Rensselaer Polytechnic Institute

Combined Financial Statements

For the Years Ended
June 30, 2005 and 2004

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PRICEWATERHOUSECOOPERS

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Report of Independent Auditors

To the Board of Trustees
Rensselaer Polytechnic Institute

In our opinion, the accompanying combined statements of financial position and the related combined statements of activities and of cash flows present fairly, in all material respects, the financial position of Rensselaer Polytechnic Institute and its affiliates at June 30, 2005 and 2004, and the changes in its net assets and its 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, which 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.

PricewaterhouseCoopers LLP

August 30, 2005

Rensselaer Polytechnic Institute
Combined Statements of Financial Position
At June 30, 2005 and June 30, 2004
(in thousands of dollars)

Assets	*2005*	*2004*
Cash and cash equivalents (Note B)	$ 6,740	$ 21,794
Accounts receivable, net (Note B)		
Student related and other	7,238	6,650
Research, training and other agreements (Note F)	16,098	15,525
Contributions receivable (Note E)	35,545	30,195
Contributions from external remainder trusts	5,326	8,193
Inventories (Note B)	2,031	1,898
Prepaid expenses and other assets	1,316	1,926
Deposits with bond trustees (Note K)	45,410	106,478
Student loans receivable, net (Note B)	28,050	28,556
Investments, at market (Note I)	648,007	587,796
Land, buildings and equipment, net (Note J)	474,538	407,012
Total assets	$ 1,270,299	$ 1,216,023

Liabilities		
Accounts payable and accrued expenses	$ 34,984	$ 41,098
Liability on interest rate swap agreements (Note B)	29,672	13,029
Split interest agreement obligations (Note G)	9,593	9,163
Deferred revenue	10,814	10,564
Short-term portion of long-term debt (Note K)	5,464	4,022
Deposits	600	661
Minimum pension liability (Note L)	67,656	50,460
Accrued postretirement benefits (Note L)	12,611	12,365
Refundable government loan funds	24,984	24,598
Long-term debt (Note K)	310,397	316,480
Total liabilities	$ 506,775	$ 482,440

Net Assets (Note C)		
Unrestricted	480,763	478,043
Temporarily restricted	76,030	66,741
Permanently restricted	206,731	188,799
Total net assets	763,524	733,583
Total liabilities and net assets	$ 1,270,299	$ 1,216,023

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

Rensselaer Polytechnic Institute
Combined Statement of Activities
For June 30, 2005, with comparative June 30, 2004 totals
(in thousands of dollars)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total June 30, 2005	Total June 30, 2004
Operating Revenue:					
Student related revenue:					
Student tuition and fees, net (Note D)					
Undergraduate	$ 75,923	$ -	$ -	$ 75,923	$ 78,308
Graduate	35,716			35,716	35,865
Education for working professionals	10,097			10,097	12,735
Fees	723			723	970
Auxiliary services	37,140			37,140	38,959
Student related revenue	159,599	-	-	159,599	166,837
Gifts (Note B and E)	26,534	6,300		32,834	53,185
Grants and contracts: (Note F)					
Direct:					
Federal	37,254	6,681		43,935	40,377
State	11,173			11,173	6,090
Private	5,856	19		5,875	6,275
Indirect (Note F)	13,226			13,226	12,538
Grants and contracts	67,509	6,700	-	74,209	65,280
Investment return: (Note I)					
Dividends and interest	12,819	836		13,655	15,367
Realized accumulated gains used to meet spending policy	18,680	1,385		20,065	19,777
Endowment spending for Rensselaer Plan initiatives	20,000			20,000	-
Interest on student loans	163			163	205
Investment return	51,662	2,221	-	53,883	35,349
Rensselaer Technology Park	5,425			5,425	5,045
Other	8,207			8,207	7,909
Net assets released from restrictions (Note B)	12,027	(12,027)		-	-
Total operating revenue	330,963	3,194	-	334,157	333,605
Operating Expenses (Note H):					
Instruction	124,659			124,659	122,879
Research:					
Sponsored	70,844			70,844	60,444
Departmental	4,315			4,315	7,033
Student Services	9,319			9,319	9,935
Institutional and academic support	78,453			78,453	75,950
Externally funded scholarships and fellowships	12,143			12,143	11,646
Auxiliary services	24,123			24,123	24,955
Rensselaer Technology Park	3,858			3,858	3,895
Total operating expenses	327,714	-	-	327,714	316,737
Change in assets from operating activities	3,249	3,194	-	6,443	16,868
Non-operating (Note B):					
Realized and unrealized gains (losses), net of spending policy (Note I)	34,643	4,921	595	40,159	50,938
Realized and unrealized gains (losses), interest rate swaps (Note B)	(21,416)			(21,416)	8,280
Adjustment for minimum pension liability (Note L)	(13,181)			(13,181)	14,359
Life income and endowment gifts		239	16,903	17,142	12,500
Change in value of life income contracts (Note G)		1,289	622	1,911	1,774
Expired life income contracts	354	(354)		-	-
Loss on disposal of fixed assets	(1,117)			(1,117)	(388)
Other	188		(188)	-	-
Change in net assets from non-operating activities	(529)	6,095	17,932	23,498	87,463
Total change in net assets	2,720	9,289	17,932	29,941	104,331
Net assets at beginning of year	478,043	66,741	188,799	733,583	629,252
Net assets at end of year	$ 480,763	$ 76,030	$ 206,731	$ 763,524	$ 733,583

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

Rensselaer Polytechnic Institute
Combined Statement of Activities
For June 30, 2004
(in thousands of dollars)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total June 30, 2004
Operating Revenue:				
Student related revenue:				
Student tuition and fees, net (Note D)				
Undergraduate	$ 78,308	$ -	$ -	$ 78,308
Graduate	35,865			35,865
Education for working professionals	12,735			12,735
Fees	970			970
Auxiliary services	38,959			38,959
Student related revenue	166,837	-	-	166,837
Gifts (Note B and E)	26,248	26,937		53,185
Grants and contracts: (Note F)				
Direct:				
Federal	32,691	7,686		40,377
State	6,044	46		6,090
Private	6,275			6,275
Indirect (Note F)	12,538			12,538
Grants and contracts	57,548	7,732	-	65,280
Investment return: (Note I)				
Dividends and interest	14,539	828		15,367
Realized accumulated gains used to meet spending policy	18,393	1,384		19,777
Interest on student loans	205			205
Investment return	33,137	2,212	-	35,349
Rensselaer Technology Park	5,045			5,045
Other	7,909			7,909
Net assets released from restrictions (Note B)	16,247	(16,247)		-
Total operating revenue	312,971	20,634	-	333,605
Operating Expenses (Note H):				
Instruction	122,879			122,879
Research:				
Sponsored	60,444			60,444
Departmental	7,033			7,033
Student Services	9,935			9,935
Institutional and academic support	75,950			75,950
Externally funded scholarships and fellowships	11,646			11,646
Auxiliary services	24,955			24,955
Rensselaer Technology Park	3,895			3,895
Total operating expenses	316,737	-	-	316,737
Change in assets from operating activities	(3,766)	20,634	-	16,868
Non-operating (Note B):				
Realized and unrealized gains (losses), net of spending policy (Note I)	46,434	2,974	1,530	50,938
Realized and unrealized gains (losses), interest rate swaps (Note B)	8,280			8,280
Adjustment for minimum pension liability (Note L)	14,359			14,359
Life income and endowment gifts		524	11,976	12,500
Change in value of life income contracts (Note G)		1,375	399	1,774
Expired life income contracts	531	(920)	389	-
Loss on disposal of fixed assets	(388)			(388)
Transfer between net asset classes	7,981	(14,097)	6,116	-
Change in net assets from non-operating activities	77,197	(10,144)	20,410	87,463
Total change in net assets	73,431	10,490	20,410	104,331
Net assets at beginning of year	404,612	56,251	168,389	629,252
Net assets at end of year	$ 478,043	$ 66,741	$ 188,799	$ 733,583

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

Rensselaer Polytechnic Institute

Combined Statements of Cash Flows

For the years ended June 30, 2005 and 2004

(in thousands of dollars)	*2005*	*2004*
Cash Flow from operating activities		
Total change in net assets	$ 29,941	$ 104,331
Adjustments to reconcile change in net assets to net		
cash used in operating activities:		
Depreciation	25,845	23,551
Loss on disposal of assets	1,117	388
Loss on defeasance of debt	0	0
Provision for uncollectible accounts and loans	320	48
Realized and unrealized (gains) on investments	(80,223)	(70,715)
Change in pension liability	17,196	(29,589)
Unrealized (gain) loss, interest rate swap	16,643	(14,357)
Contributions of equipment and other capital items	(3,167)	(6,586)
Contributions restricted for long term investment	(17,138)	(12,500)
Contributions from external trusts, net of change in value	2,867	(4,232)
Changes in operating assets and liabilities:		
Accounts receivable	(2,423)	(133)
Pledges receivable	(5,350)	(21,328)
Inventories	(133)	(7)
Prepaid expense and other assets	610	648
Accounts payable and accrued expenses	(2,668)	618
Present value of split interest agreements, net of terminations	430	853
Deferred revenue and deposits	189	491
Accrued postretirement benefits	246	(62)
Net cash used in operating activities	(15,698)	(28,581)
Cash flow from investing activities		
Proceeds from sale of investments	235,284	195,447
Purchase of investments	(255,337)	(212,824)
Realized accumulated gains to meet spending policy	20,065	19,777
Endowment spending for Rensselaer Plan Initiatives	20,000	-
Additional student loans granted	(6,911)	(6,407)
Student loans paid	8,359	8,145
Deposit with bond trustees	61,068	67,623
Proceeds from sale of land, building, and equipment	337	4,582
Purchase of land, building and equipment, net	(93,834)	(99,645)
Net cash used in investing activities	(10,969)	(23,302)
Cash flow from financing activities		
Contributions restricted for endowments	17,138	12,500
Payment of annuity obligations	(1,270)	(1,154)
Proceeds from loans/line of credit	33,500	30,000
Repayment of debt	(38,141)	(3,881)
Government loan funds	386	(781)
Net cash provided by financing activities	11,613	36,684
Net decrease in cash and cash equivalents	(15,054)	(15,199)
Cash and cash equivalents at beginning of the year	21,794	36,993
Cash and cash equivalents at end of the year	$ 6,740	$ 21,794
Non cash investing activities		
Gifts of equipment and other capital items	$ 3,167	$ 6,586
Supplemental disclosures of cash flow information		
Cash paid during the year for interest	$ 11,170	$ 8,080

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

Rensselaer Polytechnic Institute
Notes to the Combined Financial Statements
For the Years Ended June 30, 2005 and June 30, 2004

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 bachelor's, master's, and doctoral degrees in all five schools.

Note B- Summary of Significant Accounting Policies

Basis of Consolidation

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

Net Asset Classification

Unrestricted Net Assets include all resources which are not subject to donor-imposed restrictions other than those which only obligate Rensselaer to utilize funds to further its educational mission.
Temporarily Restricted Net Assets carry specific, donor-imposed restrictions on the expenditure or other use of contributed funds. Temporary restrictions may expire either because of the passage of time or because certain actions are taken by Rensselaer which fulfill the restrictions.
Permanently Restricted Net Assets are those that are subject to donor-imposed restrictions which will never lapse, thus requiring that the funds be retained permanently.

Expenses are generally reported as decreases in unrestricted net assets. Expirations of donor-imposed stipulations that simultaneously increase one class of net assets and decrease another are reported as "net assets released from restrictions".

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.

Reclassifications

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

Tax Exempt Status

Rensselaer is a tax exempt 501(c)(3) Corporation under the Internal Revenue Service Code.

Contributions

Unconditional contributions are recognized as contributions receivable at their estimated net present value when pledged. Temporarily restricted net assets are reclassified to unrestricted net assets when an expense is incurred that satisfies the donor-imposed restriction. Expenses are generally reported as decreases in unrestricted net assets. Contributions of assets other than cash are recorded at their estimated fair value at the date of gift. Rensselaer does not record gifts of the use of a long lived asset if the assets are used for academic or educational research only. Conditional promises to give are not recognized until the conditions on which they depend are substantially met.

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

Non-Operating Activities

Non-operating activities include realized and unrealized gains or losses on investments not used to support operations, realized and unrealized gains or losses on interest rate swap agreements, changes in the value of split interest agreements, loss on defeasance of debt, adjustment for minimum pension liability, life income and endowment gifts and loss on disposal of fixed assets.

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:

	June 30, 2005	June 30, 2004
Student-related receivables	$1,465	$1,206
Loans to students	2,352	3,293
Hartford Campus	110	125
Rensselaer Technology Park	36	36
Research, training and other agreements	1,110	251
Total allowances for doubtful accounts	$5,073	$4,911

It is not practicable to determine the fair value of student loan receivables because they are primarily federally sponsored student loans with U.S. government mandated interest rates and repayment terms and subject to significant restrictions as to their transfer or disposition.

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

Investments are recorded in the following manner:

> Short term investments consisting principally of money market funds and short term notes as well as long term investments consisting principally of equity securities, bonds and notes with readily determinable fair value are recorded at their quoted market value.
>
> The value of private equity partnerships where fair value is not readily determinable are estimated by the general partner.

As noted above, the values of certain investments as recorded are based upon estimates regarding their fair value. These values do not necessarily represent the amounts that Rensselaer would realize upon liquidation of these 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.

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

Land, Buildings and Equipment

Land, buildings and equipment are carried at cost or at the fair market 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.

Interest Rate Swap Agreements

Rensselaer has entered into various interest rate swap agreements in order to convert variable rate debt to a fixed rate, thereby economically hedging against changes in the cash flow requirements of Rensselaer's variable rate debt obligations. Accordingly, the interest rate swap contracts are reflected at fair value in Rensselaer's combined statements of financial position and the related portions of variable fixed-rate debt being hedged are reflected at an amount equal to their carrying value.

Net payments or receipts under the swap agreements along with the change in fair value of the swaps are recorded in non-operating activities as realized and unrealized gains or losses on interest rate swap agreements.

Note C- Combined Net Assets

Combined net assets of Rensselaer are comprised of the following (in thousands):

Detail of Net Assets	Unrestricted	Temporarily Restricted	Permanently Restricted	2005	2004
Operating	$ 28	$ 36,680	$ -	$ 36,708	$ 38,879
Funding for facilities	180,682	4,826	28	185,536	163,472
Unexpended	8,271	-	-	8,271	8,177
Funding for student loans	4,368	-	2,665	7,033	7,697
Annuity and life income	-	15,334	9,671	25,005	26,195
Realized & unrealized losses, interest rate swaps	(29,672)	-	-	(29,672)	(13,029)
Adjustment for minimum pension liability	(67,656)	-	-	(67,656)	(50,460)
Endowment and other net assets functioning as endowment	384,742	19,190	194,367	598,299	552,652
Total net assets	$480,763	$76,030	$206,731	$763,524	$733,583

Note C- Combined Net Assets, (continued)

During fiscal year 2004, the Institute reviewed its classification, for financial accounting purposes, of gifts from its donors and made certain adjustments, the net effect of which is reflected in the fiscal year 2004 ended statement of activities and statement of financial position. Such reclassifications were not material to the treatment of the funds.

Note D- Tuition Revenue

The undergraduate student discount rate was 42.4% and 41.2% for the years ended June 30, 2005 and 2004, respectively.

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

	2005	2004
Undergraduate tuition:		
Troy Campus	$132,018	$133,152
Less institutional aid	(56,095)	(54,844)
Total undergraduate tuition	$75,923	$ 78,308
Graduate tuition:		
Troy Campus	$27,618	$25,960
Hartford Campus	8,097	9,905
Total graduate tuition	$35,716	$35,865
Education for working professionals:		
Troy Campus	$9,067	$11,045
Hartford Campus	1,031	1,690
Total education for working professionals	$10,097	$12,735

Note E- Contributions Receivable

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

	2005	2004
In one year or less	$1,597	$ 4,352
Between one year and three years	16,241	8,622
Greater than three years	26,935	25,239
Subtotal	44,773	38,213
Less:		
Present value discount (2.27 – 6.43%)	(8,785)	(7,865)
Allowance for uncollectible pledges	(443)	(153)
Total contributions receivable	$35,545	$30,195

Note E- Contributions Receivable, (continued)

Conditional pledges, which are not accrued, approximate $13,907,000 at June 30, 2005, of which $849,000 was unrestricted as to purpose. The remaining conditional pledges are restricted to purpose as follows: $2,592,000 current programs; $10,389,000 endowment; and $77,000 plant. It is anticipated that the conditional pledges will be collected over an average life of three years. Bequest expectancies totaling $58,717,000 have been excluded from these amounts and are not recorded in the financial statements. In compliance with donor stipulations related to the $360,000,000 transformational gift, income is being recognized as cash payments are received.

Note F- Research Grants and Contracts

Rensselaer has been awarded approximately $87,611,000 and $81,715,000 of grants and contracts which have not been advanced or expended as of June 30, 2005 and 2004, respectively, and accordingly, are not recorded in the financial statements.

Note G- 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. 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. The liability for the present value of deferred gifts of $9,593,000 and $9,163,000, at June 30, 2005 and 2004, 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 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. 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 Combined Financial Statements
For the Years Ended June 30, 2005 and June 30, 2004

Note H- Natural Expense Classification

The following table compares expenses by type for the years ended June 30, 2005 and 2004, respectively (in thousands):

	2005	2004
Salaries and wages	$133,924	$134,334
Employee benefits excluding retirement	24,069	24,082
Retirement plan expense	9,841	8,077
Subtotal employee benefits	33,910	32,159
Total compensation	167,834	166,493
Supplies & services	62,834	63,420
Utilities	10,161	8,899
Employee travel	6,184	5,884
Taxes & insurance	5,716	5,347
Telecommunications	758	698
Library materials	2,094	2,464
Interest on debt	11,277	8,157
Depreciation	25,845	23,551
Student aid and fellowships	32,783	30,755
Provision for uncollectible accounts	2,228	705
Other	-	364
Total non salary	159,880	150,244
Total expenses	$327,714	$316,737

Note I- Investments

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

	2005		2004	
	Carrying Value	Cost	Carrying Value	Cost
Short-term investments	$ 48,101	$ 48,104	$ 53,773	$ 53,769
Bonds and notes	79,535	77,863	80,761	81,342
Domestic equity securities	276,131	228,495	290,387	233,635
Foreign equity securities	102,548	90,596	83,630	69,341
Real estate	8,848	7,042	871	1,074
Equity partnerships	132,844	171,742	78,374	124,410
Total investments	$648,007	$623,842	$587,796	$563,571

Approximately $102,548,000 of the investment portfolio at June 30, 2005 is invested in international securities that are subject to the additional risk of currency fluctuation.

At June 30, 2005, Rensselaer has committed to investing an additional $38.9 million in various private equity and real estate limited partnerships.

Note I- Investments, (continued)

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. During fiscal year 2005, certain restricted endowment funds did not have sufficient accumulated unspent income or gains to fund their spending allocation or market deficiencies and Rensselaer has borrowed funds from unrestricted endowment to offset the spending allocation.

Dividends, Interest and Realized and Unrealized Gains and Losses

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

	2005	2004
Dividends and interest available for spending	$13,655	$15,367
Realized gains	80,902	22,918
Unrealized gains/(losses)	(679)	47,797
Total return	93,878	86,082
Less: amounts allocated for spending	(30,982)	(30,071)
Net realized/unrealized gains and losses and interest earnings	$ 62,896	$ 56,011

Investment management fees were $2,275,000 and $2,121,000 in 2005 and 2004, 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, $95 million has been spent or committed for such initiatives, exclusive of capital expenditures. In FY2005, 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". In addition, operating resources have been used for an additional $36 million and have been recognized as an interfund advance between the operating unrestricted and endowment unrestricted net assets. The remainder has been funded via operations.

Note I- Investments, (continued)

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, 2005, there were approximately $647,000 of open or unsettled forward exchange contracts to sell foreign currency and $649,000 of open or unsettled forward exchange contracts to purchase foreign currency. These contracts are denominated in two North American, European and Asian currencies and will settle at various dates through July, 2005.

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.

Note J- Land, Buildings, and Equipment

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

	2005	2004
Land and improvements	$ 19,781	$ 18,626
Buildings	473,322	356,969
Equipment	182,143	185,287
Construction in progress	67,969	109,520
Total land, buildings & equipment	743,215	670,402
Less accumulated depreciation	(268,677)	(263,390)
	$474,538	$407,012

As of June 30, 2005, Rensselaer had $84,206,020 of open commitments to contractors for construction on work being performed.

Note K- Debt Outstanding

Rensselaer classifies its debt into two categories: core debt and special purpose debt. Core debt represents debt that will be repaid from the general operations of Rensselaer and the Center and includes borrowings for educational, general and auxiliary purposes. Special purpose debt represents debt that is repaid from sources outside the general operations of Rensselaer and the Center. Included in special purpose debt are projects that are unique to Rensselaer such as the Rensselaer Technology Park and the Rensselaer Student Loan Program.

Note K- Debt Outstanding, (continued)

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

	Year of Final Maturity	Weighted Average Annual Interest Rate	June 30 2005	June 30 2004
Core Debt:				
U.S. Department of Education Dormitory Bonds and 1988 Mortgage Loan	2018	3.0%	$ 2,048	$ 2,170
Rensselaer County IDA – Industrial Development Facility Issue: Series 1997A (1)	2022	4.34%	9,983	10,285
Series 1999A and B (2)	2030	5.05%	39,423	39,944
Troy Industrial Development Authority Civic Facility Issue Series 2002A (3)	2015	5.43%	16,577	16,655
Series 2002B-E (3)	2042	Variable	198,367	198,407
Dormitory Authority of the State of New York (DASNY) Series D	2005	5.0%	605	1,285
Power Authority State of New York, 1997 (4)	2006	6.5% (imputed)	22	142
Power Authority State of New York, 1999 (5)	2005	5.25% (imputed)	-	103
New York State Urban Development Corporation (UDC) CII mortgage loan (6)	2026	11.1% (imputed)	3,889	3,989
Fleet Bank – 2004 Term Loan (7)	2019	4.57%	30,000	30,000
Rensselaer Hartford Graduate Center, Inc. Debt				
State of Connecticut Health and Education Facilities Authority – 1985 Mortgage Agreement (8)	2006	4.5%	1,015	1,475
Hartford Capital Lease Agreements	2007	4.47%	460	589
Subtotal core debt			302,389	305,044

Note K- Debt Outstanding, (continued)

	Year of Final Maturity	Weighted Average Annual Interest Rate	June 30 2005	June 30 2004
Special Purpose Debt:				
Rensselaer Technology Park Debt				
Fleet Bank – 1995 Term Loan (9)	2005	6.98%	5,526	6,290
1998 Term Loan (10)	2013	6.305%	4,947	5,390
Student Loan Program Debt				
DASNY 1992 CUEL	2009	6.77%	2,999	3,778
Subtotal Special Purpose Debt			13,472	15,458
			$315,861	$320,502

Debt principal outstanding is reflected net of bond discount and/or capitalized issuance cost where applicable in the amount of $5,304,280 and $5,270,127 at June 30, 2005 and 2004, respectively. Such costs are being amortized on the straight-line method over the term of the related indebtedness.

Long-term debt and notes payable are collateralized by certain physical properties with a carrying value of $74,721,000 and by pledges of specified portions of tuition, fees and revenues from various facilities. In addition, at June 30, 2005, Rensselaer had $1,120,000 of pledged endowment assets and $45,410,000 of assets held by trustees for construction, student loans, debt service and other project-related expenses. Certain of the long term debt and notes payable contain restrictive covenants including the maintenance of specified deposits with trustees.

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 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 bear a variable interest rate that resets weekly, but in no event may exceed 12% per annum.

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.

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 $1,124,687 premium on the Series 2002A bonds. Proceeds from the issue in the amount of $203,150,771 will be utilized for the construction costs of two buildings, related campus-wide infrastructure improvements, issuance costs and to legally defease Dormitory Authority Series 1993 Bonds.
   In fiscal year 2002, Rensselaer entered into an interest rate swap agreement, with a term of 35 years, on $150,000,000 of the Series 2002 B-D bonds issued, in order to convert variable rate

Note K- Debt Outstanding, (continued)

borrowings to a fixed rate liability. This swap effectively locks in a fixed rate liability of 5.0325%. In June 2005, Rensselaer executed an amendment to this swap agreement with the counterparty which, in effect, altered the fixed rate liability to 5.0475%.

4. On October 14, 1996, Rensselaer entered into an agreement with the Power Authority of the State of New York, which provided an interest free loan, having a face amount of $1,928,000, for the purpose of financing the implementation of energy conservation improvement projects, as approved by the Authority. Approximately $1,521,000, the difference between the total of all drawdowns and the net present value of the liability discounted at a rate of 6.5%, has been recorded as an addition to Rensselaer's net assets.

5. On August 2, 1999, Rensselaer entered into an agreement with the Power Authority of the State of New York, which provided an interest free loan, having a face amount of $421,000, for the purpose of financing the implementation of energy conservation improvement projects, as approved by the Authority. Approximately $233,553, the difference between the total of all draw downs and the net present value of the liability discounted at a rate of 5.25%, has been recorded as an addition to Rensselaer's net assets.

6. The NYS Urban Development Corporation (UDC) mortgage loan has a face amount of $33,500,000, without interest, and resulted from the provision of assistance by New York State, through the UDC, toward the construction of the George M. Low Center for Industrial Innovation (CII). Approximately $28,654,000, the difference between the total of all payments and the net present value of the liability discounted at a rate of 11.12%, has been recorded as an addition to unrestricted net assets. The facility is leased to the State of New York and, in turn, subleased to Rensselaer. Current annual payments amount to $800,000 with increasing annual amounts through maturity. As of June 30, 2005, the discount associated with the UDC mortgage loan is approximately $15,710,993.

7. On March 4, 2004 Rensselaer entered into an agreement with Fleet Bank for a $30,000,000 15-year term loan for the purpose of financing a portion of its pension obligations and to fund the costs of certain capital improvements. The note bears an interest rate of 4.57% for eight years, at which point it will convert to a floating rate based on the one month LIBOR plus 40 basis points. The loan agreement requires compliance with certain financial ratio covenants.

8. On October 28, 1985, the Hartford Graduate Center entered into an agreement with the State of Connecticut Health and Educational Facilities Authority for a $5,700,000 mortgage loan for the purpose of constructing a parking garage on the Rensselaer at Hartford campus. The loan bears a floating interest rate set on December 15th and June 15th of each year at 75% of the prime rate, and matures on July 1, 2006. The debt is a general obligation of the Center.

9. On November 28, 1995, Rensselaer entered into an agreement with Fleet Bank for an $11,000,000 term loan for the purpose of financing and refinancing several buildings at the Rensselaer Technology Park. The note bears an interest rate of 6.98% for ten years, maturing on December 31, 2005.

Note K- Debt Outstanding, (continued)

10. On August 3, 1998, Rensselaer entered into an agreement with Fleet Bank, which provided a $7,400,000 term loan for the purpose of refinancing existing debt and funding the construction of a new multi-tenant office building at the Rensselaer Technology Park. The fully amortizing loan matures on August 1, 2013, and carries a floating interest rate at LIBOR plus one-quarter of one percent. In conjunction with this financing, Rensselaer entered into an interest rate swap agreement, effectively paying a fixed rate of interest at 6.305% for the term of the loan. On July 19, 2005, Rensselaer entered into an agreement with Bank of America, terminating this swap and replacing it with a forward starting swap that effectively fixes the rate at 5.82% on this loan and on the December 31, 2005 balance of the 1995 Fleet Bank loan. The total amount of this refinanced loan is $9.8 million, which will mature on December 31, 2013.

As of June 30, 2005, Rensselaer had a standby letter of credit with Bank of America totaling $875,000 for workers compensation insurance security purposes. In addition, Rensselaer had standby letters of credit with Bank of America totaling $754,368 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 mortgage loan guarantees in place for two loans made by HSBC Bank USA in 1996 to finance construction and renovation costs for on-campus fraternity residential facilities. The combined balance of the two mortgage loans, which totaled $900,000 at inception, was $477,392 on June 30, 2005.

The Institute has an unsecured line of credit with Bank of America valued at $20,000,000, with interest calculated on the outstanding balance at a daily rate of term LIBOR plus .30%. The outstanding balance on the line of credit as of June 30, 2005 was $0.

Principal and interest payments due on all long-term debt as of June 30, 2005 for each of the next five fiscal years are (in thousands):

Year	Amount
2006	$22,514
2007	22,507
2008	24,132
2009	25,687
2010	23,743
Thereafter	$562,140

The fair value of Rensselaer's fixed rate financial debt instruments based on the borrowing rates currently available for loans with similar terms and average maturities was estimated at $136,363,607 as of June 30, 2005.

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, 2005 and 2004. The defined benefit plan calculations were based upon data as of or projected to April 1, 2005 and 2004. Postretirement benefit plan calculations were based upon data as of July 1, 2004 and 2003. Rensselaer's funding policy is based upon and is in compliance with ERISA requirements.

Note L- Retirement Plans, (continued)

Change in projected benefit obligation (in thousands):

	Defined Benefit		Postretirement	
	2005	2004	2005	2004
Benefit obligation at beginning of year	($237,967)	($220,256)	($12,586)	($12,809)
Service cost	(4,687)	(4,408)	(518)	(544)
Interest cost	(13,650)	(13,394)	(730)	(717)
Changes in Discount Rate	(3,700)	(7,774)	-	-
Plan participants' contributions	(284)	(300)	(1,015)	(883)
Actuarial (loss)/gain	(8,066)	(3,800)	(881)	943
Benefits paid	12,645	11,965	1,633	1,424
Benefit obligation at end of year	($255,709)	($237,967)	($14,097)	($12,586)

Change in plan assets (in thousands):

	Defined Benefit		Postretirement	
	2005	2004	2005	2004
Fair value of plan assets at beginning of year	$179,965	$131,075	$ -	$ -
Actual expense	(859)	(450)	-	-
Actual return on plan assets	14,215	43,704	-	-
Employer contribution	-	17,300	618	511
Plan participant's contribution	284	301	1,015	859
Benefits paid	(12,645)	(11,965)	(1,633)	(1,370)
Fair value of plan assets at end of year	$180,960	$179,965	$ -	$ -

Funded status and amount recognized (in thousands):

	Defined Benefit		Postretirement	
	2005	2004	2005	2004
Funded status plan assets at beginning of year	($74,748)	($58,003)	($14,096)	($12,586)
Unrecognized net actuarial loss	114,135	104,137	1,549	668
Transition assets	(2,705)	(5,438)	-	-
Unrecognized prior service cost	887	1,440	(64)	(447)
Prepaid/(accrued) benefit cost	37,569	42,136	(12,611)	(12,365)
Minimum pension liability	(105,225)	(92,596)	-	-
Total liability	($67,656)	($50,460)	($12,611)	($12,365)

Note L- Retirement Plans, (continued)

Roll forward of minimum pension liability (in thousands):

	2005	2004
Minimum pension liability, beginning balance	$92,596	$107,667
Adjustment to non-operating activity	13,181	(14,360)
Adjustment to intangible asset	(553)	(711)
Minimum pension liability, ending balance	$105,224	$92,596

Net periodic pension cost is reflected in institutional and academic support and included in the following components (in thousands):

	Defined Benefit		Postretirement	
	2005	2004	2005	2004
Service cost	$4,687	$ 4,858	$518	$544
Interest cost	13,650	13,394	730	717
Expected return on plan assets	(16,598)	(16,213)	-	-
Amortization of gain/(loss) from earlier periods	5,008	2,764	-	-
Amortization of unrecognized net asset at transition	(2,732)	(2,732)	-	-
Amortization of prior service cost	553	711	(383)	(383)
Net periodic benefit cost	$4,568	$ 2,782	$865	$878

Weighted average asset allocation at June 30, 2005 and 2004, by asset category are as follows:

	Defined Benefit	
Asset Category	2005	2004
Domestic Equity	28.5%	37.3%
International Equity	23.0%	17.8%
Marketable Alternatives	29.7%	14.2%
Real Assets	0.3%	0.0%
Fixed income	12.6%	27.7%
Cash	5.9%	3.0%

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.

Note L- Retirement Plans, (continued)

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

Fiscal Year Beginning July 1	Defined Benefit	Postretirement
2005	$13,768	$715
2006	$14,472	$770
2007	$15,116	$786
2008	$15,902	$830
2009	$16,834	$902
2010-2014	$91,376	$5,161

As of the measurement date, March 31 for the Defined Benefit Plan and July 1 for Post Retirement, the weighted average rates forming the basis of net periodic pension cost and amounts recognized in Rensselaer's statement of financial position were:

	Defined Benefit (3/31 measurement)		Postretirement (6/30 measurement)	
	2005	2004	2005	2004
Benefit obligations				
Discount rate	5.75%	5.90%	5.25%	6.25%
Expected return on plan assets	8.25%	8.25%	-	-
Rate of compensation increase	4.00%	4.00%	-	-
Net periodic benefit cost				
Discount rate	5.75%	5.90%	6.25%	6.00%
Expected return on plan assets	8.25%	8.25%	-	-
Rate of compensation increase	4.00%	4.00%	-	-

The assumed health care cost trend rate used was 7.5% and 8.5% for 2005 and 2004, respectively; decreasing gradually in future years to an ultimate rate of 5.0% by the year 2011. 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.

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	$81	($70)
Effect on postretirement benefit obligation	$691	($611)

Based upon service at retirement date, Rensselaer pays for a fixed dollar amount of health care benefits for retired employees. In addition, Rensselaer Hartford Graduate Center, Inc. pays for dental and life insurance benefits for retired employees.

Note L- Retirement Plans, (continued)

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 $5,065,000 and $5,064,000 in fiscal 2005 and 2004, respectively.

In addition, the Center has its own pension plan in association with Teachers Insurance and Annuity Association and College Retirement Equities Fund (TIAA-CREF). The TIAA-CREF is a money purchase plan so there is no past service cost. The Center's contributions to this plan (8% of employee salary) were $302,196 and $349,681 in fiscal 2005 and 2004, respectively.

Note M- Contingencies

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.