Rensselaer Polytechnic Institute

Consolidated Financial Statements

For the Years Ended
June 30, 2014 and 2013

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Contents

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Independent Auditor's Report

To The Board of Trustees
Rensselaer Polytechnic Institute

We have audited the accompanying consolidated financial statements of Rensselaer Polytechnic Institute and Affiliates ("Rensselaer"), which comprise the consolidated statement of financial position as of June 30, 2014 and June 30, 2013 and the related statements of activities and of cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Rensselaer Polytechnic Institute and Affiliates at June 30, 2014 and June 30, 2013, and the results of their changes in net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

October 24, 2014

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Rensselaer Polytechnic Institute
Consolidated Statements of Financial Position
At June 30, 2014 and June 30, 2013
(in thousands of dollars)

Assets	6/30/2014	6/30/2013
Cash and Cash Equivalents	$ 3,311	$ 10,359
Accounts receivable, net		
Student related and other	3,973	3,192
Research, training, and other agreements	14,594	14,499
Contributions receivable, net	7,734	22,075
Contributions from external remainder trusts	14,702	8,670
Inventories	1,855	1,877
Prepaid expenses and other assets	10,928	9,315
Student loans receivable, net	27,915	26,851
Investments, at market - endowment, annuity & life income funds	665,171	616,363
Land, buildings and equipment, net	709,281	719,250
Total Assets	$ 1,459,464	$ 1,432,451

Liabilities		
Accounts payable and accrued expenses	$ 39,163	$ 39,378
Short-term borrowings	43,950	35,900
Split interest agreement obligations	6,633	6,933
Deferred revenue	21,569	24,342
Other liabilities	15,062	13,179
Pension liability	73,840	91,069
Accrued postretirement benefits	14,475	14,658
Refundable government loan funds	29,389	28,808
Capital leases payable	20,930	19,053
Long-term debt	723,320	732,309
Total Liabilities	988,331	1,005,629

Net Assets		
Unrestricted	(78,026)	(77,746)
Temporarily Restricted	185,516	165,503
Permanently Restricted	363,643	339,065
Total Net Assets	471,133	426,822
Total liabilities and Net Assets	$ 1,459,464	$ 1,432,451

Rensselaer Polytechnic Institute
Consolidated Statement of Activities
For The Year Ended June 30, 2014, with summarized comparative June 30, 2013
(in thousands of dollars)

	Unrestricted	*Temporarily Restricted*	*Permanently Restricted*	*Total June 30, 2014*	*Total June 30,2013*
Operating Revenue:					
Student related revenue:					
Student tuition and fees, net					
Undergraduate	$ 140,964	$ -	$ -	$ 140,964	$ 134,035
Graduate	46,666	-	-	46,666	45,180
Education for working professionals	5,377	-	-	5,377	5,728
Fees	1,702	-	-	1,702	1,467
Auxiliary services	57,574	-	-	57,574	55,911
Student related revenue	252,283	-	-	252,283	242,321
Gifts	20,119	4,849	-	24,968	23,692
Grants and contracts:					
Direct:					
Federal	58,826	-	-	58,826	63,095
State	6,619	-	-	6,619	10,831
Private	5,313	-	-	5,313	5,496
Indirect	18,720	-	-	18,720	19,046
Grants and contracts	89,478	-	-	89,478	98,468
Investment return:					
Dividends and interest	3,866	3,286	1,482	8,634	5,356
Realized accumulated gains used to meet spending policy	11,216	9,555	-	20,771	23,939
Endowment spending for Rensselaer Plan Initiatives	-	-	-	-	9,500
Interest on student loans	49	-	-	49	55
Investment return designated for operations	15,131	12,841	1,482	29,454	38,850
Rensselaer Technology Park	4,227	-	-	4,227	4,253
Other	3,094	17	-	3,111	547
Net assets released from restrictions	27,446	(24,628)	(2,818)	-	-
Total operating revenue	411,778	(6,921)	(1,336)	403,521	408,131
Operating Expense:					
Instruction	139,784	-	-	139,784	135,183
Research:					
Sponsored	106,118	-	-	106,118	109,002
Unsponsored	23,566	-	-	23,566	18,599
Student services	22,972	-	-	22,972	22,357
Institutional and academic support	69,186	-	-	69,186	69,111
Externally funded scholarships and fellowships	13,012	-	-	13,012	11,301
Auxiliary services	41,496	-	-	41,496	40,908
Rensselaer Technology Park	6,272	-	-	6,272	6,637
Defined benefit pension and postretirement	9,191	-	-	9,191	24,982
Total operating expenses	431,597	-	-	431,597	438,080
Change in net assets from operating activities	(19,819)	(6,921)	(1,336)	(28,076)	(29,949)
Non-operating					
Realized and unrealized gains (losses), net of spending policy and initiatives	24,589	28,247	7,706	60,542	16,525
Adjustment for pension and postretirement benefits liability	(5,343)	-	-	(5,343)	36,038
Life income and endowment gifts	-	439	14,466	14,905	24,201
Change in value of life income contracts	-	1,565	1,201	2,766	2,190
(Loss) Gain on disposal of fixed assets	(483)	-	-	(483)	(229)
Other reclassifications & transfers	776	(3,317)	2,541	-	-
Change in net assets from non-operating activities	19,539	26,934	25,914	72,387	78,725
Increase (Decrease) in net assets	(280)	20,013	24,578	44,311	48,776
Net assets at beginning of year	(77,746)	165,503	339,065	426,822	378,046
Net assets at end of year	$ (78,026)	$ 185,516	$ 363,643	$ 471,133	$ 426,822

Rensselaer Polytechnic Institute
Consolidated Statement of Activities
For The Year Ended June 30, 2013
(in thousands of dollars)

	Unrestricted	*Temporarily Restricted*	*Permanently Restricted*	*Total June 30, 2013*
Operating Revenue:				
Student related revenue:				
Student tuition and fees, net				
Undergraduate	$ 134,035	$ -	$ -	$ 134,035
Graduate	45,180	-	-	45,180
Education for working professionals	5,728	-	-	5,728
Fees	1,467	-	-	1,467
Auxiliary services	55,911	-	-	55,911
Student related revenue	242,321	-	-	242,321
Gifts	19,448	4,244	-	23,692
Grants and contracts:				
Direct:				
Federal	63,095	-	-	63,095
State	10,831	-	-	10,831
Private	5,496	-	-	5,496
Indirect	19,046	-	-	19,046
Grants and contracts	98,468	-	-	98,468
Investment return:				
Dividends and interest	1,917	1,874	1,565	5,356
Realized accumulated gains used to meet spending policy	11,661	12,278	-	23,939
Endowment spending for Rensselaer Plan Initiatives	9,500	-	-	9,500
Interest on student loans	55	-	-	55
Investment return designated for operations	23,133	14,152	1,565	38,850
Rensselaer Technology Park	4,255	(2)	-	4,253
Other	497	50	-	547
Net assets released from restrictions	28,190	(26,326)	(1,864)	-
Total operating revenue	416,312	(7,882)	(299)	408,131
Operating Expense:				
Instruction	135,183	-	-	135,183
Research:				
Sponsored	109,002	-	-	109,002
Unsponsored	18,599	-	-	18,599
Student services	22,357	-	-	22,357
Institutional and academic support	69,111	-		69,111
Externally funded scholarships and fellowships	11,301	-	-	11,301
Auxiliary services	40,908	-	-	40,908
Rensselaer Technology Park	6,637	-	-	6,637
Defined benefit pension and postretirement	24,982	-	-	24,982
Total operating expenses	438,080	-	-	438,080
Change in net assets from operating activities	(21,768)	(7,882)	(299)	(29,949)
Non-operating:				
Realized and unrealized gains (losses), net of spending policy and initiatives	751	12,082	3,692	16,525
Adjustment for pension and postretirement benefits liability	36,038	-	-	36,038
Life income and endowment gifts	-	-	24,201	24,201
Change in value of life income contracts	-	1,298	892	2,190
(Loss) Gain on disposal of fixed assets	(229)	-	-	(229)
Other reclassifications & transfers	398	(16)	(382)	-
Change in net assets from non-operating activities	36,958	13,364	28,403	78,725
Increase (Decrease) in net assets	15,190	5,482	28,104	48,776
Net assets at beginning of year	(92,936)	160,021	310,961	378,046
Net assets at end of year	$ (77,746)	$ 165,503	$ 339,065	$ 426,822

Rensselaer Polytechnic Institute
Consolidated Statements of Cash Flows
For the years ended June 30, 2014 and 2013
(in thousands of dollars)

	June 2014	June 2013
Cash flow from operating activities		
Total change in net assets	$ 44,311	$ 48,776
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	32,266	31,745
Accretion expense	450	402
(Gain) loss on disposal of fixed assets	483	229
Uncollectible contributions writeoff	291	837
Benefit (provision) for uncollectible accounts and loans	(350)	(316)
Realized and unrealized losses (gains) on investments	(82,964)	(51,577)
Amortization of Bond Premiums & Discounts	380	360
Contributions of equipment and other capital items	(560)	(293)
Receipt of contributed securities	(2,008)	(1,410)
Contributions restricted for long term investment	(21,112)	(18,345)
Contributions from external trusts, net of change in value	(6,032)	(574)
Changes in operating assets and liabilities:		
Accounts receivable	(948)	9,392
Contributions receivable	14,341	(5,855)
Inventories	22	(64)
Prepaid expense and other assets	(1,933)	3,674
Accounts payable and accrued expenses	(666)	(2,964)
Pension Liability	(17,229)	(26,726)
Present value of split interest agreements, net of terminations	503	650
Deferred revenue and other liabilities	(890)	(156)
Accrued postretirement benefits	(183)	(1,206)
Net cash provided (used) in operating activities	(41,828)	(13,421)
Cash flow from investing activities		
Proceeds from sale of investments	168,626	150,262
Purchase of investments	(134,989)	(125,945)
Additional student loans granted	(5,848)	(3,948)
Student loans paid	4,915	4,478
Proceeds from sale of land, building, and equipment	-	33
Purchase of land, building and equipment	(20,045)	(17,976)
Net cash provided (used) in investing activities	12,659	6,904
Cash flow from financing activities		
Contributions restricted for long term investment	23,201	18,157
Contributions to Life Income & Annuities	438	191
Payment of annuity obligations	(803)	(808)
Proceeds from loans	147,060	244,866
Repayment of debt	(148,356)	(256,343)
Government loan funds	581	589
Net cash provided (used) by financing activities	22,121	6,652
Net increase in cash and cash equivalents	(7,048)	135
Cash and cash equivalents at beginning of the year	10,359	10,224
Cash and cash equivalents at end of year	$ 3,311	$ 10,359
Non cash investing activities		
Contributed Securities	$ 2,008	$ 1,410
Real Estate - Capital Lease	2,175	-
Gifts of Equipment and other capital items	560	293
Supplemental Disclosure		
Cash paid during year for interest	$ 39,054	$ 39,577

(1) ORGANIZATION

Rensselaer Polytechnic Institute (Rensselaer or The Institute) 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 Institute 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 statement 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.

(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 40.4% and 39.8% for the years ended June 30, 2014 and 2013, respectively.

Student tuition by segment and location is as follows:

	2014	2013
Undergraduate tuition:		
Troy Campus tuition revenue	$ 233,047	$ 218,995
Institutional aid	(94,258)	(87,211)
Total undergraduate academic tuition revenue	138,789	131,784
Summer tution revenue	2,175	2,251
Total Undergraduate tuition	$ 140,964	$ 134,035
Graduate tuition:		
Troy Campus tuition revenue	$ 48,639	$ 46,828
Institutional aid	(2,079)	(2,004)
Total graduate academic tuition revenue	46,560	44,824
Summer tution revenue	106	356
Total Graduate tuition	$ 46,666	$ 45,180
Education for working professionals:		
Troy Campus	$ 1,200	$ 817
Hartford Campus	4,177	4,911
Total Education for working professionals tuition	$ 5,377	$ 5,728

- *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 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 $96,356 and $92,470 of grants and contracts which have not been advanced or expended as of June 30, 2014 and 2013, 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 and 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.

(dollars in thousands)

(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, 2014 and 2013. Accounts receivable from the following sources were outstanding as of June 30:

	2014	2013
Student related receivables	$ 2,487	$ 2,802
Research, training and other agreements	14,936	14,841
Rensselaer Technology Park	849	699
Other	1,211	325
Gross account receivable	19,483	18,667
Less: allowance for doubtful accounts	(916)	(976)
Net accounts receivable	$ 18,567	$ 17,691

(b) Contributions receivable

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

	2014	2013
Less than one year	$ 1,295	$ 11,363
Between one and five years	7,266	12,236
More than five years	590	465
Gross contributions receivable	9,151	24,064
Less: unamortized discount	(906)	(1,320)
Less: allowance for uncollectible amounts	(511)	(669)
Net contributions receivable	$ 7,734	$ 22,075

Conditional pledges, which are not accrued, approximate $2,033 at June 30, 2014, of which $3 was unrestricted as to purpose. The remaining conditional pledges of $2,030 are restricted to current programs. Bequest expectancies totaling $104,931 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 2014 and 2013, 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, and the level of delinquent loans.

(dollars in thousands)

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

	2014			2013		
	Receivable	Allowance	Net receivable	Receivable	Allowance	Net receivable
Institutional loans	1,295	(709)	586	1,425	(756)	669
Federal loans	28,347	(1,018)	27,329	27,284	(1,102)	26,182
Total loan receivable	29,642	(1,727)	27,915	28,709	(1,858)	26,851

	Institutional	Federal	Total allowance
Allowance at beginning of year	(756)	(1,102)	(1,858)
Current year provisions	47	84	131
Current year write-offs	-	-	-
Current year recoveries	-	-	-
Allowance at end of year	(709)	(1,018)	(1,727)

(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, 2014 and 2013 were $19,013 and $17,490, 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 1.2% to 10.6%. The liability for the present value of deferred gifts of $6,633 and $6,933 at June 30, 2014 and 2013, 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, 2014 and 2013 was $63,090 and $55,867 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 investment in Plan initiatives. To date, approximately $634.4 million has been spent or committed for such initiatives, exclusive of capital expenditures.

(dollars in thousands)

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

	2014		2013	
	Fair Value	Cost	Fair Value	Cost
Cash and cash equivalents	$ 39,915	$ 39,915	$ 63,466	$ 63,466
Fixed income	72,702	70,295	61,766	61,842
Domestic equity	44,912	39,638	41,822	32,140
Global equity	34,089	27,250	21,991	20,000
Foreign equity	57,363	39,087	44,885	34,884
Real assets	5,375	5,062	5,108	4,981
Marketable alternatives				
Fixed Income	18,554	7,476	22,240	11,286
Multi strategy	81,013	54,891	76,795	60,892
Equity	17,883	16,534	5,826	7,699
Private Investments				
Fixed income	11,948	14,595	16,035	15,716
Real assets	102,647	128,107	105,355	131,734
Equity	115,680	82,827	95,207	85,373
Subtotal	602,081	525,677	560,496	530,013
Perpetual Trusts held by other:	63,090	51,829	55,867	50,877
Total investments	$ 665,171	$ 577,506	$ 616,363	$ 580,890

- At June 30, 2014, Rensselaer has committed to investing approximately an additional $23 million in various equity and real asset partnerships.

(a) Investment classification descriptions

Fixed Income

This category contains investments in public and non-public fixed income securities, including convertible bonds, corporate bonds, foreign sovereign bonds, high yield bonds, and U.S. government and government sponsored bonds. These investments may be held directly by the Institute, or indirectly through outside managers that the Institute has hired for specific mandates. In addition, they are subject to a variety of liquidity restrictions that normally range from three days to three months.

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. In addition, they are subject to a variety of liquidity restrictions that normally range from three days to three months.

Global Equity

This category contains investments in U.S. and 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. In addition, they are subject to a variety of liquidity restrictions that normally range from three days to three months.

Foreign Equity

This category contains 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. In addition, they are subject to a variety of liquidity restrictions that normally range from three days to three months.

(dollars in thousands)

Real Assets

This category contains investments in a U.S. and non-U.S. assets, including real estate, infrastructure, and commodity. These investments may be held directly by the Institute, or indirectly through outside managers that the Institute has hired for specific mandates. In addition, they are long-term in nature and liquidity is asset specific.

Marketable Alternatives

This category contains investments in a variety of partnerships and similar entities focused on primarily marketable investments in the U.S and non-U.S. markets. The individual managers utilize a variety of strategies, including 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 Investments

This category contains investments in U.S. and non-U.S. partnerships and similar entities focused primarily on venture capital investments, buyouts, growth equity, real estate, infrastructure, commodity, and fixed income. 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:

	2014	2013
Dividends and Interest available for spending	$ 8,634	$ 5,356
Realized gains (loss)	30,734	21,548
Unrealized gains (loss)	52,230	30,030
Investment return	$ 91,598	$ 56,934
Investment Management Fees	1,651	1,614
Net Investment Return	$ 89,947	$ 55,320

(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, 2014, there were no open or unsettled forward exchange contracts.

(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 investments, 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.

(dollars in thousands)

The following table presents the financial instruments carried at fair value as of June 30, 2014 and 2013, by caption on the consolidated statement of financial position, based on the valuation hierarchy defined above:

	2014			
	Quoted prices in active markets Level 1	Significant other observable Level 2	Significant unobservable Level 3	Total Fair Value
Cash and cash equivalents	$ 39,318	$ 597	$ -	$ 39,915
Fixed income	30,386	42,316	-	72,702
Domestic equity	44,851	-	61	44,912
Global equity	11,054	23,035	-	34,089
Foreign equity	37,069	20,294	-	57,363
Real assets	-	-	5,375	5,375
Marketable alternatives				
Fixed income	-	16,282	2,272	18,554
Multi strategy	-	81,013	-	81,013
Domestic equity	-	17,411	472	17,883
Private investments				
Fixed Income	-	-	11,948	11,948
Real assets	-	-	102,647	102,647
Equity	-	-	115,680	115,680
Subtotal	162,678	200,948	238,455	602,081
Perpetual Trusts held by others	-	-	63,090	63,090
Total investments	$ 162,678	$ 200,948	$ 301,545	$ 665,171

	2013			
	Quoted prices in active markets Level 1	Significant other observable Level 2	Significant unobservable Level 3	Total Fair Value
Cash and cash equivalents	$ 63,466	$ -	$ -	$ 63,466
Fixed income	25,140	36,626	-	61,766
Domestic equity	41,762	1	59	41,822
Global equity	7,380	14,611	-	21,991
Foreign equity	28,645	16,240	-	44,885
Real assets	2,100	-	3,008	5,108
Marketable alternatives				
Fixed income	-	19,474	2,766	22,240
Multi strategy	-	76,795	-	76,795
Domestic equity	-	4,977	849	5,826
Private investments				
Fixed Income	-	-	16,035	16,035
Real assets	-	-	105,355	105,355
Equity	-	-	95,207	95,207
Subtotal	168,493	168,724	223,279	560,496
Perpetual Trusts held by others	-	-	55,867	55,867
Total investments	$ 168,493	$ 168,724	$ 279,146	$ 616,363

(dollars in thousands)

Investments included in Level 3 primarily consist of Rensselaer's ownership in alternative investments (principally limited partnership interests in marketable alternatives, private investments, 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.

The following table is a roll-forward of the consolidated statement of financial position amounts at June 30, 2014 and 2013 for financial instruments classified by Rensselaer within Level 3 of the fair value hierarchy defined above:

	2014							
Level 3 Investments	Fixed income	Domestic equity	Foreign equity	Real assets	Marketable alternatives	Private Investments	Perpetual Trusts	Total
Fair value, beginning of year	$ -	$ 59	$ -	$ 3,008	$ 3,615	$ 216,597	$ 55,867	$ 279,146
Realized gains (loss)	-	(7)	-	-	362	12,658	(1,166)	11,847
Unrealized gains (loss)	-	9	-	267	(402)	21,596	8,568	30,038
Purchases	-	-	-	-	-	18,255	7,008	25,263
Sales	-	-	-	-	(830)	(38,832)	(7,187)	(46,849)
Transfers in/out	-	-	-	2,100	-	-	-	2,100
Fair value, end of year	$ -	$ 61	$ -	$ 5,375	$ 2,745	$ 230,274	$ 63,090	$ 301,545

	2013							
Level 3 Investments	Fixed income	Domestic equity	Foreign equity	Real assets	Marketable alternatives	Private Investments	Perpetual Trusts	Total
Fair Value beginning	$ -	$ 104	$ -	$ 3,022	$ 8,009	$ 207,504	$ 52,910	$ 271,549
Realized gains (loss)	-	-	-	-	(2,098)	7,986	748	6,636
Unrealized gains (loss)	-	(45)	-	(14)	3,376	14,372	3,229	20,918
Purchases	-	-	-	-	57	18,502	8,143	26,702
Sales	-	-	-	-	(5,827)	(32,356)	(9,163)	(47,346)
Transfers in/out	-	-	-	-	98	589	-	687
Fair value, end of year	$ -	$ 59	$ -	$ 3,008	$ 3,615	$ 216,597	$ 55,867	$ 279,146

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:

	2014	2013
Level 3 Contributions from external remainder trusts		
Fair value, beginning of year	$ 8,670	$ 8,099
Realized gains (loss)	-	-
Unrealized gains (loss)	705	1,009
Purchases / gifts	7,564	-
Sales / settlements	(2,237)	(438)
Fair value, end of year	$ 14,702	$ 8,670

(dollars in thousands)

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 2014 and noted no material valuation changes.

(6) ENDOWMENT

Rensselaer's endowment consists of approximately 679 individual donor restricted endowment funds and 83 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 are classified and reported based on the existence or absence of donor imposed restrictions.

Endowment and similar funds are invested under direction of the Board of Trustees to achieve maximum long-term total return with prudent concern for the preservation of investment capital. All investments of endowment and similar funds are recorded in the statement of financial position as long-term investments, including cash balances held by external investment managers. The fair value of endowment investments (separately invested and pooled) was $641,474 and $594,877 as of June 30, 2014 and June 30, 2013, respectively.

Endowment net assets consist of the following at June 30:

	2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
True Endowment funds	$ 76,541	$ 125,422	$ 345,511	$ 547,474
Board-designated endowment funds	114,948	-	-	114,948
Total endowment net assets	$ 191,489	$ 125,422	$ 345,511	$ 662,422

	2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
True Endowment funds	$ 62,742	$ 103,407	$ 329,080	$ 495,229
Board-designated endowment funds	119,647	-	-	119,647
Total endowment net assets	$ 182,389	$ 103,407	$ 329,080	$ 614,876

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.

(dollars in thousands)

Changes in endowment net assets as of June 30:

	2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 182,389	$ 103,407	$ 329,080	$ 614,876
Net gifts	-	-	6,895	6,895
Yield (dividends and interest)	3,866	3,277	1,482	8,625
Investment gains(losses), realized and unrealized	35,805	38,567	7,881	82,253
Reclassification of underwater endowments	6,451	(6,451)	-	-
Reclassifications and other changes	(1,440)	1,415	2,733	2,708
Endowment Additions	44,682	36,808	18,991	100,481
Amounts appropriated for expenditure	35,582	12,832	2,354	50,768
Investment management fees and other expenditures	-	1,961	206	2,167
Endowment Deductions	35,582	14,793	2,560	52,935
Endowment net assets, end of year	$ 191,489	$ 125,422	$ 345,511	$ 662,422

	2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 171,634	$ 100,259	$ 301,245	$ 573,138
Net gifts	1	14	24,199	24,214
Yield (dividends and interest)	-	3,773	1,565	5,338
Investment gains(losses), realized and unrealized	21,526	26,129	4,000	51,655
Reclassification of underwater endowments	916	(916)	-	-
Reclassifications and other changes	1,873	12	(1,179)	706
Endowment Additions	24,316	29,012	28,585	81,913
Amounts appropriated for expenditure	13,561	24,060	471	38,092
Investment management fees and other expenditures	-	1,804	279	2,083
Endowment Deductions	13,561	25,864	750	40,175
Endowment net assets, end of year	$ 182,389	$ 103,407	$ 329,080	$ 614,876

On March 8, 2014, the Board of Trustees approved a loan from the endowment in the amount of $17.2 million. The amount was used to make an additional contribution into the Institute's Defined Benefit Pension Plan. The amount will be repaid to the endowment on or before December 31, 2014.

(dollars in thousands)

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

	2014	
Restricted for	Temporarily Restricted	Permanently Restricted
Scholarship support	$ 40,173	$ 79,712
Fellowship support	9,341	14,180
Faculty support	45,620	64,901
Program support	27,936	78,921
Awards and prizes	2,352	3,509
Institutional support	-	104,288
Permanent and Temporary net asset purpose	$ 125,422	$ 345,511

	2013	
Restricted for	Temporarily Restricted	Permanently Restricted
Scholarship support	$ 33,816	$ 75,833
Fellowship support	7,348	12,661
Faculty support	39,368	64,492
Program support	20,823	74,344
Awards and prizes	2,052	3,363
Institutional support	-	98,387
Permanent and Temporary net asset purpose	$ 103,407	$ 329,080

(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.

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 un-appropriated 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.

(dollars in thousands)

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 $8,740 and $15,955 as of June 30, 2014 and 2013, 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 7.1 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 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 20 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:

		2014		2013
Land and land improvements	$	32,633	$	31,628
Buildings		918,670		909,525
Equipment		224,724		231,797
Construction in Progress		4,456		4,062
Gross land, building and equipment		1,180,483		1,177,012
Less: accumulated depreciation		(471,202)		(457,762)
Net land, building and equipment	$	709,281	$	719,250

As of June 30, 2014, Rensselaer had $2,918 of open commitments to contractors for construction on work being performed.

(dollars in thousands)

(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:

	Year of final maturity	Average annual interest rate	Outstanding 2014	Outstanding 2013
U.S. Department of Education Dormitory Bonds				
and 1988 Mortgage Loan	2018	3.00%	776	935
Rensselaer County IDA - Industrial Development Facility Issue:				
Series 1997A (note a) - VRD	2022	4.34%	6,590	7,027
Series 1999A and B (note b) - Fixed	2030	5.17%	24,361	24,339
Series 2006 (note d) - Fixed	2036	4.89%	57,730	59,221
Troy Industrial Development Authority Civic Facility Issue:				
Series 2002A (note c) - Fixed	2015	5.23%	4,344	6,534
Series 2002E (note c) - Fixed	2037	4.99%	25,000	25,000
Series 2010 Rensselaer Taxable Bonds (note g) - Fixed	2021	5.60%	204,787	204,757
City of Troy Capital Resource Corporate Series 2010A&B (note f) Fixed	2040	5.08%	354,732	356,246
Senior Note:				
Series 2011A (note h) - Fixed	2026	4.35%	40,000	40,000
2009 Whiting Turner Agreement (note e) - Fixed	2015	5.25%	5,000	8,250
Total bonds and notes payable			723,320	732,309

Debt principal outstanding is reflected net of bond discount where applicable in the amount of $1,296 and $1,356 at June 30, 2014 and 2013, 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 $495 at June 30, 2014 and 2013. At June 30, 2014 and 2013, Rensselaer did not have assets held by trustees for construction, debt service and other project-related expenses.

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 (VRD) 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 $218.875million 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 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 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 weighted average interest rate on the bonds is 4.89%. 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, 2014, Rensselaer had a standby letter of credit with Bank of America totaling $1,247 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 $75 and $120 on June 30, 2014 and 2013, respectively.

(dollars in thousands)

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 balance of $23.95 million and $15.9 million on the line of credit at June 30, 2014 and 2013, respectively. The Institute has an unsecured line of credit with First Niagara Bank valued at $20 million, with interest calculated on the outstanding balance at a daily rate of term LIBOR plus 1.60%. There was an outstanding balance of $20 million on the line of credit at June 30, 2014. The Bank of America line has a renewal date of January 15, 2015 and First Niagara line has a renewal date of December 31, 2014.

On August 5, 2014 a Letter of Credit in the amount of $19.7 million was issued for the Institute by the Bank of America with the Department of Education (DOE) as beneficiary. It was established to satisfy certain DOE financial reporting requirements and has an expiration of October 31, 2015. The issuance of the letter of credit did not affect the availability under the Institute's existing lines of credit.

Principal payments due on all long-term debt as of June 30, 2014 for each of the next five fiscal years are:

Year	Amount
2015	8,944
2016	9,859
2017	9,088
2018	9,539
2019	9,996
Principal payments thereafter	677,190
Total bonds and notes principal payable	724,616
Net discounts	(1,296)
Bonds and notes payable	$723,320

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 $723,336 and $732,265 at June 30, 2014 and 2013, 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, 2014 and 2013. The defined benefit plan calculations were based upon data as of or projected to June 30, 2014 and 2013. Postretirement benefit plan calculations were based upon data as of July 1, 2013 and 2012. Rensselaer's funding policy is based upon and is in compliance with ERISA requirements.

In fiscal 2014 the Institute changed the amortization period used for actuarial gains and losses. The change in amortization period reflects the fact that greater than 90% of the pension plan participants are now inactive. As a result, the amortization period for gains and losses was changed from the average future service period of active participants to the expected future lifetime of the inactive participants in the plan. The effect of the change will be to reduce the net periodic benefit cost with the offset reflected in non-operating income (expense). There is no impact on the unfunded liability reported on the Statement of Financial Position.

Additionally, the Institute amended its pension plan effective June 30, 2014 to freeze all future benefit accruals for future service of all plan participants. This is treated as a curtailment and has been reflected as such within the footnote disclosures.

(dollars in thousands)

Change in benefit obligation:	*Defined Benefit*		*Post-retirement*	
	2014	**2013**	**2014**	**2013**
Benefit obligation, beginning of year	$ (335,385)	$ (348,661)	$ (14,658)	$ (15,864)
Service cost	(4,013)	(4,188)	(545)	(638)
Interest cost	(14,658)	(13,548)	(553)	(549)
Plan participant' contributions	(156)	(171)	(857)	(844)
Amendments/Curtailments/Special	2,113	-	20	-
Actuarial gain (loss)	(24,365)	10,450	526	1,791
Benefits paid	20,135	18,878	1,592	1,446
Administrative expense paid	2,369	1,855	-	-
Benefit obligation, end of year	$ (353,960)	$ (335,385)	$ (14,475)	$ (14,658)

The accumulated benefit obligation for the defined benefit pension plan was $353,960 and $332,722 as of June 30, 2014 and 2013, respectively.

(dollars in thousands)

	Defined Benefit		*Post-retirement*	
Change in plan assets:	**2014**	**2013**	**2014**	**2013**
Fair value plan assets, beginning of year	$ 244,316	$ 230,867	$ -	$ -
Actual return on plan assets	30,153	20,961	-	-
Employer contribution	28,000	13,050	735	602
Plan participant' contributions	156	171	857	844
Benefits paid	(20,135)	(18,878)	(1,592)	(1,446)
Administrative expense paid	(2,369)	(1,855)	-	-
Fair value plan assets, end of year	$ 280,121	$ 244,316	$ -	$ -
Funded status and amount recognized in the statement of financial position:				
Liability	$ (73,840)	$ (91,069)	$ (14,475)	$ (14,658)
Amounts recognized in unrestricted net assets:				
Net prior service cost (credit)	$ -	$ -	$ (872)	$ (997)
Net actuarial (gain) loss	(163,686)	(158,118)	(2,113)	(1,742)
Unrestricted net assets	$ (163,686)	$ (158,118)	$ (2,985)	$ (2,739)
Other changes in plan assets and benefit obligations recognized in unrestricted net assets:				
(Gain) loss from curtailment	$ (2,113)	$ -	$ -	$ -
New net actuarial (gain) loss	13,966	(11,816)	(526)	(1,791)
Amortization of:				
Prior service (cost) credit	-	(45)	146	143
Actuarial gain (loss)	(6,285)	(22,559)	155	28
Total recognized in non-operating (income) expense	$ 5,568	$ (34,420)	$ (225)	$ (1,620)
Net periodic benefit cost is included in the following components:				
Service cost	$ 4,013	$ 4,188	$ 545	$ 638
Interest cost	14,658	13,548	553	549
Expected return on plan assets	(19,754)	(19,595)	-	-
Amortization of:				
Prior service cost (credit)	-	45	(146)	(143)
Actuarial (gain) loss	6,285	22,559	(155)	(28)
Net periodic benefit cost (income)	$ 5,202	$ 20,745	$ 797	$ 1,016

The amounts of net losses in unrestricted net assets expected to be recognized as components of the net periodic benefit cost in fiscal year ending June 30, 2015 are $6,919 and $221 for the defined pension plan and postretirement plan, respectively.

(dollars in thousands)

The following are expected future benefit payments:

Fiscal year ending:	**Defined Benefit**	**Post-retirement**
2015	21,814	987
2016	22,109	1,027
2017	22,594	983
2018	22,791	1,081
2019	22,968	1,153
2020-2022	114,876	6,256

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:

Benefit obligations:	**2014**	**2013**	**2014**	**2013**
Discount Rate	4.00%	4.50%	3.66%	4.23%
Expected return on plan assets	7.75%	7.75%	-	-
Rate of compensation increase	4.00%	4.00%	-	-
Net periodic benefit cost:				
Discount Rate	4.50%	4.00%	4.23%	3.79%
Expected return on plan assets	7.75%	7.75%	-	-
Rate of compensation increase	4.00%	4.00%	-	-

For measurement purposes, a 7.0 percent annual rate of increase in the per capita cost of covered pre-65 medical, post-65 medical benefits and a 6.0 percent annual rate of increase in prescription drug benefits, respectively, was assumed for fiscal year 2015. These rates were assumed to decrease gradually to 5 percent for fiscal year 2023 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	76	(67)
Effect on postretirement benefit obligation	710	(636)

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 $8,510 and $8,391 in fiscal 2014 and 2013, respectively.

(dollars in thousands)

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.

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

	2014			
	Quoted prices in active markets Level 1	Significant other observable Level 2	Significant unobservable Level 3	Total Fair Value
Cash and cash equivalents	$ 9,978	$ -	$ -	$ 9,978
Fixed income	80,657	-	-	80,657
Domestic equity	52,085	-	-	52,085
Foreign equity	27,044	-	-	27,044
Insurance contracts	-	3,168	-	3,168
Marketable alternatives				
Fixed income	-	11,680	2,810	14,490
Other strategies	-	16,875	-	16,875
Equity	-	8,940	18	8,958
Private investments				
Fixed income	-	-	16,854	16,854
Real assets	-	-	34,954	34,954
Equity	-	-	15,058	15,058
Total pension investments	$ 169,764	$ 40,663	$ 69,694	$ 280,121

	2013			
	Quoted prices in active markets Level 1	Significant other observable Level 2	Significant unobservable Level 3	Total Fair Value
Cash and cash equivalents	$ 21,024	$ 4,295	$ -	$ 25,319
Fixed income	24,744	34,607	-	59,351
Domestic equity	23,612	-	-	23,612
Foreign equity	14,327	8,074	-	22,401
Real assets	-	3,527	-	3,527
Marketable alternatives				
Fixed income	-	17,794	-	17,794
Other strategies	-	15,366	-	15,366
Equity	-	-	3,644	3,644
Private investments				
Fixed income	-	-	19,833	19,833
Real assets	-	-	36,952	36,952
Equity	-	-	16,517	16,517
Total pension investments	$ 83,707	$ 83,663	$ 76,946	$ 244,316

(dollars in thousands)

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

	2014				
Level 3 Pension Investments	Fixed income	Real assets	Marketable alternatives	Private investments	Total
Fair value, beginning of year	$ -	$ -	$ 3,644	$ 73,302	$ 76,946
Realized gains (loss)	-	-	-	2,682	2,682
Unrealized gains (loss)	-	-	558	(566)	(8)
Purchases	-	-	-	2,252	2,252
Sales	-	-	(1,373)	(10,805)	(12,178)
Transfers in/out	-	-	-	-	-
Fair value, end of year	$ -	$ -	$ 2,829	$ 66,865	$ 69,694

	2013				
Level 3 Pension Investments	Fixed income	Real assets	Marketable alternatives	Private investments	Total
Fair value, beginning of year	$ 3,320	$ -	$ 7,021	$ 76,889	$ 87,230
Realized gains (loss)	318	-	(1,568)	2,630	1,380
Unrealized gains (loss)	(320)	-	1,471	1,843	2,994
Purchases	-	-	-	5,751	5,751
Sales	(3,318)	-	(837)	(14,105)	(18,260)
Transfers in/out	-	-	(2,443)	294	(2,149)
Fair value, end of year	$ -	$ -	$ 3,644	$ 73,302	$ 76,946

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, 2015 are $10,500 and $987 to the defined pension plan and postretirement plan, respectively.

(dollars in thousands)

(10) NATURAL EXPENSE CLASSIFICATION

The following table compares expenses by type for the years ended June 30, 2014 and 2013, respectively:

	2014	2013
Salaries and wages	$ 164,700	$ 162,325
Employee benefits excluding retirement	27,713	27,577
Retirement plan expense	14,510	29,548
Employee benefits total	42,223	57,125
Total compensation	206,923	219,450
Supplies and services	71,507	70,264
Utilities	10,813	9,819
Employee travel	6,789	7,030
Taxes and insurance	6,477	5,917
Telecommunications	189	199
Library materials	2,330	2,440
Interest on debt	39,406	39,810
Depreciation and amortization	32,265	31,745
Student aid and fellowships	49,442	45,239
Operating lease agreements	5,322	5,066
Provision for uncollectible accounts	134	1,101
Total non-salary	224,674	218,630
Total expenses by functional category	$ 431,597	$ 438,080

(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.

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 rental value for the remaining eight years at June 30, 2014 is $7,707.

Leases

At June 30, 2014, the minimum annual commitments under capital and operating leases for real property and equipment are as follows:

(dollars in thousands)

	Operating leases	Capital leases
2015	2,482	1,567
2016	2,364	1,584
2017	2,008	1,605
2018	1,720	1,605
2019	1,556	1,613
Thereafter	17,615	31,472
Total leases	$ 27,745	39,446
Less: amount representing interest		(18,516)
Present value of minimum lease payments		$ 20,930

(12) ASSET RETIREMENT OBLIGATIONS

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

Change in asset retirement obligation:	2014	2013
Asset retirement obligation, beginning of year	$ 9,304	$ 8,902
Accretion expense	450	402
Less: disposals and remediations	(36)	-
Asset retirement obligation, end of year	$ 9,718	$ 9,304

(13) SUBSEQUENT EVENTS

There were no subsequent events through October 17, 2014, the date on which the consolidated financial statements were available for issuance.