

Rensselaer Polytechnic Institute Consolidated Financial Statements

**For the Years Ended
June 30, 2012 and 2011**

Rensselaer Polytechnic Institute Consolidated Financial Statements

**For the Years Ended
June 30, 2012 and 2011**

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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, 2012 and June 30, 2011, 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 2 to the consolidated financial statements, Rensselaer has 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).

Also discussed in Note 2(k), Rensselaer has restated its consolidated financial statements as of June 30, 2011 to correct certain errors related to net asset classification.

PricewaterhouseCoopers LLP

October 30, 2012

Rensselaer Polytechnic Institute
Consolidated Statements of Financial Position
At June 30, 2012 and June 30, 2011, as restated
(in thousands of dollars)

| <i>Assets</i> | 6/30/2012 | 6/30/2011 (as restated) |
|---|---------------------|----------------------------|
| Cash and Cash Equivalents | \$ 10,224 | \$ 9,014 |
| Accounts receivable, net | | |
| Student related and other | 5,460 | 8,061 |
| Research, training, and other agreements | 22,186 | 28,129 |
| Contributions receivable, net | 16,220 | 24,364 |
| Contributions from external remainder trusts | 8,099 | 8,373 |
| Inventories | 1,813 | 2,204 |
| Prepaid expenses and other assets | 13,305 | 12,619 |
| Student loans receivable, net | 27,339 | 29,366 |
| Investments, at market - endowment, annuity & life income funds | 587,692 | 627,474 |
| Land, buildings and equipment, net | 732,989 | 750,850 |
| Total Assets | \$ 1,425,326 | \$ 1,500,454 |
| <i>Liabilities</i> | | |
| Accounts payable and accrued expenses | \$ 41,940 | \$ 46,504 |
| Short-term borrowings | 38,700 | 39,750 |
| Split interest agreement obligations | 7,091 | 9,078 |
| Deferred revenue | 20,709 | 21,083 |
| Other liabilities | 16,968 | 15,831 |
| Pension liability | 117,795 | 81,981 |
| Accrued postretirement benefits | 15,864 | 14,082 |
| Refundable government loan funds | 28,219 | 27,602 |
| Capital leases payable | 19,296 | 19,533 |
| Long-term debt | 740,699 | 709,029 |
| Total Liabilities | 1,047,280 | 984,473 |
| <i>Net Assets</i> | | |
| Unrestricted | (92,936) | 35,815 |
| Temporarily Restricted | 160,021 | 171,274 |
| Permanently Restricted | 310,961 | 308,892 |
| Total Net Assets | 378,046 | 515,981 |
| Total liabilities and Net Assets | \$ 1,425,326 | \$ 1,500,454 |

Rensselaer Polytechnic Institute
Consolidated Statement of Activities
For The Year Ended June 30, 2012, with comparative June 30, 2011, as restated
(in thousands of dollars)

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total June 30, 2012 | Total June 30, 2011 (as restated) |
|--|--------------------|---------------------------|---------------------------|------------------------|---|
| <i>Operating Revenue:</i> | | | | | |
| Student related revenue: | | | | | |
| Student tuition and fees, net | | | | | |
| Undergraduate | \$ 127,806 | \$ - | \$ - | \$ 127,806 | \$ 121,542 |
| Graduate | 41,703 | - | - | 41,703 | 39,004 |
| Education for working professionals | 6,450 | - | - | 6,450 | 8,635 |
| Fees | 1,653 | - | - | 1,653 | 1,443 |
| Auxiliary services | 51,534 | - | - | 51,533 | 49,730 |
| Student related revenue | <u>229,145</u> | <u>-</u> | <u>-</u> | <u>229,145</u> | <u>220,354</u> |
| Gifts | 20,807 | 1,729 | 3 | 22,539 | 26,204 |
| Grants and contracts: | | | | | |
| Direct: | | | | | |
| Federal | 65,077 | - | - | 65,077 | 60,728 |
| State | 7,525 | - | - | 7,525 | 5,256 |
| Private | 6,812 | - | - | 6,812 | 8,379 |
| Indirect | 18,917 | - | - | 18,917 | 18,424 |
| Grants and contracts | <u>98,331</u> | <u>-</u> | <u>-</u> | <u>98,331</u> | <u>92,787</u> |
| Investment return: | | | | | |
| Dividends and interest | 2,143 | 2,807 | 1 | 4,951 | 7,787 |
| Realized accumulated gains used to meet spending policy | 13,457 | 12,322 | - | 25,779 | 21,129 |
| Endowment spending for Rensselaer Plan Initiatives | 23,300 | - | - | 23,300 | 20,700 |
| Interest on student loans | 74 | - | - | 74 | 111 |
| Investment return | <u>38,974</u> | <u>15,129</u> | <u>1</u> | <u>54,104</u> | <u>49,727</u> |
| Rensselaer Technology Park | 4,001 | - | - | 4,001 | 3,924 |
| Other | 6,784 | 54 | - | 6,838 | 7,088 |
| Net assets released from restrictions | 20,198 | (20,198) | - | (0) | - |
| Total operating revenue | <u>418,240</u> | <u>(3,286)</u> | <u>4</u> | <u>414,958</u> | <u>400,084</u> |
| <i>Operating Expense:</i> | | | | | |
| Instruction | 147,819 | - | - | 147,819 | 147,796 |
| Research: | | | | | |
| Sponsored | 110,363 | - | - | 110,363 | 103,285 |
| Un-sponsored | 19,771 | - | - | 19,771 | 19,964 |
| Student services | 13,185 | - | - | 13,185 | 13,429 |
| Institutional and academic support | 84,655 | - | 261 | 84,916 | 83,807 |
| Externally funded scholarships and fellowships | 11,595 | - | - | 11,595 | 13,450 |
| Auxiliary services | 30,573 | - | - | 30,573 | 30,578 |
| Rensselaer Technology Park | 3,575 | - | - | 3,575 | 3,829 |
| Defined benefit pension and postretirement | 12,788 | - | - | 12,788 | 11,658 |
| Total operating expenses | <u>434,324</u> | <u>-</u> | <u>261</u> | <u>434,585</u> | <u>427,796</u> |
| Change in net assets from operating activities | <u>(16,084)</u> | <u>(3,286)</u> | <u>(257)</u> | <u>(19,627)</u> | <u>(27,712)</u> |
| <i>Non-operating:</i> | | | | | |
| Realized and unrealized gains (losses), net of spending policy and initiatives | (48,240) | (5,946) | (3,109) | (57,295) | (2,700) |
| Adjustment for pension and postretirement benefits liability | (63,983) | - | - | (63,983) | 14,156 |
| Life income and endowment gifts | - | (2,268) | 4,808 | 2,540 | 7,885 |
| Change in value of life income contracts | - | 281 | 545 | 826 | 2,527 |
| (Loss) Gain on disposal of fixed assets | (396) | - | - | (396) | (101) |
| Other reclassifications & transfers | (48) | (34) | 82 | - | - |
| Change in net assets from non-operating activities | <u>(112,667)</u> | <u>(7,967)</u> | <u>2,326</u> | <u>(118,308)</u> | <u>21,767</u> |
| Increase (Decrease) in net assets | <u>(128,751)</u> | <u>(11,253)</u> | <u>2,069</u> | <u>(137,935)</u> | <u>(5,945)</u> |
| Net assets at beginning of year, as restated | 35,815 | 171,274 | 308,892 | 515,981 | 521,926 |
| Net assets at end of year | <u>\$ (92,936)</u> | <u>\$ 160,021</u> | <u>\$ 310,961</u> | <u>\$ 378,046</u> | <u>\$ 515,981</u> |

Rensselaer Polytechnic Institute
Consolidated Statement of Activities
For The Year Ended June 30, 2011, as restated
(in thousands of dollars)

| | <i>Unrestricted</i> | <i>Temporarily</i> | <i>Permanently</i> | <i>Total</i> |
|---|----------------------|----------------------|----------------------|----------------------|
| | <i>(as restated)</i> | <i>Restricted</i> | <i>Restricted</i> | <i>June 30, 2011</i> |
| | <i>(as restated)</i> | <i>(as restated)</i> | <i>(as restated)</i> | <i>(as restated)</i> |
| Operating Revenue: | | | | |
| Student related revenue: | | | | |
| Student tuition and fees, net | | | | |
| Undergraduate | \$ 121,542 | \$ - | \$ - | \$ 121,542 |
| Graduate | 39,004 | - | - | 39,004 |
| Education for working professionals | 8,635 | - | - | 8,635 |
| Fees | 1,443 | - | - | 1,443 |
| Auxiliary services | 49,730 | - | - | 49,730 |
| Student related revenue | <u>220,354</u> | <u>-</u> | <u>-</u> | <u>220,354</u> |
| Gifts | 26,075 | 125 | 4 | 26,204 |
| Grants and contracts: | | | | |
| Direct: | | | | |
| Federal | 60,728 | - | - | 60,728 |
| State | 5,256 | - | - | 5,256 |
| Private | 8,379 | - | - | 8,379 |
| Indirect | 18,424 | - | - | 18,424 |
| Grants and contracts | <u>92,787</u> | <u>-</u> | <u>-</u> | <u>92,787</u> |
| Investment return: | | | | |
| Dividends and interest | 3,103 | 4,684 | - | 7,787 |
| Realized accumulated gains used to meet spending policy | 12,023 | 9,106 | - | 21,129 |
| Endowment spending for Rensselaer Plan initiatives | 20,700 | - | - | 20,700 |
| Interest on student loans | 111 | - | - | 111 |
| Investment return | <u>35,937</u> | <u>13,790</u> | <u>-</u> | <u>49,727</u> |
| Rensselaer Technology Park | 3,924 | - | - | 3,924 |
| Other | 6,975 | 113 | - | 7,088 |
| Net assets released from restrictions | 29,818 | (29,818) | - | - |
| Total operating revenue | <u>415,870</u> | <u>(15,790)</u> | <u>4</u> | <u>400,084</u> |
| Operating Expense: | | | | |
| Instruction | 147,796 | | | 147,796 |
| Research: | | | | |
| Sponsored | 103,285 | | | 103,285 |
| Un-sponsored | 19,964 | | | 19,964 |
| Student services | 13,429 | | | 13,429 |
| Institutional and academic support | 83,807 | | | 83,807 |
| Externally funded scholarships and fellowships | 13,450 | | | 13,450 |
| Auxiliary services | 30,578 | | | 30,578 |
| Rensselaer Technology Park | 3,829 | | | 3,829 |
| Defined benefit pension and postretirement | 11,658 | | | 11,658 |
| Total operating expenses | <u>427,796</u> | <u>-</u> | <u>-</u> | <u>427,796</u> |
| Change in net assets from operating activities | <u>(11,926)</u> | <u>(15,790)</u> | <u>4</u> | <u>(27,712)</u> |
| Non-operating: | | | | |
| Realized and unrealized gains (losses), net of spending policy, as restated | (23,275) | 13,810 | 6,765 | (2,700) |
| Adjustment for pension and postretirement benefits liability | 14,156 | - | - | 14,156 |
| Life income and endowment gifts, as restated | - | (543) | 8,428 | 7,885 |
| Change in value of life income contracts | - | 2,744 | (217) | 2,527 |
| Loss on disposal of fixed assets | (101) | - | - | (101) |
| Change in net assets from non-operating activities, as restated | <u>(9,220)</u> | <u>16,011</u> | <u>14,976</u> | <u>21,767</u> |
| Decrease in net assets before effect of change in accounting principle, as restated | (21,146) | 221 | 14,980 | (5,945) |
| Cumulative effect of change in accounting principle, as restated | (85,749) | 85,749 | - | - |
| Change in net assets after cumulative effect of change in accounting principle, as restated | <u>(106,895)</u> | <u>85,970</u> | <u>14,980</u> | <u>(5,945)</u> |
| Net assets at beginning of year, as reported | 171,963 | 87,852 | 262,111 | 521,926 |
| Adjustments to Beginning Net Assets | (29,253) | (2,548) | 31,801 | - |
| Net assets at beginning of year, as restated | <u>142,710</u> | <u>85,304</u> | <u>293,912</u> | <u>521,926</u> |
| Net assets at end of year, as restated | <u>\$ 35,815</u> | <u>\$ 171,274</u> | <u>\$ 308,892</u> | <u>\$ 515,981</u> |

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, 2012 and 2011
(in thousands of dollars)

| | June 2012 | June 2011 |
|---|--------------|--------------|
| <i>Cash flow from operating activities</i> | | |
| Total change in net assets | \$ (137,935) | \$ (5,945) |
| Adjustments to reconcile change in net assets to net cash used in operating activities: | | |
| Depreciation and amortization | 35,205 | 33,975 |
| Accretion expense | 382 | 360 |
| (Gain) loss on disposal of fixed assets | 396 | 101 |
| Uncollectible contributions writeoff | 1,119 | 512 |
| Provision for uncollectible accounts and loans | 576 | 379 |
| Realized and unrealized losses (gains) on investments | 8,215 | (39,129) |
| Amortization of Bond Premiums & Discounts | 315 | - |
| Contributions of equipment and other capital items | (582) | - |
| Receipt of contributed securities | (1,479) | (2,523) |
| Contributions restricted for long term investment | 1,050 | (6,060) |
| Contributions from external trusts, net of change in value | 274 | (425) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 13,935 | (3,141) |
| Contributions receivable | 1,269 | 6,219 |
| Inventories | 391 | (315) |
| Prepaid expense and other assets | (724) | (1,184) |
| Accounts payable and accrued expenses | (5,479) | 7,182 |
| Change in Pension Liability | 35,814 | (19,106) |
| Present value of split interest agreements, net of terminations | (1,987) | (159) |
| Deferred revenue and other liabilities | 382 | 271 |
| Accrued postretirement benefits | 1,782 | 1,918 |
| Net cash provided (used) in operating activities | (47,081) | (25,070) |
| <i>Cash flow from investing activities</i> | | |
| Proceeds from sale of investments, net of purchases | 117,030 | 333,115 |
| Purchase of investments | (83,984) | (282,060) |
| Additional student loans granted | (2,829) | (2,882) |
| Student loans paid | 4,645 | 4,491 |
| Deposit with bond trustees | - | 175 |
| Proceeds from sale of land, building, and equipment | 800 | - |
| Purchase of land, building and equipment | (17,048) | (38,840) |
| Net cash provided (used) in investing activities | 18,614 | 13,999 |
| <i>Cash flow from financing activities</i> | | |
| Contributions restricted for endowments | (1,050) | 6,060 |
| Payment of annuity obligations | 4 | (1,042) |
| Proceeds from issuance of bonds | 39,748 | - |
| Proceeds from loans | 185,895 | 216,742 |
| Repayment of debt | (195,537) | (210,463) |
| Government loan funds | 617 | 625 |
| Net cash provided (used) by financing activities | 29,677 | 11,922 |
| Net increase in cash and cash equivalents | 1,210 | 851 |
| Cash and cash equivalents at beginning of the year | 9,014 | 8,163 |
| Cash and cash equivalents at end of year | \$ 10,224 | \$ 9,014 |
| <i>Non cash investing activities</i> | | |
| Gifts of Equipment and other capital items | \$ 582 | \$ - |
| Contributed Securities | 1,479 | 2,523 |
| Seller Financed Debt | - | 4,066 |
| Increase (Decrease) in Capital assets included in accounts payable | 911 | (3,874) |
| <i>Supplemental Disclosure</i> | | |
| Cash paid during year for interest | \$ 39,133 | \$ 34,144 |

Rensselaer Polytechnic Institute
Notes to the Consolidated Financial Statements
For the Years Ended June 30, 2012 and June 30, 2011, as restated
(dollars in thousands)

(1) ORGANIZATION

Rensselaer Polytechnic Institute (Rensselaer) is a nonsectarian, coeducational institution composed of five schools: Engineering; Science; Architecture; Humanities, Arts, and Social Sciences; and the Lally School of Management & Technology; as well as an interdisciplinary degree in Information Technology. Rensselaer offers more than 145 programs at the bachelor's, master's, and doctoral levels. Students are encouraged to work in interdisciplinary programs that allow them to combine scholarly work from several departments or schools. The university provides rigorous, engaging, interactive learning environments and campus-wide opportunities for leadership, collaboration, and creativity. Rensselaer Technology Park is a university related park for technology ventures seeking a unique environment focused on the interface between industry and education.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of Presentation and Tax Status

The financial statements are presented on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (GAAP) and have been prepared to focus on the Institute as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions.

The accompanying financial statements include the Rensselaer Hartford Graduate Center, Inc., a branch of the Institute focused on education for working professionals, which is a separate entity consolidated in the financial statements. Rensselaer and the Center are collectively referred to herein as the Institute. All significant inter-organizational accounts have been eliminated in consolidation.

The Institute 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 pursuant to the Code. In accordance with accounting standards, the Institute evaluates its income tax status each year.

b) Net Asset Classification

The Institute is incorporated in and subject to the laws of New York, which incorporate the provisions outlined in the New York Prudent Management of Institution Funds Act (NYPMIFA.) Under NYPMIFA, the assets of donor-imposed restricted funds may be appropriated by the Institute for expenditure. Net assets having similar characteristics have been classified in the following categories:

- *Permanently restricted net assets* are 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.
- *Temporarily restricted net assets* used by the Institute are 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* 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.

Rensselaer Polytechnic Institute
Notes to the Consolidated Financial Statements
For the Years Ended June 30, 2012 and June 30, 2011, as restated
(dollars in thousands)

c) *Statement of Activities*

The Statement of Activities reports changes in net assets from operating and non-operating activities. Operating activities primarily include revenues and expense related to on-going educational and research efforts as well as gifts and net return on the Institute's endowment. 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. Expenses are generally reported as decreases in unrestricted net assets.

Non-operating activities primarily include investment return net of spending, changes in life income and endowment gifts and gain or loss on the disposal of assets or liabilities. Non-operating 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 or being placed in service. Contributions received of a capital nature, that is, contributions to be used for facilities and equipment or to be invested by the Institute to generate a return that will support operations, are included in non-operating activities.

Revenues are derived from various sources as follows:

- *Student related revenue* includes tuition revenue from undergraduate, graduate, and working professionals, as well as, student fees and auxiliary services. The undergraduate student discount rate was 39.6% and 40.7% for the years ended June 30, 2012 and 2011, respectively.

Student tuition by segment and location is as follows:

| | 2012 | | 2011 |
|--|------------|----|----------|
| Undergraduate tuition: | | | |
| Troy Campus tuition revenue | \$ 207,216 | \$ | 201,009 |
| Institutional aid | (81,985) | | (81,877) |
| Total undergraduate academic tuition revenue | 125,231 | | 119,132 |
| Summer tuition revenue | 2,750 | | 2,492 |
| Summer aid | (175) | | (82) |
| <i>Total Undergraduate tuition</i> | \$ 127,806 | \$ | 121,542 |
| Graduate tuition: | | | |
| Troy Campus tuition revenue | \$ 42,940 | \$ | 39,972 |
| Institutional aid | (1,611) | | (1,423) |
| Total graduate academic tuition revenue | 41,329 | | 38,549 |
| Summer tuition revenue | 374 | | 455 |
| <i>Total Graduate tuition</i> | \$ 41,703 | \$ | 39,004 |
| Education for working professionals: | | | |
| Troy Campus | \$ 824 | \$ | 1,861 |
| Hartford Campus | 5,626 | | 6,774 |
| <i>Total Education for working professionals tuition</i> | \$ 6,450 | \$ | 8,635 |

- *Contributions* – Contributions, including unconditional promises to give (pledges), are recognized as revenue in the appropriate net asset class in the period received. A pledge is recorded at present value based on an appropriate market rate. 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

Rensselaer Polytechnic Institute
Notes to the Consolidated Financial Statements
For the Years Ended June 30, 2012 and June 30, 2011, as restated
(dollars in thousands)

value at the date of gift. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Additional information can be found in Note 3b.

- *Government grants and contracts* – The Institute has been awarded approximately \$107,856 and \$102,667 of grants and contracts which have not been advanced or expended as of June 30, 2012 and 2011, respectively, and accordingly, are not recorded in the financial statements.
- *Investment return* - Net appreciation (depreciation) in the fair value of investments, which consists of dividends and interest, realized gains on losses and the unrealized appreciation or depreciation on those investments, is recognized in the Statement of Activities.

d) Cash and Cash Equivalents

Cash and cash equivalents include all highly liquid debt instruments with maturity of three months or less when purchased. They are carried at cost, which approximated fair value. Cash that is part of the Institute's investment portfolio is reported as investments and included in Note 5.

e) Accounts and Notes Receivable

Accounts and notes receivable include amounts arising from tuition and fees, Rensselaer Technology Park activity and amounts owed on research contracts. They are carried at net realizable value.

f) 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.

g) Investments

The Institute's investments are recorded in the financial statements at fair value. Investment income is recorded on an accrual basis, and 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.

h) 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.

i) Use of Estimates

The preparation of financial statements 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.

j) Reclassifications

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

Rensselaer Polytechnic Institute
Notes to the Consolidated Financial Statements
For the Years Ended June 30, 2012 and June 30, 2011, as restated
(dollars in thousands)

k) Restatement

The Institute has restated its Consolidated Financial Statements for the year ended June 30, 2011. The restatements reflect adjustments to correct errors identified by management during the Institution's review of its endowment and net asset classifications during 2012. The corrections included reclassification of a perpetual trust from unrestricted net assets to permanently restricted net assets, the reclassification of underwater endowments and other matters from temporarily restricted net assets to unrestricted net assets, and the reclassification of certain accumulated gains from temporarily restricted net assets to unrestricted net assets in accordance with the provisions of ASC 958. The restated line items within the Statement of Financial Position are presented below:

| <i>Summary of all financial statement lines impacted by reclassifications:</i> | Unrestricted Net Assets | Temporarily Restricted Net Assets | Permanently Restricted Net Assets | Total |
|---|--------------------------------|--|--|----------------|
| Realized and unrealized gains (losses), net of spending, as reported 6/30/11 | (19,100) | 8,167 | 8,233 | (2,700) |
| Realized and unrealized gains (losses), net of spending, as restated 6/30/11 | <u>(23,275)</u> | <u>13,810</u> | <u>6,765</u> | <u>(2,700)</u> |
| Life income and endowment gifts, as reported 6/30/11 | - | 945 | 6,940 | 7,885 |
| Life income and endowment gifts, as restated 6/30/11 | <u>-</u> | <u>(543)</u> | <u>8,428</u> | <u>7,885</u> |
| Change in net assets from non-operating activities, as reported 6/30/11 | (5,045) | 11,856 | 14,956 | 21,767 |
| Change in net assets from non-operating activities, as restated, 6/30/11 | <u>(9,220)</u> | <u>16,011</u> | <u>14,976</u> | <u>21,767</u> |
| Decrease in net assets before effect of changes in accounting principle, as reported 6/30/11 | (16,971) | (3,934) | 14,960 | (5,945) |
| Decrease in net assets before effect of changes in accounting principle, as restated 6/30/11 | <u>(21,146)</u> | <u>221</u> | <u>14,980</u> | <u>(5,945)</u> |
| Cumulative effect of change in accounting principle, as reported 6/30/11 | (173,698) | 173,698 | - | - |
| Cumulative effect of change in accounting principle, as restated 6/30/11 | <u>(85,749)</u> | <u>85,749</u> | <u>-</u> | <u>-</u> |
| Change in net assets after cumulative effect of change in accounting principle, as reported 6/30/11 | (190,669) | 169,764 | 14,960 | (5,945) |
| Change in net assets after cumulative effect of change in accounting principle, as restated 6/30/11 | <u>(106,895)</u> | <u>85,970</u> | <u>14,980</u> | <u>(5,945)</u> |
| Net assets beginning of year, as reported 6/30/10 | 171,963 | 87,852 | 262,111 | 521,926 |
| Net assets beginning of year, as restated 6/30/10 | <u>142,710</u> | <u>85,304</u> | <u>293,912</u> | <u>521,926</u> |
| Net assets end of year, as reported 6/30/11 | (18,706) | 257,616 | 277,071 | 515,981 |
| Net assets end of year, as restated 6/30/11 | <u>35,815</u> | <u>171,274</u> | <u>308,892</u> | <u>515,981</u> |

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(3) RECEIVABLES

(a) Accounts Receivable

The Institute's receivables are comprised of student related, research, training and other agreements and are reviewed and monitored for aging and collectability on a regular basis. There is also a corresponding allowance for uncollectable accounts at June 30, 2012 and 2011. Accounts receivable from the following sources were outstanding as of June 30:

| | 2012 | 2011 |
|---|-----------|-----------|
| Student related receivables | \$ 3,684 | \$ 7,152 |
| Research, training and other agreements | 22,866 | 28,830 |
| Rensselaer Technology Park | 554 | 657 |
| Other | 1,856 | 865 |
| Gross account receivable | 28,960 | 37,504 |
| Less: allowance for doubtful accounts | (1,314) | (1,314) |
| Net accounts receivable | \$ 27,646 | \$ 36,190 |

(b) Contributions receivable

Contributions receivable are expected to be collected as follows at June 30:

| | 2012 | 2011 |
|---|-----------|-----------|
| Less than one year | \$ 1,152 | \$ 2,926 |
| Between one and five years | 12,892 | 14,469 |
| More than five years | 4,841 | 10,822 |
| Gross contributions receivable | 18,885 | 28,217 |
| Less: unamortized discount | (2,060) | (3,366) |
| Less: allowance for uncollectible amounts | (605) | (487) |
| Net contributions receivable | \$ 16,220 | \$ 24,364 |

Conditional pledges, which are not accrued, approximate \$2,088 at June 30, 2012, of which \$29 was unrestricted as to purpose. The remaining conditional pledges are restricted to purpose as follows: \$1,383 current programs; \$649 endowment; and \$27 plant. Bequest expectancies totaling \$119,842 have been also excluded from these amounts and are not recorded in the financial statements. In compliance with donor stipulations related to a \$360,000 transformational gift, revenue is being recognized as periodic cash payments are received. Revenue of \$10,000 related to the transformational gift was recognized in 2012 and 2011, respectively.

(c) Student Loans receivable

Student loan programs are funded by many sources, including institutional sources and governmental programs, including the Federal Perkins Loan Program. The amount received from the government's portion of the Perkins loan program are refundable to the federal government and reported as a liability on the Institute's statement of financial position.

The Institute regularly assesses the adequacy of the allowance for credit losses relating to these loans 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, and the value of any collateral.

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The following provides enhanced disclosures about the student loan receivables and allowances associated with the institutional and federal loan programs.

| | 2012 | | | 2011 | | |
|-----------------------|------------|-----------|----------------|------------|-----------|----------------|
| | Receivable | Allowance | Net receivable | Receivable | Allowance | Net receivable |
| Institutional loans | 1,642 | (759) | 883 | 1,918 | (803) | 1,115 |
| Federal loans | 27,598 | (1,142) | 26,456 | 29,174 | (923) | 28,251 |
| Total loan receivable | 29,240 | (1,901) | 27,339 | 31,092 | (1,726) | 29,366 |

| | Institutional | Federal | Total allowance |
|--------------------------------|---------------|---------|-----------------|
| Allowance at beginning of year | (803) | (923) | (1,726) |
| Current year provisions | 44 | (219) | (175) |
| Current year write-offs | - | - | - |
| Current year recoveries | - | - | - |
| Allowance at end of year | (759) | (1,142) | (1,901) |

(4) SPLIT INTEREST AGREEMENTS

Split interest gift agreements consist primarily of irrevocable charitable remainder trusts, pooled income funds and charitable gift annuities for which the Institute 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, 2012 and 2011 were \$17,465 and \$23,178, 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 1.6% to 10.6%. The liability for the present value of deferred gifts of \$7,091 and \$9,078 at June 30, 2012 and 2011, 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, 2012 and 2011 was \$52,910 and \$55,945 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 those distributions are disclosed in Note 5. Changes in fair value of the trusts are recorded as gain or loss in permanently restricted net assets.

(5) INVESTMENTS

The Institute's investments are overseen by the Investment Committee of the Board of Trustees. 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. At that time, the Board committed to endowment withdrawals in excess of Rensselaer's spending formula, as necessary, to fund

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investment in Plan initiatives. To date, approximately \$494.9 million has been spent or committed for such initiatives, exclusive of capital expenditures.

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.

The fair value and cost of investments at June 30 is as follows:

| | 2012 | | 2011 | |
|---------------------------------|------------|------------|------------|------------|
| | Fair Value | Cost | Fair Value | Cost |
| Cash and cash equivalents | \$ 105,831 | \$ 105,831 | \$ 163,301 | \$ 163,301 |
| Fixed income | 67,650 | 61,308 | 70,757 | 63,205 |
| Domestic equity | 54,219 | 45,383 | 50,276 | 43,748 |
| Foreign equity | 40,323 | 28,852 | 70,420 | 43,591 |
| Real assets | 102,789 | 130,618 | 96,215 | 117,607 |
| Marketable alternatives | 75,996 | 70,475 | 24,786 | 23,928 |
| Private equity | 87,974 | 89,584 | 95,774 | 92,594 |
| <i>Subtotal</i> | 534,782 | 532,051 | 571,529 | 547,974 |
| Perpetual Trusts held by others | 52,910 | 49,990 | 55,945 | 51,657 |
| <i>Total investments</i> | \$ 587,692 | \$ 582,041 | \$ 627,474 | \$ 599,631 |

- At June 30, 2012, Rensselaer has committed to investing approximately an additional \$47 million in various equity and real asset partnerships.

(a) Investment classification descriptions

Fixed Income

This category contains investments in public and private fixed income securities in the U.S. and foreign markets including, but not limited to, convertible bonds, corporate bonds, foreign sovereign bonds, government sponsored agencies, high yield bonds, and U.S. Securities. These investments may be held directly by the Institute, or indirectly through outside managers that the Institute has hired for specific mandates. Directly held fixed income securities typically provide liquidity to the Institute in three days, while indirect investments, excluding limited partnerships, are subject to a variety of liquidity restrictions that normally range from three days to three months. The limited partnership investments do not have any redemption rights, other than certain limited provisions.

Domestic Equity

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, while indirectly held investments are subject to a variety of liquidity restrictions that normally range from three days to three months.

Foreign Equity

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 while indirectly held investments are subject to a variety of liquidity restrictions that normally range from three days to three months.

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Real Assets

This category includes investments in a variety of partnerships and similar entities focused primarily on real estate, infrastructure, and commodity investments in the U.S and foreign markets. The capital commitments made by the Institute is drawn down over time by the manager. As investments mature and/or are realized, distributions are made by the manager to the Institute during the life of the partnership, typically 10 years. The Institute does not have any redemption rights in these investments.

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 strategies utilized by the individual managers include, but not limited to, distressed, event-driven, long/short, relative value, global macro, and sector specific. Most of these investments have an initial lockup and offer liquidity, thereafter, ranging from thirty days to one year.

Private Equity

This category includes investments in a variety of partnerships and similar entities focused primarily on venture capital investments, buyouts, and growth equity in the U.S and foreign markets. The capital commitments made by the Institute are drawn down over time by the manager. As investments mature and/or are realized, distributions are made by the manager to the Institute during the life of the partnership, typically 10 years. The Institute does not have any redemption rights in these investments.

Perpetual Trusts

This category includes certain perpetual trusts held and administered by others for which Rensselaer is the beneficiary.

(b) 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.

(c) 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:

| | 2012 | 2011 |
|---|-------------|-------------|
| Dividends and interest available for spending | \$ 4,951 | \$ 7,787 |
| Realized gains (loss) | 14,878 | (19,827) |
| Unrealized gains (loss) | (21,393) | 61,465 |
| <i>Investment return</i> | \$ (1,564) | \$ 49,425 |
| Investment Management Fees | 1,701 | 2,509 |
| Net Investment Return | \$ (3,265) | \$ 46,916 |

(d) 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, 2012, there were no open or unsettled forward exchange contracts.

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(e) Fair Value

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 assets 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 three levels are fair value hierarchies are:

- 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.

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.

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The following table presents the financial instruments carried at fair value as of June 30, 2012 and 2011, by caption on the consolidated statement of financial position, based on the valuation hierarchy defined above:

| | 2012 | | | |
|---------------------------------|------------------------------------|------------------------------------|-----------------------------|------------------|
| | Quoted prices in active markets | Significant other observable | Significant unobservable | Total Fair Value |
| | Level 1 | Level 2 | Level 3 | |
| Cash and cash equivalents | \$ 105,831 | \$ - | \$ - | \$ 105,831 |
| Fixed income | 24,494 | 14,938 | 28,218 | 67,650 |
| Domestic equity | 48,331 | 5,784 | 104 | 54,219 |
| Foreign equity | 10,605 | 28,738 | 980 | 40,323 |
| Real assets | 2,219 | - | 100,570 | 102,789 |
| Marketable alternatives | - | 75,203 | 793 | 75,996 |
| Private equity | - | - | 87,974 | 87,974 |
| <i>Subtotal</i> | 191,480 | 124,663 | 218,639 | 534,782 |
| Perpetual Trusts held by others | - | - | 52,910 | 52,910 |
| <i>Total investments</i> | \$ 191,480 | \$ 124,663 | \$ 271,549 | \$ 587,692 |

| | 2011 | | | |
|---------------------------------|------------------------------------|------------------------------------|-----------------------------|------------------|
| | Quoted prices in active markets | Significant other observable | Significant unobservable | Total Fair Value |
| | Level 1 | Level 2 | Level 3 | |
| Cash and cash equivalents | \$ 163,301 | \$ - | \$ - | \$ 163,301 |
| Fixed income | 24,978 | 15,501 | 30,278 | 70,757 |
| Domestic equity | 42,609 | 7,565 | 102 | 50,276 |
| Foreign equity | 17,970 | 50,607 | 1,843 | 70,420 |
| Real assets | 2,678 | - | 93,537 | 96,215 |
| Marketable alternatives | - | 23,802 | 984 | 24,786 |
| Private equity | - | - | 95,774 | 95,774 |
| <i>Subtotal</i> | 251,536 | 97,475 | 222,518 | 571,529 |
| Perpetual Trusts held by others | - | - | 55,945 | 55,945 |
| <i>Total investments</i> | \$ 251,536 | \$ 97,475 | \$ 278,463 | \$ 627,474 |

Investments included in Level 3 primarily consist 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 represents the ownership interest in the net asset value (NAV) of the respective partnership and consists 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. The Institute 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 the Institute 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.

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The following table is a rollforward of the consolidated statement of financial position amounts at June 30, 2012 and 2011 for financial instruments classified by Rensselaer within Level 3 of the fair value hierarchy defined above:

| Level 3 Investments | 2012 | | | | | | | Total |
|-------------------------------|--------------|-----------------|----------------|-------------|-------------------------|----------------|------------------|------------|
| | Fixed income | Domestic equity | Foreign equity | Real assets | Marketable alternatives | Private equity | Perpetual Trusts | |
| Fair value, beginning of year | \$ 30,278 | \$ 102 | \$ 1,843 | \$ 93,537 | \$ 984 | \$ 95,774 | \$ 55,945 | \$ 278,463 |
| Realized gains (loss) | 1,217 | - | - | 1,507 | - | 15,442 | - | 18,166 |
| Unrealized gains (loss) | (1,035) | 2 | (396) | (7,960) | (174) | (6,463) | (3,035) | (19,061) |
| Purchases | 1,257 | - | - | 23,478 | - | 9,785 | - | 34,520 |
| Sales | (3,499) | - | (467) | (9,992) | (17) | (26,564) | - | (40,539) |
| Fair value, end of year | \$ 28,218 | \$ 104 | \$ 980 | \$ 100,570 | \$ 793 | \$ 87,974 | \$ 52,910 | \$ 271,549 |

| Level 3 Investments | 2011 | | | | | | | Total |
|-------------------------------|--------------|-----------------|----------------|-------------|-------------------------|----------------|------------------|------------|
| | Fixed income | Domestic equity | Foreign equity | Real assets | Marketable alternatives | Private equity | Perpetual Trusts | |
| Fair value, beginning of year | \$ 65,709 | \$ 106 | \$ 1,416 | \$ 125,777 | \$ 1,350 | \$ 186,168 | \$ 48,901 | \$ 429,427 |
| Realized gains (loss) | 1,055 | 104 | - | (16,009) | - | (12,835) | - | (27,685) |
| Unrealized gains (loss) | 528 | 7 | 427 | 9,772 | (247) | 19,164 | 7,044 | 36,695 |
| Purchases | 2,387 | 3,909 | - | 25,698 | - | 32,717 | - | 64,711 |
| Sales | (39,914) | (120) | - | (52,884) | (119) | (131,648) | - | (224,685) |
| Transfers in/out | 513 | (3,904) | - | 1,183 | - | 2,208 | - | - |
| Fair value, end of year | \$ 30,278 | \$ 102 | \$ 1,843 | \$ 93,537 | \$ 984 | \$ 95,774 | \$ 55,945 | \$ 278,463 |

Contributions from external remainder trusts are also classified within Level 3 of the fair value hierarchy defined above. The following table rolls forward the values as of June 30:

| | 2012 | 2011 |
|---|----------|----------|
| Level 3 Contributions from external remainder trusts | | |
| Fair value, beginning of year | \$ 8,373 | \$ 7,948 |
| Realized gains (loss) | - | - |
| Unrealized gains (loss) | 164 | 863 |
| Purchases | - | - |
| Sales | (438) | (438) |
| Fair value, end of year | \$ 8,099 | \$ 8,373 |

In accordance with currently effective standards updates for estimating fair value of investments, the Institution conducted a review of valuation changes between hierarchies Level 1 and Level 2 occurring during fiscal year 2012 and noted no material valuation changes.

(6) ENDOWMENT

Rensselaer's endowment consists of approximately 670 individual donor restricted endowment funds and 159 board-designated endowment funds for a variety of purposes plus assets that 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.

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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 \$566,431 and \$599,894 as of June 30, 2012 and June 30, 2011, respectively.

Endowment net assets consist of the following at June 30:

| | 2012 | | | |
|-----------------------------------|-------------------|---------------------------|---------------------------|-------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| True Endowment funds | \$ 58,590 | \$ 100,259 | \$ 301,245 | \$ 460,094 |
| Board-designated endowment funds | 113,044 | - | - | 113,044 |
| <i>Total endowment net assets</i> | <i>\$ 171,634</i> | <i>\$ 100,259</i> | <i>\$ 301,245</i> | <i>\$ 573,138</i> |

| | 2011 | | | |
|-----------------------------------|-------------------|---------------------------|---------------------------|-------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| True Endowment funds | \$ 66,389 | \$ 106,393 | \$ 297,518 | \$ 470,300 |
| Board-designated endowment funds | 150,364 | - | - | 150,364 |
| <i>Total endowment net assets</i> | <i>\$ 216,753</i> | <i>\$ 106,393</i> | <i>\$ 297,518</i> | <i>\$ 620,664</i> |

The unrestricted portion of true endowment funds represent amounts that have been appropriated by the Board of Trustees but not yet drawn from the endowment, net of the effect of underwater endowments.

Changes in endowment net assets as of June 30:

| | 2012 | | | |
|---|-------------------|---------------------------|---------------------------|-------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Endowment net assets, beginning of year, restated | \$ 216,753 | \$ 106,393 | \$ 297,518 | \$ 620,664 |
| Net gifts | 2 | 264 | 2,391 | 2,657 |
| Yield (dividends and interest) | 2,509 | 2,429 | 1 | 4,939 |
| Investment gains(losses), realized and unrealized | (3,252) | (3,151) | (327) | (6,730) |
| Reclassification of underwater endowments | (9,417) | 9,417 | - | - |
| Reclassifications and other changes | 554 | 2,030 | 1,966 | 4,550 |
| Endowment Additions | (9,604) | 10,989 | 4,031 | 5,416 |
| Amounts appropriated for expenditure | 35,515 | 15,059 | 1 | 50,575 |
| Investment management fees | - | 2,064 | 303 | 2,367 |
| Endowment Deductions | 35,515 | 17,123 | 304 | 52,942 |
| Endowment net assets, end of year | <i>\$ 171,634</i> | <i>\$ 100,259</i> | <i>\$ 301,245</i> | <i>\$ 573,138</i> |

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| | 2011 | | | |
|--|--------------|------------------------|------------------------|------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Endowment net assets, beginning of year | \$ 445,590 | \$ 15,896 | \$ 251,696 | \$ 713,182 |
| Changes to endowment net assets resulting from restatement | (117,202) | (2,548) | 31,801 | (87,949) |
| Net asset reclassification based on adoption of NYPMIFA | (85,749) | 85,749 | - | - |
| Endowment net assets, as restated | 242,639 | 99,097 | 283,497 | 625,233 |
| Net gifts | 6,167 | - | 5,408 | 11,575 |
| Yield (dividends and interest) | 3,696 | 3,370 | 1 | 7,067 |
| Investment gains(losses), realized and unrealized | 17,450 | 15,915 | 8,224 | 41,589 |
| Reclassification of underwater endowments | (6,091) | 6,091 | - | - |
| Reclassifications and other changes | 2,643 | (1,475) | 524 | 1,692 |
| Endowment Additions | 23,865 | 23,901 | 14,157 | 61,923 |
| Amounts appropriated for expenditure | 49,751 | 13,452 | 1 | 63,204 |
| Investment management fees | - | 3,153 | 135 | 3,288 |
| Endowment Deductions | 49,751 | 16,605 | 136 | 66,492 |
| Endowment net assets, end of year, restated | \$ 216,753 | \$ 106,393 | \$ 297,518 | \$ 620,664 |

Description of Amounts Classified as Permanently Restricted Net Assets and Temporarily Restricted Net Assets at June 30: (Endowments Only)

| Restricted for | 2012 | |
|--|------------------------|------------------------|
| | Temporarily Restricted | Permanently Restricted |
| Scholarship support | \$ 34,542 | \$ 71,667 |
| Fellowship support | 6,503 | 13,325 |
| Faculty support | 37,956 | 64,001 |
| Program support | 19,381 | 53,873 |
| Awards and prizes | 1,877 | 2,967 |
| Institutional support | - | 95,412 |
| <i>Permanent and Temporary net asset purpose</i> | \$ 100,259 | \$ 301,245 |

| Restricted for | 2011 | |
|--|------------------------|------------------------|
| | Temporarily Restricted | Permanently Restricted |
| Scholarship support | \$ 36,838 | \$ 70,146 |
| Fellowship support | 7,165 | 13,174 |
| Faculty support | 39,723 | 60,101 |
| Program support | 20,728 | 53,415 |
| Awards and prizes | 1,939 | 2,925 |
| Institutional support | - | 97,757 |
| <i>Permanent and Temporary net asset purpose</i> | \$ 106,393 | \$ 297,518 |

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(a) Interpretation of Relevant Law

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 \$85,749 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.

(b) 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 \$17,938 and \$8,521 as of June 30, 2012 and 2011, 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.

(c) 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.

(d) 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

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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.

(e) Endowment Spending Policy

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.

(7) LAND, BUILDING, AND EQUIPMENT

Land, buildings, and equipment consist of the following at June 30:

| | 2012 | 2011 |
|------------------------------------|-------------|-------------|
| Land and land improvements | \$ 31,514 | \$ 30,748 |
| Buildings | 904,059 | 893,960 |
| Equipment | 236,948 | 230,020 |
| Construction in Progress | 2,211 | 4,731 |
| Gross land, building and equipment | 1,174,732 | 1,159,459 |
| Less: accumulated depreciation | (441,743) | (408,609) |
| Net land, building and equipment | \$ 732,989 | \$ 750,850 |

As of June 30, 2012, Rensselaer had \$3,982 of open commitments to contractors for construction on work being performed.

(8) BONDS AND NOTES PAYABLE

The Institute has entered into various debt obligations, all of which are repaid from the general operations of the Institute, as appropriate. Outstanding bonds and notes payable are as follows:

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| | Year of final maturity | Average annual interest rate | Outstanding | |
|---|------------------------|------------------------------|-------------|---------|
| | | | 2012 | 2011 |
| U.S. Department of Education Dormitory Bonds and 1988 Mortgage Loan | 2018 | 3.00% | 1,089 | 1,239 |
| Rensselaer County IDA - Industrial Development Facility Issue: | | | | |
| Series 1997A (note a) | 2022 | Variable | 7,449 | 7,856 |
| Series 1999A and B (note b) | 2030 | 5.17% | 24,416 | 24,494 |
| Series 2006 (note d) | 2036 | 4.86% | 60,652 | 62,027 |
| Troy Industrial Development Authority Civic Facility Issue: | | | | |
| Series 2002A (note c) | 2015 | 5.37% | 8,921 | 12,327 |
| Series 2002E (note c) | 2037 | 4.99% | 25,000 | 25,000 |
| Series 2010 Rensselaer Taxable Bonds (note g) | 2021 | 5.60% | 204,727 | 204,696 |
| City of Troy Capital Resource Corporate Series 2010A&B (note f) | 2040 | 5.07% | 357,195 | 357,140 |
| Senior Note: | | | | |
| Series 2011A (note h) | 2026 | 4.35% | 40,000 | - |
| 2009 Whiting Turner Agreement (note e) | 2015 | 5.25% | 11,250 | 14,250 |
| <i>Total bonds and notes payable</i> | | | 740,699 | 709,029 |

Debt principal outstanding is reflected net of bond discount where applicable in the amount of \$1,400 and \$1,424 at June 30, 2012 and 2011, respectively. Such costs are being amortized on the straight-line method over the term of the related indebtedness.

Long-term debt is collateralized by certain physical properties with a carrying value of \$468 at June 30, 2012 and 2011. At June 30, 2012 and 2011, Rensselaer had \$0 and \$10, respectively of assets held by trustees for construction, debt service and other project-related expenses, which are included in other assets.

Notes to Debt Outstanding

- (a) On March 12, 1997, Rensselaer entered into an agreement with the Rensselaer County Industrial Development Agency, providing for the issuance of \$13.24 million 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.
- (b) On June 30, 1999, Rensselaer entered into an agreement with the Rensselaer County Industrial Development Agency, which provided for the issuance of \$41.11 million in revenue bonds. Proceeds from the issue in the amount of \$24.2 million 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%.
- (c) On May 1, 2002, Rensselaer entered into an agreement with the Troy Industrial Development Authority, which provided for the issuance of \$218.875 million in Series 2002 A-E revenue bonds, including \$202.975 million in variable rate mode. The transaction also generated a \$1.125 million premium on the Series 2002A bonds. Proceeds from the issue in the

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amount of \$203.15 million 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 million 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 million were refinanced with Series 2010 A Tax Exempt bonds. On September 1, 2011 Rensselaer remarketed its Series 2002E bonds for \$25 million 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.

- (d) On June 15, 2006, Rensselaer entered into an agreement with the Rensselaer County Industrial Development Agency, which provided for the issuance of \$62.38 million in Series 2006 fixed rate revenue bonds. The interest rate on the bonds is 4.86%. The transaction generated a \$1.6 million premium. Proceeds from the issue in the amount of \$63.996 million were utilized for the construction costs of one building, related campus-wide infrastructure improvements, and issuance costs.
- (e) On April 24, 2009 Rensselaer entered into an agreement with The Whiting-Turner Contracting Company for a loan not to exceed \$15 million, 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.
- (f) 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 million in fixed rate revenue bonds, Series 2010A for \$311.63 million and Series 2010B for \$47.18 million. 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.
- (g) On April 20, 2010, Rensselaer issued Series 2010 Taxable bonds for \$205 million. 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.
- (h) On September 27, 2011, Rensselaer issued Series 2011 – A Senior Notes pursuant to a note purchase agreement. Proceeds from this \$40 million issuance were applied to the defined benefit pension obligation. The interest on the notes is 4.35%. Final maturity date on the notes is September 1, 2026. Interest payments are due March 1 and September 1, commencing on March 1, 2012. The note is an unsecured obligation of the Institute.
- (i) *Lines of Credit*
As of June 30, 2012, Rensselaer had a standby letter of credit with Bank of America totaling \$1,509 for workers compensation insurance security purposes. In addition, Rensselaer had standby letters of credit with Bank of America totaling \$1,440 and \$250 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 at inception, was \$178 and \$213 on June 30, 2012 and 2011, respectively.

The Institute has an unsecured line of credit with Bank of America valued at \$30 million, with interest calculated on the outstanding balance at a daily rate of term LIBOR plus .95% or at Prime Rate minus 0.50%. There was an outstanding

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balance of \$18.7 million and \$19.8 million on the line of credit at June 30, 2012 and 2011, respectively. The Institute has an unsecured line of credit with TD Bank valued at \$20 million, 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 million on the line of credit at June 30, 2012 and 2011, 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, 2012 for each of the next five fiscal years are:

| Year | Amount |
|--------------------------------------|-------------------|
| 2013 | \$ 8,434 |
| 2014 | 8,799 |
| 2015 | 9,194 |
| 2016 | 9,859 |
| 2017 | 9,089 |
| Thereafter | 695,324 |
| <i>Total bonds and notes payable</i> | <i>\$ 740,699</i> |

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 \$740,758 and \$708,633 at June 30, 2012 and 2011, respectively.

(9) 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, 2012 and 2011. The defined benefit plan calculations were based upon data as of or projected to June 30, 2012 and 2011. Postretirement benefit plan calculations were based upon data as of July 1, 2011 and 2010. Rensselaer's funding policy is based upon and is in compliance with ERISA requirements.

| Change in benefit obligation: | <i>Defined Benefit</i> | | <i>Post-retirement</i> | |
|--|------------------------|---------------------|------------------------|--------------------|
| | 2012 | 2011 | 2012 | 2011 |
| Benefit obligation, beginning of year | \$ (299,570) | \$ (290,984) | \$ (14,082) | \$ (12,164) |
| Service cost | (3,430) | (4,149) | (545) | (555) |
| Interest cost | (15,946) | (16,083) | (685) | (730) |
| Plan participant' contributions | (188) | (189) | (863) | (810) |
| Actuarial gain (loss) | (49,544) | (5,964) | (1,228) | (1,122) |
| Benefits paid | 18,375 | 16,693 | 1,522 | 1,299 |
| Administrative expense paid | 1,642 | 1,106 | 17 | - |
| <i>Benefit obligation, end of year</i> | <i>\$ (348,661)</i> | <i>\$ (299,570)</i> | <i>\$ (15,864)</i> | <i>\$ (14,082)</i> |

The accumulated benefit obligation for the defined benefit pension plan was \$345,017 and \$294,823 as of June 30, 2012 and 2011, respectively.

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| | <i>Defined Benefit</i> | | <i>Post-retirement</i> | |
|--|------------------------|-------------------|------------------------|-------------|
| | 2012 | 2011 | 2012 | 2011 |
| Change in plan assets: | | | | |
| Fair value plan assets, beginning of year | \$ 217,588 | \$ 189,897 | \$ - | \$ - |
| Actual return on plan assets | (5,393) | 31,101 | | |
| Employer contribution | 38,500 | 14,200 | 660 | 489 |
| Plan participant' contributions | 188 | 189 | 863 | 810 |
| Benefits paid | (18,375) | (16,693) | (1,523) | (1,299) |
| Administrative expense paid | (1,641) | (1,106) | | |
| Fair value plan assets, end of year | \$ 230,867 | \$ 217,588 | \$ - | \$ - |

Funded status and amount recognized in the statement of financial position:

| | | | | |
|------------------|--------------|-------------|-------------|-------------|
| <i>Liability</i> | \$ (117,795) | \$ (81,981) | \$ (15,864) | \$ (14,082) |
|------------------|--------------|-------------|-------------|-------------|

Amounts recognized in unrestricted net assets:

| | | | | |
|---------------------------------|---------------------|---------------------|-------------------|-------------------|
| Net prior service cost (credit) | \$ (45) | \$ (105) | \$ (1,140) | \$ (1,267) |
| Net actuarial (gain) loss | (192,493) | (129,906) | 20 | (1,293) |
| Unrestricted net assets | \$ (192,538) | \$ (130,011) | \$ (1,120) | \$ (2,560) |

Other changes in plan assets and benefit obligations recognized in unrestricted net assets:

| | | | | |
|---|------------------|--------------------|-----------------|-----------------|
| New net actuarial (gain) loss | \$ 75,759 | \$ (6,239) | \$ 1,228 | \$ 1,122 |
| Amortization of: | | | | |
| Prior service (cost) credit | (60) | (60) | 143 | 142 |
| Actuarial (loss) gain | (13,172) | (9,139) | 85 | 18 |
| Total recognized in non-operating (income) expense | \$ 62,527 | \$ (15,438) | \$ 1,456 | \$ 1,282 |

Net periodic benefit cost is included in the following components:

| | | | | |
|---|------------------|------------------|-----------------|-----------------|
| Service cost | \$ 3,430 | \$ 4,149 | \$ 545 | \$ 555 |
| Interest cost | 15,946 | 16,083 | 685 | 730 |
| Expected return on plan assets | (20,822) | (18,898) | | |
| Amortization of: | | | | |
| Prior service cost (credit) | 60 | 60 | (143) | (142) |
| Actuarial loss (gain) | 13,172 | 9,139 | (85) | (18) |
| Net periodic benefit cost (income) | \$ 11,786 | \$ 10,533 | \$ 1,002 | \$ 1,125 |

The amounts in unrestricted net assets expected to be recognized as components of the net periodic benefit cost in fiscal year ending June 30, 2013 are \$22,603 and (\$169) for the defined pension plan and postretirement plan, respectively.

The following are expected future benefit payments:

| Fiscal year ending: | Defined Benefit | Post-retirement |
|---------------------|------------------------|------------------------|
| 2013 | \$ 19,945 | \$ 990 |
| 2014 | 20,200 | 1,081 |
| 2015 | 20,450 | 1,052 |
| 2016 | 20,775 | 1,038 |
| 2017 | 21,350 | 999 |
| 2018-2022 | 111,405 | 5,631 |

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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:

| <i>Benefit obligations:</i> | <i>Defined Benefit</i> | | <i>Post-retirement</i> | |
|---------------------------------------|------------------------|-------------|------------------------|-------------|
| | 2012 | 2011 | 2012 | 2011 |
| Discount Rate | 4.00% | 5.50% | 3.79% | 5.50% |
| 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 | 5.50% | 5.70% | 5.50% | 5.70% |
| Expected return on plan assets | 8.25% | 8.25% | - | - |
| Rate of compensation increase | 4.00% | 4.00% | - | - |

For measurement purposes, an 8.0 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 2020 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:

| | 1-Percentage point increase | 1-Percentage point decrease |
|---|--------------------------------|--------------------------------|
| Effect on total of service and interest cost components | 92 | (79) |
| Effect on postretirement benefit obligation | 911 | (787) |

Defined Benefit Plan

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.

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 \$7,699 and \$7,018 in fiscal 2012 and 2011, respectively.

Plan Investments

The Plan investments have been accounted for in accordance with the fair value measurement standard as described in Note 5. Full disclosures surrounding the descriptions of major investment categories and fair value requirements can also be found in Note 5.

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

| | 2012 | | | |
|----------------------------------|------------------------------------|------------------------------------|-----------------------------|-------------------|
| | Quoted prices in active markets | Significant other observable | Significant unobservable | Total Fair Value |
| | Level 1 | Level 2 | Level 3 | |
| Cash and cash equivalents | \$ 31,896 | \$ 10,449 | \$ - | \$ 42,345 |
| Fixed income | 20,357 | 17,730 | 33,916 | 72,003 |
| Domestic equity | 9,045 | 6,558 | - | 15,603 |
| Foreign equity | 7,523 | 14,715 | - | 22,238 |
| Real assets | - | - | 35,224 | 35,224 |
| Marketable alternatives | - | 25,364 | 439 | 25,803 |
| Private equity | - | - | 17,651 | 17,651 |
| <i>Total pension investments</i> | <i>\$ 68,821</i> | <i>\$ 74,816</i> | <i>\$ 87,230</i> | <i>\$ 230,867</i> |

| | 2011 | | | |
|----------------------------------|------------------------------------|------------------------------------|-----------------------------|-------------------|
| | Quoted prices in active markets | Significant other observable | Significant unobservable | Total Fair Value |
| | Level 1 | Level 2 | Level 3 | |
| Cash and cash equivalents | \$ 19,497 | \$ 10,690 | \$ - | \$ 30,187 |
| Fixed income | - | 10,035 | 36,193 | 46,228 |
| Domestic equity | 13,486 | 15,397 | - | 28,883 |
| Foreign equity | 9,123 | 17,909 | - | 27,032 |
| Real assets | - | - | 35,444 | 35,444 |
| Marketable alternatives | - | 30,922 | 492 | 31,414 |
| Private equity | - | - | 18,400 | 18,400 |
| <i>Total pension investments</i> | <i>\$ 42,106</i> | <i>\$ 84,953</i> | <i>\$ 90,529</i> | <i>\$ 217,588</i> |

The following table is a roll-forward of the pension plan assets at June 30 within Level 3:

| Level 3 Pension Investments | Marketable | | | | Total |
|------------------------------------|--------------|-------------|--------------|----------------|-----------|
| | Fixed income | Real assets | alternatives | Private equity | |
| Fair value, beginning of year | \$ 36,193 | \$ 35,444 | \$ 492 | \$ 18,400 | \$ 90,529 |
| Realized gains (loss) | 724 | 1,623 | - | 1,414 | 3,761 |
| Unrealized gains (loss) | 155 | (1,310) | (102) | (2,592) | (3,849) |
| Purchases | 3,147 | 5,498 | - | 3,571 | 12,216 |
| Sales | (6,303) | (6,031) | (9) | (3,142) | (15,485) |
| Transfers in/out | - | - | 58 | - | 58 |
| Fair value, end of year | \$ 33,916 | \$ 35,224 | \$ 439 | \$ 17,651 | \$ 87,230 |

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| Level 3 Pension Investments | Fixed | | Marketable | | Total |
|------------------------------------|-----------|-------------|--------------|----------------|-----------|
| | income | Real assets | alternatives | Private equity | |
| Fair value, beginning of year | \$ 35,908 | \$ 31,321 | \$ 655 | \$ 14,519 | \$ 82,403 |
| Realized gains (loss) | 61 | 453 | - | 1,197 | 1,711 |
| Unrealized gains (loss) | 4,602 | 3,194 | (103) | 3,332 | 11,025 |
| Purchases | 1,378 | 6,502 | - | 2,579 | 10,459 |
| Sales | (5,756) | (6,026) | (60) | (3,227) | (15,069) |
| Fair value, end of year | \$ 36,193 | \$ 35,444 | \$ 492 | \$ 18,400 | \$ 90,529 |

The Plan contains features that allow participants to have a percentage of their benefits fluctuate based on the return of an 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, 2013 are \$13,050 and \$989 to the defined pension plan and postretirement plan, respectively.

(10) NATURAL EXPENSE CLASSIFICATION

The following table compares expenses by type for the years ended June 30, 2012 and 2011, respectively:

| | 2012 | 2011 |
|--|-------------|-------------|
| Salaries and wages | \$ 160,877 | \$ 156,106 |
| Employee benefits excluding retirement | 27,782 | 26,945 |
| Retirement plan expense | 20,488 | 18,676 |
| Employee benefits total | 48,270 | 45,621 |
| Total compensation | 209,147 | 201,727 |
| Supplies and services | 73,747 | 74,447 |
| Utilities | 11,230 | 11,882 |
| Employee travel | 6,997 | 7,400 |
| Taxes and insurance | 5,265 | 5,181 |
| Telecommunications | 215 | 191 |
| Library materials | 2,349 | 2,261 |
| Interest on debt | 39,277 | 38,502 |
| Depreciation and amortization | 35,205 | 35,975 |
| Student aid and fellowships | 44,297 | 45,123 |
| Operating lease agreements | 5,120 | 4,837 |
| Provision for uncollectible accounts | 1,736 | 270 |
| Total non-salary | 225,438 | 226,069 |
| <i>Total expenses by functional category</i> | \$ 434,585 | \$ 427,796 |

(11) COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Institute 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.

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Guarantee

During 2012, the Institute entered into a guarantee agreement with an apartment complex, adjacent to campus, for 100% of the lease revenue for the ten year period ending June 2022. The guarantee was provided in consideration for exclusive RPI student leasing rights. The gross ten year rental value is \$9,365.

Leases

At June 30, 2012, the minimum annual commitments under capital and operating leases for real property and equipment are as follows:

| | Operating leases | Capital leases |
|--|------------------|----------------|
| 2013 | \$ 2,145 | \$ 1,254 |
| 2014 | 2,061 | 1,383 |
| 2015 | 2,174 | 1,403 |
| 2016 | 2,174 | 1,420 |
| 2017 | 1,922 | 1,441 |
| Thereafter | 20,840 | 31,790 |
| Total leases | \$ 31,316 | 38,691 |
| Less: amount representing interest | | (19,395) |
| <i>Present value of minimum lease payments</i> | | \$ 19,296 |

(12) ASSET RETIREMENT OBLIGATIONS

The following is a summary of the asset retirement obligation which is included in accounts payable and accrued expenses:

| <i>Change in asset retirement obligation:</i> | 2012 | 2011 |
|---|----------|----------|
| Asset retirement obligation, beginning of year | \$ 8,732 | \$ 8,372 |
| Accretion expense | 382 | 360 |
| Less: disposals | (212) | - |
| <i>Asset retirement obligation, end of year</i> | \$ 8,902 | \$ 8,732 |

(13) SUBSEQUENT EVENTS

There were no subsequent events through October 30, 2012, the date on which the consolidated financial statements were available for issuance.