Period.

Interest Payment Dates for Series 2006 Bonds

While bearing interest at a Weekly Interest Rate, interest on each Series of the Series 2006 Bonds will be paid on October 1, 2008 and on the first Wednesday of each month thereafter (or if such Wednesday is not a Business Day, on the next succeeding Business Day). During the Weekly Interest Rate Period, interest on each Series of the Series 2006 Bonds will be computed on the basis of a 365-day or 366-day year, as appropriate, for the actual number of days elapsed.

Weekly Interest Rate Period

Following the Initial Rate Period, each Series of the Series 2006 Bonds will bear interest at Weekly Interest Rates for successive weekly periods generally beginning on each Wednesday and ending on and including the following Tuesday, unless and until the Interest Rate Period for such Series of Series 2006 Bonds is converted to another Interest Rate Period.

Determination of Weekly Interest Rates

Each Series of the Series 2006 Bonds will bear interest at the Weekly Interest Rates determined by the respective Remarketing Agent by 5:00 p.m. on the day before the Substitution Date and thereafter on Tuesday of each week or, if such Tuesday is not a Business Day, the next succeeding Business Day (referred to herein as the "Weekly Rate Determination Date"). Each Weekly Interest Rate will be the rate of interest per annum determined by the respective Remarketing Agent (based on an examination of tax exempt obligations comparable, in the judgment of such Remarketing Agent, to the applicable Series 2006 Bonds and known by such Remarketing Agent to have been priced or traded under then prevailing market conditions) to be the minimum interest rate which, if borne by such Series of Series 2006 Bonds, would enable such Remarketing Agent to sell all of such Series 2006 Bonds on the effective date of that rate at a price (without regard to accrued interest) equal to the principal amount thereof. In no event may the interest rate on any Series 2006 Bond exceed the Maximum Bond Interest Rate while bearing interest at a Weekly Interest Rate.

If the Remarketing Agent is unable to establish the Weekly Interest Rate for any week, then the Weekly Interest Rate for such week will be the same as the immediately preceding Weekly Interest Rate determined by the Remarketing Agent for such Series of Series 2006 Bonds. If, however, the immediately preceding Weekly Interest Rate was not determined by the Remarketing Agent, or if the Weekly Interest Rate determined by the Remarketing Agent is held to be invalid or unenforceable by a court of law, then the Weekly Interest Rate for such week, as determined by the Remarketing Agent, shall be equal to 110% of the SIFMA Index, or if such index is no longer available, 70% of the interest rate on 30-day high grade unsecured commercial paper notes sold through dealers by major corporations as reported in The Wall Street Journal on the day such Weekly Interest Rate would otherwise be determined for such week.

Conversion to Another Interest Rate Period

The Authority, at the written direction of the University, may convert the Interest Rate Period for either Series of the Series 2006 Bonds, in whole, to a Daily Interest Rate, a Bond Interest Term Rate, an Auction Rate or a Long-Term Interest Rate, upon the terms and conditions set forth in the applicable Bond Series Certificate.

Any Series 2006 Bonds that are to be converted from a Weekly Interest Rate Period to another Interest Rate Period will be subject to mandatory tender for purchase on the first day of the new Interest Rate Period.

Notice of Conversion; Rescission

If a Series of the Series 2006 Bonds is to be converted from a Weekly Interest Rate Period to another Interest Rate Period, the Trustee shall give written notice of such conversion (a "Conversion Notice") to

the Holders of such Series of Series 2006 Bonds by first class mail, not less than 30 days prior to the proposed effective date of the new Interest Rate Period.

The Authority, upon the written direction of the University, may rescind its election to convert the Interest Rate Period for a Series of the Series 2006 Bonds by delivering a rescission notice to the Trustee, the applicable Remarketing Agent, the Tender Agent and the Bank on or prior to 10:00 a.m. on the second Business Day preceding the effective date of any such Conversion. If the Authority rescinds its election to convert the Interest Rate Period for a Series of the Series 2006 Bonds, then (i) the new Interest Rate Period will not be effective, (ii) such Series 2006 Bonds will remain in their existing Interest Rate Period, and (iii) such Series of the Series 2006 Bonds will continue to be subject to mandatory tender on the proposed effective date of the new Interest Rate Period.

Failure to Satisfy Conditions to Conversion

If on the proposed effective date of the new Interest Rate Period, the conditions precedent to the conversion have not been satisfied, then (i) the new Interest Rate Period will not be effective, (ii) such Series of the Series 2006 Bonds will bear interest at a Weekly Interest Rate commencing on the proposed effective date of the new Interest Rate Period Conversion, and (iii) such Series of the Series 2006 Bonds will continue to be subject to mandatory tender on the proposed effective date of the new Interest Rate Period.

Tender Provisions

Optional Tender of Series 2006 Bonds

The Holders of Series 2006 Bonds may elect to tender their Series 2006 Bonds or portions thereof (other than Bank Bonds) in Authorized Denominations (provided that the amount of any such Series 2006 Bonds not to be purchased shall also be in Authorized Denominations) for purchase at the Tender Price on any Business Day (herein referred to as an "Optional Tender Date").

To exercise the tender option, a Bondholder must deliver to the Remarketing Agent and to the Tender Agent and the Trustee at their principal offices, not later than 4:00 p.m. on the seventh calendar day preceding the Optional Tender Date, an irrevocable written notice which states (i) the principal amount of such Series 2006 Bonds and the principal amount thereof to be purchased and (ii) the Optional Tender Date.

As long as the Series 2006 Bonds are registered in the name of Cede & Co., as nominee of DTC, the tender option may only be exercised by a DTC Participant (as hereinafter defined) by giving written notice of its election to tender at the times and in the manner described above. An election to tender a Series 2006 Bond for purchase is irrevocable and binding on the Holder or DTC Participant making such election, the Beneficial Owner (as hereinafter defined) on whose behalf the notice was given and on any transferee thereof.

Mandatory Tender of Series 2006 Bonds

Each Series of the Series 2006 Bonds are subject to mandatory tender and purchase at the Tender Price on the following dates (each a "Mandatory Tender Date"):

(a) on the first day of a new Interest Rate Period (or on the day which would have been the first day of a new Interest Rate Period had (i) the Authority not rescinded its election to convert the Interest Rate Period for such Series of Series 2006 Bonds or (ii) the conditions precedent to a conversion to a new Interest Rate Period not been satisfied; and

(b) on the fifth Business Day preceding:

(i) the Expiration Date of the respective Letter of Credit, in the event such Letter of Credit is not extended;

(ii) the Substitution Date of the respective Letter of Credit; and

(iii) the date specified in the notice delivered by the Bank to the Trustee (which date shall not be less than 5 Business Days following receipt of such notice by the Trustee) of the occurrence of an event under the Reimbursement Agreement which gives the Bank the option, upon notice, to terminate

the Letter of Credit or to terminate its obligation to provide a loan under the Reimbursement Agreement prior to the expiration date of the Letter of Credit and direct the mandatory tender of such Series 2006 Bonds (a “Mandatory Facility Tender Event”).

Notice of Tender

In connection with any mandatory tender of the Series 2006 Bonds in accordance with paragraphs (a), (b)(i) or (b)(ii) above, the Trustee shall give notice of such mandatory tender by mail to the Holders of the Series 2006 Bonds to be purchased not less than thirty (30) days prior to the effective date of the new Interest Rate Period, the Expiration Date and the Substitution Date, respectively. In connection with any mandatory tender of the Series 2006 Bonds in accordance with paragraph (b)(iii) above, the Trustee shall give notice of such mandatory tender by mail to the Holders of the Series 2006 Bonds as soon as reasonably possible, but no later than the Business Day following the receipt by the Trustee of notice from the Bank of the occurrence of a Mandatory Facility Tender Event.

Delivery of Tendered Series 2006 Bonds

Series 2006 Bonds or portions thereof (other than Series 2006 Bonds registered in the name of DTC or its nominee, Cede & Co.), for which an election to tender has been made and Series 2006 Bonds subject to mandatory tender are to be delivered and surrendered to the Tender Agent at its principal corporate trust office on the Tender Date, at the times specified in the applicable Bond Series Certificate. If on the Tender Date a Holder fails to deliver its Series 2006 Bonds to be tendered, such Series 2006 Bonds will constitute “Undelivered Bonds,” and if there is on deposit with the Tender Agent sufficient moneys to pay the Tender Price of such Undelivered Bonds on the Tender Date, then (a) such Undelivered Bonds will be deemed to have been purchased and will no longer be deemed Outstanding, (b) interest on such Undelivered Bonds will cease to accrue on the Tender Date, and (c) funds representing the Tender Price will be held by the Trustee uninvested. The Holders or DTC Participants and Beneficial Owners of such Undelivered Bonds will have no further rights under the Resolution other than the right to the payment of the Tender Price.

Remarketing and Purchase of Series 2006 Bonds

The Remarketing Agents are required to offer for sale and use their best efforts to sell the applicable Series 2006 Bonds tendered or deemed tendered on the Tender Date and, if not remarketed on such Tender Date, thereafter until sold, at a price equal to par plus accrued interest. Series 2006 Bonds that have been purchased pursuant to clauses (b)(i) and (b)(iii) as described above under the caption “*Mandatory Tender of Series 2006 Bonds*” because of the expiration or termination of the Letter of Credit then in effect for such Series 2006 Bonds shall not be remarketed unless (i) such Bonds are converted to a Long-Term Interest Rate Period to their Maturity Date or to an ARS Interest Rate Period, (ii) with respect to a mandatory tender by reason of the occurrence of a Mandatory Facility Tender Event, the Bank has reinstated the Letter of Credit and the Letter of Credit is in full force and effect, or (iii) an Alternate Liquidity Facility is in full force and effect. No Series 2006 Bonds shall be remarketed to the Authority or the University or any affiliate or insider (as defined in the U.S. Bankruptcy Code) of the University.

Tendered Series 2006 Bonds will be purchased from the Holders on the Tender Date at the Tender Price. The Tender Price for Series 2006 Bonds tendered or deemed tendered is payable out of the moneys derived from the remarketing of such Series 2006 Bonds, and, if not so remarketed, from moneys obtained under the applicable Letter of Credit. In the event that all or a portion of the Series 2006 Bonds tendered for purchase cannot be remarketed and the Bank fails to purchase all or a portion of such Series 2006 Bonds on the Tender Date in accordance with the applicable Letter of Credit, then the University is obligated under the terms of the Loan Agreement, to pay such shortfall in immediately available funds to the Tender Agent as soon as practicable on the Tender Date. The Authority has no obligation to pay the Tender Price out of any other moneys.

If sufficient funds are not available for the purchase of all Series 2006 Bonds tendered on any Tender Date, all such Series 2006 Bonds shall bear interest at the lesser of the SIFMA Index plus three percent and the Maximum Bond Interest Rate from the date of such failed purchase until all such Series 2006 Bonds are purchased as required in accordance with the applicable Bond Series Certificate, and all tendered Series 2006 Bonds shall be returned to their respective Holders. Such failed purchase and return, however, shall not constitute an Event of Default. Thereafter, the Trustee shall continue to take all such action available

to it to obtain remarketing proceeds from the applicable Remarketing Agent and sufficient other funds payable under the applicable Letter of Credit.

Interest Rate Period Table

The following Weekly Rate Interest Period Table is provided for the convenience of the Holder. The information contained in the table is not intended to be comprehensive. Reference is made to the above description and to the Resolution, the Series Resolutions and the Bond Series Certificates for a more complete description.

Weekly Interest Rate Period Table

Duration of Interest Rate Period	Seven days beginning on a Wednesday to and including the following Tuesday
Interest Payment Dates	The first Wednesday of each month or the next Succeeding Business Day if such Wednesday is not a Business Day
Interest Rate Determination Dates	By 5:00 p.m. New York City time on the Business Day prior to the first day of the Weekly Interest Rate Period
Optional Tender Date	Any Business Day
Bondholder Notice of Tender Due	No later than 4:00 p.m. New York City time on the seventh day preceding the Optional Tender Date

Redemption Provisions

The Series 2006 Bonds are subject to optional and mandatory redemption as described below.

Optional Redemption

The Series 2006 Bonds are subject to optional redemption at the election of the Authority upon the direction of the University, as a whole or in part, at any time, at a redemption price equal to 100% of the principal amount of Series 2006 Bonds or portions thereof to be redeemed, plus accrued interest, if any, to the redemption date.

Special Redemption

The Series 2006 Bonds are subject to redemption prior to maturity at the option of the Authority, in whole or in part on any interest payment date, at 100% of the principal amount thereof plus accrued interest to the redemption date in the event that there exists proceeds from a condemnation or insurance award, which proceeds are not used to repair, restore or replace the Project to which such Series of the Series 2006 Bonds being redeemed relates.

Mandatory Redemption

In addition, the Series 2006 Bonds are also subject to redemption, in part, on each July 1 of the years and in the principal amounts for each Series set forth below, at 100% of the principal amount thereof, plus accrued interest to the date of redemption, from mandatory Sinking Fund Installments which are required to be made in amounts sufficient to redeem on July 1 of each year the principal amount of Series 2006 Bonds of each Series specified for each of the years shown below:

**Series 2006A-1 Bonds Maturing
on July 1, 2027**

<u>Year</u>	<u>Sinking Fund Installments</u>	<u>Year</u>	<u>Sinking Fund Installments</u>
2014	\$5,600,000	2021	\$5,535,000
2015	16,520,000	2022	5,670,000
2016	13,835,000	2023	5,890,000
2017	8,300,000	2024	6,150,000
2018	8,675,000	2025	6,400,000
2019	5,020,000	2026	685,000
2020	5,135,000	2027	715,000†

†Final maturity.

**Series 2006B-1 Bonds Maturing
on July 1, 2024**

<u>Year</u>	<u>Sinking Fund Installments</u>	<u>Year</u>	<u>Sinking Fund Installments</u>
2014	\$1,255,000	2020	\$1,580,000
2015	1,265,000	2021	1,690,000
2016	1,410,000	2022	1,740,000
2017	1,410,000	2023	1,805,000
2018	1,480,000	2024	1,880,000†
2019	1,535,000		

†Final maturity.

Redemption of Bank Bonds

Series 2006 Bonds that have been purchased from funds drawn on their respective Letters of Credit (“Bank Bonds”) may be redeemed at any time, and under the terms of the Reimbursement Agreement, if not remarketed on or before the 45th day after the purchase of such Series 2006 Bonds by the Bank (the “Term Out Date”), must be redeemed in six (6) equal semi-annual installments (rounded up if necessary so that the Bank Bonds will be redeemed in Authorized Denominations), due on the first day of each sixth month, beginning on the first day of the next succeeding calendar month occurring 180 days after the Term Out Date.

Bank Bonds shall be redeemed prior to any other Series 2006 Bonds.

Selection of Bonds to be Redeemed

In the case of redemptions of Series 2006 Bonds described above under the headings “*Optional Redemption*” and “*Special Redemption*,” the Authority will select the principal amounts and maturities of the applicable Series of the Series 2006 Bonds to be redeemed. If less than all of a maturity of a Series of the Series 2006 Bonds is to be redeemed, the Series 2006 Bonds of such maturity to be redeemed will be selected by the Trustee, by lot, using such method of selection as the Trustee shall consider proper in its discretion.

Notice of Redemption

The Trustee is to give notice of the redemption of the Series 2006 Bonds in the name of the Authority, by first-class mail, postage prepaid, not less than 30 days nor more than 45 days prior to the redemption date, to the registered owners of any Series 2006 Bonds which are to be redeemed, at their last known

addresses appearing on the registration books of the Authority not more than ten Business Days prior to the date such notice is given. The failure of any owner of a Series 2006 Bond to be redeemed to receive notice of redemption will not affect the validity of the proceedings for the redemption of such Series 2006 Bond. If directed in writing by an Authorized Officer of the Authority, the Trustee will publish or cause to be published such notice in an Authorized Newspaper not less than 30 days nor more than 45 days prior to the redemption date, but publication is not a condition precedent to such redemption and failure to publish such notice or any defect in such notice or publication will not affect the validity of the proceedings for the redemption of such Series 2006 Bonds.

If on the redemption date moneys for the redemption of the Series 2006 Bonds to be redeemed, together with interest thereon to the redemption date, are held by the Trustee so as to be available for payment of the redemption price, and if notice of redemption has been mailed, then interest on such Series 2006 Bonds will cease to accrue from and after the redemption date and such Series 2006 Bonds will no longer be considered to be Outstanding.

For a more complete description of the redemption and other provisions relating to the Series 2006 Bonds, see "Appendix D - Summary of Certain Provisions of the Amended and Restated Resolution."

Special Considerations Relating to the Remarketing of the Series 2006 Bonds

The Remarketing Agent is Paid by the University

Each Remarketing Agent's responsibilities include determining the interest rate from time to time and using best efforts to remarket the applicable Series 2006 Bonds that are optionally or mandatorily tendered by the owners thereof (subject, in each case, to the terms of the applicable Remarketing Agreement), as further described in this Reoffering Circular. The Remarketing Agent is appointed by the University and is paid by the University for its services. As a result, the interests of the Remarketing Agent may differ from those of existing holders and potential purchasers of Series 2006 Bonds.

The Remarketing Agent Routinely Purchases Bonds for Its Own Account

The Remarketing Agent acts as remarketing agent for a variety of variable rate demand obligations and, in its sole discretion, routinely purchases such obligations for its own account. The Remarketing Agent is permitted, but not obligated, to purchase Tendered Bonds for its own account and, in its sole discretion, routinely acquires such Tendered Bonds in order to achieve a successful remarketing of the Tendered Bonds (e.g. because there otherwise are not enough buyers to purchase the Tendered Bonds) or for other reasons. However, the Remarketing Agent is not obligated to purchase Tendered Bonds, and may cease doing so at any time without notice. The Remarketing Agent may also make a market in the Series 2006 Bonds by routinely purchasing and selling Series 2006 Bonds other than in connection with an optional or mandatory tender and remarketing. Such purchases and sales may be at or below par. However, the Remarketing Agent is not required to make a market in the Series 2006 Bonds. The Remarketing Agent may also sell any Series 2006 Bonds it has purchased to one or more affiliated investment vehicles for collective ownership or enter into derivative arrangements with affiliates or others in order to reduce its exposure to the Series 2006 Bonds. The purchase of Series 2006 Bonds by the Remarketing Agent may create the appearance that there is greater third party demand for the Series 2006 Bonds in the market than is actually the case. The practices described above also may result in fewer Series 2006 Bonds being tendered in a remarketing.

Series 2006 Bonds May Be Offered at Different Prices on Any Date

Pursuant to each Remarketing Agreement, the Remarketing Agent is required to use its best efforts to determine the applicable rate of interest that, in its judgment, is the lowest rate that would permit the sale of the Tendered Bonds bearing interest at the applicable interest rate at par plus accrued interest, if any, on and as of the effective date of such rate. The interest rate will reflect, among other factors, the level of market demand for the Tendered Bonds (including whether the Remarketing Agent is willing to purchase Tendered Bonds for its own account). There may or may not be Series 2006 Bonds tendered and remarketed on the date the rate is determined or the date the rate becomes effective, the Remarketing Agent may or may not be able to remarket any Series 2006 Bonds tendered for purchase on such date at par and the Remarketing Agent may sell Tendered Bonds at varying prices to different investors on such dates or

any other date. The Remarketing Agent is not obligated to advise purchasers in a remarketing if it does not have third party buyers for all of the Series 2006 Bonds at the remarketing price. In the event the Remarketing Agent owns any Series 2006 Bonds for its own account, it may, in its sole discretion in a secondary market transaction outside the tender process, offer such Series 2006 Bonds on any date, including the date the rate is determined or the date the rate becomes effective, at a discount to par to some investors.

The Ability to Sell the Series 2006 Bonds Other Than through the Tender Process May Be Limited

The Remarketing Agent may buy and sell Series 2006 Bonds other than through the tender process. However, it is not obligated to do so and may cease doing so at any time without notice and may require holders that wish to tender their Series 2006 Bonds to do so through the Tender Agent with appropriate notice. Thus, investors who purchase the Series 2006 Bonds, whether in a remarketing or otherwise, should not assume that they will be able to sell their Series 2006 Bonds other than by tendering the Series 2006 Bonds in accordance with the tender process.

Under Certain Circumstances, the Remarketing Agent May be Removed, Resign or Cease Remarketing the Series 2006 Bonds, Without a Successor Being Named

Under certain circumstances the Remarketing Agent may be removed or have the ability to resign or cease its remarketing efforts, without a successor having been named, subject to the terms of the Remarketing Agreement.

Book-Entry Only System

The Depository Trust Company (“DTC”), New York, New York, is the securities depository for the Series 2006 Bonds. The Series 2006 Bonds are fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee). One fully-registered Series 2006 Bond certificate has been issued for each maturity of each Series of the Series 2006 Bonds, each in the aggregate principal amount of such maturity of such Series, and has been deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a banking organization within the meaning of the New York Banking Law, a member of the Federal Reserve System, a clearing corporation within the meaning of the New York Uniform Commercial Code, and a clearing agency registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants (“Direct Participants”) deposit with DTC. DTC also facilitates the settlement among Direct Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Direct Participants’ accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). The rules applicable to DTC and its Direct and Indirect Participants are on file with the Securities and Exchange Commission.

Purchases of Series 2006 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2006 Bonds on DTC’s records. The ownership interest of each actual purchaser of each Series 2006 Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2006 Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in any Series of the Series 2006 Bonds, except in the event that use of the book-entry system for a Series of the Series 2006 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2006 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2006 Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2006 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2006 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

Redemption notices shall be sent to Cede & Co. (or such other nominee). If less than all of the Bonds within a maturity of a Series of the Series 2006 Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to Series 2006 Bonds. Under its usual procedures, DTC mails an omnibus proxy (the "Omnibus Proxy") to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2006 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, redemption premium, if any, and interest payments on the Series 2006 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon receipt of funds and corresponding detail information from the Authority or the Trustee on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in street name, and will be the responsibility of such Participant and not of DTC, the Trustee or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, redemption premium, if any, and interest to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC, is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners is the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its Series 2006 Bond tendered for purchase, through its Participant, to the Tender Agent and the Remarketing Agent, and shall effect delivery of such Series 2006 Bond by causing the Direct Participant to transfer the Participant's interest in the Series 2006 Bond, on DTC's records, to the Tender Agent. The requirement for physical delivery of Series 2006 Bonds in accordance with an optional tender for purchase will be deemed satisfied when the ownership rights in the Series 2006 Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Series 2006 Bonds to the Tender Agent's DTC account.

The Authority and the Trustee may treat DTC (or its nominee) as the sole and exclusive registered owner of the Series 2006 Bonds registered in its name for the purposes of payment of the principal and redemption premium, if any, of, or interest on, the Series 2006 Bonds, giving any notice permitted or required to be given to registered owners under the Resolution, registering the transfer of the Series 2006 Bonds, or other action to be taken by registered owners and for all other purposes whatsoever. The Authority and the Trustee shall not have any responsibility or obligation to any Direct or Indirect Participant, any person claiming a beneficial ownership interest in the Series 2006 Bonds under or through DTC or any Direct or Indirect Participant, or any other person which is not shown on the registration books of the Authority (kept by the Trustee) as being a registered owner, with respect to the accuracy of any records maintained by DTC or any Direct or Indirect Participant; the payment by DTC or any Direct or Indirect Participant of any amount in respect of the principal, redemption premium, if any, or interest on the Series 2006 Bonds; any notice which is permitted or required to be given to registered owners

thereunder or under the conditions to transfers or exchanges adopted by the Authority; or other action taken by DTC as registered owner. Interest, redemption premium, if any, and principal will be paid by the Trustee to DTC, or its nominee. Disbursement of such payments to the Direct or Indirect Participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of the Direct or Indirect Participants.

For every transfer and exchange of beneficial ownership of any of the Series 2006 Bonds, a Beneficial Owner may be charged a sum sufficient to cover any tax, fee or other governmental charge that may be imposed in relation thereto.

DTC may discontinue providing its service as securities depository with respect to a Series of the Series 2006 Bonds at any time by giving reasonable notice to the Authority and the Trustee, or the Authority may terminate its participation in the system of book-entry transfer through DTC at any time by giving notice to DTC. In either event, the Authority may retain another securities depository for a Series of the Series 2006 Bonds or may direct the Trustee to deliver bond certificates in accordance with instructions from DTC or its successor. If the Authority directs the Trustee to deliver such bond certificates, such Series 2006 Bonds of a Series may thereafter be exchanged for an equal aggregate principal amount of Series 2006 Bonds of a Series in any other authorized denominations and of the same maturity as set forth in the Resolution, upon surrender thereof at the principal corporate trust office of the Trustee, who will then be responsible for maintaining the registration books of the Authority.

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

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

So long as Cede & Co. is the registered owner of the Series 2006 Bonds, as nominee for DTC, references herein to the Bondholders or registered owners of the Series 2006 Bonds (other than under the caption "PART 10 - TAX EXEMPTION" herein) shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of the Series 2006 Bonds.

Principal and Interest Requirements

The following table sets forth the amounts required to be paid by the University during each twelve month period ending June 30 of the Bond Years shown for the payment of principal of and interest on the Series 2006 Bonds, debt service on other outstanding indebtedness of the University and the total debt service on all indebtedness of the University, including the Series 2006 Bonds.

12 Month Period Ending June 30	Series 2006 Bonds			Other University Debt Service ⁽¹⁾	Total Debt Service
	Principal	Interest Payments ⁽¹⁾	Total		
2009	\$ -	\$4,357,144	\$4,357,144	\$48,047,134	\$52,404,278
2010	-	4,357,144	4,357,144	36,872,876	41,230,020
2011	-	4,357,144	4,357,144	40,890,395	45,247,539
2012	-	4,357,144	4,357,144	41,601,719	45,958,863
2013	-	4,357,144	4,357,144	39,542,257	43,899,401
2014	6,855,000	4,357,144	11,212,144	33,550,355	44,762,499
2015	17,785,000	4,088,497	21,873,497	31,128,076	53,001,573
2016	15,245,000	3,391,503	18,636,503	30,409,257	49,045,760
2017	9,710,000	2,794,051	12,504,051	30,407,102	42,911,153
2018	10,155,000	2,413,516	12,568,516	37,388,878	49,957,394
2019	6,555,000	2,015,542	8,570,542	41,130,579	49,701,121
2020	6,715,000	1,758,651	8,473,651	38,795,422	47,269,073
2021	7,225,000	1,495,490	8,720,490	38,721,384	47,441,874
2022	7,410,000	1,212,343	8,622,343	31,809,558	40,431,901
2023	7,695,000	921,945	8,616,945	25,632,121	34,249,066
2024	8,030,000	620,378	8,650,378	24,324,272	32,974,650
2025	6,400,000	305,682	6,705,682	24,359,156	31,064,838
2026	685,000	54,866	739,866	24,227,406	24,967,272
2027	715,000	28,021	743,021	24,236,708	24,979,729
2028	-	-	-	17,039,927	17,039,927
2029	-	-	-	16,944,071	16,944,071
2030	-	-	-	16,941,586	16,941,586
2031	-	-	-	16,854,178	16,854,178
2032	-	-	-	15,455,234	15,455,234
2033	-	-	-	15,439,685	15,439,685
2034	-	-	-	13,179,883	13,179,883
2035	-	-	-	13,183,020	13,183,020
2036	-	-	-	13,182,781	13,182,781
2037	-	-	-	13,178,446	13,178,446
2038	-	-	-	13,169,050	13,169,050
2039	-	-	-	13,178,616	13,178,616

⁽¹⁾ The Series 2006 Bonds and certain other University indebtedness are assumed to bear interest at their respective fixed swap rates.

See "PART 5 – THE UNIVERSITY – University Indebtedness and Swaps."

PART 4 - THE BANK

Bank of America, N.A. (the “*Bank*”) is a national banking association organized under the laws of the United States, with its principal executive offices located in Charlotte, North Carolina. The Bank is a wholly-owned indirect subsidiary of Bank of America Corporation (the “*Corporation*”) and is engaged in a general consumer banking, commercial banking and trust business, offering a wide range of commercial, corporate, international, financial market, retail and fiduciary banking services. As of June 30, 2008, the Bank had consolidated assets of \$1,327 billion, consolidated deposits of \$807 billion and stockholder’s equity of \$109 billion based on regulatory accounting principles.

The Corporation is a bank holding company and a financial holding company, with its principal executive offices located in Charlotte, North Carolina. Additional information regarding the Corporation is set forth in its Annual Report on Form 10-K for the fiscal year ended December 31, 2007, together with any subsequent documents it filed with the Securities and Exchange Commission (the “*SEC*”) pursuant to the Securities Exchange Act of 1934, as amended (the “*Exchange Act*”).

Recent Development: On July 1, 2008, the Corporation acquired Countrywide through its merger with a subsidiary of the Corporation. Under the terms of the agreement, Countrywide shareholders received 0.1822 of a share of Bank of America Corporation common stock in exchange for one share of Countrywide common stock. As provided by the merger agreement, 583 million shares of Countrywide common stock were exchanged for 106 million shares of the Corporation’s common stock. This represents approximately two percent of the Corporation’s outstanding common stock. Countrywide shareholders also received cash of \$346 thousand in place of any fractional shares of the Corporation’s common stock that would have otherwise been issued on July 1, 2008. The \$2.0 billion of Countrywide’s Series B convertible preferred shares that were previously held by the Corporation were cancelled.

Additional information regarding the foregoing is available from the filings made by the Corporation with the SEC, which filings can be inspected and copied at the public reference facilities maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549, United States, at prescribed rates. In addition, the SEC maintains a website at <http://www.sec.gov>, which contains reports, proxy statements and other information regarding registrants that file such information electronically with the SEC.

The information concerning the Corporation, the Bank and the foregoing merger contained herein is furnished solely to provide limited introductory information and does not purport to be comprehensive. Such information is qualified in its entirety by the detailed information appearing in the documents and financial statements referenced herein.

The Letter of Credit has been issued by the Bank. Moody’s Investors Service, Inc. (“*Moody’s*”) currently rates the Bank’s long-term debt as “Aaa” and short-term debt as “P-1.” The outlook is stable. Standard & Poor’s currently rates the Bank’s long-term debt as “AA+” and its short-term debt as “A-1+.” The outlook is negative. Fitch Ratings, Inc. (“*Fitch*”) currently rates long-term debt of the Bank as “AA-” and short-term debt as “F1+.” The outlook is stable. Further information with respect to such ratings may be obtained from Moody’s, Standard & Poor’s and Fitch, respectively. No assurances can be given that the current ratings of the Bank’s instruments will be maintained.

The Bank will provide copies of the most recent Bank of America Corporation Annual Report on Form 10-K, any subsequent reports on Form 10-Q, and any required reports on Form 8-K (in each case as filed with the SEC pursuant to the Exchange Act), and the publicly available portions of the most recent quarterly Call Report of the Bank delivered to the Comptroller of the Currency, without charge, to each person to whom this document is delivered, on the written request of such person. Written requests should be directed to:

Bank of America Corporate Communications
100 North Tryon Street, 18th Floor
Charlotte, North Carolina 28255
Attention: Corporate Communication

PAYMENTS OF PRINCIPAL AND INTEREST ON THE SERIES 2006 BONDS WILL BE MADE FROM DRAWINGS UNDER THE RESPECTIVE LETTERS OF CREDIT. PAYMENTS OF THE

TENDER PRICE OF THE SERIES 2006 BONDS WILL BE MADE FROM DRAWINGS UNDER THE RESPECTIVE LETTERS OF CREDIT IF REMARKETING PROCEEDS ARE NOT AVAILABLE. ALTHOUGH THE LETTERS OF CREDIT ARE BINDING OBLIGATIONS OF THE BANK, THE SERIES 2006 BONDS ARE NOT DEPOSITS OR OBLIGATIONS OF THE CORPORATION OR ANY OF ITS AFFILIATED BANKS AND ARE NOT GUARANTEED BY ANY OF THESE ENTITIES. THE SERIES 2006 BONDS ARE NOT INSURED BY THE FEDERAL DEPOSIT INSURANCE CORPORATION OR ANY OTHER GOVERNMENTAL AGENCY AND ARE SUBJECT TO CERTAIN INVESTMENT RISKS, INCLUDING POSSIBLE LOSS OF THE PRINCIPAL AMOUNT INVESTED.

The information contained in this “PART 4 – THE BANK” relates to and has been obtained from the Bank. The delivery of the Reoffering Circular shall not create any implication that there has been no change in the affairs of the Bank since the date hereof, or that the information contained or referred to in this “PART 4 – THE BANK” is correct as of any time subsequent to its date.

PART 5 - THE UNIVERSITY

GENERAL INFORMATION

General

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

One of only 62 universities in the United States and Canada invited for membership in the Association of American Universities, the University comprises seven schools and colleges. In recognition of its broad range of education from the undergraduate through the doctoral level, its research programs across disciplines, and its clinical care settings, the University is considered a Research I institution, according to the original classification system of the Carnegie Foundation for the Advancement of Teaching. The University is accredited by the Middle States Association of Colleges and Schools, and its various professional and graduate programs are separately accredited by their respective professional associations, including the Accreditation Board of Engineering and Technology, the National League for Nursing, the National Association of Schools of Music, the American Medical Association, the American Psychological Association, and the American Assembly of Collegiate Schools of Business. The Margaret Warner Graduate School of Education and Human Development is accredited by the New York State Education Department.

The University’s academic programs—including the humanities, the social sciences, natural sciences and the professional fields of engineering, education, management, music, medicine, and nursing—are well-regarded among institutions of higher education. The University was recently one of only 25 schools named a “New Ivy” in the 2007 *Kaplan/Newsweek* “How to Get into College Guide”, and ranked 21st among U.S. universities in the global rankings issued by the *Times of London*. The *US News & World Report* ranked the University 34th overall among national universities and its graduate programs in business (26th), medicine (17th for primary care; 30th for research), nursing (12th), and engineering (35th) are ranked among the top 50. The University’s doctoral program in Optics was ranked #1 by the National Research Council, and programs in music, political science, economics, and others are also nationally ranked. The University employs about 1,258 full-time tenure-track faculty, and its 2006–07 employment total of about 18,025 people makes it one of the top two employers in the Rochester region. The University’s faculty and alumni have included eight Nobel Prize winners and twelve Pulitzer Prize winners. In the 2006–07 fiscal year, the University generated about \$360 million in research activity. In addition to its regular academic sessions, which include two regular semesters and special summer sessions, each school offers courses for part-time students.

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

The University Medical Center (also referred to as the "Medical Center"), adjoining the River Campus, houses the School of Medicine and Dentistry, the School of Nursing, the Eastman Dental Center, and Strong Memorial Hospital, which is described in more detail in "PART 6 – THE HOSPITAL/MEDICAL CENTER." During the past decade, the creation of the Aab Institute for Biomedical Research, several interdisciplinary research centers, and construction of two biomedical research facilities have been occupied by an increase in the number of faculty and a growth in sponsored research.

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

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

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

Other special facilities and programs include the Center for Optoelectronics and Imaging, a 120,000 square foot research facility; the C.E.K. Mees Observatory, located south of Rochester; the specialized laboratories and shops of the Institute of Optics; and the Laboratory for Laser Energetics. Established in 1970 as a center for the investigation of the interaction of intense radiation with matter, the University's Laboratory for Laser Energetics has among its missions to conduct implosion and basic physics experiments in support of the National Inertial Confinement Fusion Program, develop new laser and material technologies, and operate the National Laser Users' Facility. The Omega Enhanced Performance Project, an \$89 million upgrade, has recently been completed and is intended to ensure the long-term viability of the laboratory, allow for advances in fusion research, and permit exploration of new and exciting physics. The William E. Simon Graduate School of Business Administration, which operates the Bradley Policy Research Center, offers cooperative programs with The University of Bern in Switzerland.

Certain statements that relate to the University in this "PART 5 – THE UNIVERSITY" and in "PART 6 – THE HOSPITAL/MEDICAL CENTER" are forward-looking statements that are based on the beliefs of, and assumptions made by, the management of the University. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results or performance of the University to be materially different from any expected future results or performance. Such factors include items described in this "PART 5 – THE UNIVERSITY" and in "PART 6 – THE HOSPITAL/MEDICAL CENTER."

Governance

The University's Board of Trustees (the "Board") consists of not more than 50 persons, as from time to time determined by the Board. Each is selected to serve a term of five years, renewable for an additional five years. Regular meetings of the Board are held during the week preceding the annual Commencement and at other times during each year in the fall and winter, as determined by the Board.

The current members of the Board are as follows:

Richard T. Aab
Vice Chairman
PAETEC Holding Corp.

Mark S. Ain
Executive Chairman
Kronos Incorporated

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

Laurence H. Bloch *
Retired Chairman
TransWestern Publishing Co., LLC

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

Ursula M. Burns
President
Xerox Corporation

William M. Carpenter *
Managing Director
Unicorp Ventures

Arunas A. Chesonis
Chairman and CEO
PAETEC Holding Corp

Steven Chu
Director
Lawrence Berkeley National Lab

Launcelot F. Drummond
eCommerce and ATM Executive
Bank of America

David Flaum
President and CEO
Flaum Management Company Inc.

Barry W. Florescue
CEO and Chairman of the Board
BMD Management

Roger B. Friedlander *
Retired, Staples, Inc.

Robert B. Goergen
Chairman
Blyth, Inc.

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

Edmund A. Hajim
Chairman and CEO
MLH Capital, LLC

Richard B. Handler
Chairman, CEO and President
Jefferies & Company, Inc.

Alan F. Hilfiker *
Partner
Harter Secrest & Emery LLP

Robert H. Hurlbut
President
Hurlbut Trust

Michael E. Jones *
Chief Executive Officer
Clover Capital Management, Inc.

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

R. Wayne LeChase
Chairman and Managing Partner
LeChase Construction Services

Nancy A. Lieberman
Partner
Skadden, Arps, Slate, Meagher &
Flom LLP

Gail A. Lione
Executive Vice President, General
Counsel and Secretary
Harley-Davidson, Inc.

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

Elizabeth D. Moore
Partner
Nixon Peabody LLP †

Nathan F. Moser
CEO and President
National Envelope Corporation

Charles R. Munnerlyn
Retired Co-Founder, Chairman and
CEO
VISX, Inc.

William A. Peck, M.D. *
Director, Center for Health Policy
Washington University at St. Louis

Francis L. Price
CEO
Q3 Industries

Elena Prokupets
Former President, CEO and Co-
Founder
Lenel Systems International

Thomas S. Richards
Corporation Counsel
City of Rochester

Michael S. Rosen
CEO
Context Capital Management, LLC

Richard E. Sands
Chairman
Constellation Brands Inc.

Joel Seligman *
President
University of Rochester

Thomas R. Sloan
Former Chairman
Essilor Laboratories of America

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

Kathy N. Waller
VP and Chief of Internal Audit
The Coca-Cola Company

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

Janice M. Willet
Self Employed
Financial editing and writing

Carl C. Williams *
Retired Senior VP and CIO
Principal Financial Group

Thomas C. Wilmot, Sr.
Chairman, Wilmorite Properties
CEO, Wilmorite Management

Nathaniel Wisch, M.D.
Hematologist - Oncologist
Clinical Professor of Medicine
Mount Sinai School of Medicine

G. Robert Witmer, Jr. *
Senior Counsel
Nixon Peabody LLP †

* Member of the Executive Committee.

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

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

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

Administration

The University is administered on a day-to-day basis by the President and his administrative staff. The principal officers of the University as of July 1, 2008 are:

Joel Seligman, President and Chief Executive Officer. Mr. Seligman became the tenth president of the University of Rochester on July 1, 2005. A 1971 magna cum laude graduate of the University of California at Los Angeles and a cum laude graduate of Harvard University School of Law in 1974, he served on the law faculty of Northeastern University (1977–1983), George Washington University (1983–1986), and the University of Michigan (1986–1995). He was named dean of the University of Arizona College of Law (and Samuel M. Feghtly Professor of Law) in 1995, and, in 1999, became dean of the Washington University School of Law (and Ethan A. H. Shepley University Professor), where he is credited with helping lead a strategic plan that helped raise the law school's national and international profile. One of the nation's leading experts on securities law, Seligman is the coauthor, with the late Louis Loss and with Troy Paretos, of the 11-volume *Securities Regulation* (annually updated, Aspen Publishers), the leading treatise in the field, and author of *The Transformation of Wall Street: A History of the Securities and Exchange Commission and Modern Corporation Finance* (third edition, Aspen Publishers, 2003). He is the author or coauthor of twenty books and more than forty articles on legal issues related to securities and corporations. He has served as reporter for the National Conference of Commissioners on Uniform State Laws, Revision of Uniform Securities Act; as chair of the Securities and Exchange Commission Advisory Committee on Market Information; and as a member of the American Institute of Certified Public Accountants Professional Ethics Executive Committee. He is currently a member of the board of the Financial Industry Regulatory Authority (FINRA) and of the Commission on Independent Colleges and Universities (cIcu). In the Greater Rochester community, he serves on the boards of George Eastman House, Greater Rochester Enterprise (GRE), and Rochester Business Association.

Ralph W. Kuncl, Provost and Executive Vice President. Dr. Kuncl was named Provost and Executive Vice President on August 1, 2007. He earned an A.B. from Occidental College, the Ph.D. and M.D. from the University of Chicago, and an Executive Medical Business Graduate Certificate from Johns Hopkins University. Before becoming Provost and Professor of Brain and Cognitive Sciences at Rochester, he served as Provost and Professor of Biology at Bryn Mawr College, and before that Vice Provost for Undergraduate Education and Professor of Neurology at Johns Hopkins University. A national leader in the neurosciences, Dr. Kuncl has authored over 150 scholarly publications, edited scholarly journals, earned numerous fellowships, and received many honors, including the Frank Ford Award for outstanding teaching in neurosciences at Johns Hopkins School of Medicine and most recently the Distinguished Service Award of the University of Chicago. He serves on the Tuition Plan Consortium Board of Directors and has been a member of the National Executive Board of The Reinvention Center since 2001.

Dr. Bradford C. Berk, Senior Vice President for Health Sciences at the University of Rochester and Chief Executive Officer of the Medical Center and Strong Health. Dr. Berk received his M.D. and Ph.D. degrees from the University of Rochester. He has served on the faculties of Harvard Medical School, Emory University, and the University of Washington. Dr. Berk was previously Chairman of Medicine (1999-2006) and Chief of the Cardiology Unit (1998-2003) at the University of Rochester. In addition he was Director of the Aab Cardiovascular Research Institute. Dr. Berk is a fellow of the American Heart Association and the American College of Cardiology, and a member of the Association of American Physicians. Dr. Berk is past-president of the North American Vascular Biology Organization (NAVBO). He is Consulting Editor for *Circulation and Circulation Research* and is on the editorial boards of *Atherosclerosis, Thrombosis and Vascular Biology* (ATVB) and the *Journal of Clinical Investigation*. He serves on the Empire State Stem Cell Board Funding Committee and the National Heart, Lung and Blood Institute (NHLBI), Stem Cell Clinical Trial Network and Gene and Cell-Based Therapies Data and Safety Monitoring Board (DSMB). Dr. Berk has published widely – more than 250 articles, chapters, and books.

Paul Burgett, Vice President and General Secretary. Mr. Burgett joined the University in 1981 as the Dean of Students at Eastman School of Music, became Vice President and University Dean of Students in 1987, and assumed his current position in 2001. Prior to joining the University, Mr. Burgett was the Executive Director of Hochstein Memorial Music School from 1970 to 1972, music teacher in the Greece Central School District from 1973 to 1977, and Assistant Professor of Music at Nazareth College from 1976 to 1981. He received a Bachelor of Music (1968), Master of Arts (1972) and Ph.D. in music education (1976) from the Eastman School of Music. Mr. Burgett serves on several community boards in Rochester including the Mt. Hope Family Center, Arts & Cultural Council of Greater Rochester, and City of Rochester Sector 4 Community Development Corporation.

Peter Lennie, Senior Vice President and Robert L. and Mary L. Sproull Dean of the Faculty of Arts, Sciences and Engineering. Dr. Lennie is responsible for all the Arts, Sciences and Engineering departments and programs, and for all aspects of undergraduate affairs on the River Campus, including admissions, athletics, and residential life. He has held his present position since July 2006. From 1998 until then he was Dean for Science at New York University, and had general responsibility for the science departments at the Washington Square campus. From 1982 to 1998 he was a faculty member at the University of Rochester, latterly as founding chair of the Department of Brain and Cognitive Sciences. Dr. Lennie is a neuroscientist whose work focuses on the functional organization of the visual system. He graduated with a bachelor of science degree from the University of Hull, England, and holds a Ph.D. from the University of Cambridge, England.

William M. Murphy, Vice President for Communications. Mr. Murphy has been vice president for communications at the University of Rochester since March 2006. He is responsible for the University's communications efforts including media relations, periodicals, publications, graphic identity, and the Web. Mr. Murphy has held leadership positions in communications at Ohio State, Illinois, and the University of Chicago.

Ronald J. Paprocki, Senior Vice President for Administration and Finance and Chief Financial Officer. As Chief Financial Officer, Mr. Paprocki is responsible for the University's financial operations as well as for budgeting, planning, and the treasury function. He oversees the University Office of Budgets and Planning, Finance Office (including the offices of Controller, Accounts Payable, Financial Reporting

and Analysis, Payroll and Employee Record Center, and Sponsored Programs Accounting), Internal Audit Office, and Treasury Management. He is in charge of the University's administrative and support operations including Environmental Health and Safety, Facilities and Services, Auxiliary Operations, Human Resources, Purchasing, and Research and Project Administration. Mr. Paprocki has played a key role in the University's strategic planning and campus master plan activities. In addition to in-depth experience in the financial arena, his diverse service at the University has provided him with an intimate knowledge of the University's programs as well as broad experience in administrative support and student service areas. He joined the central administration in 1986 after serving as chief administrative officer for the College of Arts and Science. Mr. Paprocki is a Phi Beta Kappa graduate of the University of Rochester. He also holds an M.B.A. from the University's William E. Simon Graduate School of Business Administration. He has served on various community boards and committees.

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

Sue S. Stewart, Esq., Senior Vice President and General Counsel. Ms. Stewart, appointed in 2003, is a well-known specialist in legal affairs for educational institutions and other non-profit organizations. A graduate of Wellesley College and Georgetown Law School, she retired from Nixon Peabody LLP in 2001 after 33 years with the firm, the last three as managing partner of the Rochester office. For many years the primary outside counsel for the University as well as several other educational institutions, her practice concentrated on such legal issues relating to educational institutions as corporate structure and governance, tax-exempt status, fundraising, student affairs, academic affairs, employee relations, risk management, intellectual property, finance, and medical-school affairs. She has served on a number of community organization boards, and her many awards include the 1999 Athena Award from the Greater Rochester Metro Chamber of Commerce, the 2001 Distinguished Volunteer Service Award from the United Neighborhood Centers of Greater Rochester, the 2003 Alexis de Tocqueville Award from United Way of Greater Rochester, the 2003 Fifty Over 50 Award from *Rochester Business Journal* and the 2005 Rochester's Influential Woman Award from *Rochester Business Journal*.

James D. Thompson, Senior Vice President and Chief Advancement Officer. Before joining the University in September 2005, Mr. Thompson was associate vice chancellor for development at Washington University in St. Louis, where he played a pivotal role in the university's \$1.551 billion campaign. Before joining Washington University, Mr. Thompson served as senior director of university development for Syracuse University with supervisory responsibilities for major and special gifts and regional programs. He played a key leadership role in the successful \$160,000,000 Campaign for Syracuse. He also served in a number of key development positions at Lindenwood College in St. Charles, Missouri, including as executive director of Institutional Development and College Relations and as a member of the executive management team. He has taught classes on university development, major gifts and the capital gift cycle. He has also consulted with select clients on improving board involvement, major gifts and campaign management.

OPERATING INFORMATION

Student Enrollment

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

ENROLLMENT SUMMARY

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

Academic Year	Full-Time				Part-Time				Grand Total
	Under- Graduate	Graduate and Professional	Non- Degree	Total	Under- Graduate	Graduate and Professional	Non- Degree	Total	
2003-04	4,353	2,820	42	7,215	108	572	662	1,302	8,517
2004-05	4,340	2,732	64	7,136	108	605	604	1,317	8,453
2005-06	4,420	2,725	112	7,257	112	723	638	1,473	8,730
2006-07	4,599	2,807	108	7,514	133	788	592	1,513	9,027
2007-08	4,835	2,918	76	7,829	129	898	564	1,591	9,420

The following table sets forth the full-time enrollment of matriculated undergraduate and graduate students for the 2007-08 academic year by division.

**2007-08 Full-Time Enrollment
By Academic Division**

<u>Academic Division</u>	<u>Undergraduate</u>	<u>Graduate</u>	<u>Total</u>
The College			
Arts and Sciences	3,995	662	4,657
School of Engineering and Applied Sciences *	241	360	601
Margaret Warner Graduate School of Education and Human Development	-	137	137
William E. Simon Graduate School of Business Administration	-	452	452
School of Medicine and Dentistry	-	899	899
School of Nursing	102	45	147
Eastman School of Music	<u>497</u>	<u>363</u>	<u>860</u>
Totals	4,835	2,918	7,753

*Junior and Seniors.

Student Recruitment

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

ADMISSIONS STATISTICS

Undergraduate

<u>Academic Year</u>	<u>Applications</u>	<u>Admits</u>	<u>% Admits/ Applicants</u>	<u>New Enrollment</u>	<u>% New Enrollment/ Admits</u>
2003-04	11,381	5,385	47.3	1,124	20.9
2004-05	12,023	5,541	46.1	1,091	19.7
2005-06	12,262	5,607	45.7	1,114	19.9
2006-07	12,245	5,373	43.9	1,233	22.9
2007-08	12,768	5,086	39.8	1,188	23.4

Graduate

<u>Academic Year</u>	<u>Applications</u>	<u>Admits</u>	<u>% Admits/ Applicants</u>	<u>New Enrollment</u>	<u>% New Enrollment/ Admits</u>
2003-04	13,989	2,256	16.1	1,097	48.6
2004-05	10,804	2,057	19.0	1,052	51.1
2005-06	10,849	2,029	18.7	1,047	51.6
2006-07	11,647	2,211	18.9	1,212	54.8
2007-08	12,419	2,409	19.4	1,258	52.2

Undergraduate applications for fall 2008 were in excess of 12,600 with approximately 5,340 accepted. The University expects an entering freshman class of approximately 1,312 students for the fall of 2008. The University plans to increase undergraduate enrollment by approximately 16% over the next ten (10) years.

The University's student body is composed of students from every state in the United States and from approximately 90 foreign countries. Approximately 1,350 international students were enrolled as of the fall of 2007.

The mean SAT scores for entering freshmen at the University continue to be significantly higher than the mean scores for freshmen nationwide. The mean score for University freshmen in the fall of 2007 was 1,317 (not including the new writing test). For purposes of comparison, qualitative University data relating to mean SAT scores and grade point averages are based on undergraduate matriculants in the College. Data on applicants to the Eastman School are omitted because the significant criteria for admissions to that division are unique. For the past two years, approximately 91% of the University's freshmen have ranked in the top quarter of their high school graduating class.

The table below presents the composite mean SAT scores for the University's incoming freshman classes since 2003 as compared to the national average SAT scores for college-bound high school seniors over the same period.

**Composite Mean Scholastic Aptitude Test Scores
Freshman Class Entering Fall**

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
University Freshmen:					
Reading	641	643	639	648	648
Math	669	668	662	667	675
Writing*	-	-	-	627	636
National					
Reading	507	508	508	503	502
Math	519	518	520	518	515
Writing*	-	-	-	497	494

* New test category.

Student Charges

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

STUDENT CHARGES

	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>
Tuition	\$28,250	\$30,540	\$32,650	\$34,380	\$36,410
Room	5,485	5,710	5,940	6,180	6,490
Board	3,580	3,676	3,786	4,420	4,320
Mandatory Fees	<u>732</u>	<u>757</u>	<u>776</u>	<u>808</u>	<u>840</u>
Total	\$38,047	\$40,683	\$43,152	\$45,788	\$48,060
Mandatory Fees					
Health Fee	\$ 522	\$ 540	\$ 552	\$ 576	\$ 600
Activity Fee	<u>210</u>	<u>217</u>	<u>224</u>	<u>232</u>	<u>240</u>
Total	\$ 732	\$ 757	\$ 776	\$ 808	\$ 840

Student Financial Aid

In the academic year 2006-07, the University administered student aid funds totaling \$113,923,000. Scholarship funds provided by the University from its own resources assisted approximately 90% of the undergraduates. University-administered programs for the last five academic years are outlined below:

SOURCES OF SCHOLARSHIP AND GRANT AID

(dollars in thousands)

<u>Academic Year</u>	<u>University Scholarships</u>	<u>State Grants</u>	<u>Federal Grants</u>	<u>Other Awards</u>	<u>Total</u>
2002-03	\$76,491	\$1,923	\$3,148	\$ 6,403	\$ 87,965
2003-04	81,422	2,165	3,159	6,934	93,680
2004-05	83,563	2,986	3,089	7,852	97,490
2005-06	87,433	3,578	2,740	8,927	102,678
2006-07	97,948	3,153	2,811	10,011	113,923

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

The University benefits from a State program through which State aid ("Bundy Aid") is allocated to independent colleges and universities in the State based on the number of academic degrees conferred during the previous year. During the 2007-08 academic year, the University received \$1,110,849 from the program.

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

Labor Relations

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

The University has five separate bargaining units with three unions covering about 1,862 of its employees. 1199 SEIU, United Healthcare Workers East and SEIU, CLC, Local 200 United negotiate their contracts in concert with each other. One covers approximately 1,268 Hospital service employees and expires on September 25, 2010. The other covers approximately 268 River Campus service employees and expires on September 25, 2010. The Security Officers Association negotiates one contract covering approximately 85 security personnel. The current contract expires on November 9, 2009. The International Union of Operating Engineers ("IUOE") negotiates one contract covering the Medical Center facilities maintenance trades employees, River Campus maintenance trades employees and a separate bargaining unit covering employees in the University's central heating plant operation. IUOE's contract covers approximately 241 employees and expires in August 2009. The University has no notice of a future strike by unions covering its employees.

Faculty

The University's faculty includes 45 fellows of the American Physical Society, 15 fellows of the Optical Society of America, 13 fellows of the American Academy of Arts and Sciences, eight fellows of the National Academy of Science, and three members of the American Academy of Nursing. Many others are members of the leading academic societies of their fields.

The University's faculty have received a total of 27 John S. Guggenheim Fellowships in the past 21 years. In the past 16 years faculty have won six National Endowment for the Humanities Senior Fellowships, and 25 Alfred P. Sloan Research Fellowships.

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

FACULTY PROFILE

Academic Year	Full-Time Tenure-Track Faculty	Part-Time Faculty	Total Faculty*	Percent of Tenure-Track Faculty Tenured
2003-04	1,140	578	1,718	42.0%
2004-05	1,223	591	1,814	41.5
2005-06	1,253	614	1,867	41.2
2006-07	1,258	673	1,931	42.5
2007-08	1,315	698	2,013	41.4

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

ANNUAL FINANCIAL STATEMENT INFORMATION

Financial Reporting

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

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

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

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

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

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

Revenues from sources other than contributions are generally reported as increases in unrestricted net assets. Contributions are reported as increases in the appropriate category of net assets with the exception

of contributions for which imposed restrictions are met in the same fiscal year in which they are received. Such contributions are included in unrestricted revenues.

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

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

Balance Sheet - The consolidated balance sheets present the University's and its related entities' assets, liabilities and net assets as of June 30, 2007 and 2006. As of June 30, 2007, total assets, net of accumulated depreciation, were \$4.057 billion. Total liabilities increased from \$1.076 billion to \$1.323 billion. The increase in net assets was \$320 million.

Statement of Activities - The consolidated statements of activities present the changes in net assets of the University and its related entities from operating activities and from nonoperating activities for the years ended June 30, 2007 and 2006. Operating revenues and expenses relate primarily to educational and training programs, research activities, and hospital and patient care activities provided by the University and its related entities. Utilization of investment income and gains on long-term investments held for endowment and similar purposes under the University's total return spending policy is considered operating revenue.

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

Total operating revenues for the University and its related entities increased in 2006-07 from \$2.140 billion to \$2.295 billion. Total operating expenses rose from \$2.039 billion to \$2.177 billion. The result was a \$118.3 million increase in net assets from operating activities.

The change in net assets from nonoperating activities - primarily the investment program, including long-term investment income and gains allocated for operations, amounted to an increase of \$236.0 million.

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

The University's and its related entities' operating activities in 2006-07 provided cash of \$93.5 million. The net cash used in investing was \$281.0 million and the net cash provided by financing activities was \$188.3 million, leaving an overall net increase in cash of \$885,000. Total cash and cash equivalents increased from \$199.8 million to \$200.7 million.

There has been no material adverse change in the financial condition of the University since June 30, 2007.

Operating Budget

The University's annual operating budget for the following fiscal year is reviewed and approved by the Financial Planning Committee and approved by the Board in the spring of each year. Financial planning assumptions and projections for four additional fiscal years are also developed annually in conjunction with the Financial Planning Committee. Thus, the operating budget for any given year will have been developed by the administration in conjunction with the Board within a five-year planning context with continuing refinements in the economic estimates and in the programmatic concerns that affect the final

budget. The planning process includes projections of endowment growth, graduate and undergraduate enrollments in the various schools and colleges of the University, competitive trends that may have disparate effects among the academic units, wages and salaries and benefits, government and private sponsorship of research, indirect cost recovery rates and energy costs. Actual performance against the operating budget is monitored by the administration and is reported to the Board's Executive Committee on a regular basis.

Capital Budget

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

The 2009-2011 Capital Plan for the University, including the Hospital, projects total capital expenditures of approximately \$773.9 million. Projects included in the plan may be delayed pending completion of fundraising efforts, because they have not yet been approved by the Board, are contingent on external funding, or are not yet sufficiently well defined. The Capital Plan is a guide to the University's capital spending intentions but is subject to adjustment year by year as circumstances change.

Summary of Financial Information

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

CONDENSED SUMMARY OF ACTIVITIES Fiscal Years Ended June 30, (dollars in thousands)

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Operating Revenue:					
Tuition and fees	\$ 190,037	\$ 198,901	\$ 203,738	\$ 219,288	\$ 242,121
Less scholarships and fellowships	(76,491)	(81,422)	(83,563)	(90,313)	(97,948)
Net tuition and fees	113,546	117,479	120,175	128,975	144,173
State and local appropriations	1,937	1,942	1,800	1,812	1,954
Grants and contracts	278,005	310,460	365,017	359,097	362,156
Gifts and pledges	44,579	49,721	51,027	68,967	75,494
Hospital and faculty practice patient care	1,040,185	1,149,961	1,232,087	1,344,612	1,445,795
Auxiliary enterprises	40,777	38,090	56,787	60,907	65,030
Investment income on cash equivalents	5,525	2,995	6,662	13,975	23,731
Educational activities	24,581	26,880	24,887	27,270	25,749
Royalty income	31,364	31,846	37,643	44,278	61,429
Other sources	3,161	3,790	6,695	9,769	10,223
Long-term investment income and gains allocated for operations	69,703	73,798	74,312	80,120	79,672
Total operating revenue	<u>1,653,363</u>	<u>1,806,962</u>	<u>1,977,092</u>	<u>2,139,782</u>	<u>2,295,406</u>
Operating expenses:					
Salaries and wages	808,269	867,555	916,861	993,178	1,058,157
Fringe benefits	212,000	221,046	238,023	259,091	280,837
Total compensation	1,020,269	1,088,601	1,154,884	1,252,269	1,338,994
Supplies	204,993	230,384	255,538	276,869	291,986
Business and professional	108,840	167,850	163,865	182,538	191,989
Utilities	24,966	20,125	32,547	42,614	53,668
Maintenance and facilities costs	42,827	69,573	75,325	77,045	81,710
Depreciation expense	107,697	109,437	119,976	114,091	118,810
Interest Expense	24,455	23,811	22,609	24,732	29,888
Other	98,810	64,839	70,480	68,745	70,035
Total operating expenses	<u>1,632,857</u>	<u>1,774,620</u>	<u>1,895,224</u>	<u>2,038,903</u>	<u>2,177,080</u>
Change in net assets from operating activities	<u>20,506</u>	<u>32,342</u>	<u>81,868</u>	<u>100,879</u>	<u>118,326</u>
Nonoperating activities:					
Long-term investment activities:					
Investment income	24,109	21,980	26,018	24,146	26,997
Net appreciation (depreciation)	30,292	160,042	132,565	184,570	292,540
Total long-term investment activities	54,401	182,022	158,583	208,716	319,537
Long-term investment income and gains allocated for operations	(69,703)	(73,798)	(74,312)	(80,120)	(79,672)
Additional minimum pension liability	(14,781)	-	-	-	-
Loss of extinguishment of debt	-	(4,746)	(1,264)	(2,638)	(1,018)
Other changes, net	-	7,418	(1,601)	8,737	(802)
Change in valuation of annuities	(1,768)	(1,337)	1,596	(1,080)	(2,048)
Change in net assets from non-operating activities	<u>(31,851)</u>	<u>109,559</u>	<u>83,002</u>	<u>133,615</u>	<u>235,997</u>
Change in net assets before cumulative effect of change in accounting principle	(11,345)	141,901	164,870	234,494	354,323
Cumulative effect of change in accounting principle	-	-	-	(16,763)	(34,052)
Change in net assets	(11,345)	141,901	164,870	217,731	320,271
Beginning net assets	<u>1,900,461</u>	<u>1,889,116</u>	<u>2,031,017</u>	<u>2,195,887</u>	<u>2,413,618</u>
Ending net assets	<u>\$1,889,116</u>	<u>\$2,031,017</u>	<u>\$2,195,887</u>	<u>\$2,413,618</u>	<u>\$2,733,889</u>

Related Entities

The consolidated financial statements of the University include the accounts of certain related entities, including Strong Partners Health System, Inc. (“SPHS”) and its affiliates, Eastman Dental Center Foundation, Inc., Strong Home Care Group and its subsidiaries, Excell Partners, Inc. and Excell Technology Center, Inc. See “Appendix B - Consolidated Financial Statements of the University of Rochester and Related Entities (With Independent Auditors’ Reports Thereon).” None of these related entities are legally obligated to pay debt service on University obligations, including the Series 2006 Bonds. The revenues and expenses of the University’s related entities reflect approximately 13.6% of the consolidated revenues and expenses and the net assets of these related entities represent approximately 4.6% of the consolidated net assets.

The University is the sole member of SPHS, which controls Highland Hospital of Rochester (“Highland Hospital”) and its affiliates. Highland Hospital and its affiliates have debt outstanding which has been included in the University’s consolidated financial statements; however, under the terms of the affiliation agreement among Highland Hospital, SPHS and the University, the University has no legal obligation for the debt of Highland Hospital and its affiliates. For additional information about Highland Hospital and its affiliates, see “PART 6 – THE HOSPITAL/MEDICAL CENTER – Affiliated Entities Part of Integrated Delivery System.”

SPHS also has affiliation agreements with The Highlands Living Center, Inc.; Highland Community Development Corp.; and The Meadows at Westfall, Inc. For additional information about these related entities, see “PART 6 – THE HOSPITAL/MEDICAL CENTER – Affiliated Entities Part of Integrated Delivery System.”

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

The University is the sole corporate member of Strong Home Care Group (and its subsidiaries that include Visiting Nurse Service of Rochester and Monroe County, Inc. and Community Care of Rochester). These entities provide visiting nurse services. For more information about Strong Care Health Group, see “PART 6 – THE HOSPITAL/MEDICAL CENTER – Affiliated Entities Part of Integrated Delivery System.” The University has guaranteed certain indebtedness of Strong Home Care Group.

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

University Retirement Plans

Most full-time University employees participate in the retirement plans administered by TIAA/CREF, or in a defined contribution plan sponsored by the University. Under these plans, the University made contributions of \$55.4 million in 2007 (\$51.8 million in 2006), which were vested for the benefit of the participants.

Effective January 1, 1996, the University’s Board approved a modification to the University’s postretirement health benefit plan. The program capped the University’s contribution to the retiree health benefits and created a tiered benefit structure with benefits unchanged for those already retired and with greatest limitations on those farthest from retirement. Benefit levels differ for current retirees, current employees eligible to retire, and current employees not eligible to retire. The accumulated postretirement benefit obligation of \$70,623,000, created as of January 1, 1996 under FAS 106, is being amortized over 16 years, which is the average estimated service life of plan participants.

Net periodic benefit costs for the years ended June 30, 2007 and 2006 were approximately \$13.8 million and \$13.1 million, respectively.

The following table presents the plan's funded status reconciled with amounts recognized in the University's consolidated balance sheet at June 30, 2007:

Accumulated Postretirement Benefit Obligation
Fiscal Year Ended June 30, 2007
(dollars in thousands)

Retirees	\$ 59,905
Full eligible active plan participants	27,114
Other active plan participants	<u>19,146</u>
Total	106,165
Prior service costs not yet recognized in net periodic post retirement benefit cost	<u>(27,266)</u>
Accrued postretirement benefit liability (before FAS 158)	78,899
Impact of FAS 158 changes	<u>27,266</u>
Net amount recognized in unrestricted net assets	<u>\$106,165</u>

Net periodic postretirement benefit cost for the year ended June 30, 2007 includes the following components:

Net Periodic Postretirement Benefit Cost
Fiscal Year Ended June 30, 2007
(dollars in thousands)

Service cost – benefits earned	\$ 2,183
Interest cost	6,408
Net Amortization	<u>5,221</u>
Net periodic postretirement benefit cost	<u>\$ 13,812</u>

For measurement purposes, the rate of increase in health care costs is assumed to decrease from 9% in 2007 to 4% in 2012 and to remain at that level thereafter. An increase of 1% in the rate of increase would increase the accumulated postretirement benefit obligation as of June 30, 2007 by approximately 4.6% (4.3% as of June 30, 2006) and the aggregate service and interest components of net periodic postretirement benefit cost by 4.1% (4.2% for 2006). The weighted average discount rate used in determining the accumulated postretirement benefit obligation was 6.00% at June 30, 2007 and 6.00% at June 30, 2006.

Federal Government Grants and Contracts

The University has long been a center for programs of research and training. Federal grants and contracts provide most of the funds for sponsored programs, although additional amounts come from other government entities, industry, foundations and interested individuals. For the year ended June 30, 2007, approximately \$278 million was spent on research funded by federal grants and contracts.

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

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

Federal Agency	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Public Health Service (includes NIH)	\$135,184	\$151,862	\$161,529	\$166,388	\$171,736
Department of Energy	42,343	47,435	66,554	80,384	73,277
National Science Foundation	8,409	12,029	10,890	10,436	10,224
Department of Defense	9,229	6,477	9,398	9,149	10,024
Department of Education	6,171	5,816	6,552	6,550	7,793
National Aeronautics and Space Administration	1,244	631	601	530	2,152
NEH/NEA	81	105	74	35	61
Other Sponsors	<u>2,294</u>	<u>2,382</u>	<u>2,158</u>	<u>1,860</u>	<u>2,750</u>
Total	<u>\$204,955</u>	<u>\$226,737</u>	<u>\$257,756</u>	<u>\$275,332</u>	<u>\$278,017</u>

Private Gifts and Endowments

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

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

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Unrestricted Net Assets	\$19,317	\$22,236	\$22,675	\$44,999	\$41,688
Temporarily Restricted Net Assets	17,962	12,535	14,253	14,543	17,535
Permanently Restricted Net Assets	<u>5,401</u>	<u>12,366</u>	<u>12,065</u>	<u>5,910</u>	<u>14,358</u>
Total	<u>\$42,680</u>	<u>\$47,137</u>	<u>\$48,993</u>	<u>\$65,452</u>	<u>\$73,581</u>

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

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

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Unrestricted Net Assets	\$ 835,100	\$ 933,982	\$1,027,601	\$1,135,100	\$1,312,351
Temporarily Restricted Net Assets	88,208	105,385	111,385	111,678	153,380
Permanently Restricted Net Assets	<u>164,676</u>	<u>175,323</u>	<u>184,245</u>	<u>191,888</u>	<u>204,963</u>
Total	<u>\$1,087,984</u>	<u>\$1,214,690</u>	<u>\$1,323,231</u>	<u>\$1,438,666</u>	<u>\$1,670,714</u>

The University's investment program for endowment and similar funds operates under an investment policy statement and guidelines established by the Board, which delegates direct oversight for the investment program to the Investment Committee of the Board. The consolidated endowment pool, in which virtually all endowment funds are placed, is diversified among equities, fixed income, real estate and other investments, both in the United States and abroad, and is managed by external money managers appointed for the purpose by the Committee. The University investment managers make limited use of derivatives, generally only for the purpose of hedging currency exposure. The investment return on the University's endowment portfolio was 19.4% in 2006-07, 14.0% in 2005-06, 12.7% in 2004-05, 17.4% in 2003-04, and 4.7% in 2002-03.

As of June 30, 2007, the market value of the University's endowment and similar funds was approximately \$1.73 billion. The University estimates that the return on the University's endowment portfolio for fiscal year 2008 was approximately flat or slightly negative. The consolidated financial statements and notes thereto contained in Appendix B to this Official Statement show further details concerning the valuation of investments, the University's consolidated financial resources and uses of both operating and capital funds.

Total Return Plan

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

Endowment Support of Operations

Fiscal Year	<u>Endowment Spending</u>	As a Percentage of Five Year Moving Average of <u>Endowment Market Value</u>
2002-03	\$69,703,000	6.4%
2003-04	72,466,000	6.5
2004-05	73,068,000	6.5
2005-06	77,631,000	6.7
2006-07	77,341,000	6.6

University Indebtedness and Swaps

Non-Authority Indebtedness. Exclusive of various Authority obligations and capital leases described below, the outstanding long term indebtedness of the University at June 30, 2007, amounted to \$11,603,000 and consisted of the following:

1. The University entered into an agreement with the New York State Urban Development Corporation ("UDC") to partially fund the construction of the University's Center for Optoelectronics and Imaging (COI) with a loan of \$5,000,000. The agreement requires the University to pay the loan principal plus the cost of issuance for the \$6,320,000 bond issue by which the UDC financed the loan. Through June 30, 2007, the University repaid \$2,667,000 leaving a balance outstanding of \$2,333,000. The loan is secured by a mortgage on the property. Pursuant to an agreement authorized by statute, the State of New York leases the COI from the University for the 30-year life of the loan, paying as rent an amount sufficient to cover the University's obligations to the UDC. These rents have been assigned to the UDC as further security for the loan. Rental payments by the State are subject to annual appropriation by the State Legislature. The University retains possession of the property under a sub-lease back from the State at an annual rent equivalent to one-thirtieth of the sum of the loan principal and the cost of issuance of the UDC bonds.

2. In November 2003, the University issued \$8,600,000 of its Direct Note Obligations, Series 2003 to refinance drawings under the University's revolving line of credit with JPMorgan Chase Bank, the proceeds of which had been used to refinance indebtedness and certain other mortgages related to Eastman Place. Eastman Place is a facility used partly to house activities of the Eastman School of Music. A total of \$8,572,000 is recognized on the University's consolidated balance sheet, as the notes are recorded net of an unamortized discount of \$28,000 at June 30, 2007.

3. In January 2004, the University entered into an agreement for the 2004 Replacement Bond issued by the County of Monroe Industrial Development Agency ("COMIDA") in the amount of \$698,000. Proceeds from the 2004 COMIDA Replacement Bond were used to purchase property at 10 Gibbs Street, Rochester, New York, which has become part of the Eastman School of Music Campus.

Authority Indebtedness. The University's indebtedness to the Authority at June 30, 2007 amounted to \$609,786,000, which consisted of the following:

1. Pursuant to a loan agreement and a bond resolution, the Authority issued and sold \$78,280,000 of Series 1997A Bonds, of which \$16,980,000 were outstanding as of June 30, 2007. A total of \$17,624,000 is recognized on the University's consolidated balance sheet as such Series 1997A Bonds are recorded net of an unamortized premium of \$644,000 at June 30, 2007. The Series 1997A Bonds are secured by a security interest granted to the Authority pursuant to the loan agreement in the tuition, room and board, and mandatory student fees received or receivable by the University.

2. Pursuant to a loan agreement and a bond resolution, the Authority issued and sold \$131,615,000 of Series 1998A Bonds, of which \$32,820,000 were outstanding as of June 30, 2007. A total of \$32,775,000 is recognized on the University's consolidated balance sheet as such Series 1998A Bonds are recorded net of unamortized discount of \$45,000 at June 30, 2007. The Series 1998A Bonds are secured by a security interest granted to the Authority pursuant to the loan agreement in the tuition, room and board, and mandatory student fees received or receivable by the University.

3. Pursuant to the Loan Agreement and the Resolution, the Authority issued and sold \$25,860,000 of Series 1999B Bonds, of which \$5,330,000 were outstanding as of June 30, 2007. A total of \$5,256,000 is recognized on the University's consolidated balance sheet as such Series 1999B Bonds are recorded net of unamortized discount of \$74,000 at June 30, 2007.

4. Pursuant to the Loan Agreement and the Resolution, the Authority issued and sold \$45,764,000 of Series 2000A Bonds, of which \$7,036,000 were outstanding as of June 30, 2007.

5. Pursuant to the Loan Agreement and the Resolution, the Authority issued and sold \$22,920,000 of Series 2001A Bonds, of which \$20,075,000 were outstanding as of June 30, 2007. A total of \$19,975,000 is recognized on the University's consolidated balance sheet as such Series 2001A Bonds are recorded net of unamortized discount of \$100,000 at June 30, 2007.

6. Pursuant to the Loan Agreement and the Resolution, the Authority issued and sold \$164,425,000 of Series 2003A, B, and C Bonds, of which \$143,275,000 were outstanding as of June 30, 2007.

7. Pursuant to the Loan Agreement and the Resolution, the Authority issued and sold \$45,000,000 of Series 2004A Bonds, of which \$28,465,000 were outstanding as of June 30, 2007. A total of \$28,879,000 is recognized on the University's consolidated balance sheet as such Series 2004A Bonds are recorded net of unamortized premium of \$414,000 at June 30, 2007.

8. Pursuant to the Loan Agreement and the Resolution, the Authority issued and sold \$111,180,000 of Series 2006A-1 and B-1 Bonds, of which \$111,180,000 were outstanding as of June 30, 2007.

9. Pursuant to the Loan Agreement and the Resolution, the Authority issued and sold \$235,869,067 of Series 2007A-1, A-2, B and C Bonds, of which \$235,663,000 were outstanding as of June 30, 2007. A total of \$243,786,000 is recognized on the University's consolidated balance sheet as such Series 2007 Bonds are recorded net of unamortized premium of \$8,123,000 at June 30, 2007.

The Bonds described in paragraphs 3 through 9 above are on a parity with the Series 2006 Bonds.

Obligations Under Capital Leases: The University's capital lease obligations amounted to \$13,391,000 as of fiscal year end 2007.

1. In 2004, the University entered into various capital leases for certain equipment for the University. The initial cost of the equipment subject to the lease was approximately \$1,500,000. A total of \$180,000 is recognized on the University's consolidated balance sheet as of June 30, 2007.

2. In 2005, the University entered into various capital leases for certain equipment for the University. The initial cost of the equipment subject to the lease was approximately \$1,004,000. A total of \$245,000 is recognized on the University's consolidated balance sheet as of June 30, 2007.

3. In 2006, the University entered into capital leases with Banc of America Leasing & Capital, LLC for certain equipment for the University. The initial cost of the equipment subject to the leases was \$2,900,000. A total of \$984,000 is recognized on the University's consolidated balance sheet as of June 30, 2007.

4. In 2007, the University entered into various capital leases for certain equipment for the University. The initial cost of the equipment subject to the leases was \$12,700,000. A total of \$11,400,000 is recognized on the University's consolidated balance sheet as of June 30, 2007.

Indebtedness Incurred Since June 30, 2007:

1. The University has entered into capital leases with Banc of America Leasing and Capital, LLC for certain equipment for the University. The initial cost of the equipment subject to the leases was \$511,000.

2. The University has entered into capital leases with Pantheon Capital LLC for certain equipment for the University. The initial cost of the equipment subject to the leases was \$2,160,000.

3. The University has entered into capital leases with Philips Medical Capital, LLC for certain equipment for the University. The initial cost of the equipment subject to the leases was \$700,000.

4. The University has entered into a Bridge Loan Agreement with JPMorgan Chase Bank, N.A. to provide funds (up to \$136,675,000) necessary to purchase at auction the Authority's Series 2003A, B and C Bonds issued on behalf of the University. As of August 13, 2008, \$85,700,000 of advances has been made to the University on this loan, which will be repaid in full upon the remarketing and conversion of the Series 2003 Bonds.

Swaps:

The University has entered into interest rate exchange agreements relating to the Series 2003 Bonds and the Series 2006 Bonds, in an aggregate notional amount equal to the principal amount of such Bonds. Pursuant to each agreement, the University is obligated to pay the applicable swap counterparty amounts based on a fixed interest rate and is to receive payment from the swap counterparty based on variable interest rates. Under certain circumstances the University may be required to post collateral to secure its obligations under the interest rate exchange agreements. In addition, each agreement may be terminated following the occurrence of certain events, at which time the University may be required to make a termination payment to the swap counterparty. Lehman Brothers Special Financing Inc. is the swap counterparty on Series 2003A and Series 2003B, Citibank, N.A. New York is the swap counterparty on Series 2003C and Merrill Lynch Capital Services, Inc. is the swap counterparty on Series 2006. See note 8(n) and note 8(q) of the notes to the financial statements of the University included as Appendix B hereto for further information. The fixed interest rate on the Series 2006 interest rate exchange agreement will be increased by 2 basis points effective September 10, 2008.

Potential Indebtedness:

1. The University has a \$25.6 million standby letter of credit with JPMorgan Chase Bank to cover potential liabilities under the University's self-insured workers compensation program.

2. The University has an additional \$25.0 million line of credit with JPMorgan Chase Bank for short term emergency purposes. Of this total, \$1.86 million was outstanding as of June 30, 2007.

Property, Plant and Equipment

The following table shows the University's investment in property, plant and equipment for the past five years:

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Land and improvements	\$ 32,496	\$ 32,763	\$ 37,695	\$ 40,324	\$ 41,410
Buildings and improvements	1,146,840	1,171,896	1,268,228	1,315,450	1,370,137
Completed projects under leasehold agreements	46,600	46,202	46,331	46,454	45,983
Equipment owned	516,819	543,448	598,569	651,691	658,265
Museum collections	25,231	25,717	26,627	27,136	29,088
Construction in progress	23,725	69,834	72,605	157,537	246,559
Library books	<u>83,554</u>	<u>89,581</u>	<u>96,210</u>	<u>102,829</u>	<u>109,961</u>
	1,875,265	1,979,441	2,146,265	2,341,421	2,501,403
Less accumulated depreciation	<u>979,111</u>	<u>1,045,020</u>	<u>1,136,934</u>	<u>1,237,530</u>	<u>1,298,200</u>
Investment in property, plant and equipment, net	<u>\$ 896,154</u>	<u>\$ 934,421</u>	<u>\$1,009,331</u>	<u>\$1,103,891</u>	<u>\$1,203,203</u>

The University presently carries, under blanket insurance policies, \$1,000,000,000 in property and content coverage for University properties, including the Hospital but excluding land and building foundations.

LITIGATION AND LEGAL MATTERS

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

PART 6 - THE HOSPITAL/MEDICAL CENTER

General

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

The Hospital is an integral part of the University’s Medical Center and serves as the principal teaching hospital of the School of Medicine and Dentistry and the School of Nursing. The Hospital, with 39,657 discharges and 255,030 patient days in calendar year 2007, is the largest acute care general hospital in Rochester and serves both as a general regional/national tertiary care hospital and a specialized referral center for a 14-county area.

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

Services and Programs

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

<u>Services</u>	<u>Number of Beds</u>
Medical/Surgical	387
Intensive Care	55
Coronary Care	8
Burn Care	7
Pediatric	60
Maternity	45
Psychiatric	93
Rehabilitation	20
Pediatric Intensive Care Unit	12
Neonatal/ICU	<u>52</u>
Total	739

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

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

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

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

With respect to its residency programs, the Hospital trains approximately 704 residents and fellows in 75 different fully accredited graduate medical and dental education programs, in sub-specialties which include: Anesthesiology, Dermatology, Emergency Medicine, Emergency Medicine – Pediatric, Family Medicine, General Dentistry, Internal Medicine, Medicine-Pediatrics, Neurological Surgery, Neurology,

Neurology-Clinical Neurophysiology, Nuclear Medicine, Obstetrics-Gynecology, Ophthalmology, Oral and Maxillofacial Surgery, Orthopaedics, Pathology, Pathology-Neuropathology, Pediatrics, Pediatric Dentistry, Orthodontics, Periodontics, Physical Medicine-Rehabilitation, Prosthodontics, Psychiatry, Psychiatry-Child and Adolescent, Psychiatry-Geriatric, Radiation Oncology, Radiology, Surgery, Surgery-Cardiothoracic, Surgery-Critical Care, Surgery-Otolaryngology, Surgery-Plastic Surgery, Surgery-Vascular, Urology, Allergy and Immunology, Anesthesiology Critical Care, Anesthesiology Pain Management, Medicine-Cardiovascular Disease, Medicine-Cardiovascular Electrophysiology, Medicine-Critical Care, Medicine-Endocrinology, Medicine-Gastroenterology, Medicine-Geriatric Medicine, Medicine-Hematology/Oncology, Medicine-Infectious Disease, Medicine – Interventional Cardiology, Medicine-Nephrology, Medicine-Pulmonary Critical Care, Medicine-Rheumatology, Orthopaedics-Hand Surgery, Orthopaedics-Sports Medicine, Pathology-Cytopathology, Pediatrics – Adolescent Medicine, Pediatrics-Critical Care Medicine, Pediatrics-Cardiology, Pediatrics – Hematology Oncology, Pediatrics-Infectious Disease, Pediatrics-Nephrology, Pediatrics-Neonatology, Pediatrics-Pulmonology, Psychiatry-Forensic Psychiatry, Radiology-Muskuloskeletal, Radiology-Neuroradiology, Radiology-Pediatric, Radiology-Vascular/Interventional, Child Neurology, Maternal Fetal Medicine, Pediatric Gastroenterology, Pediatric Anesthesiology, Procedural Dermatology, Emergency Medicine-Sports, Vascular Neurology, Orthopaedic Surgery, Preventive Medicine, and Advanced Education in General Dentistry.

Service Area

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

In calendar year 2007, the Hospital discharged 39,657 inpatients and cared for 1,125,420 outpatients and 93,178 Emergency Department patients. Some 65% of inpatients come from Monroe County, the primary service area, 24% from the secondary service area of surrounding counties including Livingston, Ontario, Wayne, Genesee, Orleans, Steuben, Seneca and Yates and the remaining 11% from other parts of the State and nation.

Strategic Plan

In 2007, the Medical Center developed a new strategic plan, the adoption of which will be considered at the University Board of Trustees meeting in the fall of 2008. Certain elements of the plan have already been authorized and are being implemented. As the Medical Center moves forward with its proposed strategic plan, its major strategy will be an intense focus on innovation and excellence to develop new therapies to improve health. Its plan is to recruit and retain outstanding individuals with promising potential, provide them a collaborative environment with cutting edge technology, and produce high impact research in focused areas that is recognized globally. At the same time the Medical Center anticipates increasing its NIH funding and rank to number 25 by 2012. The Medical Center embarks on its strategic plan with many strengths, including the long tradition of a collegial environment, a unique combination of researchers in basic and clinical science who have easy access to patients and their physicians interested in research, a robust clinical enterprise which helps to sustain its academic enterprise and opportunities to interact with River Campus faculty in brain and cognitive science, engineering, genetics, nanotechnology, and optics.

The Medical Center's plan is to use these strengths to create synergies around major disease areas. It will integrate science, education and clinical care by leveraging new and joint recruitments, shared cores and equipment, and new technologies. The areas of disease focus termed Integrated Disease Programs (IDPs) include cancer, cardiovascular disease, immunology and infectious disease, musculoskeletal disease and neuromedicine. In these areas the emphasis will be on translating basic discoveries to patient care and novel therapies.

The basic research that feeds these translational efforts must have continued support with new and enhanced cores and technologies. Therefore, the Medical Center plans to invest in exciting new research

areas represented by four Innovative Scientific Programs (ISPs). Thus, it will emphasize cores and programs that amplify current resources and create new capabilities. These include:

ISPs

- Stem Cell & Regenerative Medicine
- Biomedical Imaging & Biomarkers
- Nanomedicine
- Genomics & Systems Biology

Cores

- Vivarium
- Small Animal Imaging
- Flow Cytometry
- Good Manufacturing Practices-GMP
- Enhanced BioSafety Level 3 (eBSL3)

These cores and programs support not only the integrated disease programs selected for emphasis but virtually all other research and clinical programs which are so important to the life of the Medical Center.

The Medical Center's major goals are:

1. To become one of the leading health care systems in the Northeast and to achieve national recognition for its signature programs that develop new therapies based on outstanding research.
2. To sustain an interdisciplinary environment that emphasizes fundamental discovery and fosters innovation through acquisition of new technologies.
3. To ensure translation of fundamental discovery into cutting edge patient therapies through the education of clinicians and scientists.
4. To grow clinical volume by recruiting outstanding health professionals and providing capacity for complex procedures where specialized expertise and high volume ensure the highest levels of patient safety and quality.
5. To maintain clinical margin and productivity that sustains growth in the clinical and academic missions of the Medical Center.
6. To engage the community through economic development (including technology transfer and research partnerships) and to promote community health through research programs that support community based interventions.

Governance

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

The Medical Center Board currently has 44 voting members. New members are appointed by the Board of Trustees upon the recommendation of the existing Medical Center Board. At least five members must be or have been Trustees. In addition to the elected members, the following persons serve on the Medical Center Board as ex officio voting members: the University's President, the Provost, the Senior Vice President for Health Sciences at the University and Chief Executive Officer of the Medical Center and Strong Health, the Senior Vice President and Chief Medical Officer, the Medical Center Vice President and Chief Operating Officer, the Medical Center Vice President and Chief Financial Officer, the President and Chief Executive Officer of the Hospital, the Deans of the School of Medicine and Dentistry and School of Nursing, the Director of the Eastman Dental Center, the Director of the Medical Faculty Group, two Department Chairs of the clinical departments from the School of Medicine and Dentistry and one member of the community-based faculty from the Medical Staff. A representative of the Friends of Strong (the Hospital's volunteer organization) serves as an ex-officio non-voting member.

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

The current elected members of the Medical Center Board are:

Richard T. Aab *

Vice Chairman
PAETEC

Michael J. Amalfi

Senior Vice President
Ultra Scan Corporation

Kenneth D. Bell

Vice President and Regional
Director
The Community Preservation Corp.

Michael F. Buckley, Esq.

Harter Secrest & Emery LLP

Daniel J. Chessin

Co-President and Co-CE)
Hahn Automotive Warehouse, Inc.

William Clark

CEO
Urban League of Rochester, NY,
Inc.

Richard J. Collins, MD *

Community Volunteer

John T. Fitzgerald, Esq.

Nixon Peabody, LLP †

David M. Flaum *

President and CEO
Flaum Management Company, Inc.

Anne B. Francis, MD

Elmwood Pediatric Group

Roger B. Friedlander *

Consultant

George W. Hamlin, IV

President and CEO
The Canandaigua National Bank &
Trust Co.

Kevin Hobert

CEO
Carestream Health, Inc.

Susan R. Holliday

President and Publisher
Rochester Business Journal

Robert H. Hurlbut *

President
The Hurlbut Trust

Alan Illig, Esq.

Community Volunteer

Dan Kerpelman

President and CEO
Bio-Optronics Group, LLC

Dennis Kessler

President
The Kessler Group, Inc.

Diana R. Kurty, CPA

Principal
Lumina Partners

Robert N. Latella, Esq.

Partner
Hiscock & Barclay, LLP

Joseph M. Lobo II

President and CEO
JML Optical Industries, Inc.

Ruvim Preokupets

Former Executive and Co-Founder
Lenel Systems International

Thomas S. Richards *

Corporation Counsel
City of Rochester

William W. Richardson

Community Volunteer

William D. Ryan *

Community Volunteer

Julio Vasquez

Commissioner
Department of Community
Development
City of Rochester

Daniel R. Wegman *

CEO
Wegman's Food Market, Inc.

Joseph R. Wilson

Senior Vice President
Morgan Stanley

W. Keith Wilson

Executive VP and Chief
Administrative Officer
Constellation Brands, Inc.

Ronald L. Zarrella

Chairman Emeritus
Bausch & Lomb Incorporated

*Current or former University Trustee

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

Potential Conflicts of Interest

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

Medical Staff

With respect to the Medical Staff, as of July 1, 2008, there were 1,548 physicians and dentists grouped into four categories: Attending, Courtesy, Emeritus and Honorary. The Medical Staff is organized into 20 clinical

departments representing over 100 medical specialties and sub-specialties. As of this date, approximately 90% of the Medical Staff were board certified and the average age was 50 years.

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

MEDICAL AND DENTAL STAFF COMPOSITION

as of July 1, 2008

<u>Department</u>	<u>Number of Staff</u>	<u>Average Age</u>	<u>Number Board Certified</u>
Anesthesiology	72	48	65
Dentistry	44	53	21
Dermatology	29	53	26
Emergency Medicine	61	45	57
Imaging Sciences	72	51	63
Medicine	381	50	340
Neurology	70	51	64
Neurosurgery	12	53	11
Obstetrics/Gynecology	110	50	98
Occupational and Environmental Medicine	3	51	3
Ophthalmology	53	53	48
Orthopaedics	41	52	39
Otolaryngology	18	55	17
Pathology	27	55	26
Pathology/Lab Medicine	6	50	6
Pediatrics	345	50	318
Physical Medicine and Rehabilitation	11	48	11
Psychiatry	81	52	75
Radiation Oncology	13	55	12
Surgery	73	50	67
Urology	26	53	23
Total	1,548	50	1,390

Management

Dr. Bradford C. Berk, Senior Vice President for Health Sciences at the University of Rochester and Chief Executive Officer of the Medical Center and Strong Health. Dr. Berk received his M.D. and Ph.D. degrees from the University of Rochester. He has served on the faculties of Harvard Medical School, Emory University, and the University of Washington. Dr. Berk was previously Chairman of Medicine (1999-2006) and Chief of the Cardiology Unit (1998-2003) at the University of Rochester. In addition he was Director of the Aab Cardiovascular Research Institute. Dr. Berk is a fellow of the American Heart Association and the American College of Cardiology, and a member of the Association of American Physicians. Dr. Berk is past-president of the North American Vascular Biology Organization (NAVBO). He is Consulting Editor for *Circulation and Circulation Research* and is on the editorial boards of *Atherosclerosis, Thrombosis and Vascular Biology (ATVB)* and the *Journal of Clinical Investigation*. He serves on the Empire State Stem Cell Board Funding Committee and the National Heart, Lung and Blood Institute (NHLBI), Stem Cell Clinical Trial Network and Gene and Cell-Based Therapies Data and Safety Monitoring Board (DSMB). Dr. Berk has published widely – more than 250 articles, chapters, and books.

Michael C. Goonan, CPA, Vice President and Chief Financial Officer, University of Rochester Medical Center. Mr. Goonan assumed his current position in 1995. He joined the Hospital in 1984 and was appointed its Chief Financial Officer in 1990. From 1975 to 1984, Mr. Goonan was with the international public accounting firm, KPMG Peat Marwick, where he specialized in the healthcare field with particular emphasis on financial management, reimbursement, prospective reporting, and third-party cost reporting. Mr. Goonan received a Bachelor of Science degree in Accounting from St. John Fisher College in Rochester, New York and is a New York

State Certified Public Accountant. He is a member of the Advisory Committee of the Board of Directors of the Rochester Chapter of the American Red Cross and he is on the Board of Directors of the Crittenden Boulevard Housing, Inc. Mr. Goonan is a member of the Healthcare Financial Management Association. He also serves on the Board of the Medical Centre Insurance Company, Inc. Mr. Goonan is a Trustee of St. John Fisher College and is Vice Chair of the Board. He also serves on the Board of the Catholic Family Center and serves as Chair of the Audit Committee.

Steven I. Goldstein, President and Chief Executive Officer of Strong Memorial Hospital and Highland Hospital; President, Long-Term Care Division; President, Strong Partners, and Vice President, University of Rochester Medical Center. Mr. Goldstein joined Strong Memorial Hospital in September 1996 as Executive Director and Chief Operating Officer and assumed his present position in June 1997. Mr. Goldstein was Senior Vice President of The Greater Rochester Health System, Inc. from August 1995 to September 1996 and President and CEO of Rochester General Hospital from March 1993 to September 1996. From September 1982 to March 1993, he was Director and Chief Operating Officer of Rochester General Hospital. Mr. Goldstein received his Master of Hospital and Health Care Administration from the St. Louis University Graduate School of Hospital and Health Care Administration.

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

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

Peter G. Robinson, Vice President and Chief Operating Officer, University of Rochester Medical Center. Mr. Robinson joined the University of Rochester Medical Center in 1988, as Director of Strategic Planning and Marketing. Since 1998 he has served as the Vice President and Chief Operating Officer of the University of Rochester Medical Center and Strong Health. Additionally, in January 2004, Mr. Robinson was appointed Executive Director of Government Relations for the University. Previously, Mr. Robinson served as Associate Executive Director of Bellevue Hospital Center in New York City and as Director of Ambulatory Care at Columbia Presbyterian Medical Center. He has also been a health care management consultant for government and the private sector. Mr. Robinson is a voting member of the New York State Public Health Council, the Chairman of the Board of High Technology of Rochester, Inc. as well as Chairman of the Board of Excell, Inc. He also serves on the boards of several private and public community agencies. He earned his bachelor's degree from the City College of New York and master's degrees from the New School for Social Research and Columbia University School of Public Health.

David S. Guzick, M.D., Ph.D., Dean of the School of Medicine and Dentistry. Dr. Guzick was appointed the ninth dean of the University of Rochester School of Medicine and Dentistry in 2002. Prior to becoming Dean, he served for seven years as the Henry A. Thiede Professor and Chair of the Department of Obstetrics and Gynecology at the School of Medicine and Dentistry and Chief of Service of Obstetrics and Gynecology at Strong Memorial Hospital and Highland Hospital. Dr. Guzick came to Rochester from the University of Pittsburgh School of Medicine and Magee-Women's Hospital, where he served as professor of Obstetrics, Gynecology and Reproductive Science and Director of the Division of Reproductive Endocrinology. He earned both his medical degree and Ph.D.

from New York University as part of a National Institutes of Health scholarship. Following a residency in obstetrics and gynecology at The Johns Hopkins Hospital, he completed a fellowship in reproductive endocrinology at the University of Texas, Southwestern Medical School.

Utilization

The following is a summary of discharges by major clinical departments for fiscal years ended June 30 2003 through 2006 and calendar year 2007. Due to New York State regulatory policy, the Hospital was required to convert its financial reporting to a calendar year effective December 31, 2007. The 2007 calendar data is presented to be consistent with the Hospital's audited financial statements.

PERCENT OF HOSPITAL DISCHARGES*

	<u>Year Ended June 30,</u>				<u>Calendar</u>
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>Year</u> <u>2007</u>
Medicine	34.5%	34.9%	34.7%	34.2%	34.9%
Surgery	25.3	24.5	25.0	25.4	27.1
Obstetrics and Gynecology	12.7	11.8	11.4	12.1	11.2
Pediatrics*	8.6	9.1	9.6	9.3	8.9
Orthopedics	6.2	6.8	6.9	5.9	5.7
Neurology	3.4	3.3	2.2	2.7	2.6
Clinical Research	0.4	0.3	0.6	0.6	0.3
Comprehensive Epilepsy Program	1.0	1.0	1.2	1.2	1.0
Psychiatry	6.9	7.1	7.1	7.3	7.1
Rehabilitation	1.0	1.2	1.3	1.3	1.2
	100.0%	100.0%	100.0%	100.0%	100.0%

* Excludes nursery discharges.

A summary of historical utilization data for the years ended June 30, 2003 through 2007 is presented in the following table:

HOSPITAL UTILIZATION DATA

	<u>Year Ended June 30,</u>				<u>Calendar</u>
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>Year</u> <u>2007</u>
Certified Beds	739	739	739	739	739
Discharges*	37,818	37,456	38,123	38,146	39,657
Patient Days*	237,445	240,377	240,850	250,247	255,030
Average Length of Stay (Days)	6.3	6.4	6.3	6.6	6.4
Emergency Room Visits	85,710	87,343	92,994	91,925	93,178
Outpatient Clinic Visits	330,244	331,552	334,695	308,489	299,516
Ambulatory Surgery Visits	13,511	12,916	13,227	12,740	12,919
Faculty Practice Visits	607,597	661,571	710,837	795,812	812,985
<u>Average % Occupancy†:</u>					
Medicine & Surgery	95.5%	99.4%	99.6%	100.4%	100.4%
Obstetrics	76.0	71.6	69.8	78.3	67.9
Gynecology	95.3	91.1	86.4	85.7	94.5
Pediatrics	82.9	80.7	72.3	83.7	88.0
Psychiatry	86.4	83.0	87.5	91.0	85.4
Rehabilitation	81.3	89.8	85.6	91.5	91.7

*Includes newborns.

†Based on beds in use.

Rochester Area Hospitals

The following table sets forth the number of acute beds, number of discharges, the occupancy rate and number of newborns for the Hospital and certain other hospitals located in and around the primary service area of the Hospital in calendar year 2007:

AREA HOSPITAL UTILIZATION DATA

	<u>Acute Beds</u>	<u>2007 Discharges</u>	<u>2007 % Occupancy†</u>	<u>2007 Newborns</u>
Strong Memorial Hospital	739	36,907	91.9%	2,750
Rochester General Hospital	528	29,274	80.1	2,225
Highland Hospital*	261	15,096	78.7	3,285
Unity Health System	289	16,320	96.0	1,194

* Affiliate of the Hospital

† Based on licensed beds.

Source of information: Hospital Consortium of Greater Rochester and "Hospital Utilization Graphs" for December, 2007.

Sources of Revenue

The Hospital's major sources of patient services revenue are Medicare, Medicaid, Blue Cross and commercial insurers. During 2007, the Hospital received approximately 77% of its patient service revenues from Medicare, Medicaid, and Blue Cross. Comparative sources of patient service revenues for the last four years ended June 30, 2003 through 2006 and calendar year 2007 are as follows:

SOURCES OF HOSPITAL'S PATIENT SERVICES REVENUE

	<u>Year Ended June 30,</u>				<u>Calendar</u>
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>Year 2007</u>
Blue Cross	28.3%	26.8%	29.1%	27.6%	28.6%
Medicare	32.8	32.6	31.9	31.8	32.3
Preferred Care	6.5	7.0	6.7	7.2	7.0
Medicaid	15.5	15.4	15.2	17.2	16.0
Commercial Insurance	8.8	8.7	8.9	8.8	9.0
Self-Pay and Other	<u>8.1</u>	<u>9.5</u>	<u>8.2</u>	<u>7.4</u>	<u>7.1</u>
Total	100.0%	100.0%	100.0%	100.0%	100.0%

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

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

Medicare

Under the Medicare program, the Hospital receives reimbursement under a prospective payment system ("PPS") for inpatient services. Under the hospital inpatient PPS, fixed payment amounts per inpatient discharge are established based on the patient's assigned diagnosis related group ("DRG"). When the estimated cost of treatment for certain patients is higher than average, providers typically will receive additional "outlier" payments. The Hospital also receives reimbursement under a prospective payment system for certain medical outpatient services based on service groups called ambulatory payment classifications ("APC's"). Other outpatient services are based upon a fee schedule and/or actual costs. The Hospital's Medicare cost reports are subject to audit by the fiscal intermediary. Such audits have been done through December 31, 2004.

Medicaid and Other Third-Party Payors

The New York Health Care Reform Act of 1996, as amended (“HCRA”), governs payments to hospitals in New York State through March 31, 2011. Under HCRA, Medicaid, workers compensation and no-fault payors pay rates promulgated by the New York State Department of Health. Fixed payment amounts per inpatient discharge are established based on the patient’s assigned case mix intensity similar to a Medicare DRG. All other third-party payors, principally Blue Cross, other private insurance companies, Health Maintenance Organizations (HMO’s), Preferred Provider Organizations (PPO’s) and other managed care plans, negotiate payments rates directly with the hospitals. Such arrangements vary from DRG-based payment systems, to per diems, case rates and percentage of billed charges. If such rates are not negotiated, then the payors are billed at the Hospital’s established charges.

In addition, under HCRA, all non-Medicare payers 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 payer and apply to a broader array of health care services. Also, certain payers are required to fund a pool for graduate medical education expenses through surcharges on payments to hospitals for inpatient services or through voluntary election to pay a covered-lives assessment directly to the New York State Department of Health.

Hospital Finances

The Hospital accounts for approximately 38% of the University’s operating revenues and expenses. The table below presents the operating results of the Hospital for the fiscal years ending June 30, 2003 through 2006 and for calendar year 2007. Due to New York State regulatory policy, the Hospital was required to convert its financial reporting to a calendar year effective December 31, 2007.

	Hospital Operating Results				
	(dollars in thousands)				
	<u>Year Ended June 30,</u>				<u>Year Ended</u>
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>December 31,</u>
					<u>2007</u>
Operating Revenues:					
Net Patient Services Revenue	\$625,754	\$673,946	\$721,408	\$787,782	\$853,358
Other Operating Revenue	<u>20,782</u>	<u>19,874</u>	<u>19,184</u>	<u>21,611</u>	<u>21,766</u>
Total Operating Revenue	646,536	693,820	740,592	809,393	875,124
Operating Expenses:					
Salaries, Wages & Fringe Benefits	324,547	356,594	365,823	398,716	435,431
Supplies and Other Expenses	256,112	272,381	299,250	327,466	352,413
Interest	7,550	6,570	6,007	6,072	5,393
Depreciation	<u>30,153</u>	<u>30,523</u>	<u>33,196</u>	<u>32,733</u>	<u>35,343</u>
Total Operating Expenses	618,362	666,068	704,276	764,987	828,580
Gain from Operations	28,174	27,752	36,316	44,406	46,544
Non-Operating Revenue (Expense)	<u>1,704</u>	<u>(1,378)</u>	<u>600</u>	<u>14,333</u>	<u>8,436</u>
Revenues in Excess of Expenses	\$ 29,878	\$ 26,374	\$ 36,916	\$ 58,739	\$ 54,980

Management’s Discussion of Financial Performance

For calendar year 2007, the Hospital generated an operating margin of \$46,544,000 or 5.3% on revenues of \$875,124,000 over expenses of \$828,580,000. Operating revenue growth of 3.9% was the result of increases in patient volumes, case mix and increases in payment rates. Operating expense growth was attributed to increases in staff salaries, medical supplies and additional staff associated with the growth in patient services. Non-Operating Revenue in 2007 was \$8,436,000 which was mainly comprised of investment income. As a result of the operating surplus and receipt of third party settlements, the Hospital’s cash position increased to 97 days cash on hand.

Affiliations, Mergers, Acquisitions and Divestitures

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

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

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

Factors Affecting the Hospital's Revenues

General

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

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

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

Legislative, Regulatory, and Contractual Matters Affecting Revenue

The healthcare industry is heavily regulated by the federal and state governments. A substantial portion of revenue of healthcare providers is derived from governmental sources. Governmental revenue sources are subject to statutory and regulatory changes, administrative rulings, interpretations of policy, determinations by fiscal intermediaries, and government funding restrictions, all of which may materially increase or decrease the rates of payment and cash flow to hospitals. In the past, there have been frequent and significant changes in the methods and standards used by government agencies to reimburse and regulate the operation of hospitals. There is no reason to believe that substantial additional changes will not occur in the future or that payments made under such

programs will remain at levels comparable to the present levels or that they will be sufficient to cover all existing costs.

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

Commission on Health Care Facilities in the 21st Century

In connection with the adoption of the budget for the State's fiscal year 2005-2006, the Legislature authorized the creation of a "Commission on Health Care Facilities in the Twenty-First Century" (the "Commission") charged with studying the State's hospital and nursing home systems and making recommendations (the "Recommendations") for closure, resizing, conversion, consolidation and restructuring. The Commission is chaired by Stephen Berger, Chairman of Odyssey Investment Partners, LLC and former New York State Commissioner of Social Services, and comprises 18 statewide commissioners and six regional commissioners from each of the six regions in the State (Long Island, New York City, Hudson Valley, Northern, Central, and Western). In making its Recommendations, the Commission considered hospital and nursing home capacity in each region of the State, the economic impact of rightsizing actions, capital debt of affected facilities, the existence of other health care providers in the region, the availability of services for the uninsured, underinsured, and Medicaid populations, and additional factors, as determined by the Commissioner of Health or the Commission. In its Final Report released on November 28, 2006, the Commission's Recommendations targeted nearly 50 hospitals for restructuring and nine hospitals for closure. If and when the Recommendations are fully implemented, the Commission anticipates a reduction of approximately 4,200 hospital beds and 3,000 nursing home beds statewide, while creating home and community-based alternatives to nursing home placement. Federal and State funds are expected to be available to assist in the implementation of the Recommendations. The Recommendations are to be implemented by the Commissioner of Health, with full implementation scheduled for June 2008. Several lawsuits have been filed challenging the authority of the Commission which, if successful, could affect implementation of the Recommendations. Neither the University, its Affiliated Entities nor any other hospital or nursing home in Monroe County or adjacent counties was identified in the Commission's Final Report as an entity targeted for closure or restructuring of any kind.

Managed Care and Consumer Directed Health Plans

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

Medicare and Medicaid Managed Care

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

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

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

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

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

Department of Health Regulations

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

Other Governmental Regulation

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

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

Competition

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

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

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

Private Third-Party Reimbursement

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

Accreditation

The Hospital is subject to periodic review by the JCAHO and the various federal, state and local agencies created by the National Health Planning and Resources Development Act of 1974. The Hospital has accreditation from JCAHO through 2010. The Hospital and its residency training programs are accredited by the Accreditation Council for Graduate Medical Education and the Commission on Dental Accreditation. No assurance can be given as to the effect on future operations of existing laws, regulations and standards for certification or accreditation, of any future changes in such laws, regulations and standards, or of certification or accreditation decisions.

Federal “Fraud And Abuse” Laws And Regulations

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

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

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

Further, various federal laws, including the federal False Claims Act, make it a criminal and/or civil violation to submit (or cause to be submitted) fraudulent (or recklessly incorrect) requests for reimbursement or payment from a federal program, including federal health care programs such as Medicare and Medicaid. Violations of these laws and regulations can lead to criminal actions, treble damages, disgorgement of proceeds fraudulently obtained and/or additional financial penalties ranging up to \$11,000 per false claim. In the health care context, with thousands of claims submitted by hospitals each year, liabilities can be potentially enormous if fraudulent or recklessly inappropriate billing activities occur. Other federal and state laws also prohibit false, reckless or fraudulent billing to non-governmental third-party payors for medical services, and can impose civil and/or criminal penalties for such

activities. A State false claims act is being proposed, New York has created the Office of the Medicaid Inspector General to coordinate State anti-fraud efforts, and new healthcare fraud crimes have been defined in New York State law.

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

There is an increasingly expanding and complex body of laws, regulations and policies relating to federal and state health programs that is not directly related to payment. These include reporting and other technical rules, as well as broadly stated prohibitions regarding inducements for referrals, all of which carry potentially significant penalties for noncompliance. The prohibitions on inducements for referrals are so broadly drafted and so broadly interpreted by several applicable federal cases and in statements by officials of the Office of the Inspector General of HHS (the "OIG") that they may create liability in connection with a wide variety of business transactions. In the case of the Anti-Kickback Law, limited "safe harbor" regulations provide defenses for a narrow scope of arrangements in case of prosecution or administrative enforcement action. However, failure to satisfy the conditions of a safe harbor does not necessarily indicate a violation of such statute. Activities that fall outside of the safe harbor rules include a wide range of activities frequently engaged in between hospitals and physicians and other third parties. In certain instances, private individuals may also bring suit under the qui tam provisions of the False Claims Act and may be eligible for incentive payments for providing information that leads to recoveries or sanctions. Civil penalties range from monetary fines that may be levied on a per-violation basis to temporary or permanent exclusion from the federal health care programs (which account for a significant portion of revenue and cash flow of most hospitals, including the Hospital). Criminal penalties may also be imposed. If determined adversely to the provider involved, an enforcement or qui tam action could have a materially adverse effect on such provider. These penalties may be applied to many cases where hospitals and physicians conduct joint business activities, practice purchases, physician recruiting and retention programs; various forms of hospital assistance to individual physicians and medical practices or the physician contracting entities; physician referral services; hospital-physician service or management contracts; and to space or equipment rentals between hospitals and physicians. The Hospital conducts limited activities of these general types or similar activities, which pose varying degrees of risk. Much of that risk cannot be assessed accurately due to the lack of case law or material guidance by the OIG. While the Hospital is not aware of any current challenge or investigation concerning it with respect to such matters, there can be no assurance that one or more will not occur in the future.

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

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

The New York Health Care Practitioner Referral Law (the "State Provisions") is similar to the Stark Law; however, it covers all patients (irrespective of payor) and prohibits practitioners from referring a patient to a healthcare provider for clinical laboratory services, x-ray or imaging services, radiation therapy services, physical therapy services, or pharmacy services, if the referring practitioner (or an immediate family member) has a financial

interest in the healthcare provider. Under the State Provisions, a “practitioner” is defined as a licensed or registered physician, dentist, podiatrist, chiropractor, nurse, midwife, physician assistant or special assistant, physical therapist or optometrist.

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

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

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

If the financial relationship between a physician/practitioner and the Hospital cannot be made to fit within the exceptions, the Hospital will not be permitted to accept referrals for designated services from the physician/practitioner who has such financial relationship. Like the Anti-Kickback Law provisions discussed above, failure to comply with the Stark provisions can result in liability in connection with a wide variety of business transactions. Violations may result in civil and criminal penalties and exclusion from the Medicare and Medicaid programs. On January 9, 1998, HCFA issued proposed regulations and commentary interpreting the Stark Law. On January 4, 2001, HCFA (now CMS), issued “Phase I” of final Stark regulations. On March 26, 2004, CMS issued “Phase II” of final Stark regulations as an interim final rule with comment period. The Phase II regulations became effective on July 26, 2004. On October 11, 2005, CMS issued proposed regulations that would create an exception for non-monetary remuneration that is used solely to receive and transmit electronic prescription drug information, as well as exceptions for electronic health records software and directly related training services. These regulations were finalized and became effective in 2006. There can be no assurance that a third party reviewing the existing activities of the Hospital would find such activities to be in full compliance with the Stark provisions and existing regulations or in full compliance with the new regulations.

HIPAA Privacy Regulations

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

HHS published a set of final security regulations on February 20, 2003, effective April 20, 2005 (although health plans with annual receipts of \$5 million or less had until April 20, 2006 to comply). The security regulations specify a series of administrative, technical and physical security procedures for covered entities to use to assure the confidentiality of electronic protected health information. The standards are delineated into either required or

addressable implementation specifications. The security regulations provide for the imposition of civil penalties of a \$100 fine per person, per violation, not to exceed \$25,000 in a calendar year.

The administrative and financial burden of complying with the HIPAA privacy and security regulations is substantial. The Hospital believes its health information systems are now in compliance with the privacy and security regulations. The Hospital has appointed a privacy officer and security official to oversee the implementation of the privacy and security standards and teams work with the privacy officer and security official to ensure compliance.

Regulation of Patient Transfer

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

Internal Revenue Code Limitations

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

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

Revocation of the tax-exempt status of the Hospital under Section 501(c)(3) of the Code could subject the interest paid to Bondholders to federal income tax retroactively to the date of the issuance of the Series 2007C Bonds. Section 501(c)(3) of the Code specifically conditions the continued exemption of all Section 501(c)(3) organizations upon the requirement, among others, that no part of the net earnings of the organization inure to the benefit of any private individual. While management believes the Hospital's arrangements with private persons and entities are generally consistent with guidance by IRS and do not constitute private inurement, there can be no assurance concerning the outcome of an audit or other investigation given the lack of clear authority interpreting the range of activities undertaken by the Hospital.

Code Section 4958 imposes intermediate sanction penalty excise taxes in cases where an exempt organization is found to have engaged in an "excess benefit transaction" with a "disqualified person." Such penalty excise taxes may be imposed in lieu of revocation of exemption or in addition to such revocation in cases where the magnitude or nature of the excess benefit calls into question whether the organization has continued to function as a charity. The tax is imposed on the disqualified person receiving the excess benefit. An additional tax may be imposed on any officer, director, trustee or other person having similar powers or responsibilities who knowingly participated in the transaction willfully or without reasonable cause. "Excess benefit transactions" include transactions in which a disqualified person receives unreasonable compensation for services or receives other economic benefit from the organization that exceeds fair market value. "Disqualified persons" include "insiders" such as board members and officers, senior management, and members of the medical staff, who in each case are in a position to substantially influence the affairs of the organization; their family members; and entities which are more than 35% controlled by a disqualified person. The legislative history sets forth Congress' intent that compensation of disqualified persons shall be presumed to be reasonable if it is: (1) approved by disinterested members of the organization's board or compensation committee; (2) based upon data regarding comparable compensation arrangements paid by similarly situated organizations; and (3) adequately documented by the board or committee as to the basis for its

determination. A presumption of reasonableness will also arise with respect to transfers of property between the exempt organization and disqualified persons if a similar procedure with approval by an independent board is followed.

Intermediate sanction penalties can also be assessed in situations where the exempt organization, or an entity controlled by the organization, provides an economic benefit to a disqualified person without maintaining contemporaneous written substantiation of the organization's intent to treat the benefit as compensation. If the written contemporaneous substantiation requirements are not satisfied and unless the organization can establish that it provided the economic benefit in exchange for consideration other than the performance of services (i.e., a bona fide loan), the IRS shall deem such a transaction an "automatic" excess benefit transaction without regard to whether: (1) the economic benefit is reasonable; (2) any other compensation the disqualified person may have received is reasonable; or (3) the aggregate of the economic benefit and any other compensation the disqualified person may have received is reasonable. There is no defense to the assessment of automatic excess benefit penalties.

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

Antitrust

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

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

Environmental and Safety Matters

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

Provider-Specific Taxes

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

Possible Staffing Shortages

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

Malpractice Claims and General Liability Insurance

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

Affiliated Entities Part of Integrated Delivery System

The University is affiliated with other organizations (the “Affiliated Entities”) that are not legally obligated for the payment of debt service on University obligations, including the Series 2006 Bonds. Likewise, the University is not responsible for the obligations of the Affiliated Entities unless it has agreed to do so. The Affiliated Entities are as follows:

Highland Hospital and Affiliates

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

A brief description of Highland Hospital and its affiliates follows:

Highland Hospital of Rochester

Highland Hospital of Rochester is a 261-bed not-for-profit acute care hospital located in Rochester, New York. The hospital’s services include medical/surgical care, intensive care, maternity and emergency care. In addition, the hospital owns and operates 13 primary care clinics.

Highland Community Development Corporation

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

The Highlands Living Center, Inc.

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

Highland Facilities Development Corporation

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

Medical Administrative Associates

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

Highland Hospital Foundation

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

The Highlands at Brighton

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

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

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

Managed Care Organization

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

Debt of Affiliated Entities

The debt of the Affiliated Entities as of December 31, 2007, which is not an obligation of the University, is as follows:

Highland Hospital and HFDC

Total long-term indebtedness (excluding leases) amounted to \$38,226,000. In addition, Highland Hospital has current and long-term lease obligations amounting to \$1,154,000.

Highland Community Development Corporation

Total long-term indebtedness consists of a mortgage loan dated as of January 26, 1994 with the Authority with a principal balance of \$10,415,000.

The Highlands Living Center

Total long-term indebtedness consists of a mortgage loan dated as of August 4, 1994 with the Authority with a principal balance of \$8,610,000.

Visiting Nurse Service

Total long-term indebtedness consists of notes payable with HSBC Bank, USA with a principal balance of \$154,000. In addition, Visiting Nurse Service has current and long-term lease obligations amounting to \$403,000.

PART 7 - THE AUTHORITY

Background, Purposes and Powers

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

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

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

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

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

At June 30, 2008, the Authority had approximately \$35.8 billion aggregate principal amount of bonds and notes outstanding, excluding indebtedness of the Agency assumed by the Authority on September 1, 1995 pursuant to the Consolidation Act. The debt service on each such issue of the Authority's bonds and notes is paid from moneys received by the Authority or the trustee from or on behalf of the entity having facilities financed with the proceeds from such issue or from borrowers in connection with its student loan program.

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

The total amounts of the Authority bonds and notes (excluding debt of the Agency assumed by the Authority on September 1, 1995 pursuant to the Consolidation Act) outstanding at June 30, 2008 were as follows:

<u>Public Programs</u>	<u>Bonds Issued</u>	<u>Bonds Outstanding</u>	<u>Notes Outstanding</u>	<u>Bonds and Notes Outstanding</u>
State University of New York				
Dormitory Facilities.....	\$ 2,120,821,000	\$ 873,355,000	\$ 0	\$ 873,355,000
State University of New York Educational and Athletic Facilities.....	11,757,912,999	4,850,693,949	0	4,850,693,949
Upstate Community Colleges of the State University of New York	1,397,910,000	589,930,000	0	589,930,000
Senior Colleges of the City University of New York	8,609,563,549	2,894,666,270	0	2,894,666,270
Community Colleges of the City University of New York	2,194,081,563	500,053,730	0	500,053,730
BOCES and School Districts	1,872,641,208	1,420,320,000	0	1,420,320,000
Judicial Facilities	2,161,277,717	738,632,717	0	738,632,717
New York State Departments of Health and Education and Other.....	4,233,285,000	2,835,385,000	0	2,835,385,000
Mental Health Services Facilities	5,682,130,000	3,558,845,000	0	3,558,845,000
New York State Taxable Pension Bonds	773,475,000	0	0	0
Municipal Health Facilities Improvement Program	985,555,000	802,230,000	0	802,230,000
Totals Public Programs.....	<u>\$ 41,788,653,036</u>	<u>\$ 19,064,111,666</u>	<u>\$ 0</u>	<u>\$ 19,064,111,666</u>
<u>Non-Public Programs</u>	<u>Bonds Issued</u>	<u>Bonds Outstanding</u>	<u>Notes Outstanding</u>	<u>Bonds and Notes Outstanding</u>
Independent Colleges, Universities and Other Institutions	\$ 15,529,321,020	\$ 7,462,147,344	\$184,725,000	\$ 7,646,872,344
Voluntary Non-Profit Hospitals.....	13,397,904,309	8,064,170,000	0	8,064,170,000
Facilities for the Aged	1,996,020,000	1,043,980,000	0	1,043,980,000
Supplemental Higher Education Loan Financing Program.....	95,000,000	0	0	0
Totals Non-Public Programs.....	<u>\$ 31,018,245,329</u>	<u>\$ 16,570,297,344</u>	<u>\$184,725,000</u>	<u>\$ 16,755,022,344</u>
Grand Totals Bonds and Notes	<u>\$ 72,806,898,365</u>	<u>\$ 35,634,409,010</u>	<u>\$184,725,000</u>	<u>\$ 35,819,134,010</u>

Outstanding Indebtedness of the Agency Assumed by the Authority

At June 30, 2008, the Agency had approximately \$401 million aggregate principal amount of bonds outstanding, the obligations as to all of which have been assumed by the Authority. The debt service on each such issue of bonds is paid from moneys received by the Authority (as successor to the Agency) or the trustee from or on behalf of the entity having facilities financed with the proceeds from such issue.

The total amounts of the Agency’s bonds (which indebtedness was assumed by the Authority on September 1, 1995) outstanding at June 30, 2008 were as follows:

<u>Public Programs</u>	<u>Bonds Issued</u>	<u>Bonds Outstanding</u>
Mental Health Services Improvement Facilities.....	\$ 3,817,230,725	\$ _____ 0
<u>Non-Public Programs</u>	<u>Bonds Issued</u>	<u>Bonds Outstanding</u>
Hospital and Nursing Home Project Bond Program.....	\$ 226,230,000	\$ 3,605,000
Insured Mortgage Programs	6,625,079,927	389,564,927
Revenue Bonds, Secured Loan and Other Programs	<u>2,414,240,000</u>	<u>8,255,000</u>
Total Non-Public Programs.....	<u>\$ 9,265,549,927</u>	<u>\$ 401,424,927</u>
Total MCFFA Outstanding Debt.....	<u>\$ 13,082,780,652</u>	<u>\$ 401,424,927</u>

Governance

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

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

The current members of the Authority are as follows:

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

Gail H. Gordon was appointed as a Member of the Authority by the Governor on May 10, 2004. Ms. Gordon served as Deputy Commissioner and General Counsel for the Office of Children and Family Services from September 15, 1997 to December 31, 2006. She previously was of counsel to the law firm of Helm, Shapiro, Anito & McCale, P.C., in Albany, New York, where she was engaged in the private practice of law. From 1987 to 1993, Ms. Gordon served as Counsel to the Comptroller of the State of New York where she directed a legal staff of approximately 40 attorneys, was responsible for providing legal and policy advice to the State Comptroller and his deputies in all areas of the State Comptroller’s responsibilities, including the supervision of accounts of public authorities and in the administration, as sole trustee, of the New York State Employees Retirement System and the Policemen’s and Firemen’s Retirement System. She served as Deputy Counsel to the Comptroller of the State of New York from 1983 to 1987. From 1974 to 1983, Ms. Gordon was an attorney with the law firm of Hinman, Howard & Kattell, Binghamton, New York, where she concentrated in areas of real estate, administrative and municipal law. Ms. Gordon holds a Bachelor of Arts degree from Smith College and a Juris Doctor degree from Cornell University School of Law. Ms. Gordon’s term expired on March 31, 2007 and by law she continues to serve until a successor shall be chosen and qualified.

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

John B. Johnson, Jr. was appointed as a Member of the Authority by the Governor on April 26, 2004. Mr. Johnson is Chairman of the Board and Chief Executive Officer of the Johnson Newspaper Corporation, which publishes the Watertown Daily Times, Batavia Daily News, Malone Telegram, Catskill Daily Mail, Hudson

Register Star, Ogdensburg Journal, Massena-Potsdam Courier Observer, seven weekly newspapers and three shopping newspapers. He is director of the New York Newspapers Foundation, a member of the Development Authority of the North Country and the Fort Drum Regional Liaison Committee, a trustee of Clarkson University and president of the Bugbee Housing Development Corporation. Mr. Johnson has been a member of the American Society of Newspaper Editors since 1978, and was a Pulitzer Prize juror in 1978, 1979, 2001 and 2002. He holds a Bachelor's degree from Vanderbilt University, and Master's degrees in Journalism and Business Administration from the Columbia University Graduate School of Journalism and Business. Mr. Johnson was awarded an Honorary Doctor of Science degree from Clarkson University. Mr. Johnson's term expires on March 31, 2010.

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

Dr. Corvalan was appointed as a Member of the Authority by the Governor on June 22, 2005. Dr. Corvalan was Chief of Laparoscopic Surgery at St. Vincent's Midtown Hospital in Manhattan. Dr. Corvalan is a Diplomate, American Board of Surgery, and is a Fellow of the American College of Surgeons and the New York Academy of Medicine. Dr. Corvalan has held a number of teaching positions and is Associate Professor of Surgery at New York Medical College, Valhalla, New York. His current term expired on March 31, 2008 and by law he continues to serve until a successor shall be chosen and qualified.

BRIAN RUDER, Scarsdale.

Mr. Ruder was appointed as a Member of the Authority on June 23, 2006. He is Chief Executive Officer of Skylight Partners, a strategic marketing and business development consulting group that he founded in 2001. Prior to Skylight Partners, Mr. Ruder served for four years as Executive Vice President of Global Marketing for Citigroup. He spent 16 years at the H.J. Heinz Co. in progressively responsible positions, including President of Heinz USA, President of Weight Watchers Food Company and corporate Vice President of Worldwide Infant Feeding. He also served as Director of Marketing, New Products and Sales for Pepsi USA in the mid-1980s. Mr. Ruder is a member of the board of the New York State Foundation for Science, Technology and Academic Research (NYSTAR), and also serves as chair of the board of the Adirondack Council, board member and secretary of the New York Metro Chapter of the World Presidents' Organization, and an advisory board member of PNC Private Client Advisors. Mr. Ruder earned a Bachelor of Arts degree in American History in 1976 from Washington University in St. Louis, Mo., and a Master of Business Administration degree in Marketing in 1978 from the Tuck School at Dartmouth College. His current term expires on March 31, 2009.

ANTHONY B. MARTINO, CPA, Buffalo.

Mr. Martino was appointed as a Member of the Authority by the Governor on April 26, 2004. A certified public accountant with more than 37 years of experience, Mr. Martino is a retired partner of the Buffalo CPA firm Lumsden & McCormick, LLP. He began his career at Price Waterhouse where he worked in the firm's Buffalo and Washington, DC, offices. He is a member of the Board of Directors of Natural Health Trends Inc., a public company, where he chairs the Audit Committee. Mr. Martino is a member of the American Institute of CPAs and the New York State Society of CPAs. Long involved in community organizations, he serves on the boards of the Buffalo Niagara Medical Campus as Vice Chairman, Mount Calvary Cemetery as Chair of the Investment Committee, Cradle Beach Camp of which he is a former Chair, the Kelly for Kids Foundation and Key Bank. Mr. Martino received a Bachelor of Science degree in accounting from the University at Buffalo. Mr. Martino's current term expired on August 31, 2007 and by law he continues to serve until a successor shall be chosen and qualified.

SANDRA M. SHAPARD, Delmar.

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

ROMAN B. HEDGES, Ph.D., Delmar.

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

KEVIN R. CARLISLE, Averill Park.

Mr. Carlisle was appointed as a Member of the Authority by the Temporary President of the Senate on January 29, 2007. After a career in public housing and business consulting, Mr. Carlisle retired in 2003 as Assistant Commissioner of the state Division of Housing and Community Renewal (“DHCR”) and Vice President of the New York State Housing Trust Fund Corporation. He was responsible for capital development programs which financed approximately 4,000 units annually, with a total development cost of \$500 million. He conceived the state’s Homes for Working Families Program, which received the 1999 Award for Program Excellence from the National Council of State Housing Finance Agencies. Similarly, Mr. Carlisle implemented the Rural Leveraging Partnership Program, which was cited as a national model by U.S. Rural Housing Services. He also served at DHCR as Director of Underwriting, Deputy Director of the Office of Rural Development, and designed the housing strategy that met the state’s off-site commitment to induce the U.S. Army’s 10th Mountain Division to locate at Fort Drum. Before he joined DHCR in 1982, Mr. Carlisle was a partner in Barrett Carlisle & Co., a real estate development and consulting firm, and served the City of Troy and the City of Cohoes in economic planning and real estate project management. Mr. Carlisle earned both a Bachelor’s degree in Economics and a Master’s degree in Urban and Environmental Studies from Rensselaer Polytechnic Institute.

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

Dr. Mills became Commissioner of Education on September 12, 1995. Prior to his appointment, Dr. Mills served as Commissioner of Education for the State of Vermont since 1988. From 1984 to 1988, Dr. Mills was Special Assistant to Governor Thomas H. Kean of New Jersey. Prior to 1984, Dr. Mills held a number of positions within the New Jersey Department of Education. Dr. Mills’ career in education includes teaching and administrative experience at the secondary and postsecondary education levels. Dr. Mills holds a Bachelor of Arts degree from Middlebury College and a Master of Arts, a Master of Business Administration and a Doctor of Education degree from Columbia University.

LAURA L. ANGLIN, *Budget Director of the State of New York, Albany; ex-officio.*

Ms. Anglin was appointed Budget Director on January 1, 2008. As Budget Director, she is responsible for the overall development and management of the State’s fiscal policy, including overseeing the preparation of budget recommendations for all State agencies and programs, economic and revenue forecasting, tax policy, fiscal planning, capital financing and management of the State’s debt portfolio, as well as pensions and employee benefits. Ms. Anglin previously served as First Deputy Budget Director from January 2007 to December 2007. She was appointed Deputy Comptroller of the Division of Retirement Services in January 2003 and was responsible for overseeing the administration and managing the operations of the New York State and Local Retirement System. From 1996-2003, Ms. Anglin worked in the New York State Assembly where she served as Director of Budget Studies for the Assembly Ways and Means Committee and as First Deputy Fiscal Director for the Committee. Ms. Anglin has also held the position of Econometrician in the Department of Taxation and Finance from 1992-1996 and began her career as an Economist for the Department of Environmental Conservation. Ms. Anglin holds a Bachelor of Arts degree and a Masters degree in Economics from the State University of New York at Albany.

RICHARD F. DAINES, M.D., *Commissioner of Health, Albany; ex-officio.*

Richard F. Daines, M.D., became Commissioner of Health on March 21, 2007. Prior to his appointment he served as President and CEO at St. Luke’s-Roosevelt Hospital Center since 2002. Before joining St. Luke’s-Roosevelt Hospital Center as Medical Director in 2000, Dr. Daines served as Senior Vice President for Professional Affairs of St. Barnabas Hospital in the Bronx, New York since 1994 and as Medical Director from 1987 to 1999. Dr. Daines received a Bachelor of History degree from Utah State University in 1974 and served as a missionary for the Church of Jesus Christ of Latter-day Saints in Bolivia, 1970-1972. He received his medical degree from Cornell

University Medical College in 1978. He served a residency in internal medicine at New York Hospital and is Board Certified in Internal Medicine and Critical Care Medicine.

The principal staff of the Authority is as follows:

PAUL T. WILLIAMS, JR. is the Executive Director and chief administrative and operating officer of the Authority. Mr. Williams is responsible for the overall management of the Authority's administration and operations. He most recently served as Senior Counsel in the law firm of Nixon Peabody LLP. Prior to working at Nixon Peabody, Mr. Williams helped to establish a boutique Wall Street investment banking company. Prior thereto, Mr. Williams was a partner in, and then of counsel to, the law firm of Bryan Cave LLP. He was a founding partner in the law firm of Wood, Williams, Rafalsky & Harris, which included a practice in public finance and served there from 1984-1998. Mr. Williams began his career as an associate at the law firm of Walker & Bailey in 1977 and thereafter served as a counsel to the New York State Assembly. Mr. Williams is licensed to practice law in the State of New York and holds professional licenses in the securities industry. He holds a Bachelor's degree from Yale University and a Juris Doctor degree from Columbia University School of Law.

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

PORTIA LEE is the Managing Director of Public Finance and Portfolio Monitoring. She is responsible for supervising and directing Authority bond issuance in the capital markets, through financial feasibility analysis and financing structure determination for Authority clients; as well as implementing and overseeing financing programs, including interest rate exchange and similar agreements; overseeing the Authority's compliance with continuing disclosure requirements and monitoring the financial condition of existing Authority clients. Ms. Lee previously served as Senior Investment Officer at the New York State Comptroller's Office where she was responsible for assisting in the administration of the long-term fixed income portfolio of the New York State Common Retirement Fund, as well as the short-term portfolio, and the Securities Lending Program. From 1995 to 2005, Ms. Lee worked at Moody's Investors Service where she most recently served as Vice President and Senior Credit Officer in the Public Finance Housing Group. In addition, Ms. Lee has extensive public service experience working for over 10 years in various positions in the Governor's Office, NYS Department of Social Services, as well as the New York State Assembly. She holds a Bachelor's degree from the State University of New York at Albany.

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

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

STEPHEN D. CURRO, P.E. is the Managing Director of Construction. In that capacity, he is responsible for the Authority's construction groups, including design, project management, purchasing, contract administration, interior design, and engineering and other technology services. Mr. Curro joined the Authority in 2001 as Director of Technical Services, and most recently served as Director of Construction Support Services. He is a registered Professional Engineer in New York and Rhode Island and has worked in the construction industry for over 20 years as a consulting structural engineer and a technology solutions provider. Mr. Curro is also an Adjunct Professor at Hudson Valley Community College and Bryant & Stratton College. He holds a Bachelor of Science in Civil Engineering from the University of Rhode Island, a Master of Engineering in Structural Engineering from Rensselaer Polytechnic Institute and a Master of Business Administration from Rensselaer Polytechnic Institute's Lally School of Management.

Claims and Litigation

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

Other Matters

New York State Public Authorities Control Board

The New York State Public Authorities Control Board (the "PACB") has authority to approve the financing and construction of any new or reactivated projects proposed by the Authority and certain other public authorities of the State. The PACB approves the proposed new projects only upon its determination that there are commitments of funds sufficient to finance the acquisition and construction of the projects. The Authority obtained the approval of the PACB for the original issuance of the Series 2006 Bonds.

Legislation

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

Environmental Quality Review

The Authority complies with the New York State Environmental Quality Review Act and with the New York State Historic Preservation Act of 1980, and the respective regulations promulgated thereunder respecting the Project financed with proceeds from the Series 2006 Bonds to the extent such acts and regulations are applicable.

Independent Auditors

The accounting firm of KPMG LLP audited the financial statements of the Authority for the fiscal year ended March 31, 2008. Copies of the most recent audited financial statements are available upon request at the offices of the Authority.

PART 8 - LEGALITY OF THE SERIES 2006 BONDS FOR INVESTMENT AND DEPOSIT

Under New York State law, the Series 2006 Bonds are securities in which all public officers and bodies of the State and all municipalities and municipal subdivisions, all insurance companies and associations, all savings banks and savings institutions, including savings and loan associations, administrators, guardians, executors, trustees, committees, conservators and other fiduciaries in the State may properly and legally invest funds in their control.

The Series 2006 Bonds may be deposited with the State Comptroller to secure deposits of State moneys in banks, trust companies and industrial banks.

PART 9 - NEGOTIABLE INSTRUMENTS

The Series 2006 Bonds are negotiable instruments as provided in the Act, subject to the provisions for registration and transfer contained in the Resolution and in the Series 2006 Bonds.

PART 10 - TAX EXEMPTION

Opinion of Bond Counsel

On March 16, 2006, in connection with the original issuance of the Series 2006 Bonds, Hawkins Delafield & Wood LLP, Bond Counsel to the Authority, rendered its opinion to the effect that under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the Series 2006 Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal

Revenue Code of 1986, as amended (the “Code”), and (ii) interest on the Series 2006 Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In rendering its opinion, Bond Counsel had relied on certain representations, certifications of fact, and statements of reasonable expectations made by the Authority, the University and others in connection with the Series 2006 Bonds, and Bond Counsel had assumed compliance by the Authority and the University with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Series 2006 Bonds from gross income under Section 103 of the Code. In addition, in rendering its opinion, Bond Counsel had relied on the opinion of counsel to the University regarding, among other matters, the current qualification of the University as an organization described in Section 501(c)(3) of the Code.

In addition, on March 16, 2006, in connection with the original issuance of the Series 2006 Bonds, Bond Counsel rendered its opinion to the effect that interest on the Series 2006 Bonds was exempt from personal income taxes imposed by the State of New York or any political subdivision thereof, including The City of New York.

The form of Bond Counsel’s opinion delivered in connection with the original issuance of the Series 2006 Bonds is attached hereto as part of Appendix F.

In the opinions of Hawkins Delafield & Wood LLP, Bond Counsel to the Authority, to be rendered on the Substitution Date, the substitution of the Facilities with the Letters of Credit, in and of itself, will not impair (a) the exclusion of interest from gross income for Federal income tax purposes under Section 103 of the Code on any Series 2006 Bonds, the interest on which is otherwise excluded from gross income for Federal income tax purposes under Section 103 of the Code, and (b) the exemption of interest on any Series 2006 Bonds from personal income taxes imposed by the State of New York or any political subdivision thereof (including The City of New York).

The forms of Bond Counsel’s opinions to be delivered on the Substitution Date are attached hereto as part of Appendix F. The opinions expressed in Bond Counsel’s substitution opinions set forth in Appendix F hereto are limited to the substitution of the Facilities on September 10, 2008 and do not extend to any other event or matter occurring subsequent to the delivery of its opinion in connection with the original issuance of the Series 2006 Bonds. Bond Counsel has not been asked to, and does not, express any opinion as to whether interest on the Series 2006 Bonds is currently excludable from gross income for Federal income tax purposes.

Bond Counsel expresses no opinion regarding any other Federal, state or local tax consequences with respect to the Series 2006 Bonds. Bond Counsel renders its opinions under existing statutes and court decisions as of their date, and assumes no obligation to update, revise or supplement its opinions after their date to reflect any future action, fact or circumstance, or change in law or interpretation, or otherwise. Bond Counsel expresses no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for Federal income tax purposes of interest on the Series 2006 Bonds, or under state and local tax law.

Certain Ongoing Federal Tax Requirements and Covenants

The Code establishes certain ongoing requirements that must be met subsequent to the issuance and delivery of the Series 2006 Bonds in order that interest on the Series 2006 Bonds be and remain excluded from gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to use and expenditure of gross proceeds of the Series 2006 Bonds, yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the Federal government. Noncompliance with such requirements may cause interest on the Series 2006 Bonds to become included in gross income for Federal income tax purposes retroactive to their issue date, irrespective of the date on which such noncompliance occurs or is discovered. The Authority and the University have covenanted to comply with certain applicable requirements of the Code to assure the exclusion of interest on the Series 2006 Bonds from gross income under Section 103 of the Code.

Certain Collateral Federal Tax Consequences

The following is a brief discussion of certain collateral Federal income tax matters with respect to the Series 2006 Bonds. It does not purport to address all aspects of Federal taxation that may be relevant to a particular owner of a Bond. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the Federal tax consequences of owning and disposing of the Series 2006 Bonds.

Prospective owners of the Series 2006 Bonds should be aware that the ownership of such obligations may result in collateral Federal income tax consequences to various categories of persons, such as corporations (including S corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and railroad retirement benefits, individuals otherwise eligible for the earned income tax credit, and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is excluded from gross income for Federal income tax purposes. Interest on the Series 2006 Bonds may be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Code.

Information Reporting and Backup Withholding

Information reporting requirements will apply to interest paid on tax-exempt obligations, including the Series 2006 Bonds. In general, such requirements are satisfied if the interest recipient completes, and provides the payor with, a Form W-9, "Request for Taxpayer Identification Number and Certification", or unless the recipient is one of a limited class of exempt recipients, including corporations. A recipient not otherwise exempt from information reporting who fails to satisfy the information reporting requirements will be subject to "backup withholding", which means that the payor is required to deduct and withhold a tax from the interest payment, calculated in the manner set forth in the Code. For the foregoing purpose, a "payor" generally refers to the person or entity from whom a recipient receives its payments of interest or who collects such payments on behalf of the recipient.

If an owner purchasing a Bond through a brokerage account has executed a Form W-9 in connection with the establishment of such account, as generally can be expected, no backup withholding should occur. In any event, backup withholding does not affect the excludability of the interest on the Series 2006 Bonds from gross income for Federal income tax purposes. Any amounts withheld pursuant to backup withholding would be allowed as a refund or a credit against the owner's Federal income tax once the required information is furnished to the Internal Revenue Service.

Miscellaneous

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the Series 2006 Bonds under Federal or state law and could affect the market price or marketability of the Series 2006 Bonds. There can be no assurance that any such legislation, actions or decisions, if ever enacted, taken or rendered following the issuance of the Series 2006 Bonds, will not have an adverse effect on the tax exempt status, market price or marketability of the Series 2006 Bonds.

Prospective purchasers of the Series 2006 Bonds should consult their own tax advisors regarding the foregoing matters.

PART 11 - STATE NOT LIABLE ON THE SERIES 2006 BONDS

The Act provides that notes and bonds of the Authority are not a debt of the State, that the State is not liable on them and that such notes and bonds are not payable out of any funds other than those of the Authority. The Resolution specifically provides that the Series 2006 Bonds are not a debt of the State and that the State is not liable on the Series 2006 Bonds.

PART 12 - COVENANT BY THE STATE

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

PART 13 - LEGAL MATTERS

Certain legal matters incidental to the authorization and issuance of the Series 2006 Bonds by the Authority were subject to the approval of Hawkins Delafield & Wood LLP, New York, New York, Bond Counsel, which delivered the approving opinion in connection with the initial issuance of the Series 2006 Bonds on March 16, 2006. As a condition to the substitution of the Facilities for the Series 2006 Bonds, Hawkins Delafield & Wood LLP will deliver its opinion to the effect that such substitutions will not cause interest on the Series 2006 Bonds to be included in gross income of the owners of such Bonds for purposes of federal income taxation. Copies of the approving opinion delivered by Bond Counsel in connection with the issuance of the Series 2006 Bonds and the proposed forms of the opinions to be delivered on the Substitution Date are set forth in Appendix E hereto.

Certain legal matters will be passed upon for the University by its Counsel, Nixon Peabody, LLP, Rochester, New York. Certain legal matters will be passed upon for the Remarketing Agents by their counsel, Orrick, Herrington & Sutcliffe LLP, New York, New York. Certain legal matters will be passed upon for the Bank by its counsel, Harris Beach PLLC, Albany, New York.

There is not now pending any litigation restraining or enjoining the reoffering of the Series 2006 Bonds or questioning or affecting the validity of the Series 2006 Bonds or the proceedings and authority under which they were issued or are to be converted or reoffered.

PART 14 - CONTINUING DISCLOSURE

So long as the Series 2006 Bonds bear interest at the Daily Interest Rate or the Weekly Interest Rate, the Series 2006 Bonds are exempt from Rule 15c2-12 (the "Rule") promulgated by the Securities and Exchange Commission, and the Authority and the University will not be required to provide any continuing disclosure in accordance with the Rule.

PART 15 - REMARKETING

Citigroup Global Markets Inc. as Remarketing Agent for the Series 2006A-1 Bonds has agreed, pursuant to the terms and conditions of a Firm Remarketing Agreement dated September 9, 2008, to purchase the Series 2006A-1 Bonds from the Authority at an aggregate purchase price of par plus accrued interest and to make a public offering of the Series 2006A-1 Bonds. Citigroup Global Markets Inc. will be obligated to purchase all such Series 2006A-1 Bonds tendered on the Substitution Date. In connection with its services related to this Reoffering Circular, the remarketing of the Series 2006A-1 Bonds and the substitution of the Facilities, Citigroup Global Markets Inc. will be paid \$97,126.90.

Lehman Brothers Inc. as Remarketing Agent for the Series 2006B-1 Bonds has agreed, pursuant to the terms and conditions of a Firm Remarketing Agreement dated September 9, 2008, to purchase the Series 2006B-1 Bonds from the Authority at an aggregate purchase price of par plus accrued interest and to make a public offering of the Series 2006B-1 Bonds. Lehman Brothers Inc. will be obligated to purchase all such Series 2006B-1 Bonds tendered on the Substitution Date. Lehman Brothers Inc. expects no compensation in connection with its services related to this Reoffering Circular, the remarketing of the Series 2006B-1 Bonds and the substitution of the Facilities.

The Series 2006 Bonds may be offered and sold to certain dealers (including the Remarketing Agents) at prices lower than such public offering prices, and such public offering prices may be changed, from time to time, by the Remarketing Agents.

PART 16 — RATINGS

Upon the issuance of the respective Letters of Credit by the Bank, the Series 2006 Bonds are expected to be assigned a long-term rating of "Aaa" by Moody's Investors Service, Inc. ("Moody's") and a long-term rating of "AAA" by Standard & Poor's Ratings Services, a division of The McGraw Hill Companies, Inc. ("Standard & Poor's"). The long-term ratings are based upon a joint correlation of the credit of the University and the Bank. The University is currently rated "Aa3" by Moody's and "A+" by Standard & Poor's. The Series 2006 Bonds are expected to be assigned a short-term rating of "VMIG1" by Moody's and a short-term rating of "A-1+" by Standard & Poor's. Such ratings reflects only the views of such organizations and any desired explanation of the significance of such ratings should be obtained from the rating agencies at the following addresses: Moody's, 7 World Trade Center at 250 Greenwich Street, New York, New York 10007; and Standard & Poor's, 55 Water Street, New York, New York 10041. There is no assurance that such ratings will prevail for any given period of time or that they will

not be revised downward or withdrawn entirely by either or both of such rating agencies if, in the judgment of either or both of them, circumstances so warrant. Any such downward revision or withdrawal of such rating or ratings may have an adverse effect on the market price of the Series 2006 Bonds.

PART 17 - MISCELLANEOUS

References in this Reoffering Circular to the Act, the Resolution, the Series Resolutions, the Bond Series Certificates, the Loan Agreement and the Continuing Disclosure Agreement do not purport to be complete. Refer to the Act, the Resolution, the Series Resolutions, the Bond Series Certificates, the Loan Agreement and the Continuing Disclosure Agreement for full and complete details of their provisions. Copies of the Resolution, the Series Resolutions, the Bond Series Certificates, the Loan Agreement and the Continuing Disclosure Agreement are on file with the Authority and the Trustee.

The agreements of the Authority with Holders of the Series 2006 Bonds are fully set forth in the Resolution. Neither any advertisement of the Series 2006 Bonds nor this Reoffering Circular is to be construed as a contract with purchasers of the Series 2006 Bonds.

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

The information regarding the University, the Hospital/Medical Center and Principal and Interest Requirements was supplied by the University. The Authority believes that this information is reliable, but the Authority makes no representations or warranties whatsoever as to the accuracy or completeness of this information.

The information regarding the Bank, the Letters of Credit and the Reimbursement Agreement, and regarding the Bank in "PART 4 – THE BANK" and in "Appendix E – Summary of Certain Provisions of the Reimbursement Agreement" have been furnished by the Bank. No representation is made herein by the Authority, the University or the Remarketing Agent as to the accuracy or adequacy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof. None of the Authority, the University, or the Remarketing Agents has made any independent investigation of the Bank or the Letters of Credit.

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

The University has reviewed the parts of this Reoffering Circular describing the University, the Hospital/Medical Center and Principal and Interest Requirements. It is a condition to the delivery of the Series 2006 Bonds that the University certify to the Remarketing Agents and the Authority that, as of the date of this Reoffering Circular and the date of delivery of the Series 2006 Bonds, such parts do not contain any untrue statement of a material fact and do not omit any material fact necessary to make the statements made therein, in the light of the circumstances under which the statements are made, not misleading. Except for the very limited description of the University contained herein, no other information relating to the University, its operations or its financial condition is included in this Reoffering Circular.

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

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

DORMITORY AUTHORITY OF
THE STATE OF NEW YORK

By: /s/ Paul T. Williams, Jr.
Authorized Officer

DEFINITIONS

Appendix A

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DEFINITIONS

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

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

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

Alternate Credit Facility means a Credit Facility issued to replace a then-existing Credit Facility for Bonds of a Series in accordance with, and pursuant to the Bond Series Certificate applicable thereto, as the same may be amended or supplemented from time to time.

Alternate Direct Pay Credit Facility means a Direct Pay Credit Facility issued and delivered to the Trustee in accordance with the Resolution upon the expiration or earlier termination of a Direct Pay Credit Facility then in effect.

Alternate Liquidity Facility means a Liquidity Facility issued to replace a then-existing Liquidity Facility to purchase Bonds of a Series tendered for purchase and delivered pursuant to the Bond Series Certificate applicable thereto.

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

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

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

ARS means, on any date, Bonds of a Series when bearing interest as auction rate securities as provided in the Bond Series Certificate applicable thereto and the Auction Procedures applicable thereto.

ARS Interest Rate Period means each period during which Bonds of a Series are ARS.

Auction Rate means, on any date, Bonds of a Series when bearing interest as auction rate securities as provided in the Bond Series Certificate.

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Auction Rate Period means each period during which Bonds of a Series are Auction Rate.

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

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

Authorized Denominations means with respect to Bonds of Series bearing interest at a Weekly Interest Rate, \$100,000 of any integral multiple of \$5,000 in excess of \$100,000.

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

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

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

Bank Bond Rate means with respect to any Bonds of a Series the rate set forth in the related Liquidity Facility; *provided, however*, that in no event shall the Bank Bond Rate exceed the Maximum Bank Bond Interest Rate.

Bank Bonds means Bonds of a Series purchased by a Liquidity Facility Provider or a permitted assignee pursuant to a Liquidity Facility.

Beneficial Owner means any Person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bond of a Series (including any Person holding a Bond of a Series through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bond of a Series for federal income tax purposes.

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

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

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

Bond Interest Term means, with respect to any Bond of a Series, each period established in accordance with the Bond Series Certificate applicable thereto during which that Bond of a Series bears interest at a Bond Interest Term Rate.

Bond Interest Term Rate means with respect to each Bond of a Series, a non-variable interest rate established periodically in accordance with the Bond Series Certificate applicable thereto.

Bond Purchase Fund means each such trust fund established with a Tender Agent for a Series of Bonds pursuant to the Bond Series Certificate applicable thereto.

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

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

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

Borrower Bonds means the Bonds of a Series held by the Tender Agent for and on behalf of the Borrower or any nominee for (or any Person who owns such Bonds for the sole benefit of) the Borrower pursuant to the Bond Series Certificate relating to such Bonds and the applicable Tender Agent Agreement.

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

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

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

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

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

Conversion means a conversion of Bonds of a Series from one Interest Rate Period to another Interest Rate Period as provided in the Bond Series Certificate applicable thereto.

Conversion Date means the effective date of a Conversion of Bonds of a Series.

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

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

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

“Credit Facility Account” means the account so designated, created and established in the Debt Service Fund pursuant to the Resolution.

Daily Interest Rate means a variable interest rate for Bonds of a Series established in accordance with the Bond Series Certificate applicable thereto.

Daily Interest Rate Period means each period during which a Daily Interest Rate is in effect for Bonds of a Series.

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

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

Defeasance Security means (i) a Government Obligation of the type described in clauses (i), (ii), (iii) or (iv) of the definition of Government Obligation; (ii) a Federal Agency Obligations described in clauses (i) or (ii) of the definition of Federal Agency Obligations; and (iii) an Exempt Obligation, provided such Exempt Obligation: (A) is not subject to redemption prior to maturity other than at the option of the holder thereof or as to which irrevocable instructions have been given to the trustee of such Exempt Obligation by the obligor thereof to give due notice of redemption and to call such Exempt Obligation for redemption on the date or dates specified in such instructions and such Exempt Obligation is not otherwise subject to redemption prior to such specified date other than at the option of the holder thereof; (B) is secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or Government Obligations, which fund may be applied only to the payment of such principal of and interest and redemption premium, if any, on such Exempt Obligation on the maturity date thereof or the redemption date specified in the irrevocable instructions referred to in clause (A) above; (C) as to which the principal of and interest on the direct obligations of the United States of America which have been deposited in such fund, along with any cash on deposit in such fund, are sufficient to pay the principal of and interest and redemption premium, if any, on such Exempt Obligation on the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to in clause (A) above; and (D) which is rated by at least two nationally recognized statistical rating services in the highest rating category for such Exempt Obligation; provided, however, that: (x) such term shall not include any interest in a unit investment trust or mutual fund; or (y) any obligation that is subject to redemption prior to maturity other than at the option of the holder thereof.

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

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

Direct Pay Credit Facility means (i) a Credit Facility that is issued in the form of an irrevocable direct pay letter of credit by a Facility Provider, and (ii) an Alternate Direct Pay Credit Facility.

Event of Default means (i) with respect to the Loan Agreement, any of the events of default summarized in Appendix C hereto under the caption “Defaults and Remedies,” and (ii) with respect to the Resolution, any of the events of default summarized in Appendix D hereto under the caption “Events of Default.”

Exempt Obligation means (i) an obligation of any state or territory of the United States of America, any political subdivision of any state or territory of the United States of America, or any agency, authority, public benefit corporation or instrumentality of such state, territory or political subdivision, the interest on which is excludable from gross income under Section 103 of the Code, which is not a “specified private activity bond” within the meaning of Section 57(a)(5) of the Code, and which, at the time an investment therein is made or such obligation is deposited in any fund or account hereunder, is rated, without regard to qualification of such rating by symbols such as “+” or “-” and numerical notation, no lower than the second highest rating category for such obligation by at least two nationally recognized statistical rating services; (ii) a certificate or other instrument which evidences the beneficial ownership of, or the right to receive all or a portion of, the payment of the principal of or interest on any of the foregoing; and (iii) a share or interest in a mutual fund, partnership or other fund wholly comprised of any of the foregoing obligations.

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Expiration Date means, with respect to a Credit Facility or a Liquidity Facility, the date upon which such Credit Facility or Liquidity Facility will expire, as such date may be extended from time to time as provided therein or any earlier date on which such Credit Facility or Liquidity Facility will terminate, expire or be cancelled other than by reason (a) the substitution thereof with an Alternate Credit Facility or Alternate Liquidity Facility, and (b) the occurrence of a Mandatory Facility Tender Event or an Immediate Termination Event.

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

Favorable Opinion of Bond Counsel means, with respect to any action relating to Bonds of a Series, the occurrence of which requires such an opinion, a written legal opinion of Bond Counsel addressed to the Trustee, the Authority, the University, the Credit Facility Provider, if any, and the Remarketing Agent to the effect that such action is permitted under Bond Series Certificate and will not impair the exclusion of interest on such Bonds from gross income for purposes of federal income taxation or the exemption of interest on such Bonds from personal income taxation under the laws of the State (subject to customary exceptions).

Federal Agency Obligation means (i) an obligation issued by any federal agency or instrumentality approved by the Authority; (ii) an obligation the principal of and interest on which are fully insured or guaranteed as to payment by a federal agency approved by the Authority; (iii) a certificate or other instrument which evidences the beneficial ownership of, or the right to receive all or a portion of the payment of the principal of or interest on any of the foregoing; and (iv) a share or interest in a mutual fund, partnership or other fund wholly comprised of any of the foregoing obligations. Fitch means Fitch, Inc., a corporation organized and existing under the laws of the State of Delaware, or its successors and assigns.

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

Government Obligation (i) a direct obligation of the United States of America; (ii) an obligation the principal of and interest on which are fully insured or guaranteed by the United States of America; (iii) an obligation to which the full faith and credit of the United States of America are pledged; (iv) a certificate or other instrument which evidences the beneficial ownership of, or the right to receive all or a portion of the payment of the principal of or interest on any of the foregoing; and (v) a share or interest in a mutual fund, partnership or other fund wholly comprised of any of the foregoing obligations.

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

Immediate Termination Event means any event resulting in the immediate termination or suspension, without notice, of the obligation of the Liquidity Facility Provider to purchase Bonds under the terms of any Liquidity Facility.

Institution Payment Account means the account so designated, created and established in the Debt Service Fund pursuant to the Resolution.

Insurer means the issuer of the financial guaranty insurance policy securing the payment as and when due of the principal of and interest on Bonds of a Series.

Interest Commencement Date means, with respect to any particular Deferred Income Bond, the date prior to the maturity date thereof specified in the Series Resolution authorizing such Bond or in the Bond Series Certificate

relating to such Bond, after which interest accruing on such Bond shall be payable on the interest payment date immediately succeeding such Interest Commencement Date and semi-annually thereafter on July 1 and January 1 of each Bond Year.

Interest Payment Date means (i) for any Weekly Interest Rate Period, the first Wednesday of each calendar month, or, if the first Wednesday is not a Business Day, the next succeeding Business Day, and (iii) for Bank Bonds, the days on which interest is due pursuant to the Liquidity Facility then in effect.

Interest Rate Period means each Daily Interest Rate Period, Weekly Interest Rate Period, Short-Term Interest Rate Period, Long-Term Interest Rate Period or ARS Interest Rate Period.

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

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

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

Liquidity Facility Provider means the provider of a Liquidity Facility, and its successors and permitted assigns, each such Liquidity Facility Provider being a Facility Provider under the terms of the Resolution.

Liquidity Facility Purchase Account means each account with that name established within the Bond Purchase Fund.

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

Long-Term Interest Rate means a term, non-variable interest rate established in accordance with the Bond Series Certificate applicable to Bonds of a Series.

Long-Term Interest Rate Period means each period during which a Long-Term Interest Rate is in effect.

Mandatory Facility Tender means the mandatory tender of Bonds of a Series upon receipt by the Trustee of written notice from a Credit Facility Provider or a Liquidity Facility Provider of the occurrence of a Mandatory Facility Tender Event (and directing the Trustee to cause a mandatory tender of the Bonds by reason thereof).

Mandatory Facility Tender Event means an event with respect to a Credit Facility or Liquidity Facility has occurred which requires or gives the related Credit Facility Provider or Liquidity Facility Provider the option, upon notice, to terminate its Credit Facility or Liquidity Facility or to terminate its obligation to provide a loan thereunder

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prior to its expiration date (and direct the Trustee to cause a mandatory tender of the related Bonds by reason thereof).

Maximum Bank Bond Interest Rate means the lesser of (a) the rate of 25% per annum and (b) the Maximum Lawful Rate.

Maximum Bond Interest Rate means with respect to Bonds of a Series the lesser of 12% per annum and the maximum rate of interest on the relevant obligation permitted by applicable law.

Maximum Lawful Rate means the maximum rate of interest on the relevant obligation permitted by applicable law.

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

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

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

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

Participant means, with respect to DTC or another Securities Depository, a member of or participant in DTC or such other Securities Depository, respectively.

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

Permitted Collateral means any of the following:

- (i) Government Obligations described in clauses (i), (ii) or (iii) of the definition of Government Obligations;
- (ii) Federal Agency Obligations described in clauses (i) or (ii) of the definition of Federal Agency Obligations;
- (iii) commercial paper that (A) matures within two hundred seventy (270) days after its date of issuance, (B) is rated in the highest short term rating category by at least one nationally recognized statistical rating service, and (C) is issued by a domestic corporation whose unsecured senior debt is rated by at least one nationally recognized statistical rating service no lower than in the second highest rating category; and
- (iv) financial guaranty agreements, surety or other similar bonds or other instruments of an insurance company that has an equity capital of at least \$125,000,000 and is rated by Bests Insurance Guide or a nationally recognized statistical rating service in the highest rating category.

Permitted Investments means any of the following:

- (i) Government Obligations;
- (ii) Federal Agency Obligations;
- (iii) Exempt Obligations;
- (iv) uncollateralized certificates of deposit that are fully insured by the Federal Deposit Insurance Corporation and issued by a banking organization authorized to do business in the State;
- (v) collateralized certificates of deposit that are (A) issued by a banking organization authorized to do business in the State that has an equity capital of not less than \$125,000,000, whose unsecured senior debt, or debt obligations fully secured by a letter of credit, contract, agreement or surety bond issued by it, are rated by at least one nationally recognized statistical rating service in at least the second highest rating category, and (B) are fully collateralized by Permitted Collateral; and
- (vi) Investment Agreements that are fully collateralized by Permitted Collateral.

Principal Office means, with respect to the Trustee or the Tender Agent, the address of such Person identified as its Notice Address in the Bond Series Certificate or otherwise notified in writing by such Person to the Authority, the University, the Trustee (in the case of notice by the Tender Agent), the Tender Agent (in the case of notice by the Trustee), the Credit Facility Provider, if any, the Liquidity Facility Provider, if any, and the Remarketing Agent.

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

Purchased Bonds means Bonds of a Series purchased by or at the direction of the University pursuant to the provisions of the Series Resolution authorizing the issuance of such Bonds or the Bond Series Certificate relating to such Bonds set forth therein as authorized by the Resolution.

Qualified Financial Institution means any of the following entities that has an equity capital of at least \$125,000,000 or whose obligations are unconditionally guaranteed by an affiliate or parent having an equity capital of at least \$125,000,000:

- (i) a securities dealer, the liquidation of which is subject to the Securities Investors Protection Corporation or other similar corporation, and (A) that is on the Federal Reserve Bank of New York list of primary government securities dealers and (B) whose senior unsecured long term debt is at the time an investment with it is made is rated by at least one nationally recognized statistical rating service not lower than in the second highest rating category, or, in the absence of a rating on long term debt, whose short term debt is rated, by at least one nationally recognized statistical rating service not lower than in the highest rating category; *provided, however*, that no short term rating may be utilized to determine whether an entity qualifies under this paragraph as a Qualified Financial Institution if the same would be inconsistent with the rating criteria of any Rating Service;
- (ii) a bank, a trust company, a national banking association, a corporation subject to registration with the Board of Governors of the Federal Reserve System under the Bank Holding Company Act of 1956 or any successor provisions of law, a federal branch pursuant to the International Banking Act of 1978 or any successor provisions of law, a domestic branch or agency of a foreign bank which branch or agency is duly licensed or authorized to do business under the laws of any state or territory of the United States of America, a savings bank, a savings and loan association, an insurance company or association chartered or organized under the laws of the United States of America, any state of the United States of America, or any foreign nation whose senior unsecured long term debt is at the time an investment with it is made is rated by at least one nationally

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recognized statistical rating service no lower than in the second highest rating category, or, in the absence of a rating on long term debt, whose short term debt is rated by at least one nationally recognized statistical rating service no lower than in the highest rating category; *provided, however*, that no short term rating may be utilized to determine whether an entity qualifies under this paragraph as a Qualified Financial Institution if the same would be inconsistent with the rating criteria of any Rating Service;

- (iii) a corporation affiliated with or which is a subsidiary of any entity described in (ii) above or which is affiliated with or a subsidiary of a corporation which controls or wholly owns any such entity, whose senior unsecured long term debt is at the time an investment with it is made is rated by at least one nationally recognized statistical rating service no lower than in the second highest rating category, or, in the absence of a rating on long term debt, whose short term debt is rated by at least one nationally recognized statistical rating service not lower than in the highest rating category; *provided, however*, that no short term rating may be utilized to determine whether an entity qualifies under this paragraph as a Qualified Financial Institution if the same would be inconsistent with the rating criteria of any Rating Service;
- (iv) the Government National Mortgage Association or any successor thereto, the Federal National Mortgage Association or any successor thereto, or any other federal agency or instrumentality approved by the Authority; or
- (v) a corporation whose obligations, including any investments of any moneys held hereunder purchased from such corporation, are insured by an insurer that meets the applicable rating requirements set forth above.

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

Record Date means, with respect to any Interest Payment Date, the Business Day immediately preceding such Interest Payment Date.

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

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

Remarketing Agent means the remarketing agent appointed and serving in such capacity for a Series of Bonds in accordance with the Bond Series Certificate applicable thereto, or any successor remarketing agent.

Request means a request by the Tender Agent under a Liquidity Facility or an Alternate Liquidity Facility for the payment of the Tender Price of the Bonds of a Series in accordance with the terms of the bond series certificate relating thereto.

Resolution means the University of Rochester Amended and Restated Revenue Bond Resolution, adopted by the Authority on August 11, 1999, as amended and restated on May 28, 2008 pursuant to the Second Supplemental Resolution amending and supplementing the University of Rochester Revenue Bond Resolution, adopted by the Authority on May 28, 2008, as the same may be further amended or supplemented from time to time by Supplemental Resolutions or Series Resolutions in accordance with the terms and provisions thereof.

Restricted Property means any of the University's assets.

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

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

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

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

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

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

Series 2006A-1 Resolution means the University of Rochester Amended and Restated Series 2006A-1 Resolution Authorizing Series 2006A-1 Bonds, adopted by the Authority on January 25, 2006 and amended and restated on July 23, 2008.

Series 2006B-1 Resolution means the University of Rochester Amended and Restated Series 2006B-1 Resolution Authorizing Series 2006B-1 Bonds, adopted by the Authority on January 25, 2006 and amended and restated on July 23, 2008.

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

Appendix A

Short-Term Interest Rate Period means each period, consisting of Bond Interest Terms, during which Bonds of a Series bear interest at one or more Bond Interest Term Rates.

SIFMA Index means on any date, a rate determined on the basis of the seven-day high grade market index of tax-exempt variable rate demand obligations, as produced by Municipal Market Data and published or made available by the Securities Industry and Financial Markets Association or any person acting in cooperation with or under the sponsorship of SIFMA and acceptable to the Remarketing Agent and effective from such date.

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

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

State means the State of New York.

Substitution Date means the date that is specified in a written notice given by the University to the Trustee and the Tender Agent as the date on which an Alternate Credit Facility or an Alternate Liquidity Facility is to be substituted for a then existing Credit Facility or Liquidity Facility in effect.

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

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

Tender Agent means the tender agent appointed for Bonds of a Series in the Bond Series Certificate applicable thereto, if any, and each Person qualified thereunder to act as Tender Agent with respect to Bonds of a Series and so appointed by the Authority with the consent of the University (which consent shall not be unreasonably withheld), and so acting from time to time, and its successors.

Tender Date means the date on which Bonds of a Series are required to be purchased pursuant to the Bond Series Certificate applicable thereto.

Tender Price means the purchase price to be paid to the Holders of Bonds purchased pursuant to the Bond Series Certificate applicable thereto, which shall be equal to the principal amount thereof tendered for purchase, without premium, plus accrued interest from the immediately preceding Interest Accrual Date to the Tender Date (if the Tender Date is not an Interest Payment Date).

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

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

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

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

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

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

Weekly Interest Rate means a variable interest rate for Bonds of a Series established in accordance with the Bond Series Certificate applicable thereto.

Weekly Interest Rate Period means each period during which a Weekly Interest Rate is in effect for Bonds of a Series.

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

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**UNIVERSITY OF ROCHESTER
AND RELATED ENTITIES**

Consolidated Financial Statements

June 30, 2007 and 2006

UNIVERSITY OF ROCHESTER
AND RELATED ENTITIES

Consolidated Financial Statements

June 30, 2007 and 2006

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Report of Independent Auditors

To the Board of Trustees
University of Rochester and
Related Entities

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of activities and of cash flows present fairly, in all material respects, the financial position of the University of Rochester and Related Entities (the University) at June 30, 2007 and 2006, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Notes 1 and 9, respectively to the consolidated financial statements, the University changed the manner in which it accounts for conditional asset retirement obligations in 2006 and the manner in which it accounts for its postretirement benefit liability in 2007.

PricewaterhouseCoopers LLP

October 8, 2007

**UNIVERSITY OF ROCHESTER
AND RELATED ENTITIES**

Consolidated Balance Sheets

As of June 30
(dollars in thousands)

Assets	<u>2007</u>	<u>2006</u>
Cash and cash equivalents	\$ 200,690	\$ 199,805
Operating investments, at market	217,077	147,793
Accounts receivable, net	251,784	231,258
Inventories, prepaid expense and deferred charges	56,429	49,143
Contributions receivable, net	33,645	29,044
Notes receivable, net	18,556	18,583
Other assets	9,227	6,034
Investments held for long-term purposes	1,970,610	1,632,183
Market value of securities pledged	19,265	-
Property, plant and equipment, net	1,203,203	1,103,891
Interest in net assets of foundation	18,553	16,920
Investments in perpetual trusts held by others	57,823	54,533
	<hr/>	<hr/>
Total assets	<u>\$ 4,056,862</u>	<u>\$ 3,489,187</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 233,122	\$ 205,734
Advanced receipt of sponsored research revenues	29,636	31,132
Deferred revenue	50,757	48,700
Third party settlements payable, net	68,459	75,860
Securities lending liabilities	19,863	-
Accrued pension, post-retirement, and post-employment	179,427	140,356
Long-term debt	708,542	541,305
Asset retirement obligation	17,349	16,763
Refundable U.S. Government grants for student loans	15,818	15,719
	<hr/>	<hr/>
Total liabilities	1,322,973	1,075,569
Net Assets:		
Unrestricted	2,209,715	1,944,990
Temporarily Restricted	247,420	211,969
Permanently Restricted	276,754	256,659
	<hr/>	<hr/>
Total net assets	2,733,889	2,413,618
	<hr/>	<hr/>
Total liabilities and net assets	<u>\$ 4,056,862</u>	<u>\$ 3,489,187</u>

See accompanying notes to consolidated financial statements.

**UNIVERSITY OF ROCHESTER
AND RELATED ENTITIES**

**Consolidated Statement of Activities
Year ended June 30, 2007
(dollars in thousands)**

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Operating revenues:				
Tuition and fees	\$ 242,121	\$ -	\$ -	\$ 242,121
Less: scholarships and fellowships	(97,948)	-	-	(97,948)
Net tuition and fees	<u>144,173</u>	<u>-</u>	<u>-</u>	<u>144,173</u>
State and local appropriations	1,954	-	-	1,954
Grants and contracts	362,156	-	-	362,156
Gifts and pledges	42,443	18,640	14,411	75,494
Hospital and faculty practice patient care activities	1,445,795	-	-	1,445,795
Auxiliary enterprises	65,030	-	-	65,030
Interest income on cash & operating investments	23,731	-	-	23,731
Educational activities	25,749	-	-	25,749
Royalty income	61,429	-	-	61,429
Other sources	10,223	-	-	10,223
Long-term investment income and gains allocated to operations	79,672	-	-	79,672
Net assets released from restrictions	31,208	(28,808)	(2,400)	-
Total operating revenues	<u>2,293,563</u>	<u>(10,168)</u>	<u>12,011</u>	<u>2,295,406</u>
Operating expenses:				
Salaries and wages	1,058,157	-	-	1,058,157
Fringe benefits	280,837	-	-	280,837
Total compensation	<u>1,338,994</u>	<u>-</u>	<u>-</u>	<u>1,338,994</u>
Supplies	291,986	-	-	291,986
Business and professional	191,989	-	-	191,989
Utilities	53,668	-	-	53,668
Maintenance and facilities costs	81,710	-	-	81,710
Depreciation expense	118,810	-	-	118,810
Interest expense	29,888	-	-	29,888
Other	70,035	-	-	70,035
Total operating expenses	<u>2,177,080</u>	<u>-</u>	<u>-</u>	<u>2,177,080</u>
Change in net assets from operating activities	<u>116,483</u>	<u>(10,168)</u>	<u>12,011</u>	<u>118,326</u>
Non-operating activities:				
Long-term investment activities:				
Investment income	23,745	3,213	39	26,997
Net appreciation	234,103	48,180	10,257	292,540
Total long-term investment activities	<u>257,848</u>	<u>51,393</u>	<u>10,296</u>	<u>319,537</u>
Long-term investment income and gains allocated for operations	(79,672)	-	-	(79,672)
Loss on extinguishment of debt	(1,018)	-	-	(1,018)
Reclass of net assets	5,191	(3,711)	(1,480)	-
Other changes, net	(55)	-	(747)	(802)
Change in valuation of annuities	-	(2,063)	15	(2,048)
Change in net assets from non-operating activities	<u>182,294</u>	<u>45,619</u>	<u>8,084</u>	<u>235,997</u>
Change in net assets before cumulative effect of change in accounting principle	298,777	35,451	20,095	354,323
Cumulative effect of change in accounting principle	<u>(34,052)</u>	<u>-</u>	<u>-</u>	<u>(34,052)</u>
Change in net assets	264,725	35,451	20,095	320,271
Beginning net assets	1,944,990	211,969	256,659	2,413,618
Ending net assets	<u>\$ 2,209,715</u>	<u>\$ 247,420</u>	<u>\$ 276,754</u>	<u>\$ 2,733,889</u>

See accompanying notes to consolidated financial statements.

**UNIVERSITY OF ROCHESTER
AND RELATED ENTITIES**

Consolidated Statement of Activities

Year ended June 30, 2006

(dollars in thousands)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Operating revenues:				
Tuition and fees	\$ 219,288	\$ -	\$ -	\$ 219,288
Less: scholarships and fellowships	(90,313)	-	-	(90,313)
Net tuition and fees	<u>128,975</u>	<u>-</u>	<u>-</u>	<u>128,975</u>
State and local appropriations	1,812	-	-	1,812
Grants and contracts	359,097	-	-	359,097
Gifts and pledges	45,885	16,935	6,147	68,967
Hospital and faculty practice patient care activities	1,344,612	-	-	1,344,612
Auxiliary enterprises	60,907	-	-	60,907
Interest income on cash & operating investments	13,975	-	-	13,975
Educational activities	27,270	-	-	27,270
Royalty income	44,278	-	-	44,278
Other sources	9,769	-	-	9,769
Long-term investment income and gains allocated to operations	80,120	-	-	80,120
Net assets released from restrictions	35,130	(35,130)	-	-
Total operating revenues	<u>2,151,830</u>	<u>(18,195)</u>	<u>6,147</u>	<u>2,139,782</u>
Operating expenses:				
Salaries and wages	993,178	-	-	993,178
Fringe benefits	259,091	-	-	259,091
Total compensation	<u>1,252,269</u>	<u>-</u>	<u>-</u>	<u>1,252,269</u>
Supplies	276,869	-	-	276,869
Business and professional	182,538	-	-	182,538
Utilities	42,614	-	-	42,614
Maintenance and facilities costs	77,045	-	-	77,045
Depreciation expense	114,091	-	-	114,091
Interest expense	24,732	-	-	24,732
Other	68,745	-	-	68,745
Total operating expenses	<u>2,038,903</u>	<u>-</u>	<u>-</u>	<u>2,038,903</u>
Change in net assets from operating activities	<u>112,927</u>	<u>(18,195)</u>	<u>6,147</u>	<u>100,879</u>
Non-operating activities:				
Long-term investment activities:				
Investment income	20,795	3,302	49	24,146
Net appreciation	148,781	31,894	3,895	184,570
Total long-term investment activities	<u>169,576</u>	<u>35,196</u>	<u>3,944</u>	<u>208,716</u>
Long-term investment income and gains allocated for operations	(80,120)	-	-	(80,120)
Loss on extinguishment of debt	(2,638)	-	-	(2,638)
Reclass of net assets	26,404	(24,395)	(2,009)	-
Other changes, net	9,451	90	(804)	8,737
Change in valuation of annuities	-	(1,088)	8	(1,080)
Change in net assets from non-operating activities	<u>122,673</u>	<u>9,803</u>	<u>1,139</u>	<u>133,615</u>
Change in net assets before cumulative effect of change in accounting principle	235,600	(8,392)	7,286	234,494
Cumulative effect of change in accounting principle	<u>(16,763)</u>	<u>-</u>	<u>-</u>	<u>(16,763)</u>
Change in net assets	218,837	(8,392)	7,286	217,731
Beginning net assets	<u>1,726,153</u>	<u>220,361</u>	<u>249,373</u>	<u>2,195,887</u>
Ending net assets	<u>\$ 1,944,990</u>	<u>\$ 211,969</u>	<u>\$ 256,659</u>	<u>\$ 2,413,618</u>

See accompanying notes to consolidated financial statements.

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

	2007	2006
Cash flows from operating activities:		
Change in net assets	\$ 320,271	\$ 217,731
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization expense	114,796	112,419
Net appreciation of investments	(270,540)	(175,624)
Gifts of property, plant and equipment	(1,176)	(1,373)
(Appreciation) / depreciation of investment in net assets of foundation	(1,633)	(538)
Appreciation of interests in perpetual trusts held by others	(5,486)	(2,082)
Bond (discount) / premium amortization	(158)	205
Loss on the extinguishment of debt	1,018	2,638
Loss on disposals of property plant and equipment	4,049	1,744
Cumulative effect of change in accounting principle	34,052	16,763
(Increases) / decreases in:		
Operating investments	(69,284)	(707)
Accounts receivable	(20,526)	(8,480)
Inventories, prepaid expenses and deferred charges	(4,050)	258
Contributions receivable	(4,601)	6,030
Other assets	(3,817)	(4,624)
Increases / (decreases) in:		
Accounts payable and accrued expenses	16,432	(1,877)
Advanced receipt of sponsored research revenues	(1,496)	(3,512)
Deferred revenues	2,057	2,803
Third-party settlements, net	(7,401)	(870)
Accrued post-employment and post-retirement benefits	5,019	4,933
Contributions for long-term investment, net	(18,001)	(13,518)
Investment income restricted for long-term purposes	4,022	2,550
Net cash provided by operating activities	93,547	154,869
Cash flows from investing activities:		
Purchases of property, plant and equipment, net	(195,589)	(187,054)
Purchases of investments	(2,040,226)	(1,139,880)
Proceeds from the sale and maturity of investments	1,952,622	1,196,722
Decrease in investments held in perpetuity by others	2,196	-
Decrease in notes receivable, net of activities and other reductions	27	1,483
Net cash used in investing activities	(280,970)	(128,729)
Cash flows from financing activities:		
Principal repayments of indebtedness	(89,757)	(120,177)
Proceeds from issuance of long-term debt	248,769	111,180
Deferred financing costs	(4,645)	(3,384)
Changes associated with security lending agreement	19,863	-
Increase in refundable U.S. Government grants for student loans	99	59
Contributions for long-term investment, net	18,001	13,518
Investment income restricted for long-term purposes	(4,022)	(2,550)
Net cash provided by financing activities	188,308	(1,354)
Net increase in cash and cash equivalents	885	24,786
Cash and cash equivalents, beginning of year	199,805	175,019
Cash and cash equivalents, end of year	\$ 200,690	\$ 199,805
Supplemental disclosure of cash flow information		
Cash paid during the period for interest on long-term debt	\$ 26,148	\$ 22,593
Non-cash investing and financing activities:		
Change in construction related payables	\$ 10,919	\$ 4,061
Property, plant and equipment financed with capital leases	8,383	14,667

See accompanying notes to consolidated financial statements.

UNIVERSITY OF ROCHESTER AND RELATED ENTITIES

Notes to Consolidated Financial Statements

June 30, 2007 and 2006
(dollars in thousands)

(1) Summary of Significant Accounting Policies

(a) General

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

(b) Basis of Presentation

The accompanying consolidated financial statements include all of the integrated divisions of the University – The College, Margaret Warner Graduate School of Education and Human Development, William E. Simon Graduate School of Business Administration, Eastman School of Music, Memorial Art Gallery, School of Medicine and Dentistry, Strong Memorial Hospital, School of Nursing, Eastman Dental Center, Health Affairs and the University of Rochester Medical Faculty Group (URMFG). Included also are Strong Partners Health Systems, Inc. (and its affiliates), Eastman Dental Center Foundation, Inc., Strong Home Care Group (and its subsidiaries), Excell Partners, Inc., and Excell Technology Center, Inc. All significant interorganizational balances and transactions have been eliminated.

The University is the sole member of SPHS, which is the sole member of Highland Hospital of Rochester (including its subsidiaries Highland Foundation, Inc., Highland Facilities Development Corp., and the Medical Administrative Associates, Inc.); The Highlands Living Center, Inc.; Highland Community Development Corporation; and The Meadows at Westfall, Inc. Highland Hospital and

its subsidiaries have debt outstanding which has been included in the University's consolidated financial statements; however, under the terms of the affiliation agreement with SPHS, the University has no legal obligation for the debt of Highland Hospital and affiliates.

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

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

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

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

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

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(c) Basis of Accounting

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

Classification of Net Assets

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

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

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

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

- Uses of certain unrestricted net assets are committed through contractual agreements. Such amounts primarily consist of required trustee balances under long-term debt agreements and matching funds under student loan programs of the Federal Government. In addition, grants and contracts for the performances of certain

services or functions are reported in the unrestricted net asset category.

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

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

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

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

The University reviewed specific donor restrictions for its temporarily and permanently restricted contributions and determined that reclasses of net assets of approximately \$5.2 million and \$26.4 million to unrestricted net assets for the years ended June 30, 2007 and 2006, were required.

(d) Income Taxes

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

(e) Operations

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

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

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

(f) Cash Equivalents and Operating Investments

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

Operating investments include all other current investments with original maturities greater than three months. These current investments include obligations of the US Treasury, US Government and other government agencies and corporate & foreign bonds. These items are reported at fair value.

(g) Inventories

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

(h) Contributions

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

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(i) Investments

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

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

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

Investment of the University's net assets held for endowment and similar purposes is based upon a total return policy, and the utilization of its endowment resources for current operating and capital needs is related to this policy. Accordingly, during 2007 and 2006, University Trustees authorized the use of total return (income and appreciation) from its endowment resources at a rate of 6.6% and 6.7%, respectively, of the average

fair value of its consolidated investment portfolio for the most recent five years. To the extent that the total return requirement for the current year is not fulfilled by interest and dividends, the University utilizes the appreciation of its endowment and similar net assets for operating purposes. To the extent that the total return requirement for the current year is exceeded by interest and dividends, the University reinvests the excess in its net assets held for endowment and similar purposes.

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

The University began securities lending activities during fiscal year 2007. Investments that have been loaned to another institution are reported as pledged assets on the consolidated balance sheet. Cash received as collateral on the securities lending transactions is included in cash and cash equivalents on the consolidated balance sheet. Because the collateral must be returned in the future, a corresponding liability is reported on the consolidated balance sheet.

(j) Property, Plant and Equipment

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

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to depreciation. Estimated useful lives for non-research assets are as follows:

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

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

(k) Collections

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

(l) Split Interest Agreements and Perpetual Trusts

The University's split interest agreements with donors consist primarily of gift annuities, unitrusts, lead trusts, charitable remainder annuity trusts and life income agreements. Assets held under these agreements are included in investments held for long-term purposes and investments in perpetual trusts held by others. For fiscal years 2007 and 2006, the fair values are \$62,045 and \$56,080, respectively. Generally, contribution revenues are recognized at the dates the agreements are established after recording liabilities for the present value of the estimated future payments to be made

to the beneficiaries. The liabilities are adjusted during the term of the trusts for changes in the value of the assets, accretion of the discount and other changes in the estimates of future benefits. The University is also the beneficiary of certain perpetual trusts held and administered by others. The present values of the estimated future cash receipts, which are measured by the fair value of the assets contributed to the trust, are recognized as assets and contribution revenues at the dates the trusts are established. Distributions from the trusts are recorded as contributions and the carrying value of the assets is adjusted for changes in the fair value of the trust assets.

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

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

(n) Grants and Contracts

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

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

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(o) Benefit Plans

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

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

(p) Hospital and Faculty Practice Patient Care Activities

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

Medicare

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

audit by the fiscal intermediary. Such audits have been done through December 31, 2003.

Medicaid and Other Third-Party Payors

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

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

Revenue from Medicare and Medicaid programs accounted for approximately 32% and 16%, respectively, of the Hospital's net patient revenue for the year ended June 30, 2007 and 32% and 17%, respectively, for the year ended June 30, 2006. Laws and regulation governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a

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reasonable possibility that recorded estimates will change by material amounts in the near term. The Hospital believes that it is in compliance, in all material respects, with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation. Non-compliance with such laws and regulations could result in repayments of amounts improperly reimbursed, substantial monetary fines, civil and criminal penalties and exclusion from the Medicare and Medicaid programs.

Both Federal and New York State regulations provide for certain adjustments to current and prior years' payment rates and indigent care pool distributions based on industry-wide and hospital-specific data. The Hospital has established estimates based on information presently available of the amounts due to or from Medicare, Medicaid, workers compensation and no-fault payors and amounts due from the indigent care pool for such adjustments. Those adjustments which can be reasonably estimated have been provided for in the accompanying financial statements. The Hospital has estimated the potential impact of such adjustments based on the most recent information available. However, those which are either (a) without current specific regulations to implement such adjustments, or (b) are dependent upon certain future events, cannot be reasonably estimated and have not been provided for in the accompanying financial statements. Management believes the amounts recorded in the accompanying financial statements will not be materially affected upon the implementation of such adjustments. During 2007 and 2006, the Hospital recognized approximately \$20,400 and \$15,700 of net patient service revenue as a result of changes in estimates related to third party settlements. In addition, the Hospital recognized additional third party payables of approximately \$8,100 and \$14,300 related to fiscal years 2007 and 2006, respectively.

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

The University of Rochester Medical Faculty Group (URMFG) is an operating division of the University. In the year ending June 30, 2007, over 850 full-time faculty in 17 clinical departments and 2 clinical centers participated in patient care at the University of Rochester Medical Center. These full-time faculty physicians handled 806,692 outpatient visits in their offices, mostly on University owned or leased premises; and covered 38,039 hospital admissions, as well as participated in the coverage of the emergency department handling over 91,697 visits. Payments for these services are derived primarily from third party insurers including Managed Care companies (38.7%), Medicare (26.0%), Blue Shield (12.0%), Medicaid (7.8%), Commercial (6.3%), Other (6.0%) and Self-pay (3.2%).

In addition to providing clinical outpatient care, the faculty group's mission is met by providing education and teaching. The faculty supervise and instruct 377 University medical students and 653 residents and fellows.

(q) Use of Estimates

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

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(r) Investment in Net Assets of Foundation

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

(s) Asset Retirement Obligations

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

Upon adoption of FIN 47 on June 30, 2006 the University recognized \$16,763 as the cumulative effect of a change in accounting principle in the statement of activities.

(t) Derivative Instruments and Hedging Activities

Derivative instruments related to the University's long-term debt are included in accounts payable and accrued expenses or in accounts receivable on the consolidated balance sheets. The change in the fair value of the derivative instruments is also included in the net appreciation in the statement 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.

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(2) Net Assets

Unrestricted net assets consist of the following at June 30:

	<u>2007</u>	<u>2006</u>
Designated:		
For long-term purposes to support scholarships and other programs:		
Funds functioning as endowment	\$ 1,007,879	\$ 869,694
Accumulated appreciation resulting from investment of permanently restricted net assets	317,151	265,406
For property, plant and equipment purposes and debt service reserves held by trustees under debt agreements	71,057	42,940
For student loan programs, including required matching funds under Federal Government loan programs	3,210	3,385
For other specific operating purposes	60,010	53,534
For Highland Hospital and affiliates	78,212	67,142
For Eastman Dental Center Foundation	49,304	47,567
For other related entities	<u>(11,396)</u>	<u>(20,769)</u>
Total designated	1,575,427	1,328,899
Net investment in property, plant and equipment	532,371	514,755
Undesignated	<u>101,917</u>	<u>101,336</u>
Total unrestricted net assets	<u>\$ 2,209,715</u>	<u>\$ 1,944,990</u>

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

	2007	2006
Accumulated appreciation on permanently restricted net assets subject to purpose restrictions:		
Scholarships and grants	\$ 33,119	\$ 28,024
Instruction	80,305	66,572
Other	26,978	17,082
Subtotal	140,402	111,678
Interest in net assets of foundation	18,553	16,920
Related entities	5,793	5,719
Other gifts and income subject to:		
Purpose restrictions	20,447	21,856
Time restrictions:		
Contributions receivable	25,020	22,770
Split-interest agreements	37,205	33,026
Total temporarily restricted net assets	\$ 247,420	\$ 211,969

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

	2007	2006
Perpetual endowment funds:		
Restricted income purposes:		
Scholarships and grants	\$ 12,932	\$ 12,288
Instruction	40,429	37,483
Other	8,185	8,926
Unrestricted income purposes	143,437	133,191
Subtotal	204,983	191,888
Interests in perpetual trusts held by others:		
Restricted income purposes:		
Instruction	37,853	36,582
Student loans	1,547	1,458
Other	1,897	1,693
Unrestricted income purposes	16,526	14,800
Subtotal	57,823	54,533
Related entities	3,299	3,057
Split-interest agreements	895	801
Perpetual loan funds	3,660	3,674
Contributions receivable	6,094	2,706
Total permanently restricted net assets	\$ 276,754	\$ 256,659

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(3) Accounts Receivable

Accounts receivable at June 30 consist of the following:

	2007	2006
Patient care and related activities, net of allowances for doubtful accounts of \$24,970 and \$24,014	\$ 149,079	\$ 138,382
Federal, state and local governments, foundations and companies, net of allowances for doubtful accounts of \$489 and \$183	45,606	40,590
Student receivables, net of allowances for doubtful accounts of \$1,845 and \$1,838	6,933	6,326
Royalties and other	50,166	45,960
Total accounts receivable	\$ 251,784	\$ 231,258

(4) Contributions

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

	2007	2006
Unconditional promises expected to be collected in:		
Less than one year	\$ 17,085	\$ 11,083
One year to five years	18,572	21,033
Over five years	1,450	1,593
Subtotal	37,107	33,709
Less unamortized discount and allowance for uncollectible amounts	(3,462)	(4,665)
Total contributions receivable, net	\$ 33,645	\$ 29,044

At June 30, 2007, the University had also received \$12,220 in bequest intentions and certain other conditional promises to give. These intentions and conditional promises to give are not recognized as assets. If they are received, they will generally be restricted for specific purposes stipulated by the

donor, primarily endowments for faculty support, scholarships or general operating support of a particular department or division of the University.

The University expended \$18,022 and \$13,431, for University relations and development for the years ended June 30, 2007 and 2006, respectively.

(5) Notes Receivable

Student loans receivable at June 30, 2007 and 2006 are reported net of allowances for doubtful loans of \$1,320 and \$1,372, respectively. The allowance is intended to provide for loans, both in repayment status and not yet in repayment status (borrowers are still in school or in the grace period following graduation), that may not be collected.

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(6) Investments Held for Long-Term Purposes

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

	<u>2007</u>	<u>2006</u>
Endowment and similar purposes	\$ 1,732,437	\$ 1,494,515
Property, plant and equipment purposes:		
Debt service reserve held by trustees under debt agreements	48,023	37,195
Other	124,822	12,607
Total property, plant and equipment purposes	172,845	49,802
Other purposes	84,593	87,866
Total fair value	1,989,875	1,632,183
Securities pledged	(19,265)	-
Total investments held for long-term purposes	\$ <u>1,970,610</u>	\$ <u>1,632,183</u>

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

	<u>2007</u>	<u>2006</u>
Cash and cash equivalents	\$ 87,473	\$ 122,471
Debt securities	319,731	153,923
Common and preferred stocks	778,850	772,702
Hedge / Distressed	492,616	394,908
Real assets	123,007	79,892
Venture capital	39,381	28,587
Buyouts / Private equity	137,661	68,985
Other investments	11,156	10,715
Total fair value	\$ <u>1,989,875</u>	\$ <u>1,632,183</u>

Included in the investments held for long-term purposes above are \$639,675 and \$374,100 of international investments at June 30, 2007 and 2006, respectively.

Under the terms of certain limited partnership agreements, the University is obligated to periodically advance additional funding for private-equity and real estate investments. At June 30, 2007 and 2006, respectively, the University had commitments of \$414,558 and \$282,565 for which capital calls had not been exercised. Such commitments generally have fixed expiration dates or other termination clauses. The University maintains sufficient liquidity in its investment portfolio to cover such calls.

For investment purposes, substantially all investments held for endowment and similar purposes participate in one of several pools, each with its own investment policy and objectives. The investment pool assets are owned by the separate funds based on shares purchased by each fund and fund addition when it entered the pool. The pooled assets are valued on a monthly basis and a "fair value per share" is determined and used to calculate the number of shares applicable to funds entering or leaving the pool.

The following table summarizes changes in relationships between cost and fair values of investments held for endowment and similar purposes:

	<u>2007</u>		
	<u>Fair Value</u>	<u>Cost</u>	<u>Net Gains</u>
End of year	\$ 1,732,437	\$ 1,299,552	\$ 432,885
Beginning of year	\$ 1,494,515	\$ 1,217,696	\$ 276,819
Unrealized appreciation			156,066
Realized net gains for year			117,339
Net increase for year			\$ <u>273,405</u>

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	2006		
	Fair Value	Cost	Net Gains
End of year	\$ 1,494,515	\$ 1,217,696	\$ 276,819
Beginning of year	\$ 1,375,176	\$ 1,100,264	\$ 274,912
Unrealized appreciation			1,907
Realized net gains for year			<u>156,071</u>
Net increase for year			<u>\$ 157,978</u>

The University permits several of its investment managers to utilize forward contracts, currency options and futures with the specific authorization of the investment committee of the Board of Trustees. These financial instruments involve, to varying degrees, elements of market risk in excess of the amounts recorded in the consolidated financial statements.

Interest rate futures contracts are held as hedges against changes in market value of fixed income securities due to market interest rate fluctuations. The University is subject to market risk associated with the changes in the value of these futures contracts. The University held long and short-term U.S. Treasury and municipal bond futures contracts at June 30, 2007 and 2006, at a notational amount of \$0 and \$3,520, respectively. These amounts, however, may differ from the University's future cash requirements as the University may close out futures positions prior to settlement and thus be subject only to the change in value of the futures contracts since the contracts are valued daily using the mark-to-market method. The margin requirements on deposits with a third party for futures contracts were \$0 at June 30, 2007 and \$114 at June 30, 2006.

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 \$32,300 and \$24,586 for the years ended June 30, 2007 and 2006, respectively.

During June 2007, the University began lending securities to qualified financial institutions through a program administered by a securities lending agent. All loans are callable at any time and are fully collateralized. Income is earned based on the collateral held and invested during the period of lending. The cash collateral requirement is 102% for domestic securities. The fair value of loaned securities and related cash collateral at June 30, 2007 is as follows:

	Loaned Securities	Collateral
Equities	\$ 11,858	\$ 12,321
U.S. government fixed income securities	<u>7,407</u>	<u>7,542</u>
Total	<u>\$ 19,265</u>	<u>\$ 19,863</u>

Income generated from securities lending arrangements was \$6 for the fiscal year ended June 30, 2007.

(7) Property, Plant and Equipment

As of June 30, 2007 and 2006, the University's investment in property, plant and equipment is as follows:

	2007	2006
Buildings and improvements	\$ 1,370,137	\$ 1,315,450
Land improvements	34,242	33,271
Completed projects under leasehold agreements	45,983	46,454
Equipment owned	658,265	651,691
Library books	<u>109,961</u>	<u>102,829</u>
Subtotal	2,218,588	2,149,695
Less accumulated depreciation	<u>1,298,200</u>	<u>1,237,530</u>
Subtotal	920,388	912,165
Land	7,168	7,053
Museum collections	29,088	27,136
Construction in progress	<u>246,559</u>	<u>157,537</u>
Total property, plant and equipment, net	<u>\$ 1,203,203</u>	<u>\$ 1,103,891</u>

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(8) Long-term Debt

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

	<u>2007</u>	<u>2006</u>
Obligations under capital leases, 3.879% to 7.85%, (a)	\$ 26,984	\$ 18,989
Urban Development Corporation loan, (b)	2,333	2,499
Term note payable, LIBOR rate plus 1.25% (c)	258	601
Note payable, 7.60% (d)	84	-
Direct Note Obligation, Series 2003, 5.40% to 5.75% (net of unamortized discount of \$28 in 2007 and \$30 in 2006), (e)	8,572	8,570
Bonds Payable – COMIDA, 8.00% to 10.00% (f)	698	698
Bonds payable – DASNY Series 1994, 7.625%, (g)	8,721	8,930
Bonds payable – DASNY Series 1994B, 5.50% (h)	10,780	11,125
Bonds payable – DASNY Series 1997A, 3.75% to 5.00% (net of unamortized premium of \$644 in 2007 and \$679 in 2006), (i)	17,624	24,799
Bonds payable – DASNY Series 1998A, 3.50% to 5.25% (net of unamortized discount of \$45 in 2007 and \$149 in 2006), (j)	32,775	82,565
Bonds payable – DASNY Series 1999B, 3.70% to 5.72% (net of unamortized discount of \$74 in 2007 and \$86 in 2006), (k)	5,256	5,989
Bonds payable – DASNY Series 2000A, 4.50% to 6.05% (l)	7,036	7,036
Bonds payable – DASNY Series 2001A, 2.90% to 5.00% (net of unamortized discount of \$100 in 2007 and \$108 in 2006), (m)	19,975	21,512
Bonds payable – DASNY Series 2003A, B, and C, 3.97%, (n)	143,275	150,050
Bonds payable – DASNY Series 2004A, 3.00 to 5.25% (net of unamortized premium of \$414 in 2007 and \$570 in 2006), (o)	28,879	44,545
Bonds payable – COMIDA: 3.125% to 5.450% (net of unamortized premium of \$1,061 in 2007 and \$1,161 in 2006), (p)	40,326	42,217
Bonds payable – DASNY Series 2006 A-1 and B-1, 3.919%, (q)	111,180	111,180
Bonds payable – DASNY Series 2007A-1, A-2, B, and C, 4.00% to 5.00% (net of unamortized premium of \$8,123 in 2007), (r)	243,786	-
	<u>708,542</u>	<u>541,305</u>
Total long-term debt	\$ 708,542	\$ 541,305

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

(a) Obligations Under Capital Lease Agreements

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

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

(b) Urban Development Corporation Loan

In March 1992, the New York State Urban Development Corporation (UDC) entered into an agreement with the University to partially fund the construction of the University's Center for Optoelectronics and Imaging (COI) with a loan of \$5,000. The agreement requires the University to pay an amount equal to the debt service on the

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\$6,320 tax-exempt bond issued by which UDC financed the loan and the associated reserve funds and costs of issuance. The loan is collateralized by a mortgage on the property.

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

(c) Term Note Payable – HSBC Bank, USA

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

(d) Note Payable – HSBC

Pursuant to an agreement between a University related entity and HSBC Bank, USA dated July 2007, HSBC issued a note payable of \$99 for various information technology purchases. The note is being repaid at an interest rate of 7.60% on the unpaid balance through December 2008.

(e) Direct Note Obligation – The Bank of New York

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

related to Eastman Place. Eastman Place is a facility used partly to house activities of the Eastman School of Music.

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

(f) Bond Payable – COMIDA

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

(g) Bonds Payable – DASNY Series 1994

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

(h) Bonds Payable – DASNY Series 1994B

Pursuant to an agreement with a University related entity (Highland Hospital and affiliates) and DASNY, \$13,000 of Series 1994B Revenue Bonds were issued and sold by DASNY. The related entity is repaying the indebtedness at a fixed rate of 5.50%, maturing July 1, 2023. The bond issue is collateralized by an irrevocable direct pay letter that is held by the trustee, JPMorgan Chase Bank. The Series 1994B Revenue Bonds are collateralized by a parity mortgage and an interest in certain buildings and equipment.

(i) Bonds Payable – DASNY Series 1997A

Pursuant to an agreement between the University and DASNY dated November 7, 1997, DASNY

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

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

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

(j) Bonds Payable – DASNY Series 1998A

Pursuant to an agreement between the University and DASNY dated March 18, 1998, DASNY issued and sold \$131,615 of bonds known as University of Rochester Revenue Bonds, Series 1998A. The Series 1998A bonds were issued at a discount of \$370 resulting in proceeds of \$131,245 to finance (1) design and construction of a new biomedical research facility of approximately 240,000 square feet; (2) construction of a new entrance to the School of Medicine and Dentistry of approximately 55,000 square feet; (3) renovations for laboratory space of approximately 65,000 square feet; (4) the

acquisition of scientific equipment and furnishings for the new facility and renovated laboratory space; (5) the University-wide telecommunications system and (6) replacement of the chiller at the central utilities plant. Series 1998A also refunded a portion of the University of Rochester Revenue Bonds, Series 1987.

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

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

(k) Bonds Payable – DASNY Series 1999B

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

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

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

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(l) Bonds Payable – DASNY Series 2000A

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

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

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

(m) Bonds Payable – DASNY Series 2001A

Pursuant to an agreement between the University and DASNY dated July 10, 2001, DASNY issued and sold \$22,920 of bonds known as the University of Rochester Revenue Bonds, Series 2001A. The Series 2001A bonds were issued at a discount of \$152 resulting in net proceeds of \$22,768 to refinance (1) all the outstanding \$184 University's Dormitory (Apartment) bonds of 1962, HUD Series D and all the outstanding \$840 University's Dormitory (Apartment) bonds of 1966, HUD Series

E and (2) a portion of the University of Rochester Revenue Bond, Series 1994A, maturing on and after July 1, 2007. HUD Series D and E were paid on October 1, 2001. DASNY Series 1994A bondholders were paid on July 1, 2004.

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

(n) Bonds Payable – DASNY Series 2003A, B, and C

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

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

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

Series 2003C bonds were issued to finance (1) construction of an Adult Intensive Care Unit; (2) renovations of the Cancer Center and (3) deferred maintenance, renovations and improvements to faculty offices, laboratory and clinical spaces for

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various departments and areas within the Hospital and School of Medicine and Dentistry. Series 2003C also refinanced a portion of the University of Rochester Series 1994 bonds.

On July 31, 2003, the University executed \$164,425 of interest rate swaps with third parties. The University entered into the interest rate swap agreement to exchange variable rate debt for a fixed rate obligation without the exchange of the underlying principal amount. Under this agreement the counterparty pays the University a variable interest rate equal to 61.5% of one-month LIBOR plus 56 basis points. The University will pay the counterparty a fixed interest rate of 3.97%. Net payments or receipts under the swap agreements are recorded as an adjustment to interest expense. As of June 30, 2007, the fair value of the interest rate swap was an asset of \$614, and was included in accounts receivable on the consolidated balance sheet. The contractual relationship under this agreement will last until July 1, 2033.

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

(o) Bonds Payable – Series 2004A

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

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

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

(p) Bonds Payable – COMIDA

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

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

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

On March 16, 2006 the University executed \$111,180 of interest rate swaps with a third party. The University entered into an interest rate swap

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agreement to exchange variable rate debt for the fixed rate obligation without the exchange of the underlying principal amount. Under this agreement, the counterparty will pay the University a variable interest rate based on the Bond Market Association (BMA) Municipal Swap Index. The University will pay the counterparty a fixed interest rate of 3.92%. Net payments or receipts under the swap agreement are recorded as an adjustment to interest expense.

As of June 30, 2007, the fair value of the interest rate swap was an asset of \$1,185, and was included in accounts receivable on the consolidated balance sheet. The contractual relationship under this agreement will last until July 1, 2027.

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

(r) Bonds Payable – DASNY Series 2007A-1, A-2, B and C

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

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

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

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

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

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

(s) Required Principal Payments

Required composite principal payments for long-term debt, net of unamortized discount, for each of the years in the five-year period ending June 30, 2012 and thereafter are as follows:

<u>Maturity</u>	<u>Principal portions of lease payments</u>	<u>Principal payments of debt</u>	<u>Total principal payments</u>
2008	\$ 5,534	\$ 25,904	\$ 31,438
2009	4,124	26,371	30,495
2010	3,133	17,650	20,783
2011	2,638	21,299	23,937
2012	1,855	22,115	23,970
Thereafter	<u>9,700</u>	<u>568,219</u>	<u>577,919</u>
Total	<u>\$ 26,984</u>	<u>\$ 681,558</u>	<u>\$ 708,542</u>

The University expended \$29,853 and \$24,732 for interest for the years ended June 30, 2007 and 2006, respectively, net of interest capitalization of \$1,005 and \$1,422 for the years ended June 30, 2007 and 2006, respectively.

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(9) Benefits Plans

recorded in fringe benefits expense on the Consolidated Statement of Activities.

Self-insurance Plans – University

The University is self-insured for workers' compensation. Liabilities for asserted and unasserted claims under the workers' compensation program at June 30, 2007 were discounted by 4.5% and amounted to \$31,734 (4.75% and \$29,930 in 2006). The University has a \$25.5 million standby letter of credit with JPMorgan Chase Bank to cover potential liabilities under the University's self-insured workers' compensation program.

The University is self-insured for health care benefits. Based on estimates provided by actuaries, the University's obligation for incurred but not reported claims was \$10,425 as of June 30, 2007 (\$10,402 in 2006). This amount has not been discounted.

Retirement Plan – University

Most full-time University employees participate in the retirement plans administered by TIAA-CREF, or in a defined contributions plan sponsored by the University. Under these plans, the University made contributions of \$55,374 in 2007 (\$51,840 in 2006), which were vested for the benefit of the participants.

Post-retirement Benefit Plan – University

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

The University incurred post-retirement plan expense of \$13,812 and \$13,139 for the years ended June 30, 2007 and 2006, respectively, that is

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Benefit expense for this plan for the years ended June 30, 2007 and 2006 includes the following components:

	<u>2007</u>	<u>2006</u>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 109,923	\$ 109,420
Service cost	2,183	1,936
Interest cost	6,408	6,097
Estimated plan participants' contributions	1,451	1,373
Actuarial (gain)/loss	(6,102)	(2,517)
Benefits paid	(7,698)	(8,130)
Amendments	-	1,744
	<u>106,165</u>	<u>109,923</u>
Benefit obligation at end of year	\$ 106,165	\$ 109,923
Change in plan:		
Fair value of plan assets at beginning of year	\$ -	\$ -
Employer contributions	6,247	6,757
Participant contributions	1,451	1,373
Benefits paid	(7,698)	(8,130)
	<u>-</u>	<u>-</u>
Fair value of plan assets at end of year	\$ -	\$ -
Components of accrued benefit:		
Funded status	\$ (106,165)	\$ (109,924)
Unrecognized net actuarial (gain)/loss	(1,757)	4,345
Unrecognized prior service cost	29,023	34,245
	<u>(78,899)</u>	<u>(71,334)</u>
Accrued benefits	\$ (78,899)	\$ (71,334)
Amounts recognized in the consolidated balance sheets consist of:		
Accrued post-retirement benefit cost	\$ (71,334)	\$ (64,953)
Net post-retirement benefit expense	(13,812)	(13,138)
Net benefits paid	6,247	6,757
	<u>(78,899)</u>	<u>(71,334)</u>
Accrued benefits paid at end of year (before FAS 158)	\$ (78,899)	\$ (71,334)
Impact of FAS 158 changes	(27,266)	-
Net amount recognized in unrestricted net assets	<u>(106,165)</u>	<u>(71,334)</u>
Components of net periodic benefit cost:		
Service cost	\$ 2,183	\$ 1,936
Interest cost	6,408	6,098
Amortization of prior service cost	5,221	5,105
	<u>13,812</u>	<u>13,139</u>
Net periodic benefit cost	\$ 13,812	\$ 13,139

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

	<u>Estimated contributions / benefit payments</u>	<u>Estimated 28% Rx subsidy payments</u>
2008	\$ 7,346	\$ 1,286
2009	7,666	1,396
2010	7,973	1,498
2011	8,208	1,575
2012	8,323	1,651
2013 to 2017	45,131	8,333

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

	<u>2007</u>	<u>2006</u>
Discount rate for obligation	6.00%	6.00%
Expected return on plan assets	N/A	N/A
Rate of compensation increase	N/A	N/A
Health care cost trend rate – initial	9.00%	10.00%
Health care cost trend rate – final	4.00%	4.00%

The rate increase in health care costs was assumed to decrease to 4.00% in 2012 and to remain at that level thereafter.

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

	<u>One percentage point increase</u>	<u>One percentage point decrease</u>
Effect on total of service and interest cost components	\$ 564	\$ (498)
Effect on post-retirement benefit obligation	\$ 4,840	\$ (4,609)

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

In September 2006, the Financial Accounting Standards Board issued SFAS No. 158, *Employer's Accounting for Defined Benefit Pension and Other Post-retirement Plans* which is an amendment of SFAS No.'s 87, 88, 106, and 132(R). SFAS No. 158 requires employers to recognize the over-funded or under-funded status of defined benefit pension and post-retirement plans as assets or liabilities in its consolidated balance sheet and to recognize changes in that funded status in the year in which the changes occur through changes in unrestricted net assets. This statement also requires an employer to measure the funded status of the plan as of the consolidated balance sheet date. The University has adopted the balance sheet recognition provisions of SFAS No. 158 as of June 30, 2007. The impact of the adoption resulted in a decrease of \$27,266 in unrestricted net assets, which has been recorded as a cumulative effect of a change in accounting principle.

SFAS No. 158 will also require employers to measure benefit plan assets and liabilities and determine the discount rate for subsequent year expense recognition as of the balance sheet date for financial reporting purposes, thus eliminating the opportunity to use a measurement date up to ninety days prior to the balance sheet date. The change in measurement date is not required until the fiscal year ending after December 15, 2008 and will be recognized by the University at that time. None of the changes prescribed by SFAS No. 158 had an impact on the University's results of operations or cash flows in fiscal year 2007.

Post-employment Benefits – University

Accrued post-employment benefits of the University amounted to \$50,237 and \$45,185 at June 30, 2007 and 2006, respectively.

**UNIVERSITY OF ROCHESTER
AND RELATED ENTITIES**

Notes to Consolidated Financial Statements

June 30, 2007 and 2006
(dollars in thousands)

Retirement Plan – Related Entity (Highland Hospital and Affiliates)

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

Retirement plan expense of \$4,321 and \$4,573 was incurred for the years ended December 31, 2006 and 2005, respectively, and is recorded in benefits expense in the consolidated statement of activities. In addition, the related entity recorded a reduction in minimum pension liability of \$3,874 and \$406 in 2006 and 2005 respectively. These amounts are included in other changes on the 2006 and 2005 consolidated statement of operation and changes in net assets.

Pension expense for this plan for the years ended December 31, 2006 and 2005 (the most recent data available) includes the following components (in thousands):

	<u>2006</u>	<u>2005</u>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 77,114	\$ 67,648
Service cost	3,345	3,109
Interest cost	4,194	3,842
Actuarial loss	(3,154)	4,455
Benefits paid	<u>(1,845)</u>	<u>(1,940)</u>
Benefit obligation at end of year	<u>\$ 79,654</u>	<u>\$ 77,114</u>

	<u>2006</u>	<u>2005</u>
Change in plan assets:		
Fair value of assets at beginning of year	\$ 50,838	\$ 39,395
Actual return on plan assets	4,036	6,995
Employer contribution	7,351	6,744
Benefits paid	(1,968)	(1,940)
Administrative expenses paid	<u>(238)</u>	<u>(356)</u>
Fair value of assets at end of year	<u>\$ 60,019</u>	<u>\$ 50,838</u>

Components of accrued pension liability:		
Funded status	\$ (19,636)	\$ (26,276)
Unrecognized net actuarial loss	14,155	17,781
Unrecognized net asset in transition	-	(16)
Accumulated comprehensive pension expense	(5,759)	(9,633)
Intangible asset	-	-
Accrued pension liability	<u>\$ (11,240)</u>	<u>\$ (18,144)</u>

Amounts recognized in the balance sheet consist of:		
Accrued benefits cost	<u>\$ (11,240)</u>	<u>\$ (18,144)</u>
Projected benefit obligation	79,654	77,114
Accumulated benefit obligation	71,259	68,982
Fair value of plan assets	60,019	50,838

Components of net periodic benefit cost:		
Service cost	\$ 3,345	\$ 3,109
Interest cost	4,195	3,842
Expected return on plan assets	(4,364)	(3,346)
Amortization of prior service cost	-	-
Amortization of transition asset	(16)	(315)
Amortization gain/loss	<u>1,161</u>	<u>1,283</u>
Net periodic benefit cost	<u>\$ 4,321</u>	<u>\$ 4,573</u>

Weighted-average assumptions as of December 31:		
Discount rate for obligation	5.85%	5.50%
Discount rate for pension expense	5.50%	5.75%
Investment return assumption (regular)	8.50%	8.50%
Future compensation increase rate	3.80%	3.82%

**UNIVERSITY OF ROCHESTER
AND RELATED ENTITIES**

Notes to Consolidated Financial Statements

June 30, 2007 and 2006
(dollars in thousands)

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

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

	<u>2006</u>	<u>2005</u>
Weighted-average assumptions by asset categories:		
Equity securities	56%	54%
Fixed income securities	44%	36%
Cash and other investments	0%	10%
	<u>100%</u>	<u>100%</u>

Estimated future contribution and benefit payments for the years ending December 31:

2007	\$	1,825
2008		1,961
2009		2,110
2010		2,306
2011		2,618
2012 to 2016		<u>20,029</u>
Total estimated future payments	\$	<u>30,849</u>

Upon adoption of SFAS No. 158 in fiscal year 2007, the related entity will report amounts that have not yet been recognized as a component of benefit expense (i.e., unrecognized prior service costs or credits, net (actuarial) gain or loss, and transition obligation or asset) as part of the net benefit liability on its balance sheet with a corresponding adjustment to net assets. This pronouncement is required to be adopted for fiscal years ending after June 15, 2007. Had the related entity adopted the balance sheet recognition provisions of SFAS No. 158 as of June 30, 2007, the impact would have resulted in a decrease of \$6,786 in unrestricted net assets. This amount is reflected in the consolidated financial statements for fiscal year 2007.

(10) Investment in Captive Insurance Company

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

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

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

	<u>2007</u>	<u>2006</u>
Results of Operation		
Net earned premiums	\$ 253,242	\$ 234,893
Expenses	(286,019)	(266,471)
Investment income and realized gains on sales of marketable securities	<u>42,380</u>	<u>40,492</u>
Net income	<u>\$ 9,603</u>	<u>\$ 8,914</u>
Financial position		
Total assets	\$ 1,795,771	\$ 1,720,223
Total liabilities	<u>1,611,411</u>	<u>1,575,750</u>
Shareholders' Equity	<u>\$ 184,360</u>	<u>\$ 144,473</u>

(11) Professional Liability Insurance

The University's coverage for professional liability insurance is provided under insurance policies obtained jointly with other universities and teaching hospitals. The primary layer of coverage, and 100% of the first layer of excess insurance, were written by

UNIVERSITY OF ROCHESTER AND RELATED ENTITIES

Notes to Consolidated Financial Statements

June 30, 2007 and 2006
(dollars in thousands)

MCIC Vermont, Inc. (a Risk Retention Group) formed and directed by the participating insured institutions. Multiple layers of excess insurance were purchased from several different insurance companies. The maximum coverage for the Medical Center is \$205,500 per claim. The per claim coverage amount at each of the five participating institutions has been tailored to their own experience and exposures.

Based on estimates provided by the actuaries retained by MCIC Vermont, Inc., the University's obligations for incurred, but not reported claims were \$27,767 and \$24,025 as of June 30, 2007 and 2006, respectively.

(12) Fair Value of Financial Instruments

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

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

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

Contributions Receivable

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

Investment

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

Notes Receivable

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

Long-Term Debt

The fair value of the University's long-term debt is estimated based upon the amount of future cash flows, discounted using the University's current borrowing rate for similar debt instruments of comparable maturities. The fair value of total long term debt, excluding capital leases, was \$632,620 and \$481,908 at June 30, 2007 and 2006, respectively.

(13) Lines and Letters of Credit

The University has a total of \$26,649 in letters of credit. Of this total, \$25,532 is for the University's self-insured workers' compensation program, \$500 is for the University's Commercial General Liability Policy deductible and \$533 is for the repayment of obligations to the Urban Development Corporation and \$84 is for the Town of Henrietta.

The University has an additional \$25 million committed 364 day revolving credit agreement with JPMorgan Chase Bank for emergency purposes. Of this total, \$1.86 million was outstanding at June 30, 2007 and \$2.1 million is outstanding as of June 30, 2006.

(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

**UNIVERSITY OF ROCHESTER
AND RELATED ENTITIES**

Notes to Consolidated Financial Statements

June 30, 2007 and 2006
(dollars in thousands)

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, 2007, the University has entered into construction contracts and commitments aggregating \$429,877 (\$428,126 at June 30, 2006) of which \$320,701 (\$328,511 at June 30, 2006) had been incurred.

(15) Leases

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

	<u>University</u>	<u>Related Entity</u>
2008	\$ 16,282	\$ 3,168
2009	14,531	2,787
2010	13,390	2,262
2011	11,992	1,847
2012	11,035	1,773
Thereafter	<u>45,107</u>	<u>8,639</u>
Total minimum lease payments	<u>\$ 112,337</u>	<u>\$ 20,476</u>

(16) Scholarships, Grants and Fellowships

The University awarded a total of \$97,948 and \$90,313 in scholarships, grants and fellowships during fiscal years 2007 and 2006, respectively. In addition, the University awarded \$14,374 and \$13,233, respectively, of scholarships, grants and fellowships as compensation to the recipients. \$14,528 and \$13,166, respectively, of the total scholarships, grants and fellowships awarded were specifically funded by Federal, state or private gifts or grants, or by investment income and gains earned on investments held for endowment and similar purposes and utilized under the University's total return spending policy.

(17) Functional Expenses

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

	<u>2007</u>	<u>2006</u>
Instruction	\$ 277,872	\$ 258,433
Research	264,597	238,165
Public service	9,371	10,609
Libraries and other academic support	48,037	41,104
Student services	37,326	36,269
Institutional support	61,637	62,464
Hospital and faculty practice patient care	1,407,494	1,323,571
Auxiliary enterprises	<u>70,746</u>	<u>68,288</u>
Total functional expenses	<u>\$ 2,177,080</u>	<u>\$ 2,038,903</u>

Appendix B

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Strong Memorial Hospital

(A Division of the University of Rochester)

Financial Statements

December 31, 2007

(With Independent Auditors' Report Thereon)

Strong Memorial Hospital
(A Division of the University of Rochester)
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December 31, 2007

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Report of Independent Auditors

To the Board of Directors
University of Rochester

In our opinion, the accompanying balance sheet and the related statements of operations and changes in net assets and cash flows present fairly, in all material respects, the financial position of Strong Memorial Hospital (the "Hospital"), a division of the University of Rochester, as of December 31, 2007 and the results of its operations and changes in net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

May 19, 2008

Strong Memorial Hospital
(A Division of the University of Rochester)
Balance Sheet
December 31, 2007

Assets	
Current assets	
Cash and cash equivalents	\$ 164,017,668
Investments	46,752,299
Patient accounts receivable, net of estimated uncollectible amounts of approximately \$25,806,000	79,155,519
Pledges receivable	446,830
Other receivables	11,319,503
Deposits in captive insurance company	2,654,926
Inventory	18,227,740
Other current assets	<u>752,330</u>
Total current assets	323,326,815
Assets whose use is limited	18,286,723
Deferred financing costs, net	4,658,637
Investments held for long-term purposes	3,223,836
Equity investments	10,326,146
Property and equipment, net	290,338,862
Other noncurrent assets	<u>3,524,827</u>
Total assets	<u><u>\$ 653,685,846</u></u>
Liabilities and Net Assets	
Current liabilities	
Current installments of long-term debt	\$ 7,300,000
Accounts payable and accrued expenses	21,896,783
Construction accounts payable	13,240,736
Accrued payroll and payroll taxes	9,281,416
Accrued vacation	11,989,797
Accrued postemployment benefits	13,153,840
Accrued postretirement benefits	1,216,565
Accrued third-party payor settlements	3,731,497
Due to University of Rochester	<u>677,761</u>
Total current liabilities	82,488,395
Accrued postemployment benefits	16,645,987
Accrued postretirement benefits	47,039,432
Accrued professional liability costs	26,773,395
Accrued third-party payor settlements	43,223,279
Fair value of interest rate swaps	4,907,753
Fair value of asset retirement obligation	253,921
Due to University of Rochester, net of current portion	2,193,924
Long-term debt, excluding current installments	<u>155,656,460</u>
Total liabilities	<u>379,182,546</u>
Commitments and contingencies (notes 7, 8 and 15)	
Net assets	
Unrestricted	254,793,882
Temporarily restricted	16,485,582
Permanently restricted	<u>3,223,836</u>
Total net assets	<u>274,503,300</u>
Total liabilities and net assets	<u><u>\$ 653,685,846</u></u>

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

Strong Memorial Hospital
(A Division of the University of Rochester)
Statement of Operations and Changes in Net Assets
For the Year Ended December 31, 2007

Unrestricted revenues	
Net patient service revenue	\$ 853,358,657
Other revenue	21,295,737
Net assets released from restrictions - operations	<u>470,230</u>
Total unrestricted revenues	<u>875,124,624</u>
Expenses	
Salaries	332,216,001
Benefits	103,215,135
Pharmaceutical and medical supplies	175,406,981
University and Medical Center cost allocations	31,108,377
Professional and contract services	24,154,703
Interest	5,392,661
Depreciation and amortization	35,343,075
Provision for uncollectibles	27,188,346
Other expenses	<u>94,555,117</u>
Total expenses	<u>828,580,396</u>
Income from operations	46,544,228
Other gains, net	<u>8,435,939</u>
Excess of revenues over expenses	54,980,167
Other changes	
Net assets released from restrictions – capital	631,890
Net unrealized gains on investments	1,375,182
Transfers to the University of Rochester Medical Center Divisions	(33,084,494)
Transfer from University of Rochester - Postretirement Benefits	<u>(9,278,070)</u>
Increase in unrestricted net assets	<u>14,624,675</u>
Temporarily restricted net assets	
Contributions	2,523,180
Investment income	231,090
Net unrealized gains on investments	1,021,067
Net assets released from restrictions	<u>(1,102,120)</u>
Increase in temporarily restricted net assets	<u>2,673,217</u>
Permanently restricted net assets	
Contributions to endowment	<u>245,138</u>
Increase in permanently restricted net assets	<u>245,138</u>
Increase in net assets	17,543,030
Net assets, beginning of year	<u>256,960,270</u>
Net assets, end of year	<u>\$ 274,503,300</u>

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

Strong Memorial Hospital
(A Division of the University of Rochester)
Statement of Cash Flows
For the Year Ended December 31, 2007

Cash flows from operating activities	
Increase in net assets	\$ 17,543,030
Adjustments to reconcile increase in net assets to net cash provided by operating activities	
Depreciation and amortization	35,343,075
Loss on disposal of property and equipment	879,697
Transfers to the University of Rochester Medical Center Divisions	33,084,494
Transfer from University of Rochester	9,278,070
Net realized gains on investments	(2,314,409)
Net unrealized gains on investments	(2,396,249)
Change in value of interest rate swaps	2,901,451
Asset retirement obligation	(43,704)
Restricted contributions and investment income received	(2,999,408)
Provision for uncollectibles	27,188,346
Changes in assets and liabilities	
Pledges receivable	262,060
Patient accounts receivable	(22,511,895)
Other receivables, inventory and other current assets	2,929,461
Deposits in captive insurance company	(1,391,593)
Other noncurrent assets	(595,235)
Accounts payable, accrued expenses and other current liabilities	1,275,081
Accrued third-party payor settlements	(15,374,821)
Accrued long-term postemployment benefits	731,208
Accrued long-term postretirement benefits	5,576,171
Accrued professional liability costs	3,342,514
Net cash provided by operating activities	<u>92,707,344</u>
Cash flows from investing activities	
Decrease in investments	1,108,598
Purchase of property and equipment	(57,568,036)
Proceeds from disposal of equipment	43,684
Increase in assets whose use is limited	(11,942,492)
Increase in equity investments	(950,167)
Net cash used in investing activities	<u>(69,308,413)</u>
Cash flows from financing activities	
Proceeds from long-term debt	42,303,350
Repayment of long-term debt and capital lease obligations	(7,454,238)
Deferred financing costs	(1,008,260)
Due to University of Rochester, net	2,871,685
Transfers to the University of Rochester Medical Center Divisions	(33,084,494)
Restricted contributions and investment income received	2,999,408
Net cash provided by financing activities	<u>6,627,451</u>
Net increase in cash and cash equivalents	30,026,382
Cash and cash equivalents at beginning of year	<u>133,991,286</u>
Cash and cash equivalents at end of year	<u>\$ 164,017,668</u>
Supplemental disclosures of cash flow information	
Cash paid during the year for interest	\$ 6,491,229
Increase in construction accounts payable	(7,966,612)
Non-cash transfer from University of Rochester	9,278,070

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

Strong Memorial Hospital
(A Division of the University of Rochester)
Notes to Financial Statements
December 31, 2007

1. Summary of Significant Accounting Policies and Practices

Strong Memorial Hospital (the "Hospital") is a tertiary care teaching institution located in Rochester, New York. It is an integrated division of the University of Rochester (the "University"). The Hospital provides health care services through its inpatient and outpatient care facilities. Admitting physicians are primarily practitioners in the local area. The Hospital routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits payable under their health insurance programs, plans, or policies (e.g., Medicare, Medicaid, Blue Cross, health maintenance organizations, and commercial insurance policies).

Basis of Presentation

The Hospital's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, consistent with the *AICPA Audit and Accounting Guide for Health Care Organizations* (Audit Guide). In accordance with the provisions of the Audit Guide, net assets and revenue, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, unrestricted net assets are net assets that are not subject to donor-imposed stipulations and are available for operations. Temporarily restricted net assets are those whose use by the Hospital has been limited by donors to a specific time period or purpose. Permanently restricted net assets result from donors who stipulate that their donated resources be maintained permanently. The Hospital is permitted to use or expend part or all of the income and gains derived from the donated assets, restricted only by the donors' wishes.

The Hospital has changed its reporting period from June 30 to December 31 beginning with the December 31, 2007 financial statements to comply with New York State Department of Health regulations. These regulations now require an independent audit and certification of the Hospital's Institutional Cost Report to be prepared on a calendar year basis.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. The most significant areas which are affected by the use of estimates include the allowance for uncollectible accounts, estimated third-party payor settlements, self-insurance reserves, and postretirement obligations.

Revenue Recognition

Net patient service revenue is recognized in the period services are performed and is reported at estimated net realizable amounts from patients, third-party payors, and others for services rendered and includes estimated retroactive revenue adjustments due to future audits, reviews and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as more current information becomes available or as years are no longer subject to such audits, reviews, and investigations.

Strong Memorial Hospital
(A Division of the University of Rochester)
Notes to Financial Statements
December 31, 2007

Excess of Revenues Over Expenses

The Hospital's excess of revenues over expenses includes all unrestricted revenue, gains, expenses, and losses for the reporting period, except for net assets released from restrictions for capital purposes, unrealized gains on investments, transfers to the University of Rochester Medical Center Divisions, and transfers from the University for the Hospital's share of Postretirement Benefit Costs.

Cash and Cash Equivalents

The Hospital's cash is included with the University's cash within the same financial institution account, which mainly consists of cash in banks and short-term investments with maturities less than 90 days, except that such instruments purchased with endowment and annuity and life income assets on deposit with trustees are classified as investments. Interest income allocated from the University is included in other gains, net in the accompanying statement of operations and changes in net assets.

Inventory

Inventory consists of pharmaceuticals and medical supplies and is valued at the lower of cost (first-in, first-out) or market.

Equity Investments

The Hospital's equity investments include an investment in a captive insurance company (Note 4) which is recorded under the equity method.

Investments

The Hospital's investments are held as part of the University's consolidated investment pool, and are subject to the same asset allocation between stocks, debt securities, hedge funds and other investments as the overall University investment pool. The Hospital reports investments in equity and debt securities at fair value in the balance sheet based on quoted market prices of public securities markets. The fair value of other investments is based upon values reported by the respective investment managers and consists of readily marketable securities that may be less liquid than the University's other investments. Investment income or loss (including realized gains or losses on investments, interest, and dividends) is included in the excess of revenues over expenses, unless their use is restricted by donor stipulations or law. Unrealized gains and losses on investments are excluded from the operating measures unless the investments are trading securities.

A decline in the market value of an investment security below its cost that is designated as other than temporary is recognized through an impairment charge. Impairment charges are included in excess of revenue over expenses in the statement of operations and changes in net assets and a new cost basis is established.

Assets Whose Use Is Limited

Assets whose use is limited is comprised of investments held by trustees in accordance with indenture agreements to be used for the acquisition of property and equipment and debt retirement. Assets whose use is limited also includes investments whose purpose is designated by the University of Rochester Medical Center Board (the "Board"). Investment income on assets whose use is limited is classified as other gains, net in the accompanying statement of operations and changes in net assets.

Strong Memorial Hospital
(A Division of the University of Rochester)
Notes to Financial Statements
December 31, 2007

Deferred Financing Costs

Deferred financing costs represent costs incurred in connection with the issuance of the Hospital's long-term debt. These costs are capitalized and amortized using the effective interest method over the term of the related borrowing. Accumulated amortization was approximately \$3,735,000 at December 31, 2007.

Property and Equipment

Property and equipment are recorded at cost. Donated property and equipment are recorded at estimated fair value at the date of receipt. The Hospital calculates depreciation using the straight-line method applied to the following useful lives:

Property and fixed equipment	3–50 years
Moveable equipment	3–20 years

The University owns the related land and land improvements, and as such, these assets are not recorded on the Hospital's financial statements. Costs to maintain these land and land improvements are charged to the Hospital based on various allocation methodologies.

Equipment under capital leases is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization.

Interest cost incurred on borrowed funds during the period of construction of property and equipment is capitalized as a component of the cost of acquiring those assets.

Long-Lived Assets

In the event circumstances indicate, the Hospital applies the provisions of Statement of Financial Accounting Standard ("SFAS") No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. Under the guidance of SFAS No. 144, the Hospital reviews the carrying value of its long-lived assets, other than goodwill and purchased intangible assets with indefinite useful lives, if any, for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The Hospital assessment would include an estimate of the undiscounted future cash flows that are directly associated with and that are expected to arise from the use of and eventual disposition of such asset group and if Hospital estimates the undiscounted cash flows over the remaining useful life of the primary asset within the asset group and if the carrying value of the asset group exceeded the estimated undiscounted cash flows, the Hospital would record an impairment charge to the extent the carrying value of the long-lived assets exceeds its estimated fair value.

In connection with its assessment of recoverability of its long-lived assets and its ongoing strategic review of the business and its operations, the Hospital continually reviews the remaining useful lives of its long-lived assets. If this review indicates that the remaining useful life of the long-lived assets has been reduced, the Hospital adjusts the depreciation on that asset to facilitate full cost recovery over its revised estimated remaining useful life. No such adjustment was made in 2007.

Strong Memorial Hospital
(A Division of the University of Rochester)
Notes to Financial Statements
December 31, 2007

Derivative Instruments and Hedging Activities

The Hospital's portion of derivative instruments related to the University's long-term debt is recorded as the fair value of interest rate swaps on the balance sheet. The change in the fair value of the derivative instruments is included in other gains, net in the statement of operations and changes in net assets. 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.

Insurance Claims

The Hospital's provision for estimated professional liability and workers' compensation claims includes estimates of the ultimate costs for claims incurred, but not reported.

Self-insured professional liability and workers' compensation claim losses and expenses are recorded based upon management's estimate of losses associated with pending and probable claims. Loss estimates are derived from data developed by representatives of the Hospital's legal counsel, insurance company, physicians, insurance advisor, actuary, and management.

Benefit Plans

The Hospital participates in a University program which provides certain health care and life insurance benefits to retired employees and spouses under a defined benefit plan. These benefits include basic hospital, surgical and medical insurance, major medical insurance, dental assistance insurance, and group life insurance. Postretirement health care and other benefits are accounted for as a form of deferred compensation that is recognized over the service life of employees.

Postemployment benefits include benefits provided to former or inactive employees after employment but before retirement. Such benefits provided under the University program include workers' compensation benefits, short-term disability benefits and benefits provided under various other programs. See Note 9 for further discussion of benefit plans.

Donor-Restricted Gifts

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets.

When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reflected as unrestricted contributions in the accompanying statement of operations and changes in net assets.

University and Medical Center Cost Allocations

Costs incurred by the University and certain other Medical Center Divisions include administrative and support services and are allocated to the Hospital based on various allocation methodologies. Costs in this category include items such as human resources, information systems and security.

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Income Taxes

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

Effective January 1, 2007, the University adopted Financial Accounting Standards Board ("FASB") Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes – An Interpretation of SFAS No. 109, Accounting for Income Taxes*. The adoption did not have a material effect on the University's or the Hospital's financial statements.

Asset Retirement Obligations

The Hospital accounts for asset retirement obligations in accordance with SFAS No. 143, *Accounting for Asset Retirement Obligations*, and FAS Interpretation No. 47 (FIN 47), *Accounting for Conditional Asset Retirement Obligations – An Interpretation of FASB Statement No. 143*. The Hospital accrues for asset retirement obligations in the period in which they are incurred if sufficient information is available to reasonably estimate the fair value of the obligation. Over time, the liability is accreted to its settlement value. Upon settlement of the liability, the Hospital will recognize a gain or loss for any difference between the settlement amount and liability recorded.

Charity Care and Provision for Bad Debts

As further described in Note 13, the Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue or patient accounts receivable.

The Hospital 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.

New Authoritative Pronouncements

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS 157). The standard defines fair value, outlines a framework for measuring fair value, and details the required disclosures about fair value measurements. The standard is effective for fiscal years beginning after November 15, 2007 except for certain provisions, which were deferred for an additional year. Management is presently evaluating the impact of this pronouncement but does not believe the adoption of SFAS 157 will have a material impact on the financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS 159). The standard permits entities to choose to measure many financial instruments and certain other items at fair value. The standard is effective for fiscal years beginning after November 15, 2007. Management is presently evaluating the impact of this pronouncement but does not believe adoption of SFAS 159 will have a material impact on the financial statements.

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2. Third Party Reimbursement

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

Medicare

Under the Medicare program, the Hospital receives reimbursement under a prospective payment system (PPS) for inpatient services. Under the hospital inpatient PPS, fixed payment amounts per inpatient discharge are established based on the patient's assigned diagnosis related group (DRG). When the estimated cost of treatment for certain patients is higher than the average, providers typically will receive additional "outlier" payments. The Hospital also receives reimbursement under a prospective payment system for certain medical outpatient services, based on service groups, called ambulatory payment classifications (APCs). Other outpatient services are based upon a fee schedule and/or actual costs. The Hospital's Medicare cost reports are subject to audit by the fiscal intermediary and have been audited through December 31, 2004.

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

Medicaid and Other Third-Party Payors

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

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

Revenue from Blue Cross and Preferred Care accounted for approximately 28% and 7%, respectively, of the Hospital's net patient service revenue for the year ended December 31, 2007.

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Revenue from Medicare and Medicaid programs accounted for approximately 32% and 16%, respectively, of the Hospital's net patient revenue for the year ended December 31, 2007. 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 Hospital believes that it is in compliance, in all material respects, with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. Compliance with such laws and regulations can be subject to future government review and interpretation. Non-compliance with such laws and regulations could result in repayments of amounts improperly reimbursed, substantial monetary fines, civil and criminal penalties and exclusion from the Medicare and Medicaid programs.

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

Management believes the amounts recorded in the accompanying financial statements will not be materially affected upon the implementation of such adjustments. During 2007, the Hospital recognized approximately \$16,900,000 of net patient service revenue as a result of changes in estimates related to third party settlements. In addition, during 2007 the Hospital recognized additional third-party payables of approximately \$1,500,000 related to calendar year 2007.

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

3. Concentrations of Credit Risk

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor arrangements. Concentrations of patient accounts receivable by payor classes at December 31, 2007 are as follows:

Medicare	16 %
Medicaid	14 %
Blue Cross	24 %
Preferred Care	10 %
Commercial insurance	11 %
HMO	2 %
Self-pay	13 %
All other	10 %
	<u>100 %</u>

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4. Investment in Captive Insurance Company

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

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

The most recent unaudited financial information for the captive is summarized below for the year ended December 31, 2007:

Results of operations	
Net earned premiums	\$ 243,204,329
Expenses	(284,240,125)
Investment income and realized gains on sales of marketable securities	<u>47,995,595</u>
Net income	<u>\$ 6,959,799</u>
Financial position	
Total assets	\$ 2,065,502,370
Total liabilities	<u>1,820,727,950</u>
Shareholders' equity	<u>\$ 244,774,420</u>

5. Investments

(a) Assets Whose Use Is Limited

Assets whose use is limited is comprised of the following at December 31, 2007:

By Board for property and equipment replacement, debt retirement, and other designated purposes	
Pooled investments, at fair value	<u>\$ 5,064,089</u>
Held by trustees under indenture agreements	
Cash and short-term investments, at fair value	\$ 1,249,359
United States Treasury obligations, at fair value	<u>11,973,275</u>
	<u>13,222,634</u>
Total assets whose use is limited	<u>\$ 18,286,723</u>

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(b) **Investments**

Investments, including investments held for long term purposes, are held as part of the University's consolidated endowment pool and are comprised of the following at December 31, 2007:

Unrestricted investments, at cost	\$ 27,476,218
Temporarily restricted investments, at cost	1,690,296
Market value appreciation	
Of unrestricted investments	8,091,734
Of temporarily restricted investments	1,599,027
Of permanently restricted investments	7,895,024
	<u>\$ 46,752,299</u>
Permanently restricted investments, at contributed value	<u>\$ 3,223,836</u>

Investment income, gains and losses for assets whose use is limited, cash, other investments and interest rate swaps are comprised of the following for the year ended December 31, 2007:

Included in other gains, net	
Unrealized loss on interest rate swaps	\$ (2,901,450)
Interest income	8,581,367
Net realized gains	2,314,409
	<u>\$ 7,994,326</u>
Included in other changes in net assets	
Unrealized gains and losses, net	<u>\$ 2,396,249</u>

6. Property and Equipment

Property and equipment is comprised of the following at December 31, 2007:

Property and fixed equipment	\$ 368,023,312
Moveable equipment	228,129,446
	<u>596,152,758</u>
Less: Accumulated depreciation and amortization	<u>(350,705,209)</u>
	245,447,549
Construction in progress	44,891,313
Property and equipment, net	<u>\$ 290,338,862</u>

Construction in progress is made up of certain projects started but not completed at December 31, 2007, the most significant of which include the Cancer Center building, various imaging sciences projects, and information technology upgrades. The estimated cost to complete these projects is \$23,676,695.

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7. Long-Term Debt and Lease Arrangements

Long-term debt arrangements are entered into by the University, with amounts recorded by the Hospital based on its share of each respective debt issuance.

Long-term debt obligations consist of the following at December 31, 2007:

Dormitory Authority of the State of New York (DASNY)	
Series 1999B (a)	\$ 5,330,000
Series 2003B (b)	36,425,000
Series 2003C (c)	62,105,000
Series 2006B (d)	17,050,000
Series 2007B (e)	<u>42,046,460</u>
	162,956,460
Less: Current installments of long-term debt	<u>(7,300,000)</u>
	<u>\$ 155,656,460</u>

(a) DASNY – Series 1999B

Pursuant to an agreement between the University and DASNY dated August 15, 1999, DASNY issued and sold \$25,860,000 of bonds whose proceeds were used for the construction of a new Emergency Department, expansion of the cardiac catheterization laboratory, and renovations of the clinical laboratories. On March 16, 2006 a portion of the outstanding Series 1999B bonds were refinanced through bond Series 2006B. The Hospital is repaying \$6,785,000 of Series 1999B which was not refinanced over an 8-year period ending June 30, 2013 at rates of interest varying from 4.75% to 5.4%.

(b) DASNY – Series 2003B

Pursuant to an agreement between the University and DASNY dated November 6, 2003, DASNY issued and sold \$49,650,000 of bonds, of which a portion was used to finance the expansion of the Parking Garage and various other Hospital capital projects and equipment. The Hospital is repaying the indebtedness over a 29-year period ending July 1, 2033 at an average interest rate of 3.97%. Series 2003B bonds also refinanced University of Rochester Series 1993A bonds and a portion of the University of Rochester Series 1994 bonds.

(c) DASNY – Series 2003C

Pursuant to an agreement between the University and DASNY dated November 6, 2003, DASNY issued and sold \$82,225,000 of bonds, of which a portion was used to finance the construction of the Adult Intensive Care Unit and other Hospital capital projects and equipment. The Hospital is repaying the indebtedness over a 29-year period ending July 1, 2033 at an average interest rate of 3.97%. Series 2003C bonds also refinanced a portion of the University of Rochester Series 1994 bonds.

(d) DASNY – Series 2006B

Pursuant to an agreement between the University and DASNY dated March 16, 2006, DASNY issued and sold \$17,050,000 of bonds which refinanced a portion of the University of Rochester Series 1999B bonds. The Hospital is repaying the indebtedness over a 19-year period ending June 30, 2024 at an average interest rate of 3.92%.

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(e) **DASNY – Series 2007B**

Pursuant to an agreement between the University and DASNY dated February 21, 2007, DASNY issued and sold \$40,290,000 of bonds whose proceeds were used for construction of the Hospital's portion of the Cancer Center building and equipment, renovation of surgical adult intensive and intermediate care units, renovation of the medical/surgical behavioral inpatient unit, and other Hospital capital projects and equipment. The Hospital is repaying the indebtedness over a 32-year period ending January 1, 2039 at rates of interest varying from 4.0% to 5.0%.

Scheduled principal repayments on long-term debt including unamortized premiums for the next five years are as follows:

2008	\$ 7,362,268
2009	7,032,268
2010	7,027,268
2011	7,617,268
2012	7,932,268
Thereafter	<u>125,985,120</u>
	<u>\$ 162,956,460</u>

On July 31, 2003 the University executed \$164,425,000 of interest rate swaps with third parties related to the DASNY Series 2003 debt issuances. 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. Under these agreements, the counterparties pay the University a variable interest rate equal to 61.5% of one-month LIBOR plus 56 basis points. The University will pay the counterparties a fixed interest rate of 3.97%. Net payments or receipts under the swap agreements are recorded as an adjustment to interest expense by the University. The contractual relationship under these agreements will last until July 1, 2033. The University is obligated to make payments under the Series 2003 agreement. The Hospital is allocated its pro rata portion of these swaps based on its allocated share of the Series 2003 debt issuance.

On March 16, 2006 the University executed \$111,180,000 of interest rate swaps with a third party related to the DASNY Series 2006 debt issuances. 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. Under this agreement, the counterparty will pay the University a variable interest rate based on the Bond Market Association (BMA) Municipal Swap Index. The University will pay the counterparty a fixed interest rate of 3.92%. Net payments or receipts under the swap agreement are recorded as an adjustment to interest expense by the University. The contractual relationship under this agreement will last until July 1, 2027. The University is obligated to make payments under the Series 2006 agreement. The Hospital is allocated its pro rata portion of the swap based on its allocated share of the Series 2006 debt issuance.

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For the year ended December 31, 2007, the University recorded a net loss of \$6,442,314 and a liability of \$10,244,707, representing the fair value of the interest rate swap as of December 31, 2007. The Hospital's portion of the net loss was based on its share of the Series 2003 and Series 2006 debt issuances. For the year ended December 31, 2007, the Hospital recorded a net loss of \$2,901,450 and a liability of \$4,907,753, representing the Hospital's share of the fair value of the interest rate swap as of December 31, 2007. The net loss is included in other gains, net on the statement of operations and changes in net assets.

Each of the above outstanding agreements contain certain covenants, which include, among other things, financial covenants that must be met on an annual basis.

The Hospital, either directly or through the University, also has several noncancelable operating leases, primarily for equipment and clinical and office space, that expire over the next thirteen years. Rental expense for all operating leases was \$11,953,438 for the year ended December 31, 2007.

The Hospital's future minimum lease payments under noncancelable operating leases (with initial or remaining lease terms in excess of one year) at December 31, 2007 are:

2008	\$ 5,321,007
2009	4,411,191
2010	3,790,450
2011	3,326,814
2012	3,046,907
Thereafter	<u>9,149,606</u>
Total minimum lease payments	<u>\$ 29,045,975</u>

A summary of the Hospital's investment income on borrowed funds held by the trustee under bond and equipment loan agreements for the year ended December 31, 2007 is as follows:

Investment income	
Capitalized	\$ 610,764
Credited to nonoperating gains	14,009
	<u>\$ 624,773</u>

8. Professional Liability Claims

The Hospital'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 Hospital is \$205,500,000 per claim. The per claim coverage amount at each of the five participating institutions has been tailored to their own experiences and exposures.

Based on estimates provided by the actuaries retained by MCIC Vermont, Inc., the Hospital's obligation for incurred but not reported claims was approximately \$26,773,000 as of December 31, 2007, which has been recorded as a noncurrent liability. This amount has not been discounted.

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9. Benefit Plans

(a) Self-Insurance Plans

The University is self-insured for workers' compensation, disability and medical benefits. Liabilities for asserted and unasserted claims under the workers' compensation program at December 31, 2007 were discounted by 4.5%, and amounted to \$32,614,000. The Hospital's portion of this liability at December 31, 2007 amounted to \$20,347,000.

This liability is offset by a receivable for the expected insurance direct payment against these claims of \$3,524,827 at December 31, 2007.

The University has a \$25.5 million standby letter of credit with JPMorgan Chase Bank to cover potential liabilities under the University's self-insured workers' compensation program.

The University is self-insured for health care benefits. Based on estimates provided by actuaries, the Hospital's portion of the University's obligation for incurred but not reported claims was \$3,548,000. This amount has not been discounted.

(b) Retirement Plan

Most full-time University employees, including Hospital employees in eligible positions, participate in the retirement plans administered by TIAA-CREF, or in a defined contribution retirement plan sponsored by the University. The University makes contributions to the plan after two years of service based on a percentage of the employee's salary which are immediately vested for the benefit of the participants. Hospital contributions to the plans amounted to approximately \$18,844,000 for the year ended December 31, 2007.

(c) Postemployment Benefits

The Hospital participates in a postemployment benefit plan sponsored by the University. The Hospital has employed independent actuaries to estimate the postemployment benefit costs of the Hospital. Accrued postemployment benefits of the Hospital amounted to approximately \$29,800,000 at December 31, 2007. These amounts are inclusive of workers' compensation, disability and medical benefits amounts as discussed in (a). The current portion of the postemployment benefits has been actuarially determined to be approximately \$13,154,000 as of December 31, 2007.

The Hospital's portion of the University's postemployment benefits expense was \$1,040,000 for the year ended December 31, 2007.

(d) Postretirement Benefit Plan

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

The Hospital's portion of the University's postretirement plan expense was \$4,700,000 for the year ended December 31, 2007.

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The following table presents the plan's status recognized on a University wide basis, including the Hospital, using the actuarial valuation performed as of June 30, 2007:

Change in benefit obligations	
Benefit obligation at beginning of year	\$ 109,923,619
Service cost	2,183,068
Interest cost	6,408,001
Estimated plan participants' contributions	1,450,949
Actuarial gain	(6,102,305)
Benefits paid	(7,698,136)
Amendments	-
Benefit obligation at end of year	<u>\$ 106,165,196</u>
Change in plan	
Fair value of plan assets at beginning of year	\$ -
Employer contributions	6,247,187
Participant contributions	1,450,949
Benefits paid	(7,698,136)
Fair value of plan assets at end of year	<u>\$ -</u>
Components of accrued benefit	
Funded status	\$ (106,165,196)
Unrecognized net actuarial (gain) loss	(1,757,816)
Unrecognized prior service cost	29,023,467
Accrued benefit	<u>\$ (78,899,545)</u>
Amounts recognized in the balance sheet consist of	
Accrued postretirement benefit cost	\$ (71,334,261)
Net postretirement benefit expense	(13,812,471)
Net benefits paid	6,247,187
Accrued benefits paid at end of year (before SFAS 158)	(78,899,545)
Impact of SFAS 158 changes	(27,265,651)
Net amount recognized in unrestricted net assets	<u>\$ (106,165,196)</u>
Components of net periodic benefit cost	
Service cost	\$ 2,183,068
Interest cost	6,408,001
Amortization of prior service cost	5,221,402
Net periodic benefit cost	<u>\$ 13,812,471</u>
Hospital's portion of net periodic benefit cost	<u>\$ 4,700,166</u>

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

	Estimated Contributions/ Benefit Payments	Estimated 28% Rx Subsidy Payments
2008	\$ 7,345,754	\$ 1,286,154
2009	7,666,156	1,395,909
2010	7,972,697	1,497,983
2011	8,208,209	1,575,208
2012	8,322,527	1,650,627
2013 to 2017	45,130,609	8,333,043
Total estimated future payments	<u>\$ 84,645,952</u>	<u>\$ 15,738,924</u>

Benefits are valued based upon the projected unit cost method. The weighted average assumptions used at the measurement date, April 1, 2007 are as follows:

Discount rate for obligation	6.00 %
Expected return on plan assets	N/A
Rate of compensation increase	N/A
Health care cost trend rate - initial	9.00 %
Health care cost trend rate - final	4.00 %

The rate increase in healthcare costs was assumed to decrease to 4% in 2012 and to remain at that level thereafter. Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one percentage-point change in the health care cost trend rate would have the following effects (in thousands):

	One Percentage Point Increase	One Percentage Point Decrease
Effect on total of service and interest cost components	\$ 564	\$ (498)
Effect on postretirement benefit obligation	\$ 4,840	\$ (4,609)

A single actuarial calculation is performed for all employees covered by the postretirement benefit plan. The components of net periodic postretirement benefit cost and the actuarial present values of postretirement benefit obligations are not calculated for the individual divisions of the University. Instead, total net periodic postretirement benefit cost is allocated to the individual divisions of the University. The Hospital's portion of the postretirement benefit liability of the University was recorded by the Hospital at December 31, 2007 and amounted to \$48,255,997.

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

In September 2006, the Financial Accounting Standards Board issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, which is an amendment of SFAS No.'s 87, 88, 106 and 132(R). SFAS No. 158 requires employers to recognize the overfunded or underfunded status of a defined benefit pension and postretirement plan as an asset or liability in its balance sheet and to recognize changes in that funded status in the year in which the changes occur through changes in unrestricted net assets. This statement also requires an employer to measure the funded status of the plan as of the balance sheet date. The University has adopted the balance sheet recognition provisions of SFAS No. 158 as of June 30, 2007. The impact of the adoption resulted in a decrease of \$27,265,651 in unrestricted net assets, which has been recorded as a cumulative effect of a change in accounting principle on the University's statements. The Hospital's portion of the SFAS No. 158 adoption as allocated from the University was \$9,278,070 which has been recorded as a transfer on the statement of operations and changes in net assets.

SFAS No. 158 will also require employers to measure benefit plan assets and liabilities and determine the discount rate for subsequent year expense recognition as of the balance sheet date for financial reporting purposes, thus eliminating the opportunity to use a measurement data up to 90 days prior to the balance sheet date. The change in measurement date is not required until the fiscal year ending after December 15, 2008, and will be recognized by the University at that time. None of the changes prescribed by SFAS No. 158 had an impact on the Hospital's results of operations or cash flows in calendar year 2007.

10. Disclosures About the Fair Value of Financial Instruments

(a) Cash and Cash Equivalents, Short-term Investments, Patient Accounts Receivable, All Other Current Assets, and Current Liabilities

The carrying amounts approximate fair value because of the short maturity of these instruments.

(b) Long-Term Debt

The fair value of the Hospital's long-term debt instruments is based on the amount of future cash flows discounted using the Hospital's current borrowing rate for similar debt instruments of comparable maturity.

The estimated fair value of the Hospital's long-term debt at December 31, 2007 is summarized as follows:

	Carrying Amount	Estimated Fair Value
Series 1999B	\$ 5,330,000	\$ 5,470,279
Series 2003B	36,425,000	34,392,102
Series 2003C	62,105,000	58,796,985
Series 2006B	17,050,000	15,833,233
Series 2007B	42,046,460	41,310,035

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Limitations

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

11. Related Party and Inter-Divisional Transactions

The Hospital has a loan receivable from a related party. As of December 31, 2007, the amount outstanding, including accumulated interest of \$1,740,529, was \$5,160,906. The terms of the loan include interest at 9.5% per annum through December 31, 2001. This loan receivable is fully reserved as of December 31, 2007. A portion of the loan and accompanying reserves were adjusted by services provided by the related party.

The Hospital guaranteed to cover a portion of the outstanding receivable balance on the books of Highland Hospital, which is due from Highlands at Brighton, in the event there is an insufficient cash flow from Highlands at Brighton over the five year period to repay. The Hospital's guarantee as of December 31, 2007 was \$777,000.

During 1997 Strong Partners Health System (SPHS) became the sole corporate member of Highland Hospital of Rochester, Highland Community Development Corporation, and the Highlands Living Center. The University of Rochester is the sole corporate member of SPHS. The Hospital provides administrative services to SPHS. During the year ended December 31, 2007, the Hospital charged SPHS approximately \$3,945,000 for these services.

In addition, the Hospital purchases certain other administrative services from SPHS. During the year ended December 31, 2007, the Hospital was charged approximately \$527,000 for these services, which are included in salaries, benefits, and all other expenses on the statement of operations and changes in net assets.

In order to fulfill specific strategic initiatives of the Hospital and Medical Center, each year the Hospital funds, through inter-divisional transfers, certain capital and operating needs of other divisions of the Medical Center. These transfers include amounts for primary care development, physician recruitment commitments, and other strategic initiatives of the Medical Center. The transfers to the University of Rochester Medical Center Divisions were approximately \$33,084,000 for the year ended December 31, 2007.

The Hospital has recorded a liability to the University in the amount of \$2,871,685 related to the allocation of certain costs for an upgrade of the University's IT network infrastructure.

Additionally, the Hospital has agreed to support The Highlands Living Center's operations through at least January 1, 2009, if necessary.

Strong Memorial Hospital
(A Division of the University of Rochester)
Notes to Financial Statements
December 31, 2007

12. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at December 31, 2007:

Purchase of equipment and renovations	\$ 5,984,823
Certain specific acute hospital costs	6,978,816
Research	183,444
Other	3,338,499
	<u>\$ 16,485,582</u>

Permanently restricted net assets are restricted to the following purpose at December 31, 2007:

Investments to be held in perpetuity, the income from which is expendable to support health care services	<u>\$ 3,223,836</u>
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Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes of the following for the year ended December 31, 2007:

Hospital operations	\$ 470,230
Purchase of equipment and renovations	631,890
	<u>\$ 1,102,120</u>

13. Uncompensated Care

The Hospital's policy is to treat patients in need of medical services without regard to their ability to pay for such services. The Hospital 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 Hospital 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 the State 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 must 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. Based on an analysis of bad debt expense by zip code, the Hospital estimates that 70% of bad debts were from patients residing in zip codes where over 50% of households would qualify for free or discounted care under the hospital's charity care policy.

Strong Memorial Hospital
(A Division of the University of Rochester)
Notes to Financial Statements
December 31, 2007

During the year ended December 31, 2007, the following levels of uncompensated care were provided:

Charges forgone for charity care	<u>\$ 9,121,642</u>
Excess of cost over reimbursement for services provided to Medicaid patients	\$ 16,679,204
Bad debts expense	<u>27,188,346</u>
	<u>\$ 43,867,550</u>

14. Functional Expenses

The Hospital provides tertiary and general health care services to residents within its geographic location, including pediatrics, obstetrics, psychiatry, rehabilitation, cardiology, outpatient surgery, and liver and bone marrow transplantation. Expenses relating to providing these services are as follows for the year ended December 31, 2007:

General service	\$ 346,011,989
Ancillary service	309,798,269
Inpatient routine service	111,785,006
Outpatient service	<u>60,985,132</u>
	<u>\$ 828,580,396</u>

15. Commitments and Contingencies

In the ordinary course of operations, the Hospital 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 financial position.

Appendix B

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SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENT

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SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENT

The following is a brief summary of certain provisions of the Loan Agreement pertaining to the Series 2006 Bonds. Such summary does not purport to be complete and reference is made to the Loan Agreement for full and complete statements of such and all provisions. Defined terms used herein shall have the meanings ascribed to them in Appendix A.

Duration of Loan Agreement

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

(Section 42)

Construction of Projects

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

(Section 5)

Amendment of a Project; Cost Increases; Additional Bonds

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

(Section 6)

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

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

(a) On or before the date of delivery of Bonds of a Series, the Authority Fee in connection with the issuance of such Bonds;

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

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

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

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

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

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

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

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

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

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

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

(l) Promptly upon demand by an Authorized Officer of the Authority, the difference between the amount on deposit in the Arbitrage Rebate Fund available to be rebated in connection with the Bonds of a Series or otherwise available therefor under the Resolution and the amount of rebate, yield reduction payments, interest and

penalty, if any, required to be paid to the Department of the Treasury of United States of America in accordance with the Code in connection with the Bonds of such Series; and

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

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

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

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

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

Appendix C

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

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

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

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

(Section 9)

Consent to Pledge and Assignment

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

(Section 10)

Limitation on Liens

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

so determines, any other indebtedness or obligation thereafter created that is not subordinate in right of payment to the University's indebtedness under the Loan Agreement) shall be secured equally and ratably with or prior to all other obligations secured thereby as long as such Debt shall be so secured, except that the foregoing provisions shall not apply to:

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

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

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

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

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

(Section 11)

Exempted Transactions

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

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

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

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

Appendix C

Liens securing the Debt then proposed to be issued, assumed or guaranteed or the Lien then proposed to be created, incurred or assumed, exceeds ten percent (10%) (or such higher percentage as shall be consented to by an Authorized Officer of the Authority) of (x) the value (as shown on the most recent audited financial statements of the University) of all stocks, bonds, notes or other investments of the University less (y) one hundred ten percent (110%) of the principal amount of Bonds then Outstanding, or if at the time such Debt is issued, assumed or guaranteed or such Lien is created, incurred or assumed the market value (in the opinion of an Authorized Officer of the University) of stocks, bonds, notes and other investments which are derived from gifts or bequests, not required to pay any item which is a Cost of a Project, held as part of the University's permanent capital, and free and clear of any lien, pledge, charge, security interest or other encumbrance or statutory, contractual or other restriction, is not at least equal to one hundred ten percent (110%) of the principal amount of Bonds then Outstanding.

(Section 12)

Financial Covenants

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

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

(Section 13)

Management Consultant

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

If the University fails to comply with any of the covenants contained in the Loan Agreement in any fiscal year succeeding a fiscal year in which such failure has occurred, the University shall engage within sixty (60) days of such failure, at the University's expense, a Management Consultant to review the rates, operations and management of the University and any other matter deemed appropriate by the Authority and to make such recommendations with respect to such rates, operations, management and other matters as will enable the University to comply with such covenants within a reasonable period. The University shall immediately notify an Authorized Officer of the Authority of such engagement. Copies of the report and recommendations of the Management

Consultant shall be filed with the Authority, the Trustee, the board of trustees of the University and an Authorized Officer of the University no later than one hundred twenty (120) days following the date of engagement of such Management Consultant.

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

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

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

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

(Section 14)

Tax-Exempt Status

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

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

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

(Section 16)

Appendix C

Use of Projects; Restrictions on Religious Use

Subject to the Tax Certificate, the University agrees that at least ninety-five percent (95%) of each Project shall be used with respect to the Hospital or occupied or used only by or for students or members of the faculty or staff of the University, or, on a temporary basis, persons connected with the Hospital, or educational, research or other activities incidental to the operations of the University or the Hospital, subject to and consistent with the requirements of Loan Agreement. Subject to the rights, duties and remedies of the Authority under the Loan Agreement, the University shall have sole and exclusive control of, possession of and responsibility for (i) the Projects; (ii) the operation of the Projects and supervision of the activities conducted therein or in connection with any part thereof; and (iii) the maintenance, repair and replacement of the Projects.

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

(Sections 20 and 21)

Covenant as to Insurance

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

(Section 23)

Financial Information

The University shall also furnish to the Authority and the Trustee within sixty (60) days after the end of each of the first three (3) quarters of the University's fiscal year a statement certified by an Authorized Officer of the University, and within one hundred twenty (120) days after the end of such fiscal year an audited statement, setting forth the Available Assets and General Liabilities of the University at the end of such fiscal year. The University shall also furnish to the Authority and the Trustee as promptly as practicable after the end of each fiscal quarter, but not later than thirty (30) days thereafter, a certified statement by an Authorized Officer of the University, which

shall state as of the end of such fiscal quarter (i) the market value of the bonds, notes, debentures or other similar securities owned by the University which comply with the requirements of the Loan Agreement, (ii) the outstanding principal amount of Short Term Debt calculated in accordance with the Loan Agreement, and (iii) whether the University is in compliance with the provisions of the Loan Agreement. At the request of an Authorized Officer of the Authority, the University shall submit documentation supporting the conclusions and statements contained in any such certified statements.

(Section 26)

Defaults and Remedies

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

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

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

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

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

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

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

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

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

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

(j) an order of a court having jurisdiction shall be made directing the sale, disposition or distribution of all or substantially all of the property belonging to the University, which order shall remain undismissed or

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unstayed for the earlier of (x) three (3) business days prior to the date provided for in such order for such sale, disposition or distribution or (y) an aggregate of thirty (30) days from the date such order shall have been entered; or

(k) a final judgment for the payment of money which in the reasonable judgment of the Authority will materially adversely affect the rights of the Holders of the Bonds shall be rendered against the University and at any time after thirty (30) days from the entry thereof, (i) such judgment shall not have been discharged, or (ii) the University shall not have taken and be diligently prosecuting an appeal therefrom or from the order, decree or process upon which or pursuant to which such judgment shall have been granted or entered, and shall not have caused, within thirty (30) days, the execution of or levy under such judgment, order, decree or process or the enforcement thereof to have been stayed pending determination of such appeal.

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

(a) declare all sums payable by the University under the Loan Agreement immediately due and payable;

(b) direct the Trustee to withhold any and all payments, advances and reimbursements from the proceeds of Bonds or any Construction Fund or otherwise to which the University may otherwise be entitled under the Loan Agreement and in the Authority's sole discretion apply any such proceeds or moneys for such purposes as are authorized by the Resolution;

(c) withhold any or all further performance under the Loan Agreement;

(d) maintain an action against the University under the Loan Agreement to recover any sums payable by the University or to require its compliance with the terms of the Loan Agreement;

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

(f) take any action necessary to enable the Authority to realize on its liens under the Loan Agreement or by law, and any other action or proceeding permitted by the terms of the Loan Agreement or by law.

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

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

(Section 29)

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SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION

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SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION

The following is a brief summary of certain provisions of the Resolution as supplemented by the Series Resolutions authorizing the Series 2006 Bonds and the Bond Series Certificates relating thereto. Such summary does not purport to be complete and reference is made to the Resolution, the Series Resolutions and the Bond Series Certificates for full and complete statements of such and all provisions. Defined terms used herein shall have the meanings ascribed to them in Appendix A.

Contract with Bondholders

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

(Section 1.03)

Pledge Made by Resolution

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

(Section 5.01)

Establishment of Funds and Accounts

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

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

There is also established in the Debt Service Fund (i) an Institution Payment Account, (ii) a Redemption Account and (iii) a Credit Facility Account. Accounts and subaccounts within each of the foregoing funds and accounts, in addition to the accounts and subaccounts, if any, required to be established by the Resolution or by any Series Resolution, may be established from time to time in accordance with any Series Resolution, any Bond Series Certificate or upon direction to the Trustee by an Authorized Officer of the Authority for accounting purposes or any other purpose. All moneys at any time deposited in any fund, account or subaccount created and pledged by the

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Resolution, other than the Arbitrage Rebate Fund, or by any Series Resolution or required thereby to be created shall be held in trust for the benefit of the Holders of Bonds, but shall nevertheless be disbursed, allocated and applied solely for the uses and purposes provided in the Resolution.

(Section 5.02)

Application of Bond Proceeds and Allocation Thereof

Upon the receipt of the proceeds from the sale of a Series of Bonds, the Authority shall apply such proceeds as specified in the Resolution and in the Series Resolution authorizing such Series or the Bond Series Certificate relating to such Series.

Accrued interest, if any, received upon the delivery of a Series of Bonds shall be deposited in the Interest Account unless all or any portion of such amount is to be otherwise applied as specified in the Series Resolution authorizing such Series or the Bond Series Certificate relating to such Series.

(Section 5.03)

Construction Fund

As soon as practicable after the delivery of each Series of Bonds, there shall be deposited in the Construction Fund or Funds established for the Project or Projects in connection with which such Series of Bonds was issued the amount required to be deposited therein pursuant to the Series Resolution authorizing the issuance of such Series or the Bond Series Certificate relating to such Series. Except as otherwise provided in the Resolution and in any applicable Series Resolution or Bond Series Certificate, moneys deposited in the Construction Fund shall be used only to pay the Costs of Issuance and the Costs of the Project for which such fund was established.

Upon receipt by the Trustee of a certificate relating to the completion of a Project, the moneys, if any, then remaining in the Construction Fund relating to such Project, after making provision in accordance with the direction of an Authorized Officer of the Authority for the payment of any Costs of Issuance and Costs of the Projects in connection with such Project then unpaid, shall be paid or applied by the Trustee as follows and in the following order of priority:

First: Upon the direction of an Authorized Officer of the Authority, to the Arbitrage Rebate Fund, the amount set forth in such direction; and

Second: To the Debt Service Fund, to be applied in accordance with the Resolution, any balance remaining.

(Section 5.04)

Deposit and Allocation of Revenues

The Revenues and any other moneys, which by any of the provisions of the Loan Agreement are required to be paid to the Trustee, shall upon receipt by the Trustee be deposited or paid to the Trustee as follows in the following order of priority:

First: To the Institution Payment Account in the Debt Service Fund (i) in the case of Revenues received during the period from the beginning of each Bond Year until December 31 thereof, the amount, if any, necessary to make the amount in the Debt Service Fund equal to (a) the interest on Outstanding Bonds payable on or prior to the next succeeding January 1, including the interest estimated by the Authority to be payable on Variable Interest Rate Bonds on and prior to the next succeeding January 1, (b) the Sinking Fund Installments of Outstanding Option Bonds becoming due and payable on or prior to the next succeeding January 1, and (c) the purchase price or Redemption Price of Outstanding Bonds theretofore contracted to be purchased or called for redemption pursuant to the Resolution on or prior to the next succeeding January 1, plus accrued interest thereon to the date of purchase or redemption; and (ii) in the case of Revenues received thereafter and until the end of such Bond Year, the amount, if any, necessary to make the amount in the Debt Service Fund equal to (a) the interest on and the principal and Sinking Fund Installments of Outstanding Bonds becoming due and payable on or prior to the next succeeding July 1, including the interest estimated by the Authority to be payable on Variable Interest Rate Bonds on and prior

to such July 1 and (b) the purchase price or Redemption Price of Outstanding Bonds theretofore contracted to be purchased or called for redemption pursuant to the Resolution on or prior to the next succeeding July 1, plus accrued interest thereon to the date of purchase or redemption; and

Second: To the Authority, unless otherwise paid, such amounts as are payable to the Authority for: (i) any expenditures of the Authority for fees and expenses of auditing, and fees and expenses of the Trustee and Paying Agents, all as required by the Resolution, (ii) all other expenditures reasonably and necessarily incurred by the Authority in connection with the financing of the Projects, including expenses incurred by the Authority to compel full and punctual performance of all the provisions of the Loan Agreement in accordance with the terms thereof, and (iii) any fees of the Authority; but only upon receipt by the Trustee of a certificate signed by an Authorized Officer of the Authority, stating in reasonable detail the amounts payable to the Authority pursuant to this paragraph Second.

The Trustee shall notify the Authority and the University promptly after making the payments required by paragraphs First and Second of this subdivision, of any balance of Revenues then remaining. After making the payments required by paragraphs First and Second of this subdivision, the balance, if any, of the Revenues then remaining shall, upon the direction of an Authorized Officer of the Authority, be paid by the Trustee to the Construction Fund or the Debt Service Fund, or paid to the University, in the respective amounts set forth in such direction. Any amounts paid to the University shall be free and clear of any pledge, lien, encumbrance or security interest created by the Resolution or by the Loan Agreement.

(Section 5.05)

Debt Service Fund

1. The Trustee shall on or prior to each interest payment date:
 - (a) pay to itself and any other Paying Agent from the Credit Facility Account, with respect to Bonds to which a Direct Pay Credit Facility is in effect,
 - (i) the interest due and payable on all such Outstanding Bonds on such interest payment date;
 - (ii) the principal amount due and payable on all such Outstanding Bonds on such interest payment date; and
 - (iii) the Sinking Fund Installments or other amounts related to a mandatory redemption, if any, due and payable on all such Outstanding Bonds on such interest payment date.
 - (b) pro rata to the extent of amounts on deposit in the Institution Payment Account,
 - (i) pay to itself and any other Paying Agent with respect to Bonds with respect to which no Credit Facility is in effect (A) the interest due and payable on all such Outstanding Bonds on such interest payment date; (B) the principal amount due and payable on all such Outstanding Bonds on such interest payment date; and (C) the Sinking Fund Installments or other amounts related to a mandatory redemption, if any, due and payable on all such Outstanding Bonds on such interest payment date; and
 - (ii) transfer directly to each Facility Provider which has provided a Direct Pay Credit Facility with respect to Bonds of a Series, an amount sufficient to reimburse such Facility Provider for amounts paid into the Credit Facility Account of the Debt Service Fund pursuant to a draw under the Facility Provider's Direct Pay Credit Facility in accordance with the Resolution; provided, however, the Trustee shall not transfer moneys from the Institution Payment Account or any other fund or account to reimburse the Facility Provider for amounts drawn on the Facility Provider's Direct Pay Credit Facility until after the amounts drawn on the Direct Pay Credit Facility have been deposited into the Credit Facility Account.

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The amounts paid out pursuant to this subdivision (1) shall be irrevocably pledged to and applied to such payments.

The Trustee shall make the payments required to be made pursuant to this subdivision (1) with respect to a Series of Bonds for which a Direct Pay Credit Facility is in effect with amounts on deposit in the Credit Facility Account. If the amounts on deposit in the Credit Facility Account are insufficient to make such payments when due, then the Trustee shall use other Available Moneys on deposit in the Debt Service Fund.

Notwithstanding any other provision of the Resolution or of any Series Resolution, Bond Series Certificate or the Loan Agreement, amounts drawn on a Direct Pay Credit Facility and the earnings thereon shall not be deemed to be property of the Authority or the University and shall be held in the Credit Facility Account (other than amounts derived from a Direct Pay Credit Facility to pay the purchase price on a Series of Option Bonds which shall be held and applied in accordance with the provisions of the Series Resolution authorizing such Bonds or the Bond Series Certificate relating thereto) separate and apart from all other funds in the Debt Service Fund, and the Trustee or the Paying Agent shall apply such amounts solely to pay the principal, Sinking Fund Installments, if any, or Redemption Price of or interest on Bonds to which such Direct Pay Credit Facility relates.

2. Notwithstanding the provisions of subdivision (1), the Authority may, at any time subsequent to July 1 of any Bond Year but in no event less than forty-five (45) days prior to the succeeding date on which a Sinking Fund Installment is scheduled to be due, direct the Trustee to purchase, with moneys on deposit in the Debt Service Fund, at a price not in excess of par plus interest accrued and unpaid to the date of such purchase, Term Bonds to be redeemed from such Sinking Fund Installment. Any Term Bond so purchased shall be canceled upon receipt thereof by the Trustee and evidence of such cancellation shall be given to the Authority. The principal amount of each Term Bond so canceled shall be credited against the Sinking Fund Installment due on such date, provided that such Term Bond is canceled by the Trustee prior to the date on which notice of redemption is given.

3. Notwithstanding the provisions of subdivision (1), the University pursuant to the Loan Agreement may deliver, at any time subsequent to July 1 of any Bond Year, but in no event less than forty-five (45) days prior to the succeeding date on which a Sinking Fund Installment is scheduled to be due, to the Trustee for cancellation one or more Term Bonds of the Series and maturity to be so redeemed on such date from such Sinking Fund Installment. Any Term Bond so delivered to the Trustee shall be canceled upon receipt thereof by the Trustee and evidence of such cancellation shall be given to the Authority. The principal amount of each Term Bond so canceled shall be credited against the Sinking Fund Installment due on such date; *provided, however*, that such Term Bond is canceled by the Trustee prior to the date on which notice of redemption is given.

4. Moneys in the Debt Service Fund in excess of the amount required to pay the principal of Outstanding Bonds payable on or prior to the next succeeding July 1, the interest on Outstanding Bonds payable on the next succeeding interest payment date and the purchase price or Redemption Price of Outstanding Bonds theretofore contracted to be purchased or called for redemption, plus accrued interest thereon to the date of purchase or redemption, shall be retained therein or applied by the Trustee in accordance with the direction of an Authorized Officer of the Authority to: (i) the purchase of Outstanding Bonds of any Series at purchase prices not exceeding the Redemption Price applicable on the next interest payment date on which such Bonds are redeemable, plus accrued and unpaid interest to such date, at such times and in such manner as an Authorized Officer of the Authority shall direct; (ii) to the redemption of Bonds as provided in the Resolution, at the Redemption Prices specified in the Series Resolution authorizing the issuance of such Bonds or the Bond Series Certificate relating to such Bonds; or (iii) to the defeasance of the Bonds in accordance with the Resolution.

(Section 5.06)

Arbitrage Rebate Fund

The Trustee shall deposit to the Arbitrage Rebate Fund any moneys delivered to it by the University for deposit therein and, notwithstanding any other provisions of the Resolution, shall transfer to the Arbitrage Rebate Fund, in accordance with the directions of an Authorized Officer of the Authority, moneys on deposit in any other funds held by the Trustee under the Resolution at such times and in such amounts as set forth in such directions.

Moneys on deposit in the Arbitrage Rebate Fund shall be applied by the Trustee in accordance with the direction of an Authorized Officer of the Authority to make payments to the Department of the Treasury of the United States of America at such times and in such amounts as the Authority shall determine to be required by the Code to be rebated to the Department of the Treasury of the United States of America. Moneys which an Authorized Officer of the Authority determines to be in excess of the amount required to be so rebated shall be deposited to the Debt Service Fund in accordance with the directions of such Authorized Officer.

If and to the extent required by the Code, the Authority shall periodically, at such times as may be required to comply with the Code, determine the amount of Excess Earnings with respect to each Series of Bonds and direct the Trustee to (i) transfer from any other of the funds and accounts held by the Trustee under the Resolution and deposit to the Arbitrage Rebate Fund, all or a portion of the Excess Earnings with respect to each Series of Bonds and (ii) pay out of the Arbitrage Rebate Fund to the Department of the Treasury of the United States of America the amount, if any, required by the Code to be rebated thereto.

(Section 5.07)

Application of Moneys in Certain Funds for Retirement of Bonds

Notwithstanding any other provisions of the Resolution, if at any time the amounts held in the Debt Service Fund are sufficient to pay the principal or Redemption Price of all Outstanding Bonds and the interest accrued and unpaid and to accrue on such Bonds to the next date on which all such Bonds are redeemable, or to make provision pursuant to the Resolution for the payment of the Outstanding Bonds at the maturity or redemption dates thereof, the Trustee shall so notify the Authority and the University. Upon receipt of such notice, the Authority may (i) direct the Trustee to redeem all such Outstanding Bonds, whereupon the Trustee shall proceed to redeem or provide for the redemption of such Outstanding Bonds in the manner provided for redemption of such Bonds by the Resolution and by each Series Resolution as provided in the Resolution, or (ii) give the Trustee irrevocable instructions in accordance with the Resolution and make provision for the payment of the Outstanding Bonds at the maturity or redemption dates thereof in accordance therewith.

(Section 5.08)

Direct Pay Credit Facilities

Unless otherwise provided in a Series Resolution or a Bond Series Certificate with respect to any Series of Bonds for which a Direct Pay Credit Facility is in effect, the Trustee shall draw on the applicable Direct Pay Credit Facility in accordance with its terms at such times and in such amounts as are necessary in order to allow the Trustee to make the payments required under the Resolution with respect to the Series of Bonds for which the Direct Pay Credit Facility was issued on the date such payments are due.

The Trustee shall deposit all amounts drawn under the Credit Facility in the Credit Facility Account of the Debt Service Fund. Only amounts drawn under the Credit Facility and any investment earnings thereon shall be deposited in the Credit Facility Account.

Whenever a Direct Pay Credit Facility is effect for a Series of Bonds, such Direct Pay Credit Facility may be substituted with an Alternate Direct Pay Credit Facility in accordance with the terms of the Series Resolution authorizing such Series of Bonds or the Bond Series Certificate relating thereto.

(Section 5.10)

Investment of Funds

Moneys held hereunder by the Trustee, if permitted by law, shall, as nearly as may be practicable, be invested by the Trustee, upon direction of the Authority given or confirmed in writing, signed by an Authorized Officer of the Authority (which direction shall specify the amount thereof to be so invested), in Government Obligations, Federal Agency Obligations, ~~or~~ Exempt Obligations. and, if not inconsistent with the investment guidelines of a Rating Service applicable to funds held hereunder, any other Permitted Investment; provided, however, that each such investment shall permit the moneys so deposited or invested to be available for use at the times at which the Authority reasonably believes such moneys will be required for the purposes hereof; *provided,*

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further, that (x) any Permitted Collateral required to secure any Permitted Investment shall have a market value, determined by the Trustee or its agent periodically, but no less frequently than weekly, at least equal to the amount deposited or invested including interest accrued thereon, (y) the Permitted Collateral shall be deposited with and held by the Trustee or an agent of the Trustee approved by an Authorized Officer of the Authority, and (z) the Permitted Collateral shall be free and clear of claims of any other person.

Permitted Investments purchased or other investments made as an investment of moneys in any fund or account held under the provisions hereof shall be deemed at all times to be a part of such fund or account and the income or interest earned, profits realized or losses suffered by a fund or account due to the investment thereof shall be retained in, credited or charged to, as the case may be, such fund or account.

In computing the amount in any fund or account held by the Trustee under the provisions hereof, each Permitted Investment shall be valued at par or the market value thereof, plus accrued interest.

Notwithstanding anything to the contrary in the Resolution, the Authority, in its discretion, may direct the Trustee to, and the Trustee upon receipt of such direction shall, sell, present for redemption or exchange any investment held by the Trustee pursuant to the Resolution and the proceeds thereof may be reinvested as provided in the Resolution. Except as otherwise provided in the Resolution, the Trustee shall sell at the best price obtainable, or present for redemption or exchange, any investment held by it pursuant to the Resolution whenever it shall be necessary in order to provide moneys to meet any payment or transfer from the fund or account in which such investment is held. The Trustee shall advise the Authority and the University in writing, on or before the fifteenth (15th) day of each calendar month, of the amounts required to be on deposit in each fund and account under the Resolution and of the details of all investments held for the credit of each fund and account in its custody under the provisions of the Resolution as of the end of the preceding month and as to whether such investments comply with the provisions of the Resolution. The details of such investments shall include the par value, if any, the cost and the current market value of such investments as of the end of the preceding month. The Trustee shall also describe all withdrawals, substitutions and other transactions occurring in each such fund and account in the previous month.

No part of the proceeds of any Series of Bonds or any other moneys of the Authority shall be used directly or indirectly to acquire any securities or investments the acquisition of which would cause any Bond to be an “arbitrage bond” within the meaning of Section 148(a) of the Code.

(Section 6.02)

Refunding Bonds and Additional Obligations

All or any portion of one or more Series of Refunding Bonds may be authenticated and delivered upon original issuance to refund all Outstanding Bonds, one or more Series of Outstanding Bonds, a portion of a Series of Outstanding Bonds or a portion of a maturity of a Series of Outstanding Bonds. The Authority may issue Refunding Bonds in an aggregate principal amount sufficient, together with other moneys available therefor, to accomplish such refunding and to make such deposits required by the provisions of the Resolution and of the Series Resolution authorizing such Series of Refunding Bonds or the Bond Series Certificate relating to such Series of Refunding Bonds.

The proceeds, including accrued interest, of Refunding Bonds shall be applied simultaneously with the delivery of such Refunding Bonds in the manner provided in or as determined in accordance with the Series Resolution authorizing such Refunding Bonds or the Bond Series Certificate relating to such Series of Refunding Bonds.

The Authority reserves the right to issue bonds, notes or any other obligations or otherwise incur indebtedness pursuant to other and separate resolutions or agreements of the Authority, so long as such bonds, notes or other obligations are not, or such other indebtedness is not, except as provided in the Resolution, entitled to a charge or lien or right prior or equal to the charge or lien created by the Resolution, or prior or equal to the rights of the Authority and Holders of Bonds as provided by the Resolution.

(Sections 2.04 and 2.05)

Creation of Liens

Except as permitted by the Resolution, the Authority shall not create or cause to be created any lien or charge prior or equal to that of the Bonds on the proceeds from the sale of the Bonds, the Revenues or the funds and accounts established by the Resolution or by any Series Resolution which are pledged by the Resolution; provided, however, that nothing contained in the Resolution shall prevent the Authority from (i) issuing bonds, notes or other obligations or otherwise incurred indebtedness under another and separate resolution or agreement so long as the charge or lien created thereby is not prior or equal to the charge or lien created by the Resolution, and (ii) incurring obligations with respect to a Credit Facility or a Liquidity Facility which are secured by a lien upon and pledge of the Revenues which lien and pledge is of equal priority with the lien created and the pledge made by the Resolution.

(Section 7.06)

Tax Exemption; Rebates

In order to maintain the exclusion from gross income for purposes of federal income taxation of interest on the Bonds of such Series as the Authority may designate, the Authority shall comply with the provisions of the Code applicable to the Bonds of such Series, including without limitation the provisions of the Code relating to the computation of the yield on investments of the Gross Proceeds of the Bonds of such Series, reporting of earnings on the Gross Proceeds of the Bonds of such Series, and rebates of Excess Earnings to the Department of the Treasury of the United States of America. In furtherance of the foregoing, the Authority shall comply with the provisions of the Tax Certificate with respect to such Series of Bonds.

In connection with the foregoing, the Authority shall not take any action or fail to take any action, which would cause the Bonds of such Series to be “arbitrage bonds” within the meaning of Section 148(a) of the Code; nor shall any part of the proceeds of the Bonds of such Series or any other funds of the Authority be used directly or indirectly to acquire any securities or obligations the acquisition of which would cause any such Bond to be an “arbitrage bond” within the meaning of Section 148(a) of the Code.

In connection with the foregoing, the Authority shall make any and all payments required to be made to the United States Department of the Treasury in connection with the Bonds of such Series pursuant to Section 148(f) of the Code from amounts on deposit in the Arbitrage Rebate Fund and available therefor.

Notwithstanding any other provision of the Resolution to the contrary, the Authority’s failure to comply with the provisions of the Code applicable to the Bonds of a Series shall not entitle the Holders of Bonds of any other Series, or the Trustee acting on their behalf, to exercise any right or remedy provided to Bondholders under the Resolution based upon the Authority’s failure to comply with the provisions of this subdivision or of the Code.

(Section 7.13)

Events of Default

Each of the following constitutes an “event of default” under the Resolution and each Series Resolution if:

(a) Payment of the principal, Sinking Fund Installment, if any, or Redemption Price of any Bond shall not be made when the same shall become due and payable, either at maturity or by proceedings for redemption or otherwise; or

(b) Payment of an installment of interest on any Bond shall not be made when the same shall become due and payable; or

(c) The Authority shall default in the due and punctual performance of the rebate covenants contained in the Resolution, and, as a result thereof, the interest on the Bonds of a Series shall no longer be excludable from gross income under Section 103 of the Code; or

(d) The Authority shall default in the due and punctual performance of any other of the covenants, conditions, agreements and provisions contained in the Resolution or in the Bonds or in any Series Resolution on the part of the Authority to be performed and such default shall continue for thirty (30) days after written notice

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specifying such default and requiring same to be remedied shall have been given to the Authority by the Trustee, which may give such notice in its discretion and shall give such notice at the written request of the Holders of not less than twenty-five percent (25%) in principal amount of the Outstanding Bonds, unless, if such default is not capable of being cured within thirty (30) days, the Authority has commenced to cure such default within said thirty (30) days and diligently prosecutes the cure thereof; or

(e) An “Event of Default”, as defined in the Loan Agreement, arising out of or resulting from the failure of the University to comply with the requirements of the Loan Agreement shall have occurred and is continuing and all sums payable by the University under the Loan Agreement shall have been declared to be immediately due and payable, which declaration shall not have been annulled.

(Section 11.02)

Acceleration of Maturity

Upon the happening and continuance of any event of default (other than under paragraph (c) under the heading “Event of Default” above), then and in every such case the Trustee may, and upon the written request of the Holders of not less than twenty-five percent (25%) in principal amount of the Outstanding Bonds shall, by a notice in writing to the Authority, declare the principal of and interest on all of the Outstanding Bonds to be due and payable. At the expiration of thirty (30) days from the giving of notice of such declaration, such principal and interest shall become and be immediately due and payable, anything in the Resolution or in the Bonds or any Series Resolution to the contrary notwithstanding. At any time after the principal of the Bonds shall have been so declared to be due and payable, and before the entry of final judgment or decree in any suit, action or proceeding instituted on account of such default, or before the completion of the enforcement of any other remedy under the Resolution, the Trustee may with the written consent of the Holders of not less than twenty-five percent (25%) in principal amount of the Bonds not then due by their terms and then Outstanding and by written notice to the Authority, annul such declaration and its consequences if: (i) moneys shall have accumulated in the Debt Service Fund sufficient to pay all arrears of interest, if any, upon all of the Outstanding Bonds (except the interest accrued on such Bonds since the last interest payment date); (ii) moneys shall have accumulated and be available sufficient to pay the charges, compensation, expenses, disbursements, advances and liabilities of the Trustee and any Paying Agent; (iii) all other amounts then payable by the Authority under the Resolution and under each Series Resolution shall have been paid or a sum sufficient to pay the same shall have been deposited with the Trustee; and (iv) every other default known to the Trustee in the observance or performance of any covenant, condition or agreement contained in the Resolution (other than a default in the payment of the principal of such Bonds then due only because of a declaration under this Section) or in the Bonds or any Series Resolution shall have been remedied to the satisfaction of the Trustee. No such annulment shall extend to or affect any subsequent default or impair any right consequent thereon.

In the event that there is a draw on a Direct Pay Credit Facility in effect for the Bonds as a result of the acceleration of the maturity of all of the Bonds pursuant to the Resolution and a subsequent annulment of such acceleration pursuant to the Resolution, prior to the proceeds of such draw being applied to the payment of principal of and interest on the Bonds to which such Direct Pay Credit Facility relates, then the Trustee shall rescind the draw on such Direct Pay Credit Facility and/or, to the extent proceeds of a draw under such Direct Pay Credit Facility have been received by the Trustee, the Trustee shall return such proceeds to the Facility Provider of such Direct-Pay Credit Facility, provided that the Direct Pay Credit Facility is reinstated in accordance with its terms by the amount so returned.

(Section 11.03 and Bond Series Certificate)

Enforcement of Remedies

Upon the happening and continuance of any event of default, then and in every such case, the Trustee may proceed, and upon the written request of the Holders of not less than twenty-five percent (25%) in principal amount of the Outstanding Bonds or, in the case of the happening and continuance of an Event of Default described in subparagraph (c) under the heading “Event of Default” above, upon the written request of the Holders of not less than twenty-five percent (25%) in principal amount of the Outstanding Bonds of the Series affected thereby, shall proceed (subject to the provisions of the Resolution), to protect and enforce its rights and the rights of the Holders of the Bonds under the laws of the State or under the Resolution or under any Series Resolution by such suits, actions or special proceedings in equity or at law, either for the specific performance of any covenant contained under the

Resolution and under any Series Resolution or in aid or execution of any power therein granted, or for an accounting against the Authority as if the Authority were the trustee of an express trust, or for the enforcement of any proper legal or equitable remedy as the Trustee shall deem most effectual to protect and enforce such rights.

In the enforcement of any remedy under the Resolution and under each Series Resolution the Trustee shall be entitled to sue for, enforce payment of, and receive any and all amounts then, or during any default becoming, and at any time remaining, due from the Authority for principal or interest or otherwise under any of the provisions of the Resolution or of any Series Resolution or of the Bonds, with interest on overdue payments of the principal of or interest on the Bonds at the rate or rates of interest specified in such Bonds, together with any and all costs and expenses of collection and of all proceedings under the Resolution and under any Series Resolution and under such Bonds, without prejudice to any other right or remedy of the Trustee or of the Holders of such Bonds, and to recover and enforce judgment or decree against the Authority but solely as provided in the Resolution and in any Series Resolution and in such Bonds, for any portion of such amounts remaining unpaid, with interest, costs and expenses, and to collect in any manner provided by law, the moneys adjudged or decreed to be payable.

(Section 11.04)

Priority of Payments After Default

If at any time the moneys held by the Trustee under the Resolution and under each Series Resolution shall not be sufficient to pay the principal of and interest on the Bonds as the same become due and payable (either by their terms or by acceleration of maturity under the provisions of the Resolution), such moneys together with any moneys then available or thereafter becoming available for such purpose, whether through exercise of the remedies provided for in the Resolution or otherwise, shall be applied (after first depositing in the Arbitrage Rebate Fund all amounts to be deposited therein and then paying all amounts owing to the Trustee under the Resolution) as follows:

(a) Unless the principal of all the Bonds shall have become due and payable, all such moneys shall be applied:

First: To the payment to the persons entitled thereto of all installments of interest then due, in the order of the maturity of the installments of such interest, and, if the amount available shall not be sufficient to pay in full any installment, then to the payment ratably, according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or preference;

Second: To the payment to the persons entitled thereto of the unpaid principal, Sinking Fund Installments or Redemption Price of any of the Bonds which shall have become due whether at maturity or by call for redemption, in the order of their due dates, and, if the amount available shall not be sufficient to pay in full Bonds due on any date, then to the payment ratably, according to the amount of principal, Sinking Fund Installments or Redemption Price due on such date, to the persons entitled thereto, without any discrimination or preference.

(b) If the principal of all of the Bonds shall have become or been declared due and payable, all such money shall be applied to the payment of the principal and interest then due and unpaid upon the bonds, without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto, without any discrimination or preference except as to the difference in the respective rates of interest specified in the Bonds.

The provisions of this subdivision are in all respects subject to the provisions of the Resolution.

Whenever moneys are to be applied by the Trustee pursuant to the provisions of this subdivision, such moneys shall be applied by the Trustee at such times, and from time to time, as the Trustee in its sole discretion shall determine, having due regard to the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. The setting aside of such moneys in trust for the proper purpose shall constitute proper application by the Trustee, and the Trustee shall incur no liability whatsoever to the Authority, to any Bondholder or to any other person for any delay in applying any such moneys so long as the Trustee acts with reasonable diligence, having due regard to the circumstances, and ultimately applies the same in

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accordance with such provisions of the Resolution as may be applicable at the time of application by the Trustee. Whenever the Trustee shall exercise such discretion in applying such moneys, it shall fix the date (which shall be on an interest payment date unless the Trustee shall deem another date more suitable) upon which such application is to be made, and upon such date interest on the amounts of principal to be paid on such date shall cease to accrue. The Trustee shall give such notice as it may deem appropriate of the fixing of any such date. The Trustee shall not be required to make payment to the Holder of any Bond unless such Bond shall be presented to the Trustee for appropriate endorsement.

(Section 11.05)

Termination of Proceedings

In case any proceedings taken by the Trustee on account of any default shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Trustee, then and in every such case the Authority, the Trustee and the Bondholders shall be restored to their former positions and rights under the Resolution, respectively, and all rights, remedies, powers and duties of the Trustee shall continue as though no such proceeding had been taken.

(Section 11.06)

Bondholders' Direction of Proceedings

Anything in the Resolution to the contrary notwithstanding, the Holders of a majority in principal amount of the Outstanding Bonds shall have the right by an instrument in writing executed and delivered to the Trustee, to direct the method and place of conducting all remedial proceedings to be taken by the Trustee under the Resolution and under each Series Resolution, provided such direction shall not be otherwise than in accordance with law or the provisions of the Resolution and of each Series Resolution and the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Bondholders not parties to such direction.

(Section 11.07)

Limitation of Rights of Individual Bondholders

No Holder of any of the Bonds shall have any right to institute any suit, action or proceeding in equity or at law for the execution of any trust under the Resolution, or for any other remedy under the Resolution unless such Holder previously shall have given to the Trustee written notice of the event of default on account of which such suit, action or proceeding is to be instituted, and unless also the Holders of not less than twenty-five percent (25%) in principal amount of the Outstanding Bonds, or, in the case of an event of default under paragraph (c) under the heading ("Event of Default" above, the Holders of not less than twenty-five percent (25%) in principal amount of the Outstanding Bonds of the Series affected thereby, shall have made written request to the Trustee after the right to exercise such powers or right of action, as the case may be, shall have accrued, and shall have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers granted by the Resolution or to institute such action, suit or proceeding in its or their name, and unless, also, there shall have been offered to the Trustee reasonable security and indemnity against the costs, expenses, and liabilities to be incurred therein or thereby, and the Trustee shall have refused or neglected to comply with such request within a reasonable time. Such notification, request and offer of indemnity are by the Resolution declared in every such case, at the option of the Trustee, to be conditions precedent to the execution of the powers and trusts of the Resolution or for any other remedy under the Resolution. It is understood and intended that no one or more Holders of the Bonds secured by the Resolution shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Resolution or to enforce any right under the Resolution except in the manner provided in the Resolution, and that all proceedings at law or in equity shall be instituted and maintained for the benefit of all Holders of the Outstanding Bonds. Notwithstanding any other provision of the Resolution, the Holder of any Bond shall have the right which is absolute and unconditional to receive payment of the principal of (and premium, if any) and interest on such Bond on the respective stated maturities expressed in such Bond (or, in the case of redemption, on the redemption date) and to institute suit for the enforcement of any such payment, and such right shall not be impaired without the consent of such Holder.

(Section 11.08)

Modification and Amendment Without Consent

The Authority may adopt at any time or from time to time Series Resolutions or Supplemental Resolutions for any one or more of the following purposes, and any such Series Resolution or Supplemental Resolution shall become effective in accordance with its terms upon the filing with the Trustee of a copy thereof certified by an Authorized Officer of the Authority:

(a) To provide for the issuance of a Series of Bonds pursuant to the provisions of the Resolution and to prescribe the terms and conditions pursuant to which such Bonds may be issued, paid or redeemed;

(b) To add additional covenants and agreements of the Authority for the purpose of further securing the payment of the Bonds, provided such additional covenants and agreements are not contrary to or inconsistent with the covenants and agreements of the Authority contained in the Resolution;

(c) To prescribe further limitations and restrictions upon the issuance of Bonds and the incurring of indebtedness by the Authority which are not contrary to or inconsistent with the limitations and restrictions thereon theretofore in effect;

(d) To surrender any right, power or privilege reserved to or conferred upon the Authority by the terms of the Resolution, provided that the surrender of such right, power or privilege is not contrary to or inconsistent with the covenants and agreements of the Authority contained in the Resolution;

(e) To confirm, as further assurance, any pledge under the Resolution, and the subjection to any lien, claim or pledge created or to be created by the provisions of the Resolution, of the Revenues or of any other moneys, securities or funds;

(f) To modify any of the provisions of the Resolution or of any previously adopted Series Resolution in any other respects, provided that such modifications shall not be effective until after all Bonds of any Series of Bonds Outstanding as of the date of adoption of such Supplemental Resolution or Series Resolution shall cease to be Outstanding, and all Bonds issued under such resolutions shall contain a specific reference to the modifications contained in such subsequent Resolutions; or

(g) With the consent of the Trustee, to cure any ambiguity or defect or inconsistent provision in the Resolution or to insert such provisions clarifying matters or questions arising under the Resolution as are necessary or desirable in the event any such modifications are not contrary to or inconsistent with the Resolution as theretofore in effect, or to modify any of the provisions in the Resolution or in any previously adopted Series Resolution in any other respect, provided that such modification shall not adversely affect the interests of the Holders in any material respect.

(Section 9.01)

Supplemental Resolutions Effective With Consent of Bondholders

The provisions of the Resolution may also be modified or amended at any time or from time to time by a Supplemental Resolution, subject to the consent of Bondholders in accordance with and subject to the provisions of the Resolution, such Supplemental Resolution to become effective upon the filing with the Trustee of a copy thereof certified by an Authorized Officer of the Authority.

(Section 9.02)

Powers of Amendment

Any modification or amendment of the Resolution and of the rights and obligations of the Authority and of the Holders of the Bonds under the Resolution, in any particular, may be made by a Supplemental Resolution, with the written consent given as provided in the Resolution, (i) of the Holders of at least a majority in principal amount of the Bonds Outstanding at the time such consent is given, or (ii) in case less than all of the several Series of Bonds then Outstanding are affected by the modification or amendment, of Holders of at least a majority in principal amount of the Bonds of each Series so affected and Outstanding at the time such consent is given, or (iii) in case the

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modification or amendment changes the amount or date of any Sinking Fund Installment, of the Holders of at least a majority in principal amount of the Bonds of the particular Series, maturity and interest rate entitled to such Sinking Fund Installment Outstanding at the time such consent is given; provided, however, that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any specified like Series and maturity remain Outstanding, the consent of the Holders of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds under the Resolution. No such modification or amendment may permit a change in the terms of redemption or maturity of the principal of any Outstanding Bond or of any installment of interest thereon or a reduction in the principal amount or the Redemption Price thereof or in the rate of interest thereon without the consent of the Holder of such Bond, or shall reduce the percentages or otherwise affect the classes of Bonds the consent of the Holders of which is required to effect any such modification or amendment. For the purposes of this Section, a Series shall be deemed to be affected by a modification or amendment of the Resolution if the same adversely affects or diminishes the rights of the Holders of Bonds of such Series. The Trustee may in its discretion determine whether or not in accordance with the foregoing provisions Bonds of any particular Series or maturity would be affected by any modification or amendment of the Resolution and any such determination shall be binding and conclusive on the Authority and all Holders of Bonds. The Trustee may receive an opinion of counsel, including an opinion of Bond Counsel, as conclusive evidence as to whether Bonds of any particular Series or maturity would be so affected by any such modification or amendment of the Resolution.

(Section 10.01)

Consent of Bondholders

The Authority may at any time adopt a Supplemental Resolution making a modification or amendment permitted by the provisions of the Resolution to take effect when and as provided in the Resolution. A copy of such Supplemental Resolution (or brief summary thereof or reference thereto in form approved by the Trustee) together with a request the Holders of Bonds for their consent thereto in form satisfactory to the Trustee is required promptly after adoption to be mailed by the Authority to the Holders of Bonds and be published at least once a week for two (2) successive weeks (but failure to mail such copy and request will not affect the validity of the Supplemental Resolution when consented to as provided in the Resolution). Such Supplemental Resolution shall not be effective unless and until (i) there shall be filed with the Trustee (a) the written consents of Holders of the percentages of Outstanding Bonds specified in the Resolution and (b) an opinion of Bond Counsel stating that such Supplemental Resolution has been duly and lawfully adopted and filed by the Authority in accordance with the provisions of the Resolution, is authorized or permitted by the Resolution, and is valid and binding upon the Authority and enforceable in accordance with its terms, and (ii) a notice shall have been published as provided in the Resolution. Each such consent shall be effective only if accompanied by proof of the holding or owning at the date of such consent, of the Bonds with respect to which such consent is given, which proof shall be such as is permitted by the Resolution. A certificate or certificates by the Trustee filed with the Trustee that it has examined such proof and that such proof is sufficient in accordance with the Resolution shall be conclusive that the consents have been given by the Holders of the Bonds described in such certificate or certificates of the Trustee. Any consent shall be binding upon the Holder of the Bonds giving such consent and, anything in the Resolution to the contrary notwithstanding, upon any subsequent Holder of such Bonds and of any Bonds issued in exchange therefor (whether or not such subsequent Holder thereof has notice thereof), unless such consent is revoked in writing by the Holder of such Bonds giving such consent or a subsequent Holder thereof by filing with the Trustee, prior to the time when the written statement of the Trustee provided for in the Resolution is filed, such revocation and, if such Bonds are transferable by delivery, proof that such Bonds are held by the signer of such revocation in the manner permitted by the Resolution. The fact that a consent has not been revoked may likewise be proved by a certificate of the Trustee filed with the Trustee to the effect that no revocation thereof is on file with the Trustee. At any time after Holders of the required percentages of Bonds shall have filed their consents to the Supplemental Resolution, the Trustee shall make and file with the Authority and the University a written statement that the Holders of such required percentages of Bonds have filed such consents. Such written statement shall be conclusive that such consents have been so filed. At any time thereafter notice, stating in substance that the Supplemental Resolution (which may be referred to as a Supplemental Resolution adopted by the Authority on a stated date, a copy of which is on file with the Trustee) has been consented to by the Holders of the required percentages of Bonds and will be effective as provided in the Resolution, shall be given to the Bondholders by the Authority by mailing such notice to the Bondholders (but failure to mail such notice shall not prevent such Supplemental Resolution from becoming effective and binding as in the Resolution provided) and by publishing the same at least once not more than

ninety (90) days after the Holders of the required percentages of Bonds shall have filed their consents to the Supplemental Resolution and the written statement of the Trustee hereinabove provided for is filed. The Authority shall file with the Trustee proof of the publication of such notice, and, if the same shall have been mailed to the Bondholders, of the mailing thereof. A transcript, consisting of the papers required or permitted by the Resolution to be filed with the Trustee, shall be proof of the matters therein stated. Such Supplemental Resolution making such amendment or modification shall be deemed conclusively binding upon the Authority, the Trustee, each Paying Agent and the Holders of all Bonds at the expiration of thirty (30) days after the filing with the Trustee of the proof of the first publication of such last mentioned notice, except in the event of a final decree of a court of competent jurisdiction setting aside such Supplemental Resolution in a legal action or equitable proceeding for such purpose commenced within such thirty (30) day period; provided, however, that the Authority, the Trustee and any Paying Agent during such thirty (30) day period and any such further period during which any such action or proceeding may be pending shall be entitled in their reasonable discretion to take such action, or to refrain from taking such action, with respect to such Supplemental Resolution as they may deem expedient.

(Section 10.02)

Modifications by Unanimous Consent

The terms and provisions of the Resolution and the rights and obligations of the Authority and of the Holders of the Bonds under the Resolution may be modified or amended in any respect upon the adoption and filing with the Trustee by the Authority of a copy of a Supplemental Resolution certified by an Authorized Officer and the consent of the Holders of all of the Bonds then Outstanding, such consent to be given as provided in the Resolution, except that no notice to Bondholders either by mailing or publication shall be required.

(Section 10.03)

Amendment of Loan Agreement

Except as otherwise provided in this subdivision, the Loan Agreement may be amended, changed, modified or altered without the consent of the Holders of Outstanding Bonds or the Trustee.

The Loan Agreement may be amended, changed, modified or altered with the consent of the Trustee but without the consent of the Holders of Outstanding Bonds to provide necessary changes in connection with the acquisition, construction, reconstruction, rehabilitation and improvement, or otherwise providing, furnishing and equipping, of any facilities constituting a part of the Projects or which may be added to the Projects or the issuance of Bonds, to cure any ambiguity, or to correct or supplement any provisions contained in the Loan Agreement, which may be defective or inconsistent with any other provisions contained in the Resolution or in the Loan Agreement.

The Loan Agreement may not be amended, changed, modified, altered or terminated so as to materially adversely affect the interest of the Holders of the Outstanding Bonds without the prior written consent of (a) the Holders of at least a majority in aggregate principal amount of the Bonds then Outstanding, or (b) in case less than all of the several Series of Bonds then Outstanding are affected by the modifications or amendments, the Holders of not less than a majority in aggregate principal amount of the Bonds of each Series so affected then Outstanding; provided, however, that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any specified Series remain Outstanding, the consent of the Holders of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds under this subdivision; provided further, however, that no such amendment, change, modification, alteration or termination will reduce the percentage of the aggregate principal amount of Outstanding Bonds the consent of the Holders of which is a requirement for any such amendment, change, modification, alteration or termination, or decrease the amount of any payment required to be made by the University under the Loan Agreement that is to be deposited with the Trustee or extend the time of payment thereof.

Prior to execution by the Authority of any amendment, a copy thereof certified by an Authorized Officer of the Authority shall be filed with the Trustee.

For the purposes of this subdivision, a Series shall be deemed to be adversely affected by an amendment, change, modification or alteration of the Loan Agreement if the same adversely affects or diminishes the rights of

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the Holders of the Bonds of such Series in any material respect. The Trustee may in its discretion determine whether or not, in accordance with the foregoing provisions, Bonds of any particular Series would be adversely affected in any material respect by any amendment, change, modification or alteration, and any such determination shall be binding and conclusive on the University, the Authority and all Holders of Bonds.

For the purposes of this subdivision, the purchasers of the Bonds of a Series, whether purchasing as underwriters, for resale or otherwise, upon such purchase from the Authority, may consent to an amendment, change, modification, termination or waiver permitted by this subdivision with the same effect as a consent given by the Holder of such Bonds.

For the purposes of this subdivision, the Trustee shall be entitled to rely upon an opinion of counsel, which counsel shall be satisfactory to the Trustee, with respect to whether any amendment, change, modification or alteration adversely affects the interests of any Holders of Bonds then Outstanding in any material respect.

(Section 7.11)

Defeasance

If the Authority shall pay or cause to be paid to the Holders of the Bonds of a Series the principal, Sinking Fund Installments, if any, or Redemption Price of and interest thereon, at the times and in the manner stipulated therein, in the Resolution, and in the applicable Series Resolution and Bond Series Certificate, then the pledge of the Revenues or other moneys and securities by the Resolution pledged to such Series of Bonds and all other rights granted by the Resolution to such Series of Bonds shall be discharged and satisfied. In such event, the Trustee shall, upon the request of the Authority, execute and deliver such documents to evidence such discharge and satisfaction as may be reasonably required by the Authority, and all moneys or other securities held by it pursuant to the Resolution and to the applicable Series Resolution which are not required for the payment or redemption of Bonds of such Series shall be paid or delivered by the Trustee as follows: first, to the Arbitrage Rebate Fund, the amount required to be deposited therein in accordance with the direction of an Authorized Officer of the Authority; second, to the Authority the amount certified by an Authorized Officer of the Authority to be then due or past due pursuant to the Loan Agreement in payment of any fees and expenses of the Authority or pursuant to any indemnity; and, then, the balance thereof to the University. The moneys and securities so paid or delivered shall be released from any trust, pledge, lien, encumbrance or security interest created by the Resolution or by the Loan Agreement.

Bonds for the payment or redemption of which moneys shall have been set aside and shall be held in trust by the Trustee (through deposit by the Authority of funds for such payment or redemption or otherwise) at the maturity or redemption date thereof shall be deemed to have been paid within the meaning and with the effect expressed in the preceding paragraph. All Outstanding Bonds of any Series or any maturity within a Series or a portion of a maturity within a Series shall prior to the maturity or redemption date thereof be deemed to have been paid within the meaning and with the effect expressed in the preceding paragraph if (a) in case any of such Bonds are to be redeemed on any date prior to their maturity, the Authority shall have given to the Trustee, in form satisfactory to it, irrevocable instructions to publish as provided in the Resolution notice of redemption on such date of such Bonds, (b) there shall have been deposited with the Trustee either moneys in an amount which shall be sufficient, or Defeasance Securities the principal of and interest on which when due will provide moneys which, together with the moneys, if any, deposited with the Trustee at the same time, shall be sufficient to pay when due the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, and interest due and to become due on such Bonds on and prior to the redemption date or maturity date thereof, as the case may be, (c) the Trustee shall have received the written consent to such defeasance of each Facility Provider which has given written notice to the Trustee and the Authority that amounts advanced under a Credit Facility or Liquidity Facility issued by it or the interest thereon have not been repaid to such Facility Provider, and (d) in the event such Bonds are not by their terms subject to redemption within the next succeeding sixty (60) days, the Authority shall have given the Trustee in form satisfactory to it irrevocable instructions to publish, as soon as practicable, at least twice, at an interval of not less than seven (7) days between publications, in an Authorized Newspaper a notice to the Holders of such Bonds that the deposit required by (b) above has been made with the Trustee and that such Bonds are deemed to have been paid in accordance with this subdivision and stating such maturity or redemption date upon which moneys are to be available for the payment of the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, of and interest on such Bonds. The Authority shall give written notice to the Trustee of its selection of the maturity payment of which shall be made in accordance with this subdivision. The Trustee shall select the Bonds of like

Series and maturity payment of which shall be made in accordance with this subdivision in the manner provided in the Resolution. Neither the Defeasance Securities nor moneys deposited with the Trustee pursuant to the Resolution nor principal or interest payments on any such Defeasance Securities shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, of and interest on such Bonds; provided that any moneys received from such principal or interest payments on such Defeasance Securities deposited with the Trustee, if not then needed for such purpose, shall, to the extent practicable and subject to any applicable tax covenant, be reinvested in Defeasance Securities maturing at times and in amounts sufficient to pay when due the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, of and interest to become due on such Bonds on and prior to such redemption date or maturity date thereof, as the case may be; and provided further, however, that moneys and Defeasance Securities may be withdrawn and used by the Authority for any purpose upon (i) the simultaneous substitution therefor of either moneys in an amount which shall be sufficient, or Defeasance Securities the principal of and interest on which when due will provide moneys which without regard to reinvestment, together with the moneys, if any, held by or deposited with the Trustee at the same time, shall be sufficient to pay when due the principal, Sinking Fund Installments, if any, or Redemption price, if applicable, and interest due and to become due on such Bonds on and prior to the redemption date or maturity date thereof, as the case may be, and (ii) receipt by the Trustee of a letter or other written report of a firm of independent certified public accountants verifying the accuracy of the arithmetical computations which establish the adequacy of such moneys and Defeasance Securities for such purpose. Any income or interest earned by, or increment to, the investment of any such moneys so deposited, shall, to the extent certified by the Trustee to be in excess of the amounts required by the Resolution to pay the principal, Sinking Fund Installments, if any, Redemption Price, if applicable, of and interest on such Bonds, as realized, be paid by the Trustee as follows: first, to the Arbitrage Rebate Fund, the amount required to be deposited therein in accordance with the direction of an Authorized Officer of the Authority; second, to each Facility Provider the Provider Payments which have not been repaid, pro rata, based upon the respective Provider Payments then unpaid to each Facility Provider; third, to the Authority the amount certified by an Authorized Officer of the Authority to be then due or past due pursuant to the Loan Agreement for fees and expenses of the Authority or pursuant to any indemnity; and, then, the balance thereof to the University, and any such moneys so paid by the Trustee shall be released of any trust, pledge, lien, encumbrance or security interest created by the Resolution or by the Loan Agreement.

Anything in the Resolution to the contrary notwithstanding, any moneys held by the Trustee in trust for the payment and discharge of any of the Bonds of a Series or the interest thereon which remain unclaimed for one (1) year after the date when all of the Bonds of such Series have become due and payable either at their stated maturity dates or by call for earlier redemption, if such moneys were held by the Trustee at such date, or for one (1) year after the date of deposit of such moneys if deposited with the Trustee after such date when all of the Bonds of such Series become due and payable, shall, at the written request of the Authority, be repaid by the Trustee to the Authority as its absolute property and free from trust, and the Trustee shall thereupon be released and discharged; provided, however, that, before being required to make any such payment to the Authority, the Trustee may, at the expense of the Authority cause to be published in an Authorized Newspaper a notice that such moneys remain unclaimed and that, after a date named in such notice, which date shall be not less than thirty (30) nor more than sixty (60) days after the date of publication of such notice, the balance of such moneys then unclaimed shall be returned to the Authority.

(Section 12.01)

Credit Facility Provider as Holder

If provided in or authorized by the Series Resolution authorizing the issuance of a Series of Bonds, the Authority may provide for the rights of the Facility Provider of a Credit Facility in connection with Bonds of such Series, which rights may include that, whenever by the terms of the Resolution the Holders of any percentage in principal amount of Outstanding Bonds may exercise any right or power, consent to any amendment, change, modification or waiver, or request or direct the Trustee to take an action, such Facility Provider may be deemed to be the Holder of such Bonds.

(Section 14.07)

Additional Provisions With Respect to Bonds Bearing Interest at a Variable Interest Rate

Optional Tenders of Bonds in Weekly Mode

During any Weekly Interest Rate Period, any Bonds (other than a Bank Bond) bearing interest at a Weekly Interest Rate shall be purchased in an Authorized Denomination (provided that the amount of any such Bonds not to be purchased shall also be in an Authorized Denomination) from its Bondholder at the option of the Bondholder on any Business Day at a purchase price equal to the Tender Price, payable in immediately available funds, upon delivery to the Tender Agent at its Principal Office for delivery of the Bonds, to the Trustee at its Principal Office and to the Remarketing Agent of an irrevocable written notice which states the principal amount of such Bonds, the principal amount thereof to be purchased and the date on which the same shall be purchased, which date shall be a Business Day not prior to the seventh day after the date of the delivery of such notice to the Tender Agent. Any notice delivered to the Tender Agent after 4:00 p.m. shall be deemed to have been received on the next succeeding Business Day. Bank Bonds may not be tendered for purchase at the option of the Holder thereof. For payment of the Tender Price on the Tender Date, such Bonds must be delivered at or prior to 10:00 a.m. on the Tender Date to the Tender Agent at its Principal Office for delivery of the Bonds accompanied by an instrument of transfer, in form satisfactory to the Tender Agent executed in blank by the Bondholder or its duly authorized attorney, with such signature guaranteed by a commercial bank, trust company, or member firm of the New York Stock Exchange.

During any Weekly Interest Rate Period for which the book-entry only system is in effect, any Bonds bearing interest at the Weekly Interest Rate or portion thereof (provided that the principal amount of such Bonds to be purchased and the principal amount to be retained shall each be an Authorized Denomination) shall be purchased on the date specified in the notice referred to below at the Tender Price. The irrevocable written notice, executed by the Participant, shall be delivered on any Business Day by the Participant for such Bonds to the Tender Agent at its Principal Office for the delivery of such Bonds, to the Trustee at its Principal Office and to the Remarketing Agent. That notice shall state the principal amount of such Bonds (or interest therein), the portion thereof to be purchased and the date on which the same shall be purchased, which date shall be a Business Day at least seven days after the date of delivery of such notice to the Trustee. Upon confirmation by the Securities Depository to the Trustee that such Participant has an ownership interest in the Bonds at least equal to the amount of the Bonds specified in such irrevocable written notice, payment of the Tender Price of such Bonds shall be made by 3:00 p.m., or as soon as practically possible thereafter, upon the receipt by the Trustee of the Tender Price as set forth under the heading "Notice of Bonds Delivered for Purchase; Purchase of Bonds; Deposit of Tender Price" on the Business Day specified in the notice upon the transfer on the registration books of the Securities Depository of the beneficial ownership interest in such Bonds tendered for purchase to the account of the Tender Agent, or a Participant acting on behalf of such Tender Agent, at or prior to 10:00 a.m., on the date specified in such notice.

(Section A-501 of the Bond Series Certificate)

Mandatory Tender for Purchase on First Day of Each Interest Rate Period

The Bonds shall be subject to mandatory tender for purchase on the first day of each Interest Rate Period (or on the day which would have been the first day of an Interest Rate Period (i) had the Authority not rescinded its election to convert the Interest Rate Period for such Series of Bonds or (ii) the conditions precedent to a conversion to a new Interest Rate Period not been satisfied) at the Tender Price, payable in immediately available funds. For payment of the Tender Price on the Tender Date, the Bonds must be delivered at or prior to 10:00 a.m. on the Tender Date. If delivered after that time, the Tender Price shall be paid on the next succeeding Business Day.

(Section A-503 of the Bond Series Certificate)

Mandatory Tender for Purchase Upon Expiration, Substitution or Termination of Credit Facility or Liquidity Facility; Mandatory Facility Tender; Interest Non-Reinstatement

- (a) The Bonds of a Series shall be subject to mandatory tender for purchase at the Tender Price:
 - (i) on the fifth (5th) Business Day preceding the Expiration Date of a Credit Facility or a Liquidity Facility (hereinafter referred to as an "Expiration Tender Date");

(ii) on the fifth (5th) Business Day preceding the Substitution Date of a Credit Facility or a Liquidity Facility (hereinafter referred to as a “Substitution Tender Date”);

(iii) on the date specified in the notice delivered by the Credit Facility Provider or the Liquidity Facility Provider to the Trustee (which date shall not be less than five (5) Business Days following receipt by the Trustee of such notice) of the occurrence of a Mandatory Facility Tender Event (hereinafter referred to as a “Mandatory Facility Tender Date”); and

(iv) with respect to a Direct-Pay Credit Facility which does not provide for automatic reinstatement of the interest component thereof, on the date specified in a notice to the Trustee from the issuer of a Direct-Pay Credit Facility that the interest component of such Direct-Pay Credit Facility will not be reinstated in full within the time period required therein (hereinafter referred to as an “Interest Non-Reinstatement Tender Date”).

(b) Payment of the Tender Price of any Bonds of a Series subject to mandatory tender pursuant to subdivision (a) under this heading “Mandatory Tender for Purchase Upon Expiration, Substitution or Termination of Credit Facility or Liquidity Facility; Mandatory Facility Tender; Interest Non-Reinstatement” shall be made in immediately available funds by 3:00 p.m. on the Tender Date upon delivery of such Bonds to the Tender Agent at its Principal Office for delivery of the Bonds, accompanied by an instrument of transfer, in form satisfactory to the Tender Agent, executed in blank by the Bondholder with the signature of such Bondholder guaranteed by a commercial bank, trust company or member firm of the New York Stock Exchange, at or prior to 12:00 noon on the Tender Date specified in the Bond Series Certificate. If, as a result of the expiration, substitution or termination of a Liquidity Facility on, respectively, the Expiration Date, Substitution Date or Termination Date therefor, any Bonds are no longer subject to purchase pursuant to a Liquidity Facility, the Tender Agent (upon receipt from the Holder thereof in exchange for payment of the Tender Price thereof) shall present such Bonds to the Trustee for notation of such fact thereon.

(Section A-504 of the Bond Series Certificate)

Notice of Mandatory Tender for Purchase

(a) In connection with any mandatory tender for purchase of the Bonds in accordance with the provisions described above under the heading “Mandatory Tender for Purchase on First Day of Each Interest Rate Period,” the Trustee shall give the notice of such mandatory tender as a part of the notice given pursuant to the Bond Series Certificate. Such notice shall also specify (i) the type of Interest Rate Period to commence on such mandatory purchase date, (ii) the conditions that must be satisfied for the new Interest Rate Period to take effect and the consequences, if any, of a failure to satisfy any such conditions, and (iii) the information set forth in subsection (f) of this heading “Notice of Mandatory Tender for Purchase.”

(b) In connection with any mandatory tender for purchase of the Bonds in accordance provisions described in clause (a)(i) under the heading “Mandatory Tender for Purchase Upon Expiration, Substitution or Termination of Credit Facility or Liquidity Facility; Mandatory Facility Tender; Interest Non-Reinstatement,” the Trustee shall give notice of such mandatory tender by mail to the Holders of the Bonds secured by the Credit Facility or Liquidity Facility not less than thirty (30) days prior to the Expiration Date. Such notice shall specify (i) the Expiration Tender Date, (ii) that the Credit Facility or the Liquidity Facility will expire or terminate, and that the Bonds will no longer be payable from such Credit Facility or Liquidity Facility then in effect, (iii) the effective date of an Alternate Credit Facility or Alternate Liquidity Facility, if any, (iv) that any rating applicable to the Bonds may be reduced or withdrawn, and (v) the information set forth in subsection (f) of this heading “Notice of Mandatory Tender for Purchase.”

(c) In connection with any mandatory tender for purchase of the Bonds in accordance provisions described in clause (a)(ii) under the heading “Mandatory Tender for Purchase Upon Expiration, Substitution or Termination of Credit Facility or Liquidity Facility; Mandatory Facility Tender; Interest Non-Reinstatement,” the Trustee shall give notice of such mandatory tender by mail to the Holders of the Bonds secured by the Credit Facility or Liquidity Facility not less than thirty (30) days prior to the Substitution Date. Such notice shall specify (i) the Substitution Date and the Substitution Tender Date, (ii) that the Credit Facility or the Liquidity Facility will be replaced with an Alternate Credit Facility or Alternate Liquidity Facility on the Substitution Date, and that the

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Bonds will no longer be payable from the Credit Facility or Liquidity Facility then in effect, (iii) that any rating applicable to the Bonds may be reduced or withdrawn, and (iv) the information set forth in subsection (f) of this heading “Notice of Mandatory Tender for Purchase” or be replaced with an Alternate Credit Facility or Alternate Liquidity Facility on the Expiration Date

(d) In connection with any mandatory tender for purchase of the Bonds in accordance provisions described in clause (a)(iii) under the heading “Mandatory Tender for Purchase Upon Expiration, Substitution or Termination of Credit Facility or Liquidity Facility; Mandatory Facility Tender; Interest Non-Reinstatement,” the Trustee shall give notice of such mandatory tender by mail to the Holders of the Bonds secured by the Credit Facility or Liquidity Facility as soon as reasonably possible, but no later than the Business Day following the receipt by the Trustee of notice from the related Credit Facility Provider or Liquidity Facility Provider of the occurrence of a Mandatory Facility Tender Event. Such notice shall specify (i) the Mandatory Facility Tender Date, (ii) date of termination of such Credit Facility or Liquidity Facility, if any, (iii) that the Bonds will no longer be payable from such Credit Facility or Liquidity Facility then in effect, (iv) that any rating applicable to the Bonds may be reduced or withdrawn, and (v) the information set forth in subsection (f) of this heading “Notice of Mandatory Tender for Purchase.”

(e) In connection with any mandatory tender for purchase of the Bonds in accordance provisions described in clause (a)(iv) under the heading “Mandatory Tender for Purchase Upon Expiration, Substitution or Termination of Credit Facility or Liquidity Facility; Mandatory Facility Tender; Interest Non-Reinstatement,” the Trustee shall give notice of such mandatory tender by mail to the Holders of the Bonds secured by the Direct-Pay Credit Facility as soon as reasonably possible, but no later than the Business Day following the receipt by the Trustee of notice from the issuer of such Direct-Pay Credit Facility that the interest component of such Direct-Pay Credit Facility will not be reinstated to its required amount. Such notice shall specify (i) the reason for the mandatory tender for purchase, (ii) the Interest Non-Reinstatement Tender Date, and (iii) the information set forth in subsection (f) of this heading “Notice of Mandatory Tender for Purchase.”

(f) In addition to the other requirements contained under this heading “Notice of Mandatory Tender for Purchase,” each notice of mandatory tender for purchase shall state (i) that the Bonds will be purchased on the applicable purchase date; (ii) that, except as otherwise required or permitted by the book-entry-only system of the Securities Depository, the Tender Price of any Bonds subject to mandatory tender for purchase shall be payable only upon surrender of the Bonds to the Tender Agent at its Principal Office for delivery of Bonds, accompanied by an instrument of transfer, in form satisfactory to the Tender Agent, executed in blank by the Bondholder or its duly-authorized attorney, with such signature guaranteed by a commercial bank, trust company or member firm of the New York Stock Exchange; (iii) that provided moneys in an amount sufficient to effect such purchase shall have been provided through the remarketing of such Bonds by the Remarketing Agent, through the Liquidity Facility or funds provided by the University, all Bonds subject to mandatory tender for purchase shall be purchased on the applicable Tender Date; and (iv) that if any Holder of Bond subject to mandatory tender for purchase does not surrender that Bond to the Tender Agent for purchase on the applicable Tender Date, then that Bond shall be deemed to be an Undelivered Bond, that no interest shall accrue on that Bond on and after the mandatory Tender Date and that the Holder shall have no rights under this Appendix D other than to receive payment of the Tender Price.

(Section A-505 of the Bond Series Certificate)

Irrevocable Notice Deemed to be Tender of Bonds; Undelivered Bonds

(a) The giving of notice by a Holder of the Bonds of the optional tender of Bonds as described above under the heading “Optional Tenders of Bonds in Daily Mode and Weekly Mode” shall constitute the irrevocable tender for purchase of each Series of Bonds with respect to which such notice is given regardless of whether that Series of Bonds is delivered to the Tender Agent for purchase on the relevant Tender Date.

(b) The Tender Agent may refuse to accept delivery of any Bonds for which a proper instrument of transfer has not been provided. However, such refusal shall not affect the validity of the purchase of such Bonds. If any Holder of Bonds who has given notice of tender of purchase pursuant to the Bond Series Certificate or any Holder of Bonds subject to mandatory tender for purchase pursuant to the Bond Series Certificate shall fail to deliver such Bonds to the Tender Agent at the place and on the Tender Date and at the time specified, or shall fail to

deliver such Bonds properly endorsed, such Bonds shall constitute Undelivered Bonds. If funds in the amount of the purchase price of the Undelivered Bond are available for payment to the Holder thereof on the Tender Date and at the time specified, then from and after the Tender Date and time of that required delivery (i) the Undelivered Bond shall be deemed to be purchased and shall no longer be deemed to be Outstanding under the Bond Series Certificate; (ii) interest shall no longer accrue on the Undelivered Bond; and (iii) funds in the amount of the Tender Price of the Undelivered Bond shall be held uninvested by the Trustee for the benefit of the Holder thereof (provided that the Holder shall have no right to any investment proceeds derived from such funds), to be paid on delivery (and proper endorsement) of the Undelivered Bond to the Tender Agent at its Principal Office for delivery of Bonds.

(Section A-506 of the Bond Series Certificate)

Remarketing of Bonds

Except as otherwise provided in this paragraph, upon a mandatory tender or notice of tender for purchase of Bonds of a Series, the Remarketing Agent shall offer for sale and use its best efforts to sell such Bonds (including Bank Bonds) on the same date designated for purchase thereof in accordance with the Bond Series Certificate and, if not remarketed on such date, thereafter until sold, at a price equal to par plus accrued interest, with such interest being calculated as if such Bonds were not a Bank Bond. To the extent a Direct-Pay Credit Facility is in effect, any Bonds of a Series purchased pursuant to the related Bond Series Certificate shall not be remarketed unless such Direct-Pay Credit Facility has been reinstated to its required amount as stated therein. To the extent a Liquidity Facility is in effect, any Bonds supported by such Liquidity Facility and purchased pursuant to clauses (a)(i) or (a)(iii) described under “Mandatory Tender for Purchase Upon Expiration, Substitution or Termination of Credit Facility or Liquidity Facility; Mandatory Facility Tender; Interest Non-Reinstatement” shall not be remarketed unless (i) such Bonds are converted to a Long-Term Interest Rate Period to their Maturity Date or to ARS, (ii) an Alternate Liquidity Facility is in full force and effect or (iii) the Liquidity Facility Provider has reinstated the Liquidity Facility with respect to which such Mandatory Facility Tender was declared and such Liquidity Facility is in full force and effect. No Bonds shall be remarketed to the Authority or the Borrower or any affiliate or insider (as defined in the U.S. Bankruptcy Code) of the Borrower.

The proceeds of the sale by the Remarketing Agent of any Bonds shall be delivered to the Tender Agent for deposit into the Remarketing Account of the Bond Purchase Fund as provided in the Remarketing Agreement.

(Section A-507 of the Bond Series Certificate)

Requests to Pay Tender Price Under Liquidity Facility

If there is not a sufficient amount of money available to pay the Tender Price on a Tender Date on which Bonds of a Series (other than Bank Bonds or Borrower Bonds) are required to be purchased pursuant to the applicable Bond Series Certificate, the Tender Agent shall make a Request or Requests under the Liquidity Facility in accordance with its terms, at the times and in the manner required by the Tender Agent Agreement to receive immediately available funds on the Tender Date sufficient to pay the balance of the Tender Price. The Tender Agent agrees to deposit the proceeds of such Requests in the Liquidity Facility Purchase Account pending application of that money to the payment of the Tender Price. In determining the amount of the Tender Price then due, the Tender Agent shall not take into consideration any Bank Bonds or Borrower Bonds. No Requests shall be made under a Liquidity Facility to pay the Tender Price of Bank Bonds or of Bonds of a Series which are registered in the name of the University or, to the best knowledge of the Tender Agent or any nominees for (or any Person who owns such Bonds for the sole benefit of) any of the foregoing. Bank Bonds and Borrower Bonds may not be tendered for purchase at the option of the Liquidity Facility Provider or the University, respectively.

(Section A-508 of the Bond Series Certificate)

Payment of Tender Price by University

If all or a portion of the Bonds tendered for purchase cannot be remarketed and the Liquidity Facility Provider fails to purchase all or any part of the unremarketed portion of such tendered Bonds in accordance with the Liquidity Facility on a Tender Date, the University shall pay to the Tender Agent upon request as provided in the Loan Agreement, the Tender Price in immediately available funds (together with any remarketing proceeds and any funds provided under the Liquidity Facility) sufficient to pay the Tender Price on Bonds tendered for purchase. The

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Tender Agent shall deposit the amount paid by the University, if any, in the Borrower Purchase Account of the Bond Purchase Fund pending application of the money to the payment of the Tender Price.

(Section A-509 of the Bond Series Certificate)

Bond Purchase Fund

The Tender Agent shall establish and maintain a separate fund for each Series of Bonds to be known as the “[Name of Bonds] Bond Purchase Fund” (the “Bond Purchase Fund”). The Tender Agent shall further establish within such Bond Purchase Fund a separate account to be referred to herein as a “Remarketing Account,” a separate account to be referred to herein as a “Liquidity Facility Purchase Account” and a separate account to be referred to herein as a “Borrower Purchase Account.”

Upon receipt of the proceeds of a remarketing of Bonds of a Series on a Tender Date, the Tender Agent shall deposit such proceeds in the related Remarketing Account of the Bond Purchase Fund for application to the Tender Price of such Bonds in accordance with the applicable Bond Series Certificate and, if the Tender Agent is not a paying agent with respect to such Bonds, shall transmit such proceeds to the Trustee for application. Notwithstanding the foregoing, upon receipt of the proceeds of a remarketing of Bank Bonds, the Tender Agent shall immediately pay such proceeds to the related Liquidity Facility Provider.

Upon receipt by the Tender Agent of the proceeds of any draw on a Liquidity Facility supporting Bonds of a Series that are transferred to such Tender Agent pursuant to the applicable Bond Series Certificate, the Tender Agent shall deposit such moneys in the Liquidity Facility Purchase Account of the Bond Purchase Fund for application to the Tender Price of such Bonds to the extent that money on deposit in the Remarketing Account of the Bond Purchase Fund shall not be sufficient. Any amounts deposited in the Liquidity Facility Purchase Account for such Bonds and not needed with respect to any Tender Date for the payment of the Tender Price for any such Bonds shall be returned immediately to the Liquidity Facility Provider.

Upon receipt from the University of any funds for the purchase of tendered Bonds of a Series, the Tender Agent shall deposit such money, if any, in the Borrower Purchase Account of the Bond Purchase Fund for application to the Tender Price of such Bonds required to be purchased on a Tender Date in accordance with the applicable Bond Series Certificate to the extent that the money on deposit in the Remarketing Account and the Liquidity Facility Purchase Account of the Bond Purchase Fund shall not be sufficient. Any amounts deposited in the Borrower Purchase Account and not needed with respect to any Tender Date for the payment of the Tender Price for any Bonds of a Series shall be immediately returned to the University.

Amounts held by the Tender Agent in the Bond Purchase Fund Account shall not be deemed as part of the trust estate and shall be held uninvested and separate and apart from all other funds and accounts.

(Section A-510 of the Bond Series Certificate)

Purchase of Bonds

The Tender Agent shall determine timely and proper delivery of the Bonds pursuant to the related Bond Series Certificate and the proper endorsement of the Bonds delivered. That determination shall be binding on the Holders of such Bonds, the Authority, the University, the Liquidity Facility Provider, the Remarketing Agent and the Credit Facility Provider, if any, absent manifest error.

Bonds required to be purchased in accordance with the Bond Series Certificate shall be purchased from the Holders thereof, on the Tender Date and at the Tender Price. Funds for the payment of the Tender Price shall be received by the Tender Agent from the following sources and used in the order of priority indicated:

- (i) proceeds of the sale of the Bonds remarketed and furnished to the Tender Agent by the Remarketing Agent for deposit into the Remarketing Account of the Bond Purchase Fund;
- (ii) money furnished by the Liquidity Facility Provider to the Tender Agent for deposit into the Liquidity Facility Purchase Account of the Bond Purchase Fund from Requests on the Liquidity

Facility, if any (provided that moneys from Requests on the Liquidity Facility shall not be used to purchase Bank Bonds or Bonds from the University); and

(iii) money, if any, furnished by the University for deposit into the Borrower Purchase Account of the Bond Purchase Fund for the purchase of Bonds by the University.

If any Bond of a Series purchased as provided under this heading “Purchase of Bonds” is not presented to the Tender Agent, the Tender Agent shall segregate and hold uninvested the money for the Tender Price of such Bond in trust for the benefit of the former Holder of such Bond, who shall, except as provided in the following sentences of this paragraph, thereafter be restricted exclusively to such money for the satisfaction of any claim for the Tender Price. Any money which the Tender Agent segregates and holds in trust for the payment of the Tender Price of any Series of Bonds which remains unclaimed for five years after the date of purchase shall be paid to the University. After the payment of such unclaimed money to the University, the former Holder of such Bonds shall look only to the University for the payment thereof. The University shall not be liable for any interest on unclaimed money and shall not be regarded as a trustee of such money.

(Section A-511 of the Bond Series Certificate)

Requirement of a Liquidity Facility

At all times while Bonds of a Series bear interest at the Daily Interest Rate or the Weekly Interest Rate, the University shall obtain a Liquidity Facility for all, but not less than all, of the Bonds. Any Liquidity Facility obtained by the University must meet the requirements of the Resolutions and the Bond Series Certificate relating thereto. The minimum amount of moneys available to be obtained under a Liquidity Facility on any date shall be the sum of (i) the principal amount of the Bonds to which such Liquidity Facility relates that are Outstanding on such date (other than Bank Bonds), plus (ii) an amount with respect to interest on such Bonds equal to interest accruing for such period and at such rate as in the determination of an Authorized Officer of the Authority is necessary to obtain the highest short-term ratings on such Bonds. The Insurer of the Bonds, if any, must be made an explicit third-party beneficiary of any Liquidity Facility or, at the option of the Liquidity Facility Provider, be a party to the Liquidity Facility.

(Section A-601 of the Bond Series Certificate)

Liquidity Facility and Credit Facilities; Substitutions

(a) General. At any time, the University, with the consent of the Authority, may provide for the delivery to the Trustee of (i) an initial and an Alternate Liquidity Facility with respect to Bonds of a Series, and/or (ii) an initial and an Alternate Credit Facility with respect to such Bonds. The University shall not obtain a Liquidity Facility for Bonds of a Series or provide for the delivery of an Alternate Liquidity Facility for such Bonds to the Trustee without the prior consent of the Insurer of the Bonds if any. Any such Liquidity Facility or Alternate Liquidity Facility obtained by the University shall be issued by a Liquidity Facility Provider acceptable to the Authority. Any Liquidity Facility or Credit Facility shall contain administrative provisions reasonably acceptable to the Trustee and/or Tender Agent, the Remarketing Agent and the Insurer of the Bonds, if any, and shall provide that any termination of the Liquidity Facility or Credit Facility upon the occurrence of a Mandatory Facility Tender Event shall not occur unless written notice thereof is given to the Trustee and the Tender Agent at least ten (10) days prior to such termination.

To the extent that both the Liquidity Facility Provider for the Bonds is not at the same time also the Credit Facility Provider with respect to such Bonds and the Credit Facility Provider is an insurance company, neither the Authority nor the Trustee shall consent to the substitution of a new Credit Facility Provider for the then-existing Credit Facility Provider, or the surrender, cancellation, termination, amendment or modification of the then-existing Credit Facility, without the prior written consent of the Liquidity Facility Provider.

On or prior to the Substitution Date for a Liquidity Facility, no drawing under an Alternate Liquidity Facility shall be made by the Trustee if the predecessor Liquidity Facility shall be effective and available to make drawings thereunder on the date of such drawing. After the Substitution Date, no drawing under a predecessor Liquidity Facility shall be made by the Trustee if the Alternate Liquidity Facility shall be effective and available to make drawings thereunder on the date of such drawing.

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(b) Opinions Required Upon Substitution. On or prior to the date of the delivery of any Alternate Liquidity Facility or Alternate Credit Facility, the University shall furnish to the Trustee (i) if the Liquidity Facility or Credit Facility is issued by a Facility Provider other than a domestic commercial bank, an opinion of Counsel reasonably satisfactory to the Authority, the Trustee, the Remarketing Agent (if any) and the Insurer of the Bonds, if any, that no registration of such Liquidity Facility or Credit Facility is required under the Securities Act, and no qualification of the Resolution is required under the Trust Indenture Act, in connection with the issuance and delivery of such Alternate Liquidity Facility or Alternate Credit Facility or the remarketing of the Bonds secured thereby; (ii) an opinion of Counsel satisfactory to the Authority, the Trustee, the Remarketing Agent and the Insurer of the Bonds, if any, to the effect that such Liquidity Facility or Credit Facility is a valid and enforceable obligation of the issuer thereof.

On or prior to the date on which an Alternate Liquidity Facility or Alternate Credit Facility is obtained or delivered pursuant to the Bond Series Certificate, the Authority shall furnish to the Trustee and/or Tender Agent a Favorable Opinion of Bond Counsel.

(c) Acceptance by Tender Agent. If at any time there shall have been delivered to the Trustee or Tender Agent, as the case may be, an Alternate Credit Facility or Alternate Liquidity Facility in substitution for the Credit Facility or Liquidity Facility then in effect, together with the opinions required by subdivision (c) above, then, providing that any condition to substitution contained in the existing Credit Facility or Liquidity Facility shall have been satisfied, the Trustee shall accept such Alternate Credit Facility or Alternate Liquidity Facility.

(Section A-602 of the Bond Series Certificate)

Surrender of Credit Facility or Liquidity Facility

If an Alternate Credit Facility or Alternate Liquidity Facility is delivered to the Trustee or Tender Agent, as the case may be, pursuant to the Bond Series Certificate, upon acceptance thereof, the Trustee or Tender Agent shall surrender the Credit Facility or Liquidity Facility previously held for cancellation in accordance with the terms of such Credit Facility or Liquidity Facility; provided, however, in no event shall (i) the Tender Agent surrender or cancel a Liquidity Facility unless it has received funds, either from proceeds of remarketing or a draw under the Liquidity Facility to be surrendered or cancelled, sufficient to pay the Tender Price of the Bonds to the applicable mandatory Tender Date, and (ii) the Trustee surrender or cancel a Credit Facility unless it has received funds sufficient to pay the Tender Price of the Bonds to the applicable mandatory Tender Date.

(Section A-603 of the Bond Series Certificate)

**SUMMARY OF CERTAIN PROVISIONS
OF THE REIMBURSEMENT AGREEMENT**

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**SUMMARY OF CERTAIN PROVISIONS OF THE
REIMBURSEMENT AGREEMENT**

The following summarizes certain provisions of the Reimbursement Agreement, to which document, in its entirety, reference is made for the complete provisions thereof.

The University has entered into a Reimbursement Agreement, dated as of September 1, 2008, with the Bank, pursuant to which the Bank has agreed to issue the Letter of Credit pursuant to the terms of the Reimbursement Agreement. Under the terms of the Reimbursement Agreement, the University has agreed to reimburse the Bank for draws under the Letter of Credit.

Capitalized terms used below which are not otherwise defined in this Appendix shall have the meanings as defined in the Reimbursement Agreement.

The Reimbursement Agreement contains covenants of the University regarding payments to the Bank; compliance with the terms of the Reimbursement Agreement, the Series 2006 Bonds and the Resolution; financial and business information about the University; notice of certain events; maintenance of books and records; access to books and records; amendments to the Reimbursement Agreement or the Resolution. The Bank may enforce or grant waivers of such covenants in its discretion, without the consent of the holders of the Series 2006 Bonds.

The Bank may, by notice to the Trustee, declare that an “Event of Default” has occurred under the Reimbursement Agreement and deliver a notice to the Trustee, thereby causing a mandatory tender of the Series 2006 Bonds and the Letter of Credit to be drawn upon and to expire as provided therein. Furthermore, the Bank will have any rights and remedies available to it under the Reimbursement Agreement, the Letter of Credit, the Series 2006 Bonds, the Resolution, the Loan Agreement, the Remarketing Agreement and all other agreements or instruments relating to the issuance and sale of and security for the Series 2006 Bonds and such other rights as may be available to it pursuant to law or equity.

The following events constitute an “Events of Default” under the Reimbursement Agreement:

(a) The University shall fail to pay when due any amount payable hereunder pursuant to Section 2.2 or Section 2.6 of the Reimbursement Agreement; or

(b) The University shall fail to observe or perform any covenant contained in Sections 5.1(a), 5.1(b), 5.2(a), or 5.2(b) of the Reimbursement Agreement; or

(c) The University shall fail to observe or perform any covenant or term contained in the Reimbursement Agreement and such default shall not be waived or cured within thirty (30) days after receipt of written notice of such default from the Bank or otherwise; provided however such failure shall not constitute an Event of Default under the Reimbursement Agreement if such failure is subject to cure but cannot be reasonably remedied within said thirty (30) day period and the University shall have commenced to cure such failure within said thirty (30) day period and shall have thereafter diligently proceeded with such cure and such failure is remedied within one hundred twenty (120) days of such notice; and provided further that any waiver may be granted or withheld by the Bank in its sole discretion; or

(d) The University shall fail to pay any amounts owed under the Reimbursement Agreement, except for amounts specified in subparagraph (a) above, and such default continues for a period of ten (10) Business Days after the Bank provides written notice to the University; or

(f) Any representation, warranty or certification made by the University in the Reimbursement Agreement or the Financing Documents shall prove to have been incorrect in any material respect when made; or

(g) Any default on the part of the University shall remain unwaived or uncured beyond the expiration of any applicable notice and/or grace period, under any of the Financing Documents; or

(h) Any default by University shall exist and remain unwaived or uncured prior to the expiration of any applicable grace period with respect to the payment of any interest on or any principal of any other Indebtedness

Appendix E

of the University for borrowed money or the advance of credit in a principal amount in excess of \$50,000,000; or any such other Indebtedness for borrowed money shall not have been paid when due by the University, and, in each case, such default or such non-payment permits the holder or holders thereof to accelerate the maturity of such Indebtedness, or shall have been declared to be due and payable prior to its stated maturity, or any event or circumstance shall occur (unless promptly waived) which permits the acceleration of the maturity of any such other Indebtedness by the holder or holders thereof; or

(i) The University shall be dissolved; or the University shall commence a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to itself or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or for any substantial part of its property, or any of the foregoing shall consent to any such relief or to the appointment of or taking possession by any such official in an involuntary case or other proceeding commenced against it, or shall fail generally to pay its debts as they become due, or shall make a general assignment for the benefit of creditors, or shall take any action to authorize any of the foregoing; or

(j) An involuntary case or other proceeding shall be commenced against the University seeking liquidation, reorganization or other relief with respect to it or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or for any substantial part of its property and such involuntary case or other proceeding shall remain undismissed and unstayed for a period of sixty (60) days; or

(k) Any writ, attachment, execution or similar process shall be issued or levied against the University or any of its property for an amount in excess of \$50,000,000, and any such writ, attachment, execution or similar process shall not be paid, released, vacated or fully bonded within thirty (30) days after its issue or levy; or

(l) Except as described in Section 4.1(k) of the Reimbursement Agreement, the University or any of its Subsidiaries, if any, shall fail to meet its minimum funding requirements under ERISA with respect to any employee benefit plan in an amount in excess of \$50,000,000 (or other class of benefit which the PBGC has elected to insure) or any such plan shall be the subject of termination proceedings (whether voluntary or involuntary) and there shall result from such termination proceedings a liability of the University to the PBGC in an amount in excess of \$50,000,000; or

(m) If the Reimbursement Agreement or any of the other Financing Documents or any material provision therein shall cease to be legal, valid or enforceable in any material respect; or

(o) There shall be entered against the University any final uninsured judgment which, singly or with any other final uninsured judgment or judgments against the University then remaining unpaid exceeds \$50,000,000 unless the University contests in good faith and by proper proceedings such judgment and sets aside and maintains reserves adequate to cover any such judgment or establishes bond before execution on any asset of the University; or

(p) Any "Event of Default" (as defined in the Resolution or the Loan Agreement) shall have occurred or any failure or default by the University shall have occurred under any of the other Financing Documents and shall have continued beyond the expiration of any applicable notice and/or grace period.

OPINIONS OF BOND COUNSEL TO THE AUTHORITY

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**OPINION OF BOND COUNSEL
DELIVERED UPON ISSUANCE OF THE SERIES 2006 BONDS**

Upon delivery of the Series 2006 Bonds, Hawkins Delafield & Wood LLP, Bond Counsel to the Authority, issued its approving opinion with respect to the Series 2006 Bonds substantially in the following form:

HAWKINS DELAFIELD & WOOD LLP
67 WALL STREET
NEW YORK, NEW YORK 10005

March 16, 2006

Dormitory Authority of the
State of New York
515 Broadway
Albany, New York 12207

Ladies and Gentlemen:

We have examined a record of proceedings relating to the issuance of \$94,130,000 aggregate principal amount of University of Rochester Revenue Bonds, Series 2006A-1 (the "Series 2006A-1 Bonds") and \$17,050,000 aggregate principal amount of University of Rochester Revenue Bonds, Series 2006B-1 (the "Series 2006B-1 Bonds" and, collectively with the Series 2006A-1 Bonds, the "Series 2006 Bonds") of the Dormitory Authority of the State of New York (the "Authority"), a body corporate and politic constituting a public benefit corporation of the State of New York created and existing under the Dormitory Authority Act, being Chapter 524 of the Laws of New York of 1944, as amended (the "Act").

The Series 2006 Bonds are issued under and pursuant to the Act, the University of Rochester Revenue Bond Resolution adopted by the Authority on August 11, 1999, as amended (the "Bond Resolution"), as supplemented by series resolutions adopted by the Authority on January 25, 2006, authorizing the Series 2006A-1 Bonds and the Series 2006B-1 Bonds, respectively (collectively, the "Series 2006 Resolutions"), and series certificates of the Authority fixing the terms and the details of the Series 2006A-1 Bonds and the Series 2006B-1 Bonds (collectively, the "Series 2006 Bond Series Certificates"). The Bond Resolution, the Series 2006 Resolutions and the Series 2006 Bond Series Certificates are herein collectively referred to as the "Resolutions."

The Series 2006 Bonds are dated, mature, are payable, bear interest and are subject to redemption and purchase as provided in the Resolutions.

The Authority has reserved the right to issue additional bonds on the terms and conditions and for the purposes stated in the Bond Resolution. Under and subject to the provisions of the Bond Resolution, the Series 2006 Bonds and all bonds heretofore and hereafter issued under the Bond Resolution rank and will rank equally as to security and payment.

We are of the opinion that:

1. The Authority has been duly created and is validly existing under the Act and has the right, power and authority to adopt the Resolutions and the Resolutions have been duly and lawfully adopted by the Authority, are in full force and effect and are valid and binding upon the Authority and enforceable in accordance with their terms.

2. The Bond Resolution creates the valid pledge which it purports to create of the proceeds of the sale of the bonds, the Revenues and all funds and accounts established by the Bond Resolution (other than the

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Arbitrage Rebate Fund, as defined in the Bond Resolution), including the investments thereof and the proceeds of such investments, if any, subject only to the provisions of the Bond Resolution permitting the application thereof to the purposes and on the terms and conditions set forth in the Bond Resolution.

3. The Series 2006 Bonds have been duly and validly authorized and issued by the Authority and are valid and binding special obligations of the Authority, payable solely from the sources provided therefor in the Resolutions.

4. The Series 2006 Bonds are not a debt of the State of New York, and the State of New York is not liable thereon, nor shall the Series 2006 Bonds be payable out of funds of the Authority other than those pledged for the payment of the Series 2006 Bonds.

5. The Loan Agreement dated as of August 11, 1999, between the Authority and the University of Rochester (the "University"), as supplemented and amended to the date hereof (the "Loan Agreement"), has been duly authorized, executed and delivered by the Authority and, assuming due authorization, execution and delivery thereof by the University, constitutes a legal, valid and binding obligation of the Authority enforceable in accordance with its terms.

6. Under existing statutes and court decisions, interest on the Series 2006 Bonds is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"). Under the Code, interest on the Series 2006 Bonds is not treated as a preference item in calculating alternative minimum taxable income for purposes of the alternative minimum tax applicable to individuals and corporations; such interest, however, is includable in the adjusted current earnings of certain corporations for purposes of computing the alternative minimum tax imposed on such corporations by the Code. Also, under existing statutes, interest on the Series 2006 Bonds is exempt from personal income taxes imposed by the State of New York or any political subdivision thereof (including The City of New York). In rendering the opinions in this paragraph 6, we have relied upon and assumed (i) the material accuracy of the representations, statements of intention and reasonable expectations, and certifications of fact, contained in the federal tax compliance documents delivered on the date hereof by the Authority and the University and others with respect to the use of proceeds of the Series 2006 Bonds and the investment of certain funds, and other matters affecting the exclusion of interest on the Series 2006 Bonds from gross income for federal income tax purposes under Section 103 of the Code, and (ii) compliance by the Authority and the University with procedures and covenants set forth in the federal tax compliance documents and with the tax covenants set forth in the Resolutions as to such matters. In addition, we have relied on the opinion of counsel to the University regarding, among other matters, the current qualifications of the University as an organization described in Section 501(c)(3) of the Code. Under the Code, failure to comply with such procedures and covenants may cause the interest on the Series 2006 Bonds to be included in gross income for federal income tax purposes, retroactive to the date of issuance of the Series 2006 Bonds, irrespective of the date on which such noncompliance occurs or is ascertained.

Except as stated in paragraph 6 above, we express no opinion as to any federal, state or local tax consequences arising with respect to the Series 2006 Bonds or the ownership or disposition thereof. Furthermore, we express no opinion as to the effect of any action hereafter taken or not taken in reliance upon an opinion of counsel other than ourselves on the exclusion from gross income for federal income tax purposes of interest on the Series 2006 Bonds, or under state and local tax law. Under the Series 2006 Bond Series Certificates, certain action such as a change in interest rate periods or auction rate periods requires an opinion of bond counsel that such action will not impair the exclusion of interest on the Series 2006 Bonds from gross income for purposes of federal income taxation or the exemption of interest on the Series 2006 from personal income taxation under the laws of the State of New York (subject to customary exceptions).

This opinion is issued as of the date hereof, and we assume no obligation to update, revise or supplement this opinion as to the effect of any action hereafter taken or not taken, or any facts or circumstances, or any changes in law or in interpretations thereof, that may hereafter arise or occur, or for any other reason.

In rendering this opinion, we are advising you that the enforceability of rights and remedies with respect to the Series 2006 Bonds, the Resolutions and the Loan Agreement may be limited by bankruptcy,

insolvency and other laws affecting creditors' rights or remedies heretofore or hereafter enacted and is subject to general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

We have examined an executed Series 2006A-1 Bond and Series 2006B-1 Bond and, in our opinion, the form of said Series 2006 Bonds and their execution are regular and proper.

Very truly yours,

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**PROPOSED FORM OF OPINION OF BOND COUNSEL
TO BE DELIVERED UPON CONVERSION
AND REMARKETING OF THE SERIES 2006A-1 BONDS**

Upon conversion of the interest rate mode applicable to the Series 2006A-1 Bonds, Hawkins Delafield & Wood LLP, Bond Counsel to the Authority, proposes to issue its legal opinion in substantially the following form:

HAWKINS DELAFIELD & WOOD LLP
ONE CHASE MANHATTAN PLAZA
NEW YORK, NEW YORK 10005

September 10, 2008

Dormitory Authority of the
State of New York
515 Broadway
Albany, New York 12207

The Bank of New York Mellon,
as Trustee
101 Barclay Street
New York, New York 10286

Ladies and Gentlemen:

On March 16, 2006, we delivered our final approving opinion (the "2006 Approving Opinion") as bond counsel to the Dormitory Authority of the State of New York (the "Authority") with respect to the issuance by the Authority of \$94,130,000 aggregate principal amount of University of Rochester Revenue Bonds, Series 2006A-1 (the "Series 2006A-1 Bonds").

The Series 2006A-1 Bonds were issued under and pursuant to the Dormitory Authority Act, being Chapter 524 of the Laws of New York of 1944, as amended (the "Act"), the University of Rochester Revenue Bond Resolution adopted by the Authority on August 11, 1999, which was amended and restated on May 28, 2008 (the "Bond Resolution"), as supplemented by a series resolution authorizing the Series 2006A-1 Bonds, adopted by the Authority on January 25, 2006 and amended and restated on July 23, 2008 (the "Series Resolution"), and a series certificate of the Authority fixing the terms and the details of the Series 2006A-1 Bonds dated as of February 17, 2006 as supplemented on March 15, 2006, and amended and restated as of the date hereof (the "Series Certificate"). The Bond Resolution, the Series Resolution and the Series Certificate are herein collectively referred to as the "Resolutions." Unless otherwise defined in this opinion, all capitalized terms used herein shall have the meanings ascribed thereto in the Resolutions.

Initially, the Tender Price of Series 2006A-1 Bonds tendered or deemed tendered for purchase in accordance with the Resolutions was payable under and pursuant to a Standby Bond Purchase Agreement, dated as of March 16, 2006 (the "Original Liquidity Facility"), between the University of Rochester (the "University") and Wachovia Bank, National Association. Payment of the principal of and interest on the Series 2006A-1 Bonds was guaranteed by a financial guaranty insurance policy issued upon original issuance of the Series 2006A-1 Bonds (the "Original Credit Facility") by MBIA Insurance Corporation. Pursuant to the Resolutions and the Loan Agreement, dated as of August 11, 1999, as amended and supplemented, including as supplemented by the Supplemental Loan Agreement, dated as of January 26, 2006, as amended and restated (collectively, the "Loan Agreement"), each by and between the Authority and the University of Rochester (the "University"), the University has elected to substitute the Original Liquidity Facility with an irrevocable direct pay letter of credit to be issued by Bank of America, N.A. (the "Alternate Facility"). Simultaneously, upon the substitution of the Original Liquidity Facility

and the mandatory tender and reoffering of the Outstanding Series 2006A-1 Bonds (the “Reoffered Bonds”) in connection therewith, the Original Credit Facility will be cancelled and surrendered and payment of the principal and interest on the Reoffered Bonds will be payable from draws under the Alternate Facility.

We are delivering this opinion in connection with the substitution of the Original Liquidity Facility and the Original Credit Facility (collectively referred to herein as the “Original Facilities”) with the Alternate Facility on the date hereof (the “Substitution”).

We are of the opinion that the Substitution of the Original Facilities with the Alternate Facility is permitted under the Resolutions.

We have not been asked to, and we do not, express any opinion as to whether, as of the date hereof, the interest on the Reoffered Bonds is excluded from gross income for Federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”). We are of the opinion, however, that, under existing statutes and court decisions, the Substitution, in and of itself, will not impair (a) the exclusion of interest from gross income for Federal income tax purposes under Section 103 of the Code on any Reoffered Bonds, the interest on which is otherwise excluded from gross income for Federal income tax purposes under Section 103 of the Code, and (b) the exemption of interest on any Reoffered Bonds from personal income taxes imposed by the State of New York or any political subdivision thereof (including The City of New York).

Except as stated above, we express no opinion regarding any Federal, state or local tax consequences with respect to the Reoffered Bonds. We wish to advise you that our opinion is limited to the Substitution on September 10, 2008 and does not extend to any other event or matter occurring subsequent to the delivery of our 2006 Approving Opinion on March 16, 2006.

This opinion is given as of the date hereof and we assume no obligation to update, revise or supplement this opinion to reflect any future action, fact or circumstance, or change in law or interpretation, or otherwise. We express no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for Federal income tax purposes of interest on the Reoffered Bonds, or under state and local tax law.

Very truly yours,

**PROPOSED FORM OF OPINION OF BOND COUNSEL
TO BE DELIVERED UPON CONVERSION
AND REMARKETING OF THE SERIES 2006B-1 BONDS**

Upon conversion of the interest rate mode applicable to the Series 2006B-1 Bonds, Hawkins Delafield & Wood LLP, Bond Counsel to the Authority, proposes to issue its legal opinion in substantially the following form:

HAWKINS DELAFIELD & WOOD LLP
ONE CHASE MANHATTAN PLAZA
NEW YORK, NEW YORK 10005

September 10, 2008

Dormitory Authority of the
State of New York
515 Broadway
Albany, New York 12207

The Bank of New York Mellon,
as Trustee
101 Barclay Street
New York, New York 10286

Ladies and Gentlemen:

On March 16, 2006, we delivered our final approving opinion (the "2006 Approving Opinion") as bond counsel to the Dormitory Authority of the State of New York (the "Authority") with respect to the issuance by the Authority of \$17,050,000 aggregate principal amount of University of Rochester Revenue Bonds, Series 2006B-1 (the "Series 2006B-1 Bonds").

The Series 2006B-1 Bonds were issued under and pursuant to the Dormitory Authority Act, being Chapter 524 of the Laws of New York of 1944, as amended (the "Act"), the University of Rochester Revenue Bond Resolution adopted by the Authority on August 11, 1999, which was amended and restated on May 28, 2008 (the "Bond Resolution"), as supplemented by a series resolution authorizing the Series 2006B-1 Bonds, adopted by the Authority on January 25, 2006 and amended and restated on July 23, 2008 (the "Series Resolution"), and a series certificate of the Authority fixing the terms and the details of the Series 2006B-1 Bonds dated as of February 17, 2006 as supplemented on March 15, 2006, and amended and restated as of the date hereof (the "Series Certificate"). The Bond Resolution, the Series Resolution and the Series Certificate are herein collectively referred to as the "Resolutions." Unless otherwise defined in this opinion, all capitalized terms used herein shall have the meanings ascribed thereto in the Resolutions.

Initially, the Tender Price of Series 2006B-1 Bonds tendered or deemed tendered for purchase in accordance with the Resolutions was payable under and pursuant to a Standby Bond Purchase Agreement, dated as of March 16, 2006 (the "Original Liquidity Facility"), between the University of Rochester (the "University") and Wachovia Bank, National Association. Payment of the principal of and interest on the Series 2006B-1 Bonds was guaranteed by a financial guaranty insurance policy issued upon original issuance of the Series 2006B-1 Bonds (the "Original Credit Facility") by MBIA Insurance Corporation. Pursuant to the Resolutions and the Loan Agreement, dated as of August 11, 1999, as amended and supplemented, including as supplemented by the Supplemental Loan Agreement, dated as of January 26, 2006, as amended and restated (collectively, the "Loan Agreement"), each by and between the Authority and the University of Rochester (the "University"), the University has elected to substitute the Original Liquidity Facility with an irrevocable direct pay letter of credit to be issued by Bank of America, N.A. (the "Alternate Facility"). Simultaneously, upon the substitution of the Original Liquidity Facility

and the mandatory tender and reoffering of the Outstanding Series 2006B-1 Bonds (the “Reoffered Bonds”) in connection therewith, the Original Credit Facility will be cancelled and surrendered and payment of the principal and interest on the Reoffered Bonds will be payable from draws under the Alternate Facility.

We are delivering this opinion in connection with the substitution of the Original Liquidity Facility and the Original Credit Facility (collectively referred to herein as the “Original Facilities”) with the Alternate Facility on the date hereof (the “Substitution”).

We are of the opinion that the Substitution of the Original Facilities with the Alternate Facility is permitted under the Resolutions.

We have not been asked to, and we do not, express any opinion as to whether, as of the date hereof, the interest on the Reoffered Bonds is excluded from gross income for Federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”). We are of the opinion, however, that, under existing statutes and court decisions, the Substitution, in and of itself, will not impair (a) the exclusion of interest from gross income for Federal income tax purposes under Section 103 of the Code on any Reoffered Bonds, the interest on which is otherwise excluded from gross income for Federal income tax purposes under Section 103 of the Code, and (b) the exemption of interest on any Reoffered Bonds from personal income taxes imposed by the State of New York or any political subdivision thereof (including The City of New York).

Except as stated above, we express no opinion regarding any Federal, state or local tax consequences with respect to the Reoffered Bonds. We wish to advise you that our opinion is limited to the Substitution on September 10, 2008 and does not extend to any other event or matter occurring subsequent to the delivery of our 2006 Approving Opinion on March 16, 2006.

This opinion is given as of the date hereof and we assume no obligation to update, revise or supplement this opinion to reflect any future action, fact or circumstance, or change in law or interpretation, or otherwise. We express no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for Federal income tax purposes of interest on the Reoffered Bonds, or under state and local tax law.

Very truly yours,

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