

Rensselaer Polytechnic Institute
Consolidated Financial Statements

For the Years Ended
June 30, 2011 and 2010

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Report of Independent Auditors

To The Board of Trustees
Rensselaer Polytechnic Institute:

In our opinion, the accompanying consolidated statements of financial position and the related consolidated statements of activities and cash flows present fairly, in all material respects, the financial position of Rensselaer Polytechnic Institute ("Rensselaer") at June 30, 2011 and June 30, 2010, 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 Rensselaer'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 Note 1 to the consolidated financial statements, Rensselaer changed the manner in which it classifies accumulated total investment returns within net assets as a result of the adoption of ASC 958, *Not-for-Profit Entities* (formerly FASB Staff Position No. 117-1).

A handwritten signature in cursive script that reads "PricewaterhouseCoopers LLP".

October 7, 2011

Rensselaer Polytechnic Institute
Consolidated Statements of Financial Position
At June 30, 2011 and June 30, 2010
(in thousands of dollars)

<i>Assets</i>	<i>2011</i>	<i>2010</i>
Cash and cash equivalents (Note B)	\$ 9,014	\$ 8,163
Accounts receivable, net (Note B)		
Student related and other	8,061	7,293
Research, training and other agreements (Note E)	28,129	25,945
Contributions receivable, net (Note D)	24,364	31,095
Contributions from external remainder trusts (Note H)	8,373	7,948
Inventories (Note B)	2,204	1,889
Prepaid expenses and other assets	12,609	11,729
Deposits with bond trustees (Note K)	10	185
Student loans receivable, net (Note B)	29,366	31,165
Collateral received for securities loaned	-	14,815
Investments, at market (Note H)	627,474	636,877
Land, buildings and equipment, net (Note J)	750,850	751,656
Total assets	\$ 1,500,454	\$ 1,528,760

<i>Liabilities</i>		
Accounts payable and accrued expenses	\$ 46,504	\$ 44,238
Short term borrowings (Note K)	39,750	31,775
Deferred revenue	21,083	21,362
Split interest agreement obligations (Note F)	9,078	9,237
Other liabilities	15,831	14,921
Payable for collateral received on securities loaned agreement payable	-	14,815
Pension liability (Note L)	81,981	101,087
Accrued postretirement benefits (Note L)	14,082	12,164
Refundable government loan funds	27,602	26,977
Capital Leases payable (Note M)	19,533	19,746
Long-term debt (Note K)	709,029	710,512
Total liabilities	\$ 984,473	\$ 1,006,834

<i>Net Assets</i>		
Unrestricted	(18,706)	171,963
Temporarily restricted	257,616	87,852
Permanently restricted	277,071	262,111
Total net assets	515,981	521,926

Total liabilities and net assets	\$ 1,500,454	\$ 1,528,760
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The accompanying notes are an integral part of these consolidated financial statements.

Rensselaer Polytechnic Institute
Consolidated Statement of Activities
For The Year Ended June 30, 2011, with comparative June 30, 2010 totals
(in thousands of dollars)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total June 30, 2011	Total June 30, 2010
Operating Revenue:					
Student related revenue:					
Student tuition and fees, net					
Undergraduate	\$ 119,049	\$ -	\$ -	\$ 119,049	\$ 115,161
Graduate	38,549			38,549	34,305
Education for working professionals	11,583			11,583	17,069
Fees	1,443			1,443	1,519
Auxiliary services	49,730			49,730	48,530
Student related revenue	220,354	-	-	220,354	216,584
Gifts	26,075	125	4	26,204	25,471
Grants and contracts:					
Direct:					
Federal	60,728			60,728	55,630
State	5,256			5,256	7,597
Private	8,379			8,379	5,616
Indirect	18,424			18,424	17,576
Grants and contracts	92,787	-	-	92,787	86,419
Investment return:					
Dividends and interest	3,103	4,684		7,787	5,735
Realized accumulated gains used to meet spending policy	12,023	9,106		21,129	23,748
Endowment spending for Rensselaer Plan initiatives	20,700			20,700	22,100
Interest on student loans	111			111	124
Investment return	35,937	13,790	-	49,727	51,707
Rensselaer Technology Park	3,924			3,924	4,621
Other	6,975	113		7,088	7,118
Net assets released from restrictions	29,818	(29,818)		-	-
Total operating revenue	415,870	(15,790)	4	400,084	391,920
Operating Expense:					
Instruction	147,796			147,796	134,847
Research:					
Sponsored	103,285			103,285	98,405
Un-sponsored	19,964			19,964	16,828
Student services	13,429			13,429	11,933
Institutional and academic support	83,807			83,807	83,967
Externally funded scholarships and fellowships	13,450			13,450	14,595
Auxiliary services	30,578			30,578	30,685
Rensselaer Technology Park	3,829			3,829	3,720
Defined benefit pension and postretirement	11,658			11,658	9,135
Total operating expenses	427,796	-	-	427,796	404,115
Change in net assets from operating activities	(11,926)	(15,790)	4	(27,712)	(12,195)
Non-operating:					
Realized and unrealized gains (losses), net of spending policy	(12,747)	8,167	1,880	(2,700)	15,402
Realized and unrealized gains (losses), interest rate swaps	-			-	(5,218)
Adjustment for pension and postretirement benefits liability	14,156			14,156	(11,689)
Life income and endowment gifts		945	6,940	7,885	6,225
Loss on extinguishment of debt	-			-	(4,793)
Change in value of life income contracts		2,744	(217)	2,527	580
Loss on disposal of fixed assets	(101)			(101)	(1,420)
Other reclassification	(6,353)		6,353	-	-
Change in net assets from non-operating activities	(5,045)	11,856	14,956	21,767	(913)
Decrease in net assets before effect of change in accounting principle	(16,971)	(3,934)	14,960	(5,945)	(13,108)
Cumulative effect of change in accounting principle	(173,698)	173,698	-	-	-
Change in net assets after cumulative effect of change in accounting principle	(190,669)	169,764	14,960	(5,945)	(13,108)
Net assets at beginning of year	171,963	87,852	262,111	521,926	535,034
Net assets at end of year	\$ (18,706)	\$ 257,616	\$ 277,071	\$ 515,981	\$ 521,926

The accompanying notes are an integral part of these consolidated financial statements.

Rensselaer Polytechnic Institute
Consolidated Statement of Activities
For The Year Ended June 30, 2010
(in thousands of dollars)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total June 30, 2010
<i>Operating Revenue:</i>				
Student related revenue:				
Student tuition and fees, net				
Undergraduate	\$ 115,161	\$ -	\$ -	\$ 115,161
Graduate	34,305			34,305
Education for working professionals	17,069			17,069
Fees	1,519			1,519
Auxiliary services	48,530			48,530
Student related revenue	216,584	-	-	216,584
Gifts	22,171	3,300		25,471
Grants and contracts:				
Direct:				
Federal	55,630			55,630
State	7,597			7,597
Private	5,616			5,616
Indirect	17,576			17,576
Grants and contracts	86,419	-	-	86,419
Investment return:				
Dividends and interest	5,217	518		5,735
Realized accumulated gains used to meet spending policy	21,561	2,187		23,748
Endowment spending for Rensselaer Plan initiatives	22,100			22,100
Interest on student loans	124			124
Investment return	49,002	2,705	-	51,707
Rensselaer Technology Park	4,621			4,621
Other	7,094	24		7,118
Net assets released from restrictions	14,923	(14,923)		-
Total operating revenue	400,814	(8,894)	-	391,920
<i>Operating Expense:</i>				
Instruction	134,847			134,847
Research:				
Sponsored	98,405			98,405
Un-sponsored	16,828			16,828
Student services	11,933			11,933
Institutional and academic support	83,967			83,967
Externally funded scholarships and fellowships	14,595			14,595
Auxiliary services	30,685			30,685
Rensselaer Technology Park	3,720			3,720
Defined benefit pension and postretirement	9,135			9,135
Total operating expenses	404,115	-	-	404,115
Change in net assets from operating activities	(3,301)	(8,894)	-	(12,195)
<i>Non-operating:</i>				
Realized and unrealized gains (losses), net of spending policy	10,731	4,932	(261)	15,402
Realized and unrealized gains (losses), interest rate swaps	(5,218)			(5,218)
Adjustment for pension and postretirement benefits liability	(11,689)			(11,689)
Life income and endowment gifts		1,315	4,910	6,225
Loss on extinguishment of debt	(4,793)			(4,793)
Change in value of life income contracts		(206)	786	580
Gain (loss) on disposal of fixed assets	(1,431)	11		(1,420)
Change in net assets from non-operating activities	(12,400)	6,052	5,435	(913)
Change in net assets	(15,701)	(2,842)	5,435	(13,108)
Net assets at beginning of year	187,664	90,694	256,676	535,034
Net assets at end of year	\$ 171,963	\$ 87,852	\$ 262,111	\$ 521,926

The accompanying notes are an integral part of these consolidated financial statements.

Rensselaer Polytechnic Institute
Consolidated Statements of Cash Flows
For the years ended June 30, 2011 and 2010
(in thousands of dollars)

	2011	2010
<i>Cash flow from operating activities</i>		
Total change in net assets	\$ (5,945)	\$ (13,108)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	35,975	38,124
Accretion expense	360	352
Loss on disposal of fixed assets	101	1,420
Uncollectible contributions writeoff	512	4,696
Loss on extinguishment of debt	-	1,554
Provision for uncollectible accounts and loans	379	(79)
Realized and unrealized losses (gains) on investments	(39,129)	(61,250)
Unrealized loss on interest rate swap	-	(2,429)
Contributions of equipment and other capital items	-	(272)
Receipt of contributed securities	(2,523)	(3,598)
Contributions restricted for long term investment	(6,060)	(6,225)
Contributions from external trusts, net of change in value	(425)	(165)
Changes in operating assets and liabilities:		
Accounts receivable	(3,141)	4,730
Contributions receivable	6,219	2,068
Inventories	(315)	161
Prepaid expense and other assets	(1,184)	(327)
Accounts payable and accrued expenses	7,182	3,614
Change in pension liability	(19,106)	12,018
Present value of split interest agreements, net of terminations	(159)	1,638
Deferred revenue and other liabilities	271	1,945
Accrued postretirement benefits	1,918	(1,391)
Net cash used in operating activities	(25,070)	(16,524)
<i>Cash flow from investing activities</i>		
Proceeds from sale of investments	333,115	181,140
Purchase of investments	(282,060)	(136,617)
Additional student loans granted	(2,882)	(2,454)
Student loans paid	4,491	4,535
Deposit with bond trustees	175	1,953
Proceeds from sale of land, building, and equipment	-	422
Purchase of land, building and equipment	(38,840)	(54,134)
Net cash provided (used) in investing activities	13,999	(5,155)
<i>Cash flow from financing activities</i>		
Contributions restricted for endowments	6,060	6,225
Payment of annuity obligations	(1,042)	(1,149)
Proceeds from issuance of bonds	-	561,750
Proceeds from loans/line of credit	216,742	217,900
Repayment of debt/line of credit	(210,463)	(705,875)
Deferred financing costs	-	(4,024)
Settlements of derivatives	-	(48,255)
Government loan funds	625	550
Net cash provided by financing activities	11,922	27,122
Net decrease in cash and cash equivalents	851	5,443
Cash and cash equivalents at beginning of the year	8,163	2,720
Cash and cash equivalents at end of the year	\$ 9,014	\$ 8,163
<i>Non cash investing activities</i>		
Gifts of equipment and other capital items	\$ -	\$ 272
Contributed securities	2,523	3,598
Seller financed debt	4,066	8,586
Decrease of capital assets included in accounts payable	(3,874)	(6,324)
<i>Supplemental disclosures of cash flow information</i>		
Cash paid during the year for interest	\$ 34,144	\$ 16,211

The accompanying notes are an integral part of these consolidated financial statements.

Rensselaer Polytechnic Institute

Notes to the Consolidated Financial Statements

For the Years Ended June 30, 2011 and June 30, 2010

Note A- Organization

Rensselaer Polytechnic Institute (Rensselaer) is a nonsectarian, coeducational institution composed of five schools: Architecture, Engineering, Humanities and Social Sciences, Lally School of Management and Technology, and Science. More than 130 programs and 700 courses lead to bachelors', masters', and doctoral degrees in all five schools. Rensselaer Technology Park is a university related park for technology ventures seeking a unique environment focused on the interface between industry and education.

Note B- Summary of Significant Accounting Policies

Basis of Consolidation

The accompanying consolidated financial statements of Rensselaer have been prepared on the accrual basis and include Rensselaer Hartford Graduate Center, Inc. (Center). All significant inter-organizational accounts have been eliminated.

Net Asset Classification

Net assets having similar characteristics have been classified in the following categories:

PermanentlyRestricted

Net assets subject to donor-imposed stipulations that they be maintained permanently or until prudently appropriated by the Board of Trustees of the Institute in accordance with New York State law. Generally, the donors of these assets permit the Institute to use all or part of the investment return on these assets to support program activities, principally financial aid and instruction.

TemporarilyRestricted

Net assets whose use by the Institute is subject to donor-imposed or legal stipulations that can be fulfilled by actions of the Institute pursuant to those stipulations or that expire with the passage of time. Realized and unrealized gains on permanently and temporarily restricted assets are reported as temporarily restricted net assets in accordance with New York State law.

Unrestricted

Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Trustees or may otherwise be limited by contractual agreements with outside parties.

Expenses are generally reported as decreases in unrestricted net assets.

Operating net assets released from restrictions include support for such program activities as financial aid and instruction. Contributions with donor-imposed restrictions are reported as temporarily restricted revenues and are reclassified to unrestricted net assets when the donor-imposed restriction is satisfied.

Nonoperating net assets released from restrictions primarily represent amounts for facilities and equipment. Contributions restricted for the acquisition of land, buildings and equipment and specific programs are reported as temporarily restricted revenues. These contributions are reclassified to unrestricted net assets upon acquisition of the assets. Contributions received of a capital nature, that is, contributions to be used for facilities and equipment or to be invested by the University to generate a return that will support operations, are included in non-operating activities.

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 and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Rensselaer Polytechnic Institute
Notes to the Consolidated Financial Statements
For the Years Ended June 30, 2011 and June 30, 2010

Note B- Summary of Significant Accounting Policies, (continued)

Tax Exempt Status

Rensselaer and Rensselaer Hartford Graduate Center, Inc are tax exempt 501(c) (3) Corporations under the Internal Revenue Service Code.

Reclassifications

It is the Institute's policy to reclassify, where appropriate, prior year financial statements to conform to the current year presentation.

Contributions

Unconditional contributions are recognized as contributions receivable at their estimated net present value when pledged. Restricted contributions are released to unrestricted net assets when an expense is incurred that satisfies the donor-imposed restriction. Contributions of assets other than cash are recorded at their estimated fair value at the date of gift. Conditional promises to give are not recognized until the conditions on which they depend are substantially met.

Cash and Cash Equivalents

Cash and cash equivalents include all highly liquid debt instruments with maturity of three months or less when purchased.

Accounts and Notes Receivable

Accounts and notes receivable arising from tuition fees, Rensselaer Technology Park activity and amounts owed on research contracts are carried net of an allowance for doubtful accounts as follows (in thousands):

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Student-related receivables	\$ 563	\$ 620
Loans to students	1,726	1,536
Other	13	13
Rensselaer Technology Park	36	36
Research, training and other agreements	<u>702</u>	<u>456</u>
Total allowances for doubtful accounts	<u>\$3,040</u>	<u>\$2,661</u>

Inventories

Inventories consist mainly of bookstore and computer store goods and maintenance supplies and are stated at the lower of cost or current market value, based upon the first-in, first-out method.

Investments

Purchase and sale transactions are recorded on a trade date basis. Realized gains and losses are recognized on an average cost basis when securities are sold.

Net appreciation (depreciation) in the fair value of investments, which consists of the realized gains on losses and the unrealized appreciation or depreciation on those investments, is recognized in the Statement of Activities.

Securities lending

The Institute participated in securities lending activities. Cash and investments received as collateral on the securities lending transactions are reported as collateral received for securities loaned on the consolidated statement of financial position. As the collateral must be returned in the future, a corresponding liability is reported on the consolidated statement of position. The Institute exited the securities lending program in January 2011.

Rensselaer Polytechnic Institute
Notes to the Consolidated Financial Statements
For the Years Ended June 30, 2011 and June 30, 2010

Note B- Summary of Significant Accounting Policies, (continued)

Land, Buildings and Equipment

Land, buildings and equipment are carried at cost or at the fair value at the date of the gift. Depreciation is computed on a straight-line basis over the estimated useful lives of buildings (50 years) and equipment (3-20 years). All gifts of land, buildings and equipment are recorded as unrestricted operating activity unless explicit donor stipulations specify how the donated assets must be used. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the donor restrictions are reported as being released when the donated or acquired long-lived assets are placed in service. Gifts of land, buildings and equipment with explicit donor stipulations specifying how the assets must be used or how long the assets must be maintained are recorded as temporarily restricted operating activity and reported as being released over the period of time required and be maintained as the assets are used for its specified purpose.

Note C- Tuition Revenue

The undergraduate student discount rate was 40.8% and 42.5% for the years ended June 30, 2011 and 2010, respectively.

Student tuition by segment and location is as follows (in thousands):

	<u>2011</u>	<u>2010</u>
Undergraduate tuition:		
Troy Campus	\$201,009	\$200,372
Less institutional aid	<u>(81,960)</u>	<u>(85,211)</u>
Total undergraduate tuition	<u>\$119,049</u>	<u>\$115,161</u>
Graduate tuition:		
Troy Campus	\$ 39,972	\$ 34,889
Less institutional aid	<u>(1,423)</u>	<u>(584)</u>
Total graduate tuition	<u>\$ 38,549</u>	<u>\$ 34,305</u>
Education for working professionals:		
Troy Campus	\$ 4,809	\$ 5,609
Hartford Campus	<u>6,774</u>	<u>11,460</u>
Total education for working professionals	<u>\$ 11,583</u>	<u>\$ 17,069</u>

Rensselaer Polytechnic Institute
Notes to the Consolidated Financial Statements
For the Years Ended June 30, 2011 and June 30, 2010

Note D- Contributions Receivable

Contributions receivable are expected to be collected as follows at June 30 (in thousands):

	<u>2011</u>	<u>2010</u>
In one year or less	\$2,926	\$2,169
Between one year and three years	14,469	17,133
Greater than three years	10,822	17,306
Less:		
Present value discount	(3,366)	(4,865)
Allowance for uncollectible pledges	<u>(487)</u>	<u>(648)</u>
Total contributions receivable	<u>\$24,364</u>	<u>\$31,095</u>

Conditional pledges, which are not accrued, approximate \$3,157,000 at June 30, 2011, of which \$178,000 was unrestricted as to purpose. The remaining conditional pledges are restricted to purpose as follows: \$1,954,000 current programs; \$882,000 endowment; and \$143,000 plant. Bequest expectancies totaling \$109,069,000 have been excluded from these amounts and are not recorded in the financial statements. In compliance with donor stipulations related to a \$360,000,000 transformational gift, income is being recognized as periodic cash payments are received. Income of \$10,000,000 related to the transformational gift was recognized in 2011 and 2010, respectively.

Note E- Research Grants and Contracts

Rensselaer has been awarded approximately \$102,667,000 and \$95,925,000 of grants and contracts which have not been advanced or expended as of June 30, 2011 and 2010, respectively, and accordingly, are not recorded in the financial statements.

Note F- Split Interest Agreements

Split interest gift agreements consist primarily of irrevocable charitable remainder trusts, pooled income funds and charitable gift annuities for which Rensselaer is the remainder beneficiary. Assets held in these trusts are included in investments and recorded at their fair value when received. The value of split interest assets included in the investments at June 30, 2011 and 2010 were \$23,178,000 and \$24,672,000, respectively. Contribution revenues are recognized at the dates the trusts are established net of the liabilities for the present value of the estimated future payments to be made to the donors and/or other beneficiaries. The liabilities are adjusted during the term of the agreements for changes in the value of the assets, accretion of the discount and other changes in the estimates of future benefits. Discount rates range from 2.4% to 10.6%. The liability for the present value of deferred gifts of \$9,078,000 and \$9,237,000 at June 30, 2011 and 2010, respectively, is based upon actuarial estimates and assumptions regarding the duration of the agreements and the rates to discount the liability. Circumstances affecting these assumptions can change the estimate of this liability in future periods.

Rensselaer is also beneficiary of certain perpetual trusts held and administered by others. The fair value of these trusts at June 30, 2011 and 2010 was \$55,945,000 and \$48,902,000 respectively and included in the investment balance. The present values of the estimated future cash receipts from the trusts are recognized as contributions from external trusts and contribution revenue at the date Rensselaer is notified of the establishment of the trust. Distributions from the trusts are recorded as investment income in the period they are received and the fair value of the institutions investment of these distributions are disclosed in Footnote H. Changes in fair value of the trusts are recorded as non-operating gains or losses in temporarily or permanently restricted net assets.

Rensselaer Polytechnic Institute
Notes to the Consolidated Financial Statements
For the Years Ended June 30, 2011 and June 30, 2010

Note G- Natural Expense Classification

The following table compares expenses by type for the years ended June 30, 2011 and 2010, respectively (in thousands):

	<u>2011</u>	<u>2010</u>
Salaries and wages	<u>\$156,106</u>	<u>\$152,548</u>
Employee benefits excluding retirement	26,945	26,540
Retirement plan expense	<u>18,676</u>	<u>15,918</u>
Subtotal employee benefits	<u>45,621</u>	<u>42,458</u>
Total compensation	<u>\$201,727</u>	<u>\$195,006</u>
Supplies & services	74,447	73,859
Utilities	11,882	13,236
Employee travel	7,400	6,712
Taxes & insurance	5,181	6,970
Telecommunications	191	291
Library materials	2,261	2,374
Interest on debt	38,502	20,296
Depreciation and amortization	35,975	38,124
Student aid and fellowships	45,123	42,012
Operating lease agreements	4,837	4,809
Provision for uncollectible accounts	<u>270</u>	<u>426</u>
Total non salary	<u>226,069</u>	<u>209,109</u>
Total expenses	<u>\$427,796</u>	<u>\$404,115</u>

Note H- Investments

The fair value and cost of investments at June 30 is as follows (in thousands):

	<u>2011</u>		<u>2010</u>	
	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>
Cash and short-term investments	\$ 163,740	\$ 163,739	\$ 17,807	\$17,807
Fixed Income Securities	88,260	79,873	127,748	122,088
Domestic equity securities	73,630	65,029	68,597	77,048
Foreign equity securities	82,005	53,903	66,315	52,915
Real estate	97,630	118,850	129,301	161,019
Marketable alternatives	26,435	25,643	40,941	39,698
Private equity partnerships	<u>95,774</u>	<u>92,594</u>	<u>186,168</u>	<u>202,151</u>
Total investments	<u>\$627,474</u>	<u>\$599,631</u>	<u>\$636,877</u>	<u>\$672,726</u>

Approximately \$121,728,000 of the investment portfolio at June 30, 2011 is invested in international securities that are subject to the additional risk of currency fluctuation.

At June 30, 2011, Rensselaer has committed to investing approximately an additional \$74 million in various equity and real asset partnerships.

Spending from Endowment Funds

Rensselaer has adopted a "total return" policy for endowment spending. This approach considers current yield (primarily interest and dividends) as well as the net appreciation in the market value of investments when determining a spending amount. Under this policy, the Board of Trustees establishes a spending rate which is then applied to the average market value of investments. Current yield is recorded as revenue and the difference between current yield and the spending rate produces the use of realized gains spent under the total return formula.

Rensselaer Polytechnic Institute
Notes to the Consolidated Financial Statements
For the Years Ended June 30, 2011 and June 30, 2010

Note H- Investments, (continued)

Dividends, Interest and Realized and Unrealized Gains and Losses

Total dividends, interest and realized and unrealized gains (reflected as both operating and non-operating activity) are as follows (in thousands):

	<u>2011</u>	<u>2010</u>
Dividends and interest available for spending	\$ 7,787	\$ 5,735
Realized gains (loss)	(22,336)	20,862
Unrealized gains (loss)	<u>61,465</u>	<u>40,388</u>
Net return	<u>46,916</u>	<u>66,985</u> *

Investment management fees were \$2,487,000 and \$1,708,000 in 2011 and 2010, respectively, and are netted against realized and unrealized gains.

In May 2000 Rensselaer's Board of Trustees approved the Rensselaer Plan, a strategic roadmap to achieving greater prominence in the 21st century as a top-tier world-class technological research university with global reach and global impact. The Board also committed to endowment withdrawals in excess of Rensselaer's spending formula, as necessary, to fund investment in Plan initiatives. To date, \$420.2 million has been spent or committed for such initiatives, exclusive of capital expenditures. In fiscal year 2005, an initial withdrawal from quasi-endowment of \$20 million was recognized and displayed in the Statement of Activities as "endowment spending for Rensselaer Plan initiatives." For fiscal years 2006, 2007, 2008, 2009, 2010 and 2011, the amount reflected as "endowment spending for Rensselaer Plan initiatives" equals \$34 million, \$35.5 million, \$38.3 million, \$30.9 million, \$22.1 million and \$20.7 million, respectively. These amounts reflect Board approved commitments against the endowment with the residual being funded from operations.

In May of 2011, Rensselaer completed a monetization of investment assets to increase the liquidity of the portfolio and reduce unfunded commitments. The private investments sold had a net asset value of \$193.5 million. The base purchase price of the transactions was \$165.5 million, resulting in a blended discount on the sale of 14.4% or \$28 million. During monetization \$86 million in unfunded commitments were eliminated. Short-term investments increased, as the assets sold have been held in cash.

Derivative Financial Instruments

Investments include derivative financial instruments that have been acquired to reduce overall portfolio risk by hedging exposure to certain assets held in the portfolio. At June 30, 2011, there were approximately \$138,000 of open or unsettled forward exchange contracts. These contracts are short-term and will settle in July 2011. The impact on the consolidated statement of activities is not significant.

Forward contracts are marked to market monthly. The market and credit risks related to these derivative investments are not materially different from the risks associated with similar underlying assets in the portfolio. These derivative financial instruments are recorded at estimated fair value in investments.

Fair Value Measurement

Effective July 1, 2008, Rensselaer adopted the "Fair Value Measurements" accounting standard which, defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and enhances disclosures about fair value measurements. The new standard provides a consistent definition of fair value focusing on an exit price which is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date.

The standard also establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Observable inputs reflect market data obtained from sources independent of the reporting entity and unobservable inputs reflect the entities own assumptions about how market participants would value an asset or liability based on the best information available. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value.

Rensselaer Polytechnic Institute
Notes to the Consolidated Financial Statements
For the Years Ended June 30, 2011 and June 30, 2010

Note H- Investments, (continued)

The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used by Rensselaer for financial instruments measured at fair value on a recurring basis. A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The three levels of inputs are as follows:

- Level 1 - Quoted prices in active markets for identical assets or liabilities. Market price data is generally obtained from exchange or dealer markets.
- Level 2 - inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the same term of the assets or liabilities. Inputs are obtained from various sources including market participants, dealers, and brokers.
- Level 3 - Pricing inputs are unobservable and include situations where there is little, if any, market activity for the investment.

In 2009, new guidance related to the *Fair Value Measurement* standard was issued for estimating the fair value of investments in investment companies (limited partnerships) that have a calculated value of their capital account or net asset value (NAV) in accordance with, or in a manner consistent with US generally accepted accounting principles (US GAAP). As a practical expedient, the Institute is permitted under US GAAP to estimate the fair value of an investment at the measurement date using the reported NAV without further adjustment unless the entity expects to sell the investment at a value other than NAV or if the NAV is not calculated in accordance with US GAAP. The Institute's investments in private equity, real estate and marketable alternatives are fair valued based on the most current NAV.

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

The guidance also requires additional disclosures to enable user of the financial statements to understand the nature and risk of the Institute's investments in investment companies. Furthermore, investments which can be redeemed at NAV by the Institute on the measurement date or in the near term are classified as Level 2. Investments which cannot be redeemed on the measurement date or in the near term are classified as Level 3.

Below is a list of investments in other investment companies (or similar entities) by major investment category:

Fixed Income Securities

This category includes investments that cover a wide variety of fixed income instruments and may include from time to time cash, money market funds, Government and U.S. Treasury securities, foreign sovereign bonds, convertible bonds, high yield bonds, and other securities. Some or all of these investments may provide liquidity to the Institute with as a little as one day's notice.

Domestic Equity Securities

This category includes investments in U.S. equities. These investments may be held directly by the Institute, or indirectly through outside managers that the Institute has hired for specific mandates. Directly held domestic equity securities typically provide liquidity to the Institute in three days. Indirectly held investments are subject to a variety of liquidity restrictions at June 30, 2011, that range in term from 30 days to annual notice requirements.

Foreign Equity Securities

This category includes investments in non-U.S. developed market and emerging market equities. These investments may be held directly by the Institute, or indirectly through outside managers that the Institute has hired for specific mandates. Directly held domestic equity securities typically provide liquidity to the Institute in three days. Indirectly held investments are subject to a variety of liquidity restrictions at June 30, 2011, that range in term from 30 days to annual notice requirements.

Rensselaer Polytechnic Institute
Notes to the Consolidated Financial Statements
For the Years Ended June 30, 2011 and June 30, 2010

Note H- Investments, (continued)

Real Assets

This category includes investments in a variety of partnerships and similar entities focused on real estate, energy, and commodity investments in the U.S and foreign markets. Typically, the Institute makes a commitment that is drawn down over time by the manager; as investments mature and are realized, distributions are made by the manager to the Institute. The Institute does not have any redemption rights in these investments and the investments have remaining lives as long as ten years.

Marketable Alternatives

This category includes investments in a variety of partnerships and similar entities focused on primarily marketable investments in the U.S and foreign markets. The primary focus of individual managers include, among others, an emphasis on energy/utility investments, technology and healthcare, event-driven investments, long/short funds, and other strategies. Institute has various liquidity provisions specific to each manager. Most of these investments provide for liquidity at least quarterly, although some are on an annual basis. The Institute could redeem certain investments as early as July 1, 2011.

Private Equity Partnerships

This category includes investments in a variety of partnerships and similar entities focused on venture capital investments, buyouts, and growth equity in the U.S and foreign markets. Typically, the Institute makes a commitment that is drawn down over time by the manager; as investments mature and are realized, distributions are made by the manager to the Institute. The Institute does not have any redemption rights in these investments and the investments have remaining lives as long as ten years.

The following table presents the financial instruments carried at fair value as of June 30, 2011 and 2010, by caption on the consolidated statement of financial position, based on the valuation hierarchy defined above (in thousands):

<u>Assets</u>	Quoted Prices in Active Markets <u>Level 1</u>	Significant Other Observable <u>Level 2</u>	Significant Unobservable <u>Level 3</u>	Total Fair Value
Investments:				
Cash and short-term investments	\$ 163,301	\$ -	\$ 439	\$ 163,740
Fixed income securities	24,978	15,501	47,781	88,260
Domestic equity securities	42,609	7,565	23,456	73,630
Foreign equity securities	17,970	50,607	13,428	82,005
Real assets	2,678	-	94,952	97,630
Marketable alternatives	-	23,802	2,633	26,435
Private equity partnerships	-	-	95,774	95,774
Investments	<u>\$251,536</u>	<u>\$97,475</u>	<u>\$278,463</u>	<u>\$627,474</u>
Contributions from external trusts	-	-	8,373	8,373
Total-June 30, 2011	<u>\$251,536</u>	<u>\$97,475</u>	<u>\$286,836</u>	<u>\$635,847</u>

Rensselaer Polytechnic Institute
Notes to the Consolidated Financial Statements
For the Years Ended June 30, 2011 and June 30, 2010

Note H- Investments, (continued)

<u>Assets</u>	Quoted Prices in Active Markets <u>Level 1</u>	Significant Other Observable <u>Level 2</u>	Significant Unobservable <u>Level 3</u>	Total Fair Value
Investments:				
Cash and short-term investments	\$ 8,253	\$ 9,511	\$ 43	\$ 17,807
Fixed income securities	25,966	17,632	84,150	127,748
Domestic equity securities	34,991	10,008	23,598	68,597
Foreign equity securities	13,723	45,479	7,113	66,315
Real assets	2,759	-	126,542	129,301
Marketable alternatives	-	39,128	1,813	40,941
Private equity partnerships	=	=	<u>186,168</u>	<u>186,168</u>
Investments	<u>\$85,692</u>	<u>\$121,758</u>	<u>\$429,427</u>	<u>\$636,877</u>
Contributions from external trusts	=	=	<u>7,948</u>	<u>7,948</u>
Total-June 30, 2010	<u>\$85,692</u>	<u>\$121,758</u>	<u>\$437,375</u>	<u>\$644,825</u>

Investments included in Level 3 primarily consists of Rensselaer's ownership in alternative investments (principally limited partnership interests in marketable alternatives, private equity, real estate, and other similar funds). The value of certain alternative investments represent the ownership interest in the net asset value (NAV) of the respective partnership and consist of securities that do not have readily determinable fair values. The fair values of the securities held by limited partnerships that do not have readily determinable fair values are determined by the general partner taking into consideration, among other things, the cost of the securities, prices of recent significant placements of securities of the same issuer, and subsequent developments concerning the companies to which the securities relate. Rensselaer regularly reviews and evaluates the values provided by the investment managers and agrees with the valuation methods and assumptions used in determining the fair value of these investments.

Rensselaer Polytechnic Institute
Notes to the Consolidated Financial Statements
For the Years Ended June 30, 2011 and June 30, 2010

Note H- Investments, (continued)

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

The following table is a rollforward of the consolidated statement of financial position amounts at June 30, 2011 and 2010 for financial instruments classified by Rensselaer within Level 3 of the fair value hierarchy defined above (in thousands):

	Cash and Short Term Investments	Fixed Income	Domestic Equity	Foreign Equity	Real Assets	Marketable Alternatives	Private Equity Partnerships	Total
Fair value, July 1, 2010	\$ 43	\$ 84,150	\$ 23,598	\$ 7,113	\$ 126,542	\$ 1,813	\$ 186,168	\$ 429,427
Realized gains/(losses)	9	1,088	51	(85)	(16,009)	(21)	(12,835)	(27,802)
Unrealized gains/(losses)	-	428	6,686	2,297	9,802	(271)	19,164	38,106
Net purchases, sales, settlements	387	(38,398)	(2,975)	4,103	(26,566)	1,112	(98,931)	(161,268)
Transfers in/out	-	513	(3,904)	-	1,183	-	2,208	-
Fair value, June 30, 2011	\$ 439	\$ 47,781	\$ 23,456	\$ 13,428	\$ 94,952	\$ 2,633	\$ 95,774	\$ 278,463

	Cash and Short Term Investments	Fixed Income	Domestic Equity	Foreign Equity	Real Assets	Marketable Alternatives	Private Equity Partnerships	Total
Fair value, July 1, 2009	\$ 807	\$ 112,486	\$ 28,898	\$ 44,866	\$ 107,715	\$ 65,782	\$ 153,003	\$ 513,557
Realized gains/(losses)	6	2,742	(454)	165	1,016	7,078	9,494	20,047
Unrealized gains/(losses)	-	14,829	6,817	7,996	(10,943)	(2,065)	16,580	33,214
Net purchases, sales, settlements	(770)	(27,714)	(797)	(886)	27,709	(20,327)	11,863	(10,922)
Transfers in/out	9,511	-	(442)	442	1,045	(9,606)	(4,772)	(3,822)
Reclass to level 2	(9,511)	(18,193)	(10,424)	(45,470)		(39,049)	-	(122,647)
Fair value, June 30, 2010	\$ 43	\$ 84,150	\$ 23,598	\$ 7,113	\$ 126,542	\$ 1,813	\$ 186,168	\$ 429,427

In accordance with currently effective standards updates for estimating fair value of investments, the Institution conducted a review of valuation changes between hierarchies Level I and Level II occurring during fiscal year 2011 and noted no material valuation changes.

Rensselaer Polytechnic Institute
Notes to the Consolidated Financial Statements
For the Years Ended June 30, 2011 and June 30, 2010

Note H- Investments, (continued)

	Contributions from External remainder trusts		Contributions from External remainder trusts
Fair value, July 1, 2010	\$ 7,948	Fair value, July 1, 2009	\$ 7,783
Realized gains/(losses)	-	Realized gains/(losses)	-
Unrealized gains/(losses)	863	Unrealized gains/(losses)	650
Net purchases, sales, Settlements	(438)	Net purchases, sales, Settlements	(485)
Fair value, June 30, 2011	<u>\$ 8,373</u>	Fair value, June 30, 2010	<u>\$ 7,948</u>

All net realized and unrealized gain/(losses) in the table above are reflected in the accompanying consolidated statement of activities.

Note I- Endowment

Rensselaer's endowment consists of approximately 652 individual donor restricted endowment funds and 157 board-designated endowment funds for a variety of purposes plus the following where the assets have been designated for endowment: pledges receivables, split interest agreements, and other net assets. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. The net assets associated with endowment funds including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor imposed restrictions.

Endowment and similar funds are invested under direction of the Board of Trustees to achieve maximum long-term total return with prudent concern for the preservation of investment capital. All investments of endowment and similar funds are recorded in the statement of financial position as long-term investments, including cash balances held by external investment managers. The fair value of endowment investments (separately invested and pooled) was \$604,969 and \$613,581 as of June 30, 2011 and June 30, 2010, respectively.

The Board of Trustees of Rensselaer determines the method to be used to appropriate endowment funds for expenditure. Calculations are performed for individual endowment funds at a rate of 5.0 percent of the rolling 16 quarter average market value on a unitized basis one year subsequent to the calculation. The corresponding calculated spending allocations are distributed in equal quarterly installments on the first day of each quarter from the current net total or accumulated net total investment returns for individual endowment funds. In establishing this policy, the Board considered the expected long term rate of return on its endowment.

Rensselaer Polytechnic Institute
Notes to the Consolidated Financial Statements
For the Years Ended June 30, 2011 and June 30, 2010

Note I- Endowment, (continued)

The New York Prudent Management of Institutional Funds Act ("NYPMIFA") became effective on September 17, 2010 and governs the management and investment of funds held by not-for-profit corporations and other institutions. Absent donor stipulations to the contrary, the statutory guidelines contained in NYPMIFA relate to the prudent management, investment and expenditure of donor-restricted endowment funds without regard to the original value of the gifts. However, NYPMIFA contains specific factors that must be considered prior to making investment decisions or appropriating funds for expenditure. For accounting purposes, the Institute applied the concepts included in NYPMIFA and ASC 958, *Not-for-Profit Entities* (formerly FASB Staff Position No. 117-1) regarding classification of accumulated total return as temporarily restricted net assets as of July 1, 2010 for the year ended June 30, 2011. Accordingly, accumulated total return of \$173,698,000 as of July 1, 2010 were reclassified from unrestricted net assets between temporarily and permanently restricted net assets, as a cumulative effect of change in accounting principle.

The Board of Trustees' interpretation of its fiduciary responsibilities for donor-restricted endowment funds under New York State's Not-for-Profit Corporation Law, including NYPMIFA, is to preserve intergenerational equity to the extent possible by prudently managing, investing, and spending from the endowment funds. This principle holds that future endowment beneficiaries should receive at least the same level of economic support that the current generation receives. As a result of this interpretation, the Institute classifies as permanently restricted net assets the unappropriated portion of (a) the original value of gifts donated to a true endowment fund, (b) the original value of subsequent gifts to a true endowment fund, and (c) accumulations to a true endowment fund made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Unspent appropriations related to donor-restricted endowment funds are classified as temporarily restricted net assets until the amounts are expended by the Institute in a manner consistent with the donor's intent. The remaining portion of donor-restricted endowment funds that are not classified as permanently or temporarily restricted net assets are classified as unrestricted net assets.

The Board of Trustees determines the appropriate amount to withdraw from endowment and similar funds on an annual basis to provide support for operations with prudent concern for the long-term growth in the underlying assets as well as the specific factors detailed in NYPMIFA. The Board-approved spending policy is designed to insulate endowment support for programming from short-term fluctuations in capital markets.

Rensselaer had the following endowment activities during the year ended June 30, 2011 delineated by net asset class and donor-restricted versus Board-designated funds:

Endowment net asset composition by type of fund as of June 30, 2011 (in thousands):

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net asset composition	\$ 98,045	\$ 196,870	\$ 267,292	\$ 562,207
Board-designated endowment funds	146,278	-	-	146,278
Less: Commitments for Rensselaer Plan Initiatives	(131,539)	-	-	(131,539)
Board Designated Endowment Funds at Net	14,739	-	-	14,739
Total endowment funds	<u>\$ 112,784</u>	<u>\$ 196,870</u>	<u>\$ 267,292</u>	<u>\$ 576,946</u>

Rensselaer Polytechnic Institute
Notes to the Consolidated Financial Statements
For the Years Ended June 30, 2011 and June 30, 2010

Note I- Endowment, (continued)

Changes in endowment net assets for the year ended June 30, 2011 (in thousands):

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 299,751	\$ 15,896	\$ 251,696	\$ 567,343
Net assets reclassified based on adoption of NYPMIFA	<u>(173,698)</u>	<u>173,698</u>	<u>-</u>	<u>-</u>
Subtotal	126,053	189,594	251,696	567,343
Investment return:				
Investment Income	-	7,066	1	7,067
Net appreciation (realized and unrealized)	<u>13,697</u>	<u>22,638</u>	<u>1,961</u>	<u>38,296</u>
Total investment return	13,697	29,704	1,962	45,363
Gifts	6,167	-	5,406	11,573
Endowment spending formula	-	(28,203)	-	(28,203)
Additional Board approved endowment draw	(35,000)	-	-	(35,000)
Donor redesignation	11	14	1,875	1,900
Reclassification of underwater endowments	(6,091)	6,091	-	-
Other	(6,353)	(330)	6,353	(330)
Net change of Commitments for Plan Initiatives	<u>14,300</u>	<u>-</u>	<u>-</u>	<u>14,300</u>
Endowment net assets, end of year	<u>\$ 112,784</u>	<u>\$ 196,870</u>	<u>\$ 267,292</u>	<u>\$ 576,946</u>

Description of Amounts Classified as Permanently Restricted Net Assets and Temporarily Restricted Net Assets (Endowments Only)

Restricted for scholarship support	\$ 70,146
Restricted for fellowship support	13,174
Restricted for faculty support	60,101
Restricted for program support	53,415
Restricted for awards and prizes	2,925
Restricted for institutional support	<u>67,531</u>
	<u>\$ 267,292</u>

The portion of endowment funds subject to a time restriction (in thousands):

Restricted for scholarship support	\$ 41,100
Restricted for fellowship support	8,078
Restricted for faculty support	44,184
Restricted for program support	23,815
Restricted for awards and prizes	2,161
Restricted for institutional support	<u>77,532</u>
	<u>\$ 196,870</u>

Rensselaer Polytechnic Institute
Notes to the Consolidated Financial Statements
For the Years Ended June 30, 2011 and June 30, 2010

Note I- Endowment, (continued)

At June 30, 2011 the amount classified temporarily restricted endowment net assets of \$188.2 million represents the portion of perpetual endowment funds subject to time and purpose restrictions under New York State's enacted version of NYPMIFA.

Rensselaer had the following endowment activities during the year ended June 30, 2010 delineated by net asset class and donor-restricted versus Board-designated funds:

Endowment net asset composition by type of fund as of June 30, 2010 (in thousands):

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net asset composition	\$ 261,831	\$ 15,896	\$ 251,696	\$ 529,423
Board-designated endowment funds	183,759	-	-	183,759
Less: Commitments for Rensselaer Plan Initiatives	(145,839)	-	-	(145,839)
Board Designated Endowment Funds at Net	<u>37,920</u>	<u>-</u>	<u>-</u>	<u>37,920</u>
Total endowment funds	<u>\$ 299,751</u>	<u>\$ 15,896</u>	<u>\$ 251,696</u>	<u>\$ 567,343</u>

Changes in endowment net assets for the year ended June 30, 2010 (in thousands):

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 271,432	\$ 13,415	\$ 244,633	\$ 529,480
Investment return:				
Investment Income	5,203	-	-	5,203
Net appreciation (realized and unrealized)	<u>68,595</u>	<u>1,307</u>	<u>1,162</u>	<u>71,064</u>
Total investment return	73,798	1,307	1,162	76,267
Gifts	1,192	-	4,544	5,736
Endowment spending formula	(28,461)	-	-	(28,461)
Additional Board approved endowment draw	(15,000)	-	-	(15,000)
Donor redesignation	-	12	1,357	1,369
Reclassification of underwater endowments	(1,162)	1,162	-	-
Other	5,052	-	-	5,052
Net change of Commitments for Plan Initiatives	<u>(7,100)</u>	<u>-</u>	<u>-</u>	<u>(7,100)</u>
Endowment net assets, end of year	<u>\$ 299,751</u>	<u>\$ 15,896</u>	<u>\$ 251,696</u>	<u>\$ 567,343</u>

Rensselaer Polytechnic Institute
Notes to the Consolidated Financial Statements
For the Years Ended June 30, 2011 and June 30, 2010

Note I- Endowment, (continued)

Description of Amounts Classified as Permanently Restricted Net Assets and Temporarily Restricted Net Assets (Endowments Only)

Permanently restricted net assets (in thousands):

The portion of perpetual endowment funds that is required to be retained permanently by explicit donor stipulation:

Restricted for scholarship support	\$ 66,269
Restricted for fellowship support	12,373
Restricted for faculty support	59,500
Restricted for program support	50,379
Restricted for awards and prizes	2,800
Restricted for unrestricted institutional support	60,375
	<u>\$ 251,696</u>

The portion of endowment funds subject to a time restriction (in thousands):

Restricted for scholarship support	\$ 7,625
Restricted for fellowship support	710
Restricted for faculty support	348
Restricted for program support	5,817
Restricted for awards and prizes	1,396
	<u>\$ 15,896</u>

Endowment Funds with Deficits

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the value of the initial and subsequent donor gift amounts (deficit). When donor endowment deficits exist, they are classified as a reduction of unrestricted net assets. Deficits of this nature reported in unrestricted net assets were \$7,133,000 and \$7,230,000 as of June 30, 2011 and 2010, respectively. These deficits resulted from unfavorable market fluctuations that occurred shortly after the investment of newly established endowments, and authorized appropriation that was deemed prudent.

Return Objectives and Risk Parameters

Rensselaer has adopted endowment investment and spending policies that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of endowment assets. Under this policy, the return objective for the endowment assets, measured over a full market cycle, shall be to maximize the return against a blended index, based on the endowment's target allocation applied to the appropriate individual benchmarks. Rensselaer expects its endowment funds over time, to provide an average rate of return of approximately 8.0 percent annually. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Investment Objectives

To achieve its long-term rate of return objectives, Rensselaer relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized gains) and current yield (interest and dividends). Rensselaer targets a diversified asset allocation that places greater emphasis on equity-based investments to achieve its long-term objectives within prudent risk constraints.

Rensselaer Polytechnic Institute
Notes to the Consolidated Financial Statements
For the Years Ended June 30, 2011 and June 30, 2010

Note J- Land, Buildings, and Equipment

Land, buildings, and equipment consist of the following at June 30 (in thousands):

	<u>2011</u>	<u>2010</u>
Land and improvements	\$ 30,748	\$ 29,213
Buildings	893,960	861,429
Equipment	230,020	222,207
Construction in progress	<u>4,731</u>	<u>13,847</u>
Total land, buildings & equipment	1,159,459	1,126,696
Less accumulated depreciation	<u>(408,609)</u>	<u>(375,040)</u>
	<u>\$ 750,850</u>	<u>\$ 751,656</u>

As of June 30, 2011, Rensselaer had \$4,417,781 of open commitments to contractors for construction on work being performed.

Note K- Debt Outstanding

The following table and footnotes illustrate Rensselaer's various debt obligations, all of which are repaid from the general operations of Rensselaer and the Center, as appropriate.

Outstanding bonds and notes payable of Rensselaer are comprised of the following (in thousands):

<i>Debt:</i>	Year of Final <u>Maturity</u>	Weighted Average Annual <u>Interest Rate</u>	June 30, <u>2011</u>	<u>2010</u>
U.S. Department of Education Dormitory Bonds and 1988 Mortgage Loan	2018	3.0%	\$ 1,239	\$ 1,384
Rensselaer County IDA – Industrial Development Facility Issue:				
Series 1997A (1)	2022	Variable	7,856	8,248
Series 1999A and B (2)	2030	5.17%	24,494	24,471
Series 2006 (4)	2036	4.85%	62,027	63,348
Troy Industrial Development Authority Civic Facility Issue:				
Series 2002A (3)	2015	5.40%	12,327	16,126
Series 2002E (3)	2042	4.30%	25,000	25,000
Series 2010 Rensselaer Taxable Bonds (7)	2021	5.60%	204,696	204,666
City of Troy Capital Resource Corporation Series 2010 A&B (6)	2041	5.07%	357,140	357,084
2009 Whiting Turner Agreement(5)	2015	5.25%	<u>14,250</u>	<u>10,185</u>
			<u>\$709,029</u>	<u>\$710,512</u>

Rensselaer Polytechnic Institute
Notes to the Consolidated Financial Statements
For the Years Ended June 30, 2011 and June 30, 2010

Note K- Debt Outstanding, (continued)

Debt principal outstanding is reflected net of bond discount and issuance costs where applicable in the amount of \$1,424,409 and \$1,411,068 at June 30, 2011 and 2010, respectively. Such costs are being amortized over the term of the related indebtedness.

Long-term debt is collateralized by certain physical properties with a carrying value of \$468,000 at June 30, 2011 and 2010. At June 30, 2011 and 2010, Rensselaer had \$10,000 and \$185,000, respectively of assets held by trustees for construction, debt service and other project-related expenses.

Notes to Debt Outstanding

1. On March 12, 1997, Rensselaer entered into an agreement with the Rensselaer County Industrial Development Agency, providing for the issuance of \$13,240,000 in variable rate demand revenue bonds for the purpose of financing the renovation of three of Rensselaer's buildings and the acquisition of a new student record system. The bonds are subject to a remarketing agreement and bear a variable interest rate that resets weekly, but in no event may exceed 12% per annum. In the event that Rensselaer receives notice of any option tender on its variable-rate-bonds, or if the bonds become subject to mandatory tender, the purchase price of the bonds will be paid from the remarketing of such bonds. However, if the remarketing proceeds are insufficient, Rensselaer will have a general obligation to purchase the bonds tendered pending reissuance under its multimodal provisions.
2. On June 30, 1999, Rensselaer entered into an agreement with the Rensselaer County Industrial Development Agency, which provided for the issuance of \$41,110,000 in revenue bonds. Proceeds from the issue in the amount of \$24,196,000 were used for the construction and/or renovation of three buildings, issuance costs, and to legally defease Dormitory Authority Series 1991 Bonds. Interest rates on the bonds range from 4.125% to 5.00%.
3. On May 1, 2002, Rensselaer entered into an agreement with the Troy Industrial Development Authority, which provided for the issuance of \$218,875,000 in Series 2002 A-E revenue bonds, including \$202,975,000 in variable rate mode. The transaction also generated a \$1,125,000 premium on the Series 2002A bonds. Proceeds from the issue in the amount of \$203,150,771 were utilized for the construction costs of two buildings, related campus-wide infrastructure improvements, issuance costs and to legally defease Dormitory Authority Series 1993 Bonds. On May 11, 2006 the Series 2002E bonds in the amount of \$25,000,000 were remarketed and converted from variable to a 5-year put option, with interest during the period ending September 1, 2011 set at 4.05%. On April 20, 2010 Series 2002 B, C and D bonds totaling \$177,975,000 were refinanced with Series 2010 A Tax Exempt bonds. On September 1, 2011 Rensselaer remarketed its Series 2002E bonds for \$25,000,000 to convert them from variable rate to fixed rate bonds. Maturities on the bonds range from 2026 to 2037 with a final maturity on April 1, 2037. Interest rates on the bond range from 4.625% to 5.2% and payments are due March 1 and September 1, commencing on March 1, 2012.
4. On June 15, 2006, Rensselaer entered into an agreement with the Rensselaer County Industrial Development Agency, which provided for the issuance of \$62,380,000 in Series 2006 fixed rate revenue bonds. The transaction generated a \$1,616,000 premium. Proceeds from the issue in the amount of \$63,996,000 were utilized for the construction costs of one building, related campus-wide infrastructure improvements, and issuance costs.
5. On April 24, 2009 Rensselaer entered into an agreement with The Whiting-Turner Contracting Company for a loan not to exceed \$15,000,000, amortization of which commences January 1, 2011 with a final maturity of December 31, 2015. The note bears interest at Prime plus 2.00% adjusted monthly until April 1, 2011, after which the interest rate became fixed at current Prime plus 2.00% rate until the note matures. The loan is an unsecured obligation of the Institute.
6. On April 20, 2010, Rensselaer entered into an agreement with the City of Troy Capital Resource Corporation which provided for the issuance of \$358,810,000 in fixed rate revenue bonds, Series 2010A for \$311,630,000 and Series 2010B for \$47,180,000. Proceeds from the issuance were used to refinance Series 2002 B, C and D, Series 2007 and Series 2008 A and B bonds as well as paying 2010 termination expenses on several interest rate swap agreements. Interest rates on the bonds range from 5.00% to 5.125%. Maturities on the bonds range from 2012 to 2030 with a final maturity of September 1, 2040. Interest payments are due March 1 and September 1, commencing on September 1, 2010.

Rensselaer Polytechnic Institute
Notes to the Consolidated Financial Statements
For the Years Ended June 30, 2011 and June 30, 2010

Note K- Debt Outstanding, (continued)

7. On April 20, 2010 Rensselaer issued Series 2010 Taxable bonds for \$205,000,000. Proceeds from this issuance were used to pay off various term loans and to pay termination expenses on several interest rate swap agreements. The interest rate on the bonds is 5.60%. Maturity date on the bonds is September 1, 2020. The bonds are an unsecured general obligation of the institute. Interest payments are due March 1 and September 1, commencing on September 1, 2010.

As of June 30, 2011, Rensselaer had a standby letter of credit with Bank of America totaling \$1,509,000 for workers compensation insurance security purposes. In addition, Rensselaer had standby letters of credit with Bank of America totaling \$1,440,000 and \$250,000 for general liability insurance and professional liability insurance security purposes, respectively, related to current construction projects on the Troy, New York campus. There were no draws against these letters of credit during the fiscal year. Rensselaer also has a mortgage loan guarantee in place for one loan made by HSBC Bank USA in 1996 to finance construction and renovation costs for an on-campus fraternity residential facility. The balance of the mortgage loan, which totaled \$600,000 at inception, was \$212,732 and \$253,000 on June 30, 2011 and 2010, respectively.

The Institute has an unsecured line of credit with Bank of America valued at \$30,000,000, with interest calculated on the outstanding balance at a daily rate of term LIBOR plus .95% or at Prime Rate. There was an outstanding balance of \$19,750,000 and \$11,775,000 on the line of credit at June 30, 2011 and 2010, respectively. The Institute has an unsecured line of credit with TD Bank valued at \$20,000,000, with interest calculated on the outstanding balance at a daily rate of term LIBOR plus 2.00% or Prime Rate minus .50%. There was an outstanding balance of \$20,000,000 on the line of credit at June 30, 2011 and 2010, respectively. Both of these lines of credit are subject to an annual renewal at November 30th.

Principal payments due on all long-term debt as of June 30, 2011 for each of the next five fiscal years are (in thousands):

<u>Year</u>	<u>Amount</u>
2012	8,355
2013	8,434
2014	8,799
2015	9,194
2016	9,859
Thereafter	<u>664,388</u>
Total	<u>709,029</u>

The fair value of Rensselaer's long-term debt is estimated based upon the amount of future cash flows, discounted using Rensselaer's current borrowing rates for similar debt instruments of comparable maturities. The fair value of long-term debt was approximately \$708,633,000 and \$711,717,000 at June 30, 2011 and 2010, respectively.

Rensselaer Polytechnic Institute
Notes to the Consolidated Financial Statements
For the Years Ended June 30, 2011 and June 30, 2010

Note L- Retirement Plans

Defined Benefit Plans

The following table sets forth Rensselaer's defined benefit and postretirement plans' change in projected benefit obligation, change in plan assets, funded status (the postretirement plans are unfunded) and amounts recognized in Rensselaer's balance sheet at June 30, 2011 and 2010. The defined benefit plan calculations were based upon data as of or projected to June 30, 2011 and 2010. Postretirement benefit plan calculations were based upon data as of July 1, 2010 and 2009. Rensselaer's funding policy is based upon and is in compliance with ERISA requirements.

<u>Change in benefit obligation (in thousands):</u>	<u>Defined Benefit</u>		<u>Postretirement</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Benefit obligation at beginning of year	\$(290,984)	\$(269,010)	\$(12,164)	\$(13,555)
Service cost	(4,149)	(3,733)	(555)	(402)
Interest cost	(16,083)	(17,539)	(730)	(670)
Plan participants' contributions	(189)	(212)	(810)	(480)
Actuarial (gain)/loss	(5,964)	(17,611)	(1,122)	2,165
Benefits paid	16,693	16,176	1,299	778
Administrative expenses paid	1,106	945	-	-
Benefit obligation at end of year	\$(299,570)	\$(290,984)	\$(14,082)	\$(12,164)

The accumulated benefit obligation for the defined benefit pension plan was \$294,823,000 and \$286,876,000 as of June 30, 2011 and 2010, respectively.

<u>Change in plan assets (in thousands):</u>	<u>Defined Benefit</u>		<u>Postretirement</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Fair value of plan assets at beginning of year	\$189,897	\$179,941	\$ -	\$ -
Actual return on plan assets	31,101	16,965	-	-
Employer contribution	14,200	9,900	489	298
Plan participants' contribution	189	212	810	480
Benefits paid	(16,693)	(16,176)	(1,299)	(778)
Administrative expenses paid	(1,106)	(945)	-	-
Fair value of plan assets at end of year	\$217,588	\$189,897	\$ -	\$ -

<u>Funded Status and amount recognized in the Statement of financial position (in thousands):</u>	<u>Defined Benefit</u>		<u>Postretirement</u>	
	<u>2011</u>	<u>2010</u>	<u>2010</u>	<u>2010</u>
Liability	\$(81,981)	\$(101,087)	\$(14,082)	\$(12,164)

<u>Amounts recognized in unrestricted net Assets (in thousands):</u>	<u>Defined Benefit</u>		<u>Postretirement</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Net prior service cost/(credit)	\$ (105)	\$(165)	\$(1,267)	\$(1,409)
Net actuarial (gain)/loss	(129,906)	(145,284)	(1,293)	(2,433)
Unrestricted net assets	\$(130,011)	\$(145,449)	\$(2,560)	\$(3,842)

Rensselaer Polytechnic Institute
Notes to the Consolidated Financial Statements
For the Years Ended June 30, 2011 and June 30, 2010

Note L- Retirement Plans, (continued)

	<u>Defined Benefit</u>		<u>Postretirement</u>	
<u>Other changes in plan assets and benefit obligations recognized in unrestricted net assets (in thousands):</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
New net actuarial loss/(gain)	\$ (6,239)	\$ 19,818	\$ 1,122	\$(2,165)
Amortization of:				
Prior service cost/(credit)	(60)	(60)	142	142
Actuarial loss/(gain)	(9,139)	(6,233)	18	187
Total recognized in non operating (income)/expense	<u>(\$15,438)</u>	<u>\$13,525</u>	<u>\$ 1,282</u>	<u>\$(1,836)</u>
 <u>Net periodic benefit cost is included in the following components (in thousands):</u>	 <u>Defined Benefit</u>		 <u>Postretirement</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Service cost	\$ 4,149	\$ 3,733	\$ 555	\$ 402
Interest cost	16,083	17,539	730	670
Expected return on plan assets	(18,898)	(19,173)	-	-
Amortization of:				
Prior service cost/(credit)	60	60	(142)	(142)
Actuarial loss/(gain)	9,139	6,233	(18)	(187)
Net periodic benefit cost/(income)	<u>10,533</u>	<u>8,392</u>	<u>1,125</u>	<u>743</u>
Settlement Charge	-	-	-	-
Net periodic benefit cost/(income)	<u>\$ 10,533</u>	<u>\$ 8,392</u>	<u>\$ 1,125</u>	<u>\$ 743</u>

In the aggregate, Rensselaer's Defined Benefit Plan will be invested to ensure solvency of the plan over its remaining life and to meet pension obligations as required. A secondary goal is to earn the highest net rate of return within prudent risk limits to ensure the achievement of the primary goal and adherence to the following Rensselaer guiding investment principles:

Capital preservation is a fundamental goal of the Institute's funds, therefore strategies and approaches emphasizing absolute positive returns are favored.

Risk is defined as loss of capital, not deviation from a benchmark, and a Sharpe ratio measurement is preferred to an Information ratio measurement.

The Plan's expected rate of return is the result of periodic asset allocation studies reviewed and approved by the Investment Committee.

Due to the monetization of the endowment the defined benefit plan assets are invested in different mix of investments between similar investment categories. These invested assets have been accounted for in accordance with the fair value measurement standard as described in footnote H. Reference footnote H for full disclosures surrounding the descriptions of major investment categories.

Rensselaer Polytechnic Institute
Notes to the Consolidated Financial Statements
For the Years Ended June 30, 2011 and June 30, 2010

Note L- Retirement Plans, (continued)

The fair values of Rensselaer's pension plan assets at June 30, 2011 and June 30, 2010 by asset category are as follows:

<u>Assets</u>	Quoted Prices in Active Markets <u>Level 1</u>	Significant Other Observable <u>Level 2</u>	Significant Unobservable <u>Level 3</u>	Total Fair Value
Investments:				
Cash and short-term investments	\$ 19,497	\$ 10,690	\$ -	\$ 30,187
Fixed income securities	-	10,035	36,193	46,228
Domestic equity securities	13,486	15,397	-	28,883
Foreign equity securities	9,123	17,909	-	27,032
Real assets	-	-	35,444	35,444
Marketable alternatives	-	30,922	492	31,414
Private equity partnerships	-	-	<u>18,400</u>	<u>18,400</u>
Investments - June 30, 2011	<u>\$42,106</u>	<u>\$84,953</u>	<u>\$ 90,529</u>	<u>\$217,588</u>

<u>Assets</u>	Quoted Prices in Active Markets <u>Level 1</u>	Significant Other Observable <u>Level 2</u>	Significant Unobservable <u>Level 3</u>	Total Fair Value
Investments:				
Cash and short-term investments	\$ 8,404	\$ 20	\$ -	\$ 8,424
Fixed income securities	2	17,567	35,908	53,477
Domestic equity securities	10,309	14,493	-	24,802
Foreign equity securities	6,921	15,075	-	21,996
Real assets	-	-	31,321	31,321
Marketable alternatives	-	34,703	655	35,358
Private equity partnerships	-	-	<u>14,519</u>	<u>14,519</u>
Investments-June 30, 2010	<u>\$25,636</u>	<u>\$81,858</u>	<u>\$ 82,403</u>	<u>\$189,897</u>

Investments included in Level 3 primarily consists of Rensselaer's ownership in alternative investments (principally limited partnership interests in marketable alternatives, private equity, real estate, and other similar funds). The value of certain alternative investments represent the ownership interest in the net asset value (NAV) of the respective partnership and consist of securities that do not have readily determinable fair values. The fair values of the securities held by limited partnerships that do not have readily determinable fair values are determined by the general partner taking into consideration, among other things, the cost of the securities, prices of recent significant placements of securities of the same issuer, and subsequent developments concerning the companies to which the securities relate. Rensselaer regularly reviews and evaluates the values provided by the investment managers and agrees with the valuation methods and assumptions used in determining the fair value of these investments.

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

Rensselaer Polytechnic Institute
Notes to the Consolidated Financial Statements
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Note L- Retirement Plans, (continued)

The following table is a rollforward of the pension plan assets at June 30, 2011 and 2010 classified by Rensselaer within Level 3 (in thousands):

	Cash and Short Term Investments	Fixed Income	Domestic Equity	Foreign Equity	Real Assets	Marketable Alternatives	Private Equity Partnerships	Total
Fair value, July 1, 2010	\$ -	\$ 35,908	\$ -	\$ -	\$ 31,321	\$ 655	\$ 14,519	\$ 82,403
Realized gains/(losses)	-	61	-	-	453	-	1,197	1,711
Unrealized gains/(losses)		4,602	-	-	3,194	(103)	3,332	11,025
Net purchases, sales, settlements	-	(4,378)	-	-	476	(60)	(648)	(4,610)
Transfers in/out			-	-	-	-	-	-
Fair value, June 30, 2011	\$ -	\$ 36,193	\$ -	\$ -	\$ 35,444	\$ 492	\$ 18,400	\$ 90,529

	Cash and Short Term Investments	Fixed Income	Domestic Equity	Foreign Equity	Real Assets	Marketable Alternatives	Private Equity Partnerships	Total
Fair value, July 1, 2009	\$ -	\$ 45,316	\$ 3,763	\$ 13,321	\$ 28,674	\$ 34,024	\$ 10,879	\$ 135,977
Realized gains/(losses)	-	1,382	-	15	456	-	9	1,862
Unrealized gains/(losses)		4,584	1,605	1,795	(3,303)	3,462	3,134	11,277
Net purchases, sales, settlements	-	(8,594)	-	(56)	5,494	(2,222)	497	(4,881)
Transfers in/out			-	-	-	-	-	-
Reclass to level 2	-	(6,780)	(5,368)	(15,075)	-	(34,609)	-	(61,832)
Fair value, June 30, 2010	\$ -	\$ 35,908	\$ -	\$ -	\$ 31,321	\$ 655	\$ 14,519	\$ 82,403

As a result of adopting the new guidance for estimating fair value of investments as described in footnote H, certain investments were reclassified as Level 2 assets in 2010.

The Plan contains features that allow participants to have a percentage of their benefits fluctuate based on the return of a S&P 500 index account. Rensselaer maintains assets in that index fund to hedge those liabilities that are not part of the above asset allocation.

Rensselaer's expected contributions for fiscal year ending June 30, 2012 are \$39,000,000 and \$1,088,000 for the defined pension plan and postretirement plan, respectively.

The amounts in unrestricted net assets expected to be recognized as components of the net periodic benefit cost in fiscal year ending June 30, 2012 are \$13,232,000 and (\$157,000) for the defined pension plan and postretirement plan, respectively.

Rensselaer Polytechnic Institute
Notes to the Consolidated Financial Statements
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Note L- Retirement Plans, (continued)

The following are the expected future benefit payments (in thousands):

Fiscal Year Ending in:	<u>Defined Benefit</u>	<u>Postretirement</u>
2012	\$19,280	\$ 1,088
2013	19,880	1,080
2014	20,220	1,137
2015	20,500	1,128
2016	20,920	1,149
2017-2021	110,100	5,985

The weighted average rates forming the basis of net periodic benefit cost and amounts recognized in Rensselaer's statement of financial position at June 30 were:

	<u>Defined Benefit</u>		<u>Postretirement</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
<i>Benefit obligations</i>				
Discount rate	5.50%	5.70%	5.50%	5.70%
Expected return on plan assets	8.25%	8.25%	-	-
Rate of compensation increase	4.00%	4.00%	-	-
<i>Net periodic benefit cost</i>				
Discount rate	5.70%	6.75%	5.70%	6.75%
Expected return on plan assets	8.25%	8.25%	-	-
Rate of compensation increase	4.00%	4.00%	-	-

For measurement purposes, a 10.0 percent annual rate of increase in the per capita cost of covered pre-65 medical, post-65 medical benefits and prescription drug benefits, respectively, was assumed for fiscal year 2012. These rates were assumed to decrease gradually to 5 percent for fiscal year 2018 and remain at that level thereafter. A plan amendment established a maximum of \$85 per month for retired employees who retire after normal retirement age. Once Rensselaer's share of medical premiums for Medicare eligible retirees reaches the \$85 per month maximum, the health care cost trend rate will no longer have any effect except for grandfathered participants not subject to the cap and pre-65 coverage.

Assumed health care cost trend rates have a significant effect on the amounts reported for the postretirement benefit. A one-percentage point change in the health care cost trend rates would have the following effects (in thousands):

	1-Percentage Point Increase	1-Percentage Point Decrease
Effect on total of service and interest cost components	\$ 96	(\$ 82)
Effect on postretirement benefit obligation	\$774	(\$678)

Based upon service at retirement date, Rensselaer pays for a portion of health care benefits for retired employees. In addition, Rensselaer Hartford Graduate Center, Inc. pays for dental and life insurance benefits for employees who had retired prior to July 1, 1997.

Defined Contribution Plan

Rensselaer and the Center also have non-contributory Defined Contribution Plans open to full-time employees who have met minimum service requirements. Contributions to these plans (8% of employee salary) were \$7,018,000 and \$6,783,000 in fiscal 2011 and 2010, respectively.

Rensselaer Polytechnic Institute
Notes to the Consolidated Financial Statements
For the Years Ended June 30, 2011 and June 30, 2010

Note M- Commitments and Contingences

In the normal course of business, Rensselaer has been named a defendant in various claims. Although there can be no assurance as to the eventual outcome of litigation in which Rensselaer has been named, in the opinion of management such litigation will not, in the aggregate, have a material adverse effect on Rensselaer's financial position.

Leases

At June 30, 2011, minimum annual commitments under capital and operating leases for real property and equipment are as follows

(in thousands) :

	<u>Operating Leases</u>	<u>Capital Leases</u>
2012	1,410	1,359
2013	1,057	1,368
2014	990	1,383
2015	1,175	1,403
2016	1,175	1,420
Thereafter	<u>17,198</u>	<u>33,231</u>
Total	<u>\$23,005</u>	40,164
Less: amount representing interest		<u>(20,631)</u>
Present value of minimum lease payments		<u>\$19,533</u>

Note N- Asset Retirement Obligations

The following is a summary of the asset retirement obligation:

Change in Asset Retirement Obligation (in thousands):	<u>2011</u>	<u>2010</u>
Asset retirement obligation at beginning of year	\$8,372	\$8,021
Accretion expense	360	353
Less: disposals	<u>0</u>	<u>(2)</u>
Asset retirement obligation at end of year	<u>\$8,732</u>	<u>\$8,372</u>

Note O-Credit Loss

Management regularly assesses the adequacy of the allowance for credit losses by performing ongoing evaluations of the student loan portfolio, including such factors as the differing economic risks associated with each loan category, the financial condition of specific borrowers, the economic environment in which the borrowers operate, the level of delinquent loans, the value of any collateral and, where applicable, the existence of any guarantees or indemnifications. Approximately 31% of our credit exposure relate to our Perkins Loan program which is covered by federal guarantees.

Management evaluated the impact of changes in interest rates and overall economic conditions on the ability of borrowers to meet repayment obligations when quantifying the Institute's exposure to credit losses and assessing the adequacy of the Institute's allowance for such losses as of each reporting date.

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Notes to the Consolidated Financial Statements
For the Years Ended June 30, 2011 and June 30, 2010

Note O-Credit Loss- Continued

Factors also considered by management when performing its assessment, in addition to general economic conditions and the other factors described above, included, but were not limited to, a detailed review of the aging of the student loan receivable detail and a review of the default rate by loan category in comparison to prior years is performed for the Other Student Loan Receivables. The level of the allowance is adjusted based on the results of management's analysis.

In establishing the allowance for credit losses, management follows the methodology described herein, including taking a historical review of student's abilities to repay student loans. The establishment of the allowance is extremely subjective and requires management to make many judgments about student borrowers and regional and national economic health and performance.

In ascertaining the adequacy of the allowance for credit losses, the Institute estimates losses attributable to specific loss components as well as applies allowance percentages to various aging categories based upon historical collection percentages. The amount of specific loss components in the Institute's loan portfolios, if any, is determined through a specific identification process on a loan by loan basis.

Considering the other factors already discussed herein, management considers the allowance for credit losses to be prudent and reasonable. Furthermore, the Institute's allowance is general in nature and is available to absorb losses from any loan category. Management believes that the allowance for credit losses at June 30, 2011 is adequate to absorb credit losses inherent in the portfolio as of that date.

Note P-Subsequent Events

On September 1, 2011 Rensselaer remarketed its Series 2002E bonds for \$25,000,000 to convert them from variable rate to fixed rate bonds. Maturities on the bonds range from 2026 to 2037 with a final maturity on April 1, 2037. See Footnote K for additional information.

On September 27, 2011, Rensselaer entered into a 15 year note purchase agreement for \$40 million. The interest rate is fixed based on the market spread over 15 year treasuries and principal payments will begin in year 10 of the agreement.

Rensselaer has performed an evaluation of subsequent events through October 7, 2011, the date on which the consolidated financial statements were issued.