

Rochester Institute of Technology

**Consolidated Financial Statements
June 30, 2006 and 2005**

Rochester Institute of Technology

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June 30, 2006 and 2005

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Report of Independent Auditors

To the Board of Trustees
Rochester Institute of Technology

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of activities and cash flows present fairly, in all material respects, the financial position of Rochester Institute of Technology (the "University") at June 30, 2006 and 2005, and the results of their changes in net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As further discussed in Note 1 to the consolidated financial statements, the University changed its method of accounting for conditional asset retirement obligations.

PricewaterhouseCoopers LLP

September 1, 2006

Rochester Institute of Technology
Balance Sheets
June 30, 2006 and 2005

(in thousands of dollars)

	2006	2005
Assets		
Cash and cash equivalents	\$ 2,490	\$ 2,063
Cash and cash equivalents on deposit with bond trustees	8,421	7,932
Student accounts receivable, net of allowance of \$1,569 and \$1,544	10,726	10,391
Inventories and other assets	8,536	7,908
Contributions receivable, net	18,127	21,655
Collateral held under securities lending	26,630	29,240
Investments, at fair value	682,632	625,995
Notes and other accounts receivable, net of allowance of \$2,308 and \$2,071	46,671	46,179
Property, plant and equipment, net	409,954	395,626
Total assets	<u>\$ 1,214,187</u>	<u>\$ 1,146,989</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 34,504	\$ 31,836
Deferred revenues and other liabilities	40,887	26,548
Payable under securities lending	26,630	29,240
Accrued postretirement benefits	92,245	79,231
Federal Perkins Loan Program	20,930	20,907
Long-term debt	151,939	157,268
Total liabilities	<u>367,135</u>	<u>345,030</u>
Net assets		
Unrestricted		
Expendable resources	393,908	378,839
Net investment in plant	258,015	238,358
Total unrestricted	<u>651,923</u>	<u>617,197</u>
Temporarily restricted	95,854	89,211
Permanently restricted	99,275	95,551
Total net assets	<u>847,052</u>	<u>801,959</u>
Total liabilities and net assets	<u>\$ 1,214,187</u>	<u>\$ 1,146,989</u>

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

Rochester Institute of Technology
Consolidated Statements of Activities
Year Ended June 30, 2006
(With comparative totals for 2005)

(in thousands of dollars)

	2006			Total	2005 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Operating revenues					
Tuition and fees, net of scholarships of \$80,136 and \$75,578	\$ 175,329	\$ -	\$ -	\$ 175,329	\$ 167,413
Sales and services of auxiliary enterprises National Technical Institute for the Deaf	59,037	-	-	59,037	56,581
federal appropriation	56,378	-	-	56,378	53,585
Government grants and contracts	25,761	-	-	25,761	24,318
Private grants and contracts	10,188	-	-	10,188	8,724
Private gifts	4,204	2,451	-	6,655	7,193
Investment return	15,227	10,169	-	25,396	24,421
Other sources	11,916	-	-	11,916	11,981
Net assets released from restrictions	14,644	(14,644)	-	-	-
Total operating revenues	<u>372,684</u>	<u>(2,024)</u>	<u>-</u>	<u>370,660</u>	<u>354,216</u>
Operating expenses					
Salaries	182,901	-	-	182,901	177,845
Benefits	50,896	-	-	50,896	48,504
Postretirement benefits	4,128	-	-	4,128	3,454
Purchased services	25,970	-	-	25,970	24,914
Materials and supplies	39,370	-	-	39,370	37,259
Depreciation	25,296	-	-	25,296	24,194
Interest	6,549	-	-	6,549	7,694
Utilities, taxes and insurance	14,491	-	-	14,491	12,830
Travel for scholarship, professional development and recruitment	7,942	-	-	7,942	7,059
Other	8,699	-	-	8,699	7,104
Total operating expenses	<u>366,242</u>	<u>-</u>	<u>-</u>	<u>366,242</u>	<u>350,857</u>
Net operating activities	<u>6,442</u>	<u>(2,024)</u>	<u>-</u>	<u>4,418</u>	<u>3,359</u>
Nonoperating activities					
Investment return	24,309	16,838	210	41,357	19,491
Net assets released from restrictions	14,164	(14,164)	-	-	-
Capital contributions	1,479	6,351	3,700	11,530	12,099
Government grants and contracts	12,698	-	415	13,113	4,166
Postretirement benefit expense	(12,028)	-	-	(12,028)	(7,599)
Beneficiary payments and change in value of deferred giving arrangements	-	(358)	(483)	(841)	(702)
Change in value of interest rate swap agreement	(526)	-	-	(526)	-
Other	(4,752)	-	(118)	(4,870)	(709)
Net nonoperating activities	<u>35,344</u>	<u>8,667</u>	<u>3,724</u>	<u>47,735</u>	<u>26,746</u>
Increase in net assets before cumulative effect of change in accounting principle	41,786	6,643	3,724	52,153	30,105
Cumulative effect of change in accounting principle	(7,060)	-	-	(7,060)	-
Increase in net assets	<u>34,726</u>	<u>6,643</u>	<u>3,724</u>	<u>45,093</u>	<u>30,105</u>
Net assets at beginning of year	<u>617,197</u>	<u>89,211</u>	<u>95,551</u>	<u>801,959</u>	<u>771,854</u>
Net assets end of year	<u>\$ 651,923</u>	<u>\$ 95,854</u>	<u>\$ 99,275</u>	<u>\$ 847,052</u>	<u>\$ 801,959</u>

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

Rochester Institute of Technology
Consolidated Statement of Activities
Year Ended June 30, 2005

(in thousands of dollars)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating revenues				
Tuition and fees, net of scholarships of \$75,578	\$ 167,413	\$ -	\$ -	\$ 167,413
Sales and services of auxiliary enterprises National Technical Institute for the Deaf	56,581	-	-	56,581
federal appropriation	53,585	-	-	53,585
Government grants and contracts	24,318	-	-	24,318
Private grants and contracts	8,724	-	-	8,724
Private gifts	3,190	4,003	-	7,193
Investment return	14,399	10,022	-	24,421
Other sources	11,981	-	-	11,981
Net assets released from restrictions	14,976	(14,976)	-	-
Total operating revenues	<u>355,167</u>	<u>(951)</u>	<u>-</u>	<u>354,216</u>
Operating expenses				
Salaries	177,845	-	-	177,845
Benefits	48,504	-	-	48,504
Postretirement benefits	3,454	-	-	3,454
Purchased services	24,914	-	-	24,914
Materials and supplies	37,259	-	-	37,259
Depreciation	24,194	-	-	24,194
Interest	7,694	-	-	7,694
Utilities, taxes and insurance	12,830	-	-	12,830
Travel for scholarship, professional development and recruitment	7,059	-	-	7,059
Other	7,104	-	-	7,104
Total operating expenses	<u>350,857</u>	<u>-</u>	<u>-</u>	<u>350,857</u>
Net operating activities	<u>4,310</u>	<u>(951)</u>	<u>-</u>	<u>3,359</u>
Nonoperating activities				
Investment return	11,379	7,201	911	19,491
Net assets released from restrictions and changed restrictions	6,777	(6,777)	-	-
Capital contributions	1,779	4,585	5,735	12,099
Government grants and contracts	3,551	-	615	4,166
Postretirement benefit expense	(7,599)	-	-	(7,599)
Beneficiary payments and change in value of deferred giving arrangements	-	(290)	(412)	(702)
Other	(964)	-	255	(709)
Net nonoperating activities	<u>14,923</u>	<u>4,719</u>	<u>7,104</u>	<u>26,746</u>
Increase in net assets	19,233	3,768	7,104	30,105
Net assets at beginning of year	<u>597,964</u>	<u>85,443</u>	<u>88,447</u>	<u>771,854</u>
Net assets at end of year	<u>\$ 617,197</u>	<u>\$ 89,211</u>	<u>\$ 95,551</u>	<u>\$ 801,959</u>

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

Rochester Institute of Technology
Consolidated Statements of Cash Flows
Years Ended June 30, 2006 and 2005

<i>(in thousands of dollars)</i>	2006	2005
Cash flows from operating activities		
Increase in total net assets	\$ 45,093	\$ 30,105
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization expense	25,390	24,377
(Gain) loss on disposal and revaluation of property, plant and equipment	(96)	964
Net realized and unrealized gains on investments	(53,136)	(35,192)
Contributions and government grants restricted for long-term purposes	(28,171)	(13,245)
Loss on extinguishment of debt	2,257	-
Cumulative effect of a change in accounting principle	7,060	-
Net change in operating assets and liabilities	11,881	(3,181)
Accrued postretirement benefits	13,014	7,887
Net cash provided by operating activities	<u>23,292</u>	<u>11,715</u>
Cash flows from investing activities		
Purchases of investments	(182,276)	(304,275)
Proceeds from the sales and maturities of investments	178,775	301,705
Increase in student loans, net	(199)	(276)
Acquisition of property, plant and equipment, net	(37,473)	(17,700)
Net cash used in investing activities	<u>(41,173)</u>	<u>(20,546)</u>
Cash flows from financing activities		
Contributions and government grants restricted for long-term purposes	27,069	12,123
Payments of long-term debt	(68,764)	(17,497)
Proceeds from long-term debt	61,880	13,846
Change in cash and cash equivalents held with trustees	(489)	(1,040)
Bond issuance costs	(1,411)	-
Increase in government grants refundable	23	221
Net cash provided by financing activities	<u>18,308</u>	<u>7,653</u>
Net increase (decrease) in cash and cash equivalents	427	(1,178)
Cash and cash equivalents - beginning of year	<u>2,063</u>	<u>3,241</u>
Cash and cash equivalents - end of year	<u>\$ 2,490</u>	<u>\$ 2,063</u>
Supplemental disclosures		
Interest paid (including capitalized interest of \$723 in 2006)	\$ 7,319	\$ 7,681
Gifts of property, plant and equipment	1,102	1,122
Noncash investing and financing activities		
Increase in construction-related payables	\$ 46	\$ 1,730
Acquisition of assets under capital lease	-	300
Asset retirement obligations recognized	8,135	-
Asset retirement cost, net	1,075	-

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

Rochester Institute of Technology

Notes to Consolidated Financial Statements

June 30, 2006 and 2005

(in thousands of dollars)

1. Summary of Significant Accounting Policies

(a) Organization

Rochester Institute of Technology (the "University") is a privately endowed, co-educational university comprised of eight colleges: Applied Science and Technology, Business, Computing and Information Sciences, Engineering, Imaging Arts and Sciences, Liberal Arts, National Technical Institute for the Deaf ("NTID") and Science. Occupying 1,300 acres in Rochester, New York, the University has approximately 15,500 full and part-time graduate and undergraduate students and approximately 3,200 employees.

(b) University Affiliates

The financial position and results of operations of the following affiliates are consolidated into the financial results of the University:

- The 5257 West Henrietta Road, LLC (the "Inn" or the "LLC"), doing business as the RIT Inn & Conference Center, is a split-use 305-room full service hotel. Approximately 235 rooms are dedicated to student housing during the academic year. The Inn is a single member limited liability company with the University as its sole member.
- Rochester Institute of Technology Global Delivery Corporation ("GDC") is a not-for-profit subsidiary of the University established to strategically develop global instructional delivery opportunities. GDC is exempt from taxation under Section 501(c)(3) of the IRC.
- American College of Management and Technology ("ACMT") is a not-for-profit subsidiary in Croatia.
- RIT High Technology Incubator, Inc. ("HTI"), doing business as Venture Creations, is a not-for-profit wholly-owned subsidiary of the University. HTI was established to promote an environment for new and technologically innovative business through the use of research created by the University, its faculty, staff and students. HTI is exempt under Section 501(c)(3) of the IRC.

(c) Basis of Accounting

The consolidated financial statements of the University are prepared on the accrual basis of accounting and in conformity with generally accepted accounting principles in the United States of America. All significant intercompany transactions and accounts have been eliminated.

(d) Classifications of Net Assets

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

Rochester Institute of Technology
Notes to Consolidated Financial Statements
June 30, 2006 and 2005

(in thousands of dollars)

Unrestricted Net Assets

Unrestricted net assets represent resources that are generally available for support of the University's activities. Uses of certain unrestricted net assets are committed through contractual agreements. Such amounts consist primarily of matching funds under student loan programs of the federal government and required trustee balances under long-term debt agreements. In addition, grants and contracts received for the performance of certain services or functions are reported in unrestricted net assets. The Board of Trustees, through voluntary resolutions, has set aside portions of the University's unrestricted net assets for long-term investment purposes, acquisition of property, plant and equipment, and ongoing maintenance of plant facilities. Net investment in plant includes net property, plant and equipment less corresponding long-term debt.

Temporarily Restricted Net Assets

The University reports gifts of cash and other assets as restricted support when they are received with donor stipulations, including contributions via certain deferred giving trusts, that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated or implicit time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions.

Permanently Restricted Net Assets

Permanently restricted net assets result from gifts, deferred giving trusts and pledges in which donors stipulate that the principal be held permanently. The University expends part or all of the income derived from its endowment investments in accordance with donor restrictions and the University's total return spending policy.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as nonoperating increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

At June 30, 2006 and 2005, certain permanently restricted net assets had fair market values less than their respective original contributed values by an aggregate amount of \$469 and \$1,076, respectively. These aggregate losses are reflected as a reduction of unrestricted net assets in the nonoperating investment return in the financial statements in the year incurred. Subsequent market value gains on these funds will be recorded as increases to unrestricted net assets until the original corpus value of each fund is restored.

Revenues earned and expenses incurred during the year are classified on the University's consolidated statement of activities as either operating or nonoperating. Operating revenues consist primarily of those items attributable to the University's education programs or research conducted by the academic departments. Operating expenses are associated with the education programs, research conducted, University administration, and the operation and maintenance of the University's plant, including interest and depreciation expense.

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(in thousands of dollars)

Nonoperating activities consist primarily of: (1) realized and unrealized gains or losses on investments, assets, liabilities; (2) investment return on endowed and funds functioning as endowed net assets, net of amounts released for current operations; (3) contributions for long-term investment purposes; (4) contributions of property, plant and equipment and cash gifts designated for acquisition of long-lived assets; (5) government grants and contracts awarded for the renovation and construction of on-campus facilities; (6) the components of the postretirement benefit expense associated with the prior service cost as of the implementation date of FASB Statement No. 106, *Employers Accounting for Postretirement Benefits Other than Pensions*, and associated actuarial gains and losses due to changes in actuarial assumptions and plan amendments; (7) gain or loss on disposal and revaluation of property, plant and equipment; (8) changes to the actuarial liability and payments to beneficiaries of annuity and life income net assets; and (9) changes in the fair value of derivative instruments within the University's long-term debt portfolio.

(e) Cash and Cash Equivalents

Cash and cash equivalents are carried at cost, which approximates fair value, and include cash on deposit with financial institutions and money market funds. Cash and cash equivalents on deposit with bond trustees includes cash, money market funds and U.S. government securities with maturities of three months or less when purchased. Securities and cash and cash equivalents maintained by the University's investment managers as part of the intermediate and long-term investment portfolios and are included in investments in the consolidated balance sheets.

(f) Contributions

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions to be received after one year are discounted using a risk-free interest rate. Amortization of discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible contributions receivable is provided based upon management's judgment including such factors as prior collection history, type of contribution and nature of fundraising activity.

Contributions to acquire property, plant and equipment are recorded as temporarily restricted net assets and are released from restrictions at the time the asset is placed in service. As a result, \$14,810 and \$11,016 of assets contributed to acquire property, plant and equipment are recorded as temporarily restricted net assets as of June 30, 2006 and 2005, respectively.

Contributions of property, plant and equipment have been recognized as revenues and assets at their estimated fair value at the date of receipt based upon appraisals or similar valuations. The assets are depreciated over their estimated useful lives.

Contributions of works of art, historical treasures and similar assets held as part of a collection - for education, research or public exhibition rather than for sale - have been recognized as revenues and assets at their estimated fair value at the date of receipt based upon appraisals or similar valuations. In addition, purchased works of art, historical treasures and similar assets that are held as part of a collection have been capitalized.

Rochester Institute of Technology
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June 30, 2006 and 2005

(in thousands of dollars)

(g) Inventories

Inventory for the University's bookstore is valued at cost using the first-in, first-out ("FIFO") retail method. Other inventories are stated at the lower of cost, generally on a FIFO basis, or market value.

(h) Investments

Investments are reported at their estimated fair value. Marketable securities are valued at the last reported sales price on the last business day of the fiscal year. Quotations are obtained from national securities exchanges. Purchases and sales of securities are recorded on a trade date basis. Dividend income is recorded on the ex-dividend date.

Fair value of certain private equity, hedge fund, and real asset investments (collectively referred to as "alternative investments"), held through limited partnerships or commingled funds are based on current information obtained from the general partner or investment manager or, when available, from readily determinable market values. Factors used by the investment managers or general partners to value such non-marketable investments include, but are not limited to, restrictions affecting marketability, operating results, financial condition of the issuers, transactions of similar issues, industry standard valuation methodologies, and the price of the most recent financing.

With regard to certain net assets restricted to or designated for long-term investment, the University distributes an amount of investment return to operations based on 5% of a rolling 20-quarter average of the fair value of these investments. Effective as of March 2006, the University amended its spending policy to ensure that the total spending distribution is at least equal to 3.50% but not greater than 5.25% of the beginning of year portfolio market value. During periods when investment income exceeds the distribution, such excess income is added to these investments. Likewise, when investment income is less than the distribution, such deficit is funded by accumulated excess income or accumulated gains.

(i) Property, Plant and Equipment

Land, site improvements, buildings, building improvements, equipment, gifts of software and construction-in-progress are stated at cost or fair value (if donated), less accumulated depreciation. Depreciation is recognized using the straight-line method with useful lives of 30 to 50 years for buildings, 10 to 30 years for site improvements, 5 to 20 years for furniture, fixtures and equipment, and 4 to 10 years for software. Land, works of art, historical treasures and similar assets are not depreciated. The cost and accumulated depreciation of property, plant and equipment sold or retired are eliminated from the accounts. Costs incurred for maintenance, repairs and renewals of relatively minor items are expensed as incurred.

In July 1998, the University entered into a long-term ground lease with Collegiate Housing Foundation ("the Foundation"), a national not-for-profit organization, for the construction of 768 on-campus residential housing units. Pursuant to this 30-year agreement, the financing and construction of these facilities is the exclusive responsibility of the Foundation. The Foundation owns these units and independently financed the construction costs of approximately \$27,000. As a result, the assets, related long-term debt and associated results of operations for the apartments are excluded from the University's financial statements.

Rochester Institute of Technology
Notes to Consolidated Financial Statements
June 30, 2006 and 2005

(in thousands of dollars)

(j) Grants and Contracts

Revenues from grants and contracts are generally recognized as earned, that is, as the related costs are incurred under the grant or contract agreements. Amounts received in advance are reported as deferred revenues.

(k) Classification of Operating Expenses

Operating expenses are reported in the consolidated statements of activities by natural classification.

(l) Income Taxes

The University is exempt from taxation under Section 501(c)(3) of the IRC.

(m) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and changes therein, 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 estimates.

(n) Derivatives Instruments

The University maintains an interest rate risk management strategy that provides for maximum flexibility within its debt structure, seeks to lower its cost of capital, and manages risk on a portfolio basis. The University does not hold or issue derivative financial instruments for trading purposes.

All derivative instruments are recognized as assets or liabilities in the consolidated balance sheets and measured at fair value. Changes in the fair value of derivative instruments are included in nonoperating activities in change in value of interest rate swap agreement in the consolidated statement of activities.

The University will discontinue the use of a derivative instrument when the derivative expires or is sold, is terminated, or when management determines that the derivative is no longer appropriate as a hedge instrument.

By using an interest rate swap to lower the University's cost of capital and to hedge exposures to changes in interest rates on its tax-exempt debt, the University is exposed to credit risk and market risk. Credit risk is the risk that the swap counterparty might fail to fulfill its performance obligations under the terms of the derivative contract. The University's policy for minimizing its exposure to credit risk requires it to enter into transactions with high-quality counterparties who are rated in the AA/Aa category, limit the amount of its exposure to each counterparty and monitor the financial condition of its counterparties. Market risk is the risk that the value of a financial instrument might be adversely affected by a change in interest rates and a change in the relationship in the underlying indices. The University manages market risk by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken.

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(in thousands of dollars)

(o) Accounting Pronouncements

At June 30, 2006, the University adopted FASB Interpretation No. 47 (FIN 47), *Accounting for Conditional Asset Retirement Obligations*. FIN 47 requires an entity to recognize a liability for the fair value of conditional asset retirement obligations (AROs) if the fair value of the liability can be reasonably estimated. The fair value of a liability for conditional AROs must be recognized when incurred, generally upon acquisition, construction, or development and/or through the normal operation of the asset. In accordance with the requirements of FIN 47, the University recorded asset retirement costs of \$2,982, net of accumulated depreciation of \$1,907 and conditional AROs of \$8,135. These conditional AROs relate to the costs associated with asbestos abatement and PCB removal. In addition, the University recorded a \$7,060 charge to unrestricted net assets as a cumulative effect of a change in accounting principle.

The following table illustrates the effect on net operating activities as if this interpretation had been applied for the fiscal years ended June 30:

	2006	2005
Net operating activities, as reported	\$ 4,418	\$ 3,359
Less: Total depreciation and interest accretion costs	<u>(406)</u>	<u>(391)</u>
Proforma net operating activities	<u>\$ 4,012</u>	<u>\$ 2,968</u>

In September 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, which is an amendment of SFAS No.'s 87, 88, 106 and 132(R). SFAS No. 158 requires employers to recognize the overfunded or underfunded status of postretirement plans as an asset or liability in its balance sheet and to recognize changes in that funded status in the year in which the changes occur through changes in unrestricted net assets. This statement also requires an employer to measure the funded status of the plans as of the date of its year-end balance sheet. The University is reviewing and analyzing the impact of the adoption of this new pronouncement.

(p) Risks and Uncertainties

The University's investments are exposed to various risks, such as interest rate, market and credit. Due to the level of risk associated with certain investments and the level of uncertainty related to changes in the value of investments, it is at least possible that changes in risks in the near term would materially affect the amounts reported in the financial statements.

Rochester Institute of Technology
Notes to Consolidated Financial Statements
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(in thousands of dollars)

2. Contributions Receivable

Contributions receivable and related allowances for uncollectible receivables and discounts for present value on long-term pledges are summarized as follows at June 30:

	2006	2005
Unconditional promises expected to be collected in:		
Less than one year	\$ 10,524	\$ 11,203
One year to five years	9,027	12,269
Over five years	1,836	1,082
	<u>21,387</u>	<u>24,554</u>
Less:		
Allowance for uncollectible contributions receivable	(2,202)	(1,988)
Discount for present value	(1,058)	(911)
	<u>\$ 18,127</u>	<u>\$ 21,655</u>

3. Investments

Investments held by the University consist of the following at June 30:

	2006		2005	
	Cost	Fair Value	Cost	Fair Value
Cash and cash equivalents	\$ 6,961	\$ 6,961	\$ 5,349	\$ 5,349
Fixed income	213,181	222,738	196,271	212,461
Equities	229,982	291,112	235,986	277,940
Alternatives:				
Private equity	46,891	43,352	44,824	39,459
Hedge funds	51,172	64,478	42,045	49,658
Real assets	46,493	53,991	37,872	41,128
Total alternatives	<u>144,556</u>	<u>161,821</u>	<u>124,741</u>	<u>130,245</u>
Total investments	<u>\$ 594,680</u>	<u>\$ 682,632</u>	<u>\$ 562,347</u>	<u>\$ 625,995</u>

Certain fixed income investments with original maturities greater than three months represent amounts for building and equipment renewals and replacements and retirement of indebtedness costs under financing agreements with the Dormitory Authority of the State of New York (DASNY) required to be held by trustees (see Note 6). Amounts held in these accounts on June 30, 2006 and 2005 were \$1,134 and \$4,362, respectively.

Certain investments pertaining to deferred giving trusts are included in cash and cash equivalents, fixed income and equity securities at fair value totaling \$14,323 and \$13,603 at June 30, 2006 and 2005, respectively.

Rochester Institute of Technology
Notes to Consolidated Financial Statements
June 30, 2006 and 2005

(in thousands of dollars)

Total Investment Return

The following schedule summarizes the total investment return and its classification in the consolidated statements of activities for the fiscal years ended June 30:

	2006	2005
Dividends and interest	\$ 19,238	\$ 12,000
Net realized and unrealized gains on investments	<u>53,136</u>	<u>35,192</u>
Total investment return	72,374	47,192
Spending policy allocated for operating activities	20,672	20,464
Interest and dividends on working capital and facilities reserves	<u>4,724</u>	<u>3,957</u>
Total operating investment return	<u>25,396</u>	<u>24,421</u>
Investment return allocated for nonoperating activities	46,978	22,771
Endowment investment management fees and other expenses	<u>(5,621)</u>	<u>(3,280)</u>
Net nonoperating investment return	<u>\$ 41,357</u>	<u>\$ 19,491</u>

Certain of the University's managers use derivative financial instruments as a part of their overall investment strategy. These strategies include the use of mortgage-backed securities and collateralized mortgage obligations in the endowment and working capital portfolio. These derivatives are highly liquid exchange-traded securities that are issued by government agencies or other high quality corporate issues. The uses of these derivative instruments are not believed to materially increase the credit or market risk of the University's investments.

The University's asset allocation to alternative investment categories was adopted to achieve higher expected total returns over the long-term, while improving the overall risk profile of the portfolio. The asset strategy takes into account market risks and diversification as well as the historical and expected correlation of the various asset categories in an effort to lower the total market risks. Further, the University will limit allocations to individual managers in these asset classes to no more than 3% of portfolio market value. Total managers in the alternative asset category were 35 and 28 at June 30, 2006 and 2005, respectively.

Certain investments are pooled on a fair value basis, with each individual fund subscribing to or disposing of units on the basis of the fair value per unit at the end of the calendar quarter within which the transaction takes place. The University established a separate investment pool ("Pool II") for NTID during 1989 in accordance with the federal program established by Public Law 99-371 (August 4, 1986) to support NTID.

The federal program stipulates that the investment of annual additions to Pool II is restricted to IRC 501(f) investment organizations. After a period of 10 years, the University can elect to invest the funds consistent with the University's overall long-term investment strategy. At June 30, 2006 and 2005, the federal endowment was comprised of 22,397 and 22,397 units of Pool I, respectively, and 51,735 and 47,290 units of Pool II, respectively.

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The following schedule summarizes certain information about pooled assets on a per unit basis:

	Pool I		Pool II	
	2006	2005	2006	2005
Number of units	985,781	932,300	51,735	47,290
Fair value per unit	\$ 560.27	\$ 519.96	\$ 316.65	\$ 295.89
Average earnings per unit, exclusive of realized and unrealized gains	\$ 14.13	\$ 8.51	\$ 6.34	\$ 5.82

Spending Policy

The Board of Trustees authorized a total return spending policy for Pool I, under which allowable income utilization is defined as 5% of the average unit values for the last 20 quarters ending March 31 of the preceding year. Effective as of March 2006 the University amended its spending policy to ensure that the total spending distribution is at least equal to 3.50% but not greater than 5.25% of the beginning of year portfolio market value. New gifts to the endowment participate in the spending policy in the quarter that begins subsequent to the date of the gift. The federal guidelines authorize a spending distribution from Pool II of not more than 50% of current year's investment income (interest and dividends only).

Securities Lending

The University participates in a securities lending program in which it lends a portion of its investments to third-party borrowers through a lending agent. All securities on loan are secured by collateral with a market value of at least 102% of the borrowed securities. These investments consist primarily of U.S. dollar-denominated fixed income (or adjustable rate) securities and U.S. government-backed obligations with generally short maturities. The lending agent is responsible for ensuring the credit worthiness of the borrowers, maintaining the collateral assets in high quality investments and marking the collateral to market on a daily basis. The University is indemnified against borrower default by the lending agent. The securities lending transactions as of and for the fiscal years ended June 30 are as follows:

	2006	2005
Investments loaned to broker	\$ 25,801	\$ 25,531
Investments collateral	26,630	29,240
Income from securities lending	84	63

4. Student Loan Funds

Federal Perkins Loan Program funds of \$20,930 and \$20,907 at June 30, 2006 and 2005, respectively, are ultimately refundable to the U.S. government and are classified as liabilities. Due to the nature and terms of student loans that are subject to significant restrictions, it is not practicable to determine the fair values of such receivables.

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5. Property, Plant and Equipment

Property, plant and equipment at June 30 is as follows:

	2006	2005
Land and site improvements	\$ 40,587	\$ 37,271
Buildings and building improvements	483,983	464,000
Equipment, library, software and works of art	122,907	123,387
Construction-in-progress	18,738	8,290
	<u>666,215</u>	<u>632,948</u>
Less: Accumulated depreciation	(256,261)	(237,322)
Property, plant and equipment, net	<u>\$ 409,954</u>	<u>\$ 395,626</u>

6. Long-Term Debt

Long-term debt at June 30 is as follows:

	2006	2005
DASNY Rochester Institute of Technology		
Insured Revenue Bonds:		
Series 1993, 4.75%	\$ -	\$ 4,305
Series 1997, 5.00% to 6.00%	7,221	64,812
Series 1999, 4.50% to 5.25%	12,541	12,540
Series 2002A, 5.25%	41,283	41,332
Series 2002B, 4.00% to 5.00%	15,718	18,975
Series 2006, 4.00% to 5.25%	61,667	-
Taxable Adjustable Rate Bonds, Series 2004	13,260	13,849
Note payable, variable rate	-	1,112
Capital leases	249	343
	<u>\$ 151,939</u>	<u>\$ 157,268</u>

DASNY - 1993

The University had an agreement with DASNY whereby DASNY issued \$22,620 in insured revenue bonds (Series 1993). Bond proceeds were used to repay a bridge loan of \$17,500 which had been incurred to refund \$8,300 in DASNY revenue bonds issued in 1984 and \$9,200 in County of Monroe Industrial Development Bonds (COMIDA) issued in 1990. Proceeds were also used to refund a \$2,190 Series D obligation under a leasehold agreement with DASNY. Series 1993 was repaid on its final scheduled maturity date of July 1, 2005.

Under the agreement, the University had on deposit with a trustee at June 30, 2005 certain securities having a fair value of \$7,657. These assets were pledged as collateral to the bonds.

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DASNY - 1997

The University has an agreement with DASNY whereby DASNY issued \$66,740 in insured revenue bonds (Series 1997). These bonds were comprised of 15 serial bonds and 3 term bonds. Bond proceeds were used to refund the remaining obligation of \$4,865 on the general and unconditional obligation Series E revenue bonds on September 1, 1997 at par value. Proceeds were also used to renovate campus housing and improve the technological infrastructure of the University.

During the year ended June 30, 2006, the University advance refunded \$58,115 of the outstanding Series 1997 (see DASNY – 2006 below). Net proceeds from the issuance of Series 2006 were used to purchase U.S. government obligations. Those securities were deposited in an irrevocable trust to provide for all future debt service payments on the refunded bonds callable on July 1, 2007. As a result, the refunded debt is considered to be defeased, and the liability for the advanced refunded bond and the assets of the irrevocable trust are excluded from the financial statements.

At June, 30, 2006, Series 1997 had a remaining outstanding principal balance of \$7,221. This series matures on July 1, 2007. The outstanding obligation is reported net of an unamortized discount of \$59 and \$608 at June 30, 2006 and 2005, respectively.

Under the agreement, the University had on deposit with a trustee at June 30, 2006 and 2005, certain securities having a fair value of \$7,065 and \$2,863, respectively. These assets are pledged as collateral to the bonds.

DASNY - 1999

The University has an agreement with DASNY whereby DASNY issued \$15,320 in insured revenue bonds (Series 1999). These bonds are comprised of 12 serial bonds. Bond proceeds were used for the construction and renovation of various academic buildings and upgrading of campus-wide communication networks. This issue matures on July 1, 2014. The outstanding balance is reported net of an unamortized discount of \$9 and \$10 at June 30, 2006 and 2005, respectively.

Under the agreement, the University had on deposit with a trustee at June 30, 2006 and 2005, certain securities having a fair value of \$307 and \$304, respectively. These assets are pledged as collateral to the bonds.

DASNY – 2002A and B

The University has an agreement with DASNY whereby DASNY issued \$60,000 in insured revenue bonds comprised of \$40,000 fixed rate bonds and \$20,000 variable rate demand bonds (Series 2002A and Series 2002B, respectively). The Series 2002A bonds are comprised of 9 serial bonds and 2 term bonds.

During the year ended June 30, 2006, the University reoffered \$15,545 of Series 2002B in fixed rate mode. The reoffered Series 2002B bonds are comprised of 16 serial bonds and 2 term bonds. Series 2002B was reoffered at a premium of \$174. The University redeemed \$3,015 in outstanding principal contemporaneously with the conversion.

The Series 2002B bonds were originally issued as variable rate demand bonds bearing interest determined weekly based on the market, unless converted to a fixed rate. The Series 2002B bonds were subject to tender for purchase at the option of the holders with seven-day notice and mandatorily upon conversion to a fixed rate or upon the expiration or termination of the liquidity

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facility. Purchases were payable from proceeds available from the remarketing of tendered Series 2002B bonds, from monies obtained under the liquidity facility, or from monies furnished by or on behalf of the University in accordance with the bond documents.

Proceeds of Series 2002A and 2002B were used for the construction and renovation of various campus buildings. These issues mature on July 1, 2032. The balance includes an unamortized premium of \$1,457 and \$1,332 at June 30, 2006 and 2005, respectively.

Under the agreement, the University had on deposit with a trustee at June 30, 2006 and 2005, certain securities having a fair value of \$1,599 and \$1,470, respectively. These assets are pledged as collateral to the bonds.

DASNY – 2006

The University has an agreement with DASNY whereby DASNY issued \$57,675 in insured revenue bonds (Series 2006). These bonds are comprised of 15 serial bonds. Series 2006 was issued at a premium of \$4,031. Proceeds were used to advance refund a substantial portion of the outstanding aggregate principal amount of Series 1997. Series 2006 matures on July 1, 2022. The outstanding balance includes an unamortized premium of \$3,992 at June 30, 2006.

Under the agreement, the University had on deposit with a trustee at June 30, 2006, certain securities having a fair value of \$584. These assets are pledged as collateral to the bonds.

Taxable Adjustable Rate Bonds – Series 2004

During fiscal 2002, the University received a donation of a former franchise hotel subject to a long-term capital lease. As of February 2004, the capital lease was terminated and title to the building was conveyed to the University's subsidiary, The 5257 West Henrietta Road, LLC (d/b/a "The RIT Inn & Conference Center"). The Inn assumed the underlying debt balance. During November 2004, the University refinanced this note payable through the issuance of taxable adjustable rate bonds (Series 2004).

The University has an agreement with First Albany Capital Inc. whereby First Albany Capital Inc. issued \$13,935 in taxable adjustable rate bonds (Series 2004). The Series 2004 bonds are variable rate demand bonds bearing interest determined weekly by a Remarketing Agent. The University has the option to convert the bonds to a fixed rate. This issue matures on November 1, 2021.

The Series 2004 bonds are subject to tender for purchase at the option of the holders with seven days notice and are subject to mandatory tender for purchase upon conversion to a fixed rate or upon the substitution of the liquidity facility as defined in the bond documents. Purchases are payable from proceeds available from the remarketing of tendered Series 2004 bonds, from monies obtained under the liquidity facility, or from monies furnished by or on behalf of the University in accordance with the bond documents. The outstanding obligation is reported net of an unamortized discount of \$80 and \$86 at June 30, 2006 and 2005, respectively.

Under the agreement, the University has established a self-liquidating agreement consenting to continuously own qualified investments in at least the coverage amount as of each valuation date. The coverage amount is defined as the fair market value of the qualified investments in an amount equal to 120% of the outstanding principal amount of the bonds.

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Notes Payable

As of June 30, 2003, the University assumed the outstanding balance of the building mortgage of the RIT Research Corporation, which was dissolved as of the same date. During October 2003, the University refinanced the note payable. The note payable was paid in full on February 28, 2006.

Capital Leases

The University has entered into various capital equipment and furniture lease agreements.

Required Principal Payments

The required principal payments for long-term debt for each of the years in the five-year period ending June 30, 2011 and thereafter are as follows:

2007	\$	6,057
2008		5,214
2009		5,576
2010		5,772
2011		5,961
Thereafter		123,359
Total	\$	<u>151,939</u>

Estimated Fair Value

At June 30, 2006, the fair value of the University's long-term debt instruments totaled \$152,528.

Interest Rate Swap

On May 22, 2006, the University entered into an interest rate swap agreement with a notional amount of \$40,000 with a third party (counterparty). The University entered into the interest rate swap agreement to reduce the effective interest rate on its fixed rate debt without the exchange of the underlying principal amount. Under this agreement the counterparty will pay the University a quarterly interest payment based on 70.6% of the weighted average of weekly resets of the USD-ISDA-swap rate with a designated maturity of 5 years (5-year LIBOR). The University will pay the counterparty a weighted average of weekly resets of the BMA Municipal Swap Index (BMA). The net settlement under the swap agreement of \$12 as of June 30, 2006 was recorded in nonoperating activities as an adjustment to the change in value of the interest rate swap agreement. As of June 30, 2006 the fair value of the interest rate swap was a liability of \$538 and was recorded in deferred revenues and other liabilities on the consolidated balance sheet. This agreement continues in effect until July 1, 2032.

7. National Technical Institute for the Deaf

Under an agreement with the U. S. government, the University has established NTID to provide technical training and education for deaf and hard of hearing persons. The federal government pays approximately 75% of total operating costs of NTID. These costs include direct operating expenses plus reimbursement to the University for indirect costs, tuition, fees, and room and board for NTID students using University facilities. The balance of the operating costs are covered from tuition collected from students and other revenues. The federal appropriation is applied for on an annual basis and its continuation is subject to the federal government's continued support of the program.

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8. Retirement Plans

Pension Plan

The University participates in contributory, defined contribution pension plans that are in accordance with IRC Section 403(b). These plans are administered by the Teachers Insurance Annuity Association (TIAA), College Retirement Equities Fund (CREF) and Fidelity Investments for substantially all full-time employees. It is the University's policy to currently fund defined contribution pension costs. Total pension expense for 2006 and 2005 was \$13,345 and \$12,918, respectively.

Postretirement Benefits

The University sponsors a defined benefit postretirement medical plan that covers substantially all employees. During fiscal 1995 the University amended its postretirement medical plan contribution schedule to require premium contributions until age 65 from all employees who retire after July 1, 1996. Under the prior plan, the University paid 100% of premiums for any employee retiring after age 60. Under the revised plan, an employee who retires before age 65 must contribute to premium payments until age 65.

Employees may retire if they are at least 55 years old (50 if hired prior to July 1996) with at least 10 years of full-time service (5 years if hired prior to July 1, 1990) and age plus service totals at least 70 at retirement. The plan is contributory and retiree contributions are assumed to increase at the same rate as active employee contributions. The University's postretirement medical plan is not funded.

During fiscal 2004, the University approved plan amendments to replace the existing contributory plan with employer funded retiree medical accounts (RMA) for employees hired on or after January 1, 2004. Employees hired on or after January 1, 2004 are subject to the same plan eligibility criteria pursuant to the existing plan as amended in 1995. The University will fund nominal RMAs for employees in accordance with an established funding schedule. Future retirees participating in this RMA plan will have access to the medical insurance plans offered by the University to its active employees and retirees and are fully responsible for the cost of their elected coverage. The funds in the RMAs can only be used for Medicare and private medical insurance premiums.

The 2004 plan amendments also included changes to retiree contribution requirements for employees hired before January 1, 2004 and for retirees and dependents who become Medicare eligible on or after January 1, 2005.

Another element of the 2004 plan amendments included the adoption of a self-insured prescription drug plan, effective January 1, 2005 managed by a third-party pharmacy benefit manager. This new drug plan covers all eligible active employees and retirees.

The impact of these negative plan amendments was a reduction of the plan's accumulated postretirement benefit obligation of \$24,680, at June 30, 2004.

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The following table reflects the plans' funded status at June 30:

	2006	2005
Change in projected benefit obligation		
Projected benefit obligation at beginning of year	\$ 129,752	\$ 104,015
Service cost	4,123	2,762
Interest cost	6,527	5,751
Participants' contributions	284	244
Actuarial (gain) loss	(23,678)	20,390
Benefits paid	(3,427)	(3,410)
Projected benefit obligation at end of year	<u>\$ 113,581</u>	<u>\$ 129,752</u>
	2006	2005
Funded status		
Projected benefit obligation	\$ 113,581	\$ 129,752
Unamortized prior service benefit (cost)	5,318	6,198
Unrecognized net actuarial loss	(26,654)	(56,719)
Accrued benefit cost	<u>\$ 92,245</u>	<u>\$ 79,231</u>
Discount rates		
Net periodic benefit cost	5.25%	6.25%
Year-end benefit obligation	6.25%	5.25%

The components of net periodic postretirement benefit costs are as follows at June 30:

	2006	2005
Service cost	\$ 4,123	\$ 2,762
Interest cost	6,527	5,751
Amortization of unrecognized prior service (benefit) cost	(879)	(879)
Amortization of loss	6,385	3,419
Net periodic postretirement benefit cost	<u>16,156</u>	<u>11,053</u>
Net periodic postretirement benefit cost allocated for operating activities	<u>4,128</u>	<u>3,454</u>
Net periodic postretirement benefit cost allocated for nonoperating activities	<u>\$ 12,028</u>	<u>\$ 7,599</u>

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For measurement purposes, a 12.0% and 8.5% percent annual rate of increase in the per capita cost of covered medical and prescription drug benefits, respectively, was assumed for fiscal years 2006 and 2005, respectively. These rates were assumed to decrease gradually to 5.0% by 2011 and remain at that level thereafter.

The health care cost trend rate assumption has a significant effect on the amounts reported. A one-percentage-point change in the assumed health care cost trend rates would have the following effects:

	1% Point Increase	1% Point Decrease
Effect on total of service and interest cost components	\$ 2,507	\$ (1,867)
Effect on postretirement benefit obligation	20,635	(16,563)

Benefit Payments

At June 30, 2006, the aggregated future estimated benefit payments, which reflect future services, are as follows:

	Employer Contributions	Medicare Part D Subsidy
2007	\$ 3,606	\$ (582)
2008	4,118	(681)
2009	4,665	(794)
2010	5,219	(901)
2011	5,811	(1,011)
2012-2016	35,305	(6,326)

Contributions

The University's contributions to the plan, net of participant contributions and the Medicare subsidy are estimated to be \$3,024 for fiscal year 2007.

Medicare Prescription Drug Act

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 provides for a direct government subsidy for employers who continue to offer a retiree drug program that is deemed to be actuarially equivalent to the government plan. The University qualifies for the Medicare part D prescription drug federal subsidy. In accordance with FASB Staff Position 106-2, *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act (FSP 106-2)*, the University recorded the impact of the Act in its June 30, 2005 financial statements. The effect of the subsidy on the measurement of the net periodic postretirement benefit cost for fiscal year 2006 and 2005 is a decrease in expense of \$6,700 and \$2,204, respectively.

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9. Statement of Activities by Function

	2006	2005
Instruction	\$ 163,000	\$ 160,404
Research	28,719	27,749
Public service	13,296	11,653
Academic support	33,899	32,192
Student services	31,201	29,726
Institutional support	27,230	23,610
Auxiliary enterprises	68,897	65,523
	<u>\$ 366,242</u>	<u>\$ 350,857</u>

Institutional support includes fundraising expenses of \$4,255 and \$3,801 in 2006 and 2005, respectively. For purposes of reporting fundraising expenses, the University includes costs incurred by its Development Office and a portion specifically identifiable as fundraising assets within its Alumni Relations Office.

10. Commitments and Contingencies

The University is involved in legal actions arising in the normal course of activities and is subject to periodic audits and inquiries by various regulatory agencies. Although the ultimate outcome of such matters is not determinable at this time, management, after taking into consideration advice of legal counsel, believes that the resolution of pending matters will not have a materially adverse effect, individually or in the aggregate, upon the University's financial statements.

The University is obligated under certain investment agreements to periodically advance additional funding to various venture capital and private equity partnerships. Such commitments were approximately \$30,967 and \$30,859 at June 30, 2006 and 2005, respectively.

The University was committed under several construction contracts amounting to approximately \$17,426 and \$21,191 at June 30, 2006 and 2005, respectively. These contracts relate to the renovations and construction of various on-campus facilities.