

Rochester Institute of Technology

**Consolidated Financial Statements
June 30, 2007 and 2006**

Rochester Institute of Technology

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June 30, 2007 and 2006

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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, 2007 and 2006 and the changes in its net assets, and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of 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 discussed in Note 1 to the consolidated financial statements, at June 30, 2006, the University changed its method of accounting for conditional asset retirement obligations. Also discussed in Note 1, effective June 30, 2007, the University changed the manner in which it accounts for defined benefit plans and other postretirement plans.

PricewaterhouseCoopers LLP

August 31, 2007

Rochester Institute of Technology
Consolidated Balance Sheets
June 30, 2007

(in thousands of dollars)

	2007	2006
Assets		
Cash and cash equivalents	\$ 2,152	\$ 2,490
Cash and cash equivalents on deposit with bond trustees	5,507	8,421
Student accounts receivable, net of allowance of \$1,691 and \$1,569, respectively	11,086	10,726
Inventories and other assets	7,104	8,536
Contributions receivable, net	25,745	18,127
Collateral held under securities lending	26,816	26,630
Investments, at fair value	797,397	682,632
Notes and other accounts receivable, net of allowance of \$2,383 and \$2,308, respectively	42,048	46,671
Property, plant and equipment, net	<u>413,806</u>	<u>409,954</u>
Total assets	<u><u>\$ 1,331,661</u></u>	<u><u>\$ 1,214,187</u></u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 33,977	\$ 34,504
Deferred revenues and other liabilities	47,362	40,887
Payable under securities lending	26,816	26,630
Accrued postretirement benefits	105,739	92,245
Federal Perkins Loan Program advances	21,122	20,930
Long-term debt	<u>145,882</u>	<u>151,939</u>
Total liabilities	<u>380,898</u>	<u>367,135</u>
Net assets		
Unrestricted		
Expendable resources	474,247	407,734
Net investment in plant	<u>267,924</u>	<u>258,015</u>
Total unrestricted	742,171	665,749
Temporarily restricted	101,782	82,028
Permanently restricted	<u>106,810</u>	<u>99,275</u>
Total net assets	<u>950,763</u>	<u>847,052</u>
Total liabilities and net assets	<u><u>\$ 1,331,661</u></u>	<u><u>\$ 1,214,187</u></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, 2007
(With comparative totals for 2006)

(in thousands of dollars)

	2007			2006	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Operating revenues					
Tuition and fees, net of scholarships of \$88,328 and \$80,136, respectively	\$ 191,288	\$ -	\$ -	\$ 191,288	\$ 175,329
Sales and services of auxiliary enterprises	62,183	-	-	62,183	59,037
National Technical Institute for the Deaf federal appropriation	56,950	-	-	56,950	56,378
Government grants and contracts	25,342	-	-	25,342	25,761
Private grants and contracts	10,216	-	-	10,216	10,188
Private gifts	2,986	3,606	-	6,592	6,655
Investment return	19,356	8,367	-	27,723	25,396
Other sources	13,814	-	-	13,814	11,916
Net assets released from restrictions or reclassified	11,226	(11,226)	-	-	-
Total operating revenues	393,361	747	-	394,108	370,660
Operating expenses					
Salaries	191,031	-	-	191,031	182,901
Benefits	55,079	-	-	55,079	50,896
Postretirement benefits	2,799	-	-	2,799	4,128
Purchased services	26,274	-	-	26,274	25,970
Materials and supplies	41,181	-	-	41,181	39,370
Depreciation	25,596	-	-	25,596	25,296
Interest	6,381	-	-	6,381	6,549
Utilities, taxes and insurance	14,123	-	-	14,123	14,491
Travel for scholarship, professional development and recruitment	8,012	-	-	8,012	7,942
Other	7,172	-	-	7,172	8,699
Total operating expenses	377,648	-	-	377,648	366,242
Net operating activities	15,713	747	-	16,460	4,418
Nonoperating activities					
Investment return	45,818	35,517	1,067	82,402	41,357
Net assets released from restrictions or reclassified	28,329	(28,329)	-	-	-
Capital contributions	594	11,900	5,870	18,364	11,530
Government grants and contracts	2,613	-	932	3,545	13,113
Postretirement benefit expense	(7,018)	-	-	(7,018)	(12,028)
Beneficiary payments and change in value of deferred giving arrangements	-	(81)	(195)	(276)	(841)
Change in value of interest rate swap agreement	900	-	-	900	(526)
Other	(4,278)	-	(139)	(4,417)	(4,870)
Net nonoperating activities	66,958	19,007	7,535	93,500	47,735
Increase in net assets before cumulative effect of change in accounting principle	82,671	19,754	7,535	109,960	52,153
Cumulative effect of change in accounting principle	(6,249)	-	-	(6,249)	(7,060)
Increase in net assets	76,422	19,754	7,535	103,711	45,093
Net assets at beginning of year	665,749	82,028	99,275	847,052	801,959
Net assets end of year	\$ 742,171	\$ 101,782	\$ 106,810	\$ 950,763	\$ 847,052

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

Rochester Institute of Technology
Consolidated Statement of Activities
Year Ended June 30, 2006

(in thousands of dollars)

	2006			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Operating revenues				
Tuition and fees, net of scholarships of \$80,136	\$ 175,329	\$ -	\$ -	\$ 175,329
Sales and services of auxiliary enterprises	59,037	-	-	59,037
National Technical Institute for the Deaf federal appropriation	56,378	-	-	56,378
Government grants and contracts	25,761	-	-	25,761
Private grants and contracts	10,188	-	-	10,188
Private gifts	4,204	2,451	-	6,655
Investment return	17,260	8,136	-	25,396
Other sources	11,916	-	-	11,916
Net assets released from restrictions or reclassified	12,611	(12,611)	-	-
Total operating revenues	<u>372,684</u>	<u>(2,024)</u>	<u>-</u>	<u>370,660</u>
Operating expenses				
Salaries	182,901	-	-	182,901
Benefits	50,896	-	-	50,896
Postretirement benefits	4,128	-	-	4,128
Purchased services	25,970	-	-	25,970
Materials and supplies	39,370	-	-	39,370
Depreciation	25,296	-	-	25,296
Interest	6,549	-	-	6,549
Utilities, taxes and insurance	14,491	-	-	14,491
Travel for scholarship, professional development and recruitment	7,942	-	-	7,942
Other	8,699	-	-	8,699
Total operating expenses	<u>366,242</u>	<u>-</u>	<u>-</u>	<u>366,242</u>
Net operating activities	<u>6,442</u>	<u>(2,024)</u>	<u>-</u>	<u>4,418</u>
Nonoperating activities				
Investment return	24,309	16,838	210	41,357
Net assets released from restrictions or reclassified	27,990	(27,990)	-	-
Capital contributions	1,479	6,351	3,700	11,530
Government grants and contracts	12,698	-	415	13,113
Postretirement benefit expense	(12,028)	-	-	(12,028)
Beneficiary payments and change in value of deferred giving arrangements	-	(358)	(483)	(841)
Change in value of interest rate swap agreement	(526)	-	-	(526)
Other	(4,752)	-	(118)	(4,870)
Net nonoperating activities	<u>49,170</u>	<u>(5,159)</u>	<u>3,724</u>	<u>47,735</u>
Increase in net assets before cumulative effect of change in accounting principle	55,612	(7,183)	3,724	52,153
Cumulative effect of change in accounting principle	(7,060)	-	-	(7,060)
Increase in net assets	<u>48,552</u>	<u>(7,183)</u>	<u>3,724</u>	<u>45,093</u>
Net assets at beginning of year	<u>617,197</u>	<u>89,211</u>	<u>95,551</u>	<u>801,959</u>
Net assets end of year	<u>\$ 665,749</u>	<u>\$ 82,028</u>	<u>\$ 99,275</u>	<u>\$ 847,052</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, 2007 and 2006

<i>(in thousands of dollars)</i>	2007	2006
Cash flows from operating activities		
Change in net assets	\$ 103,711	\$ 45,093
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation, amortization and accretion expense	26,241	25,390
(Gain) loss on disposal of property, plant and equipment	(1,503)	508
Realized and unrealized net gains on investments	(91,896)	(53,136)
Contributions and government grants restricted for long term purposes	(16,596)	(24,822)
Loss on extinguishment of debt	-	2,257
Asset retirement obligation adjustment	5,579	-
Cumulative effect of change in accounting principles	6,249	7,060
(Increases) / decreases in		
Students accounts receivable	(360)	(335)
Inventories, prepaids and deferred charges	1,230	(7)
Contributions receivable	(7,616)	3,526
Other assets	3,523	(1,491)
Increases / (decreases) in		
Accounts payable and accruals	(525)	2,666
Deferred revenues	(393)	6,205
Accrued postretirement benefits	7,246	13,014
Net cash provided by operating activities	<u>34,890</u>	<u>25,928</u>
Cash flows from investing activities		
Purchases of investments	(265,106)	(182,276)
Proceeds from the sales and maturities of investments	242,238	178,775
Decrease in student loans	1,096	997
(Increase) / decrease in cash and cash equivalents held with bond trustees	2,914	(489)
Acquisition of property, plant and equipment	<u>(27,078)</u>	<u>(37,955)</u>
Net cash used in investing activities	<u>(45,936)</u>	<u>(40,948)</u>
Cash flows from financing activities		
Contributions and government grants restricted for long term purposes	16,317	23,719
Principal repayments of debt	(5,801)	(68,764)
Proceeds from issuance of long-term debt	-	61,880
Payment of bond issuance costs	-	(1,411)
Increase in refundable government grants for student loans	<u>192</u>	<u>23</u>
Net cash provided by financing activities	<u>10,708</u>	<u>15,447</u>
Net increase (decrease) in cash and cash equivalents	(338)	427
Cash and cash equivalents - beginning of year	<u>2,490</u>	<u>2,063</u>
Cash and cash equivalents - end of year	<u>\$ 2,152</u>	<u>\$ 2,490</u>
Supplemental disclosures		
Interest paid (including capitalized interest of \$726 and \$723 in 2007 and 2006, respectively)	\$ 7,089	\$ 7,319
Gifts of property, plant and equipment	279	1,102
Increase / (decrease) in construction-related payables	(905)	46

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

Rochester Institute of Technology

Notes to Consolidated Financial Statements

June 30, 2007 and 2006

(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 1,250 acres in Rochester, New York, the University has approximately 16,000 full and part-time graduate and undergraduate students and approximately 2,900 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. The Inn is exempt from taxation under Section 501(c)(3) of the IRC, but subject to unrelated business income tax on activities not related to the University's exempt purpose.
- 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. Included in the GDC affiliate is the American College of Management and Technology ("ACMT"), a not-for-profit entity that delivers instructional services in Croatia. GDC is exempt from taxation under Section 501(c)(3) of the IRC.
- 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 from taxation 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. Certain amounts for 2006 have been reclassified to conform to the current year presentation.

(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

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June 30, 2007 and 2006

(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, certain permanently restricted net assets had fair market values less than their respective original contributed values by an aggregate amount of \$469. 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 have been recorded as increases to unrestricted net assets until the original contributed value of each fund was restored. There were no such permanently restricted net assets at June 30, 2007.

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.

Rochester Institute of Technology
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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 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 and associated actuarial gains and losses due to changes in actuarial assumptions and plan amendments; (7) gain or loss on disposal of property, plant and equipment; (8) changes in estimate for conditional asset retirement obligations; (9) changes to the actuarial liability and payments to beneficiaries of annuity and life income net assets; and (10) changes in the fair value of derivative instruments within the University's long-term debt portfolio.

Revisions to Net Assets

In 2007, certain prior-year board-designated and endowed funds were deemed to require reclassification from temporarily restricted net assets to unrestricted net assets. The "Net assets released from restriction or reclassified" in the nonoperating section of the 2006 Consolidated Statement of Activities has been revised to include \$13,826 relating to these reclassified amounts. Additionally, the operating section of the 2006 Consolidated Statement of Activities was revised to reflect \$2,033 in additional unrestricted investment return with a corresponding reduction in net assets released from restrictions or reclassified.

(e) Cash and Cash Equivalents

Cash and cash equivalents are carried at fair value, and include cash on deposit with financial institutions and money market funds with maturities of three months or less when purchased. Cash and cash equivalents on deposit with bond trustees include cash, money market funds and U.S. government securities with maturities of three months or less when purchased and are limited as to use for payments of debt principal and interest. 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. For the Statement of Cash Flows, the University considers all cash and cash equivalent balances, except for those on deposit with bond trustees and those included within investments on the Balance Sheet.

(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, which ranges from 2.3% to 6.3%, based upon the fiscal year in which the contribution was received. Amortization of discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for potentially 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.

Rochester Institute of Technology
Notes to Consolidated Financial Statements
June 30, 2007 and 2006

(in thousands of dollars)

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, \$24,400 and \$14,810 of assets contributed to acquire property, plant and equipment are recorded as temporarily restricted net assets as of June 30, 2007 and 2006, respectively:

	2007	2006
Unexpended gifts	\$ 3,708	\$ 4,608
Pledges receivable	20,692	10,202
	<u>\$ 24,400</u>	<u>\$ 14,810</u>

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.

(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. In fiscal year 2007, the University entered into an agreement with Barnes & Noble College Booksellers, Inc. ("Barnes & Noble") to begin operating portions of the University's bookstore effective July 1, 2007. The agreement anticipated the purchase by Barnes & Noble of textbook and related inventories on-hand as of that date, including the method by which the purchase price would be calculated. In accordance with those terms, the inventories shown as of June 30, 2007 are net of an allowance of \$200.

(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.

Rochester Institute of Technology

Notes to Consolidated Financial Statements

June 30, 2007 and 2006

(in thousands of dollars)

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. The University believes that these valuations are a reasonable estimate of fair value as of June 30, 2007 and 2006; but are subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for all of the investments existed.

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 and is reflected by the University as an operating lease. 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.

(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.

Rochester Institute of Technology
Notes to Consolidated Financial Statements
June 30, 2007 and 2006

(in thousands of dollars)

(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) Derivative 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 basis risk. Credit risk is the risk that the swap counterparty will not fulfill its 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. Basis 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 basis risk by establishing and monitoring parameters that limit the types and degree of basis risk that may be undertaken.

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(in thousands of dollars)

(o) Accounting Pronouncements

FASB Interpretation No. 47

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 on its consolidated Balance Sheet as of June 30, 2006. These conditional AROs relate to the costs associated with asbestos abatement and PCB removal. In addition, the University recorded a \$7,060 reduction in unrestricted net assets as a cumulative effect of a change in accounting principle for the fiscal year ended June 30, 2006.

The University recalculates its AROs annually and adjusts both the liability and the associated asset retirement cost. The following schedule shows the changes in ARO from June 30, 2006 to June 30, 2007:

ARO Balance as of June 30, 2006	\$	8,135
Change in estimate		6,167
Accretion expense		701
ARO Balance as of June 30, 2007	<u>\$</u>	<u>15,003</u>

The above change in estimate was made in conjunction with the associated changes in asset retirement cost and accumulated depreciation as follows:

	Asset Retirement Cost	Accumulated Depreciation
Balance as of June 30, 2006	\$ 2,982	\$ 1,907
Change in estimate	2,027	1,343
Depreciation expense		97
Balance as of June 30, 2007	<u>\$ 5,009</u>	<u>\$ 3,347</u>

The following table illustrates the effect on net operating activities as if this interpretation had been applied for the fiscal year ended June 30, 2006:

Net operating activities, as reported	\$ 4,418
Less: Total depreciation and interest accretion costs	<u>(406)</u>
Pro forma net operating activities	<u>\$ 4,012</u>

There is no proforma impact for the fiscal year 2007 as the depreciation and accretion expenses for the year have been adjusted to include the effect of the most recent ARO estimates.

Rochester Institute of Technology

Notes to Consolidated Financial Statements

June 30, 2007 and 2006

(in thousands of dollars)

SFAS No. 158

Effective June 30, 2007, the University adopted SFAS 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, including both the recognition and measurement date provisions. 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.

Upon adoption, the liability shown on the University's Balance Sheet as of June 30, 2007 has been stated at the actuarially determined accumulated postretirement benefit obligation, measured as of the financial statement date. The adoption of this pronouncement resulted in the recognition of a cumulative effect of a change in accounting principle of \$6,249. Further disclosures on the University's postretirement benefit obligations, as required by SFAS 158, are included in Footnote 8.

(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.

(q) Revisions to Consolidated Statement of Cash Flows

In 2007, certain 2006 contributions and government grants amounting to \$3,349 were determined not to be restricted for long-term purposes and were subject to incorrect reclassification from "Cash flows from operating activities" to "Cash flows from financing activities" in the 2006 Consolidated Statement of Cash Flows. Other items totaling \$713 overstated "Net cash provided by operating activities" and overstated "Net cash used in investing activities". The 2006 Statement of Cash Flows has been revised to properly reflect these changes.

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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:

	2007	2006
Unconditional promises expected to be collected in		
Less than one year	\$ 9,667	\$ 10,524
One year to five years	13,106	9,027
Over five years	7,605	1,836
	<u>30,378</u>	<u>21,387</u>
Less:		
Allowance for uncollectible contributions receivable	(1,664)	(2,202)
Discount for present value	(2,969)	(1,058)
	<u>\$ 25,745</u>	<u>\$ 18,127</u>

At June 30, 2007, the University had also received bequest intentions and certain other conditional promises to give totaling \$4,235. These intentions and conditional promises are not recognized as assets. If received, generally, contributions will be restricted for purposes stipulated by the donor.

3. Investments

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

	2007		2006	
	Cost	Fair Value	Cost	Fair Value
Cash and cash equivalents	\$ 25,001	\$ 25,001	\$ 6,961	\$ 6,961
Fixed Income	217,681	228,277	213,181	222,738
Equities	180,811	251,797	229,982	291,112
Alternatives				
Private equity	47,788	50,460	46,891	43,352
Hedge funds	135,554	172,072	51,172	64,478
Real assets	57,172	69,790	46,493	53,991
Total Alternatives	<u>240,514</u>	<u>292,322</u>	<u>144,556</u>	<u>161,821</u>
Total Investments	<u>\$ 664,007</u>	<u>\$ 797,397</u>	<u>\$ 594,680</u>	<u>\$ 682,632</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 (Note 6). Amounts held in these accounts on June 30, 2007 and 2006 were \$3,176 and \$1,134, respectively.

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Certain investments pertaining to deferred giving trusts are included in cash and cash equivalents, fixed income and equity securities at fair value totaling \$14,780 and \$14,323 at June 30, 2007 and 2006, respectively.

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:

	2007	2006
Dividends and interest	\$ 23,689	\$ 19,238
Realized and unrealized gains on investments, net of investment management fees and other expenses	<u>86,436</u>	<u>47,515</u>
Total investment return	<u>110,125</u>	<u>66,753</u>
Spending policy allocated for operating activities	20,712	20,672
Interest and dividends on working capital and facilities reserves	<u>7,011</u>	<u>4,724</u>
Total operating investment return	<u>27,723</u>	<u>25,396</u>
Investment return allocated for non-operating activities	<u>\$ 82,402</u>	<u>\$ 41,357</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 use of these derivative instruments is 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. The total numbers of managers in the alternative asset category were 41 and 28 at June 30, 2007 and 2006, 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, 2007 and 2006, the federal endowment was comprised of 22,397 and 22,397 units of Pool I, respectively, and 56,315 and 51,735 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	
	2007	2006	2007	2006
Number of Units	1,000,813	985,781	56,315	51,735
Fair value per unit	\$ 635.07	\$ 560.27	\$ 365.47	\$ 316.65
Average earnings per unit, exclusive of realized and unrealized gains	\$ 15.75	\$ 14.13	\$ 8.35	\$ 6.34

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 collateralized by securities 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:

	2007	2006
Investments loaned to brokers	\$ 26,108	\$ 25,801
Investments collateral	26,816	26,630
Income from securities lending	49	84

4. Student Loan Advances

Federal Perkins Loan Program advances of \$21,122 and \$20,930 at June 30, 2007 and 2006, 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 are as follows:

	2007	2006
Land and site improvements	\$ 42,328	\$ 40,587
Buildings and building improvements	522,731	483,983
Equipment, library, software and works of art	119,405	122,907
Construction-in-progress	5,922	18,738
	<u>690,386</u>	<u>666,215</u>
Less: Accumulated depreciation	(276,580)	(256,261)
Property, plant and equipment, net	<u>\$ 413,806</u>	<u>\$ 409,954</u>

6. Long-Term Debt

Long-term debt at June 30 is as follows:

	2007	2006
DASNY Rochester Institute of Technology		
Insured Revenue Bonds:		
Series 1997, 6.00%	\$ 2,505	\$ 7,221
Series 1999, 4.50% to 5.25%	12,542	12,541
Series 2002A, 5.25%	41,234	41,283
Series 2002B, 4.00% to 5.00%	15,357	15,718
Series 2006, 4.00% to 5.25%	61,430	61,667
Taxable Adjustable Rate Bonds, Series 2004	12,640	13,260
Capital leases	174	249
	<u>\$ 145,882</u>	<u>\$ 151,939</u>

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. This series matures on July 1, 2007. The outstanding obligation is reported net of an unamortized discount of \$30 and \$59 at June 30, 2007 and 2006, respectively.

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Under the agreement, the University had on deposit with a trustee at June 30, 2007 and 2006, certain securities having a fair value of \$3,880 and \$7,065, 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 \$8 and \$9 at June 30, 2007 and 2006, respectively.

Under the agreement, the University had on deposit with a trustee at June 30, 2007 and 2006, certain securities having a fair value of \$1,614 and \$307, 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 contemporaneously redeemed \$3,015 in outstanding principal 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 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 \$1,401 and \$1,457 at June 30, 2007 and 2006, respectively.

Under the agreement, the University had on deposit with a trustee at June 30, 2007 and 2006, certain securities having a fair value of \$1,760 and \$1,599, 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 \$3,755 and \$3,992 at June 30, 2007 and 2006, respectively.

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Under the agreement, the University had on deposit with a trustee at June 30, 2007 and 2006, certain securities having a fair value of \$1,429 and \$584, respectively. 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 \$75 and \$80 at June 30, 2007 and 2006, 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.

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, 2012 and thereafter are as follows:

2008	\$	5,214
2009		5,576
2010		5,772
2011		5,961
2012		6,191
Thereafter		117,168
	\$	<u>145,882</u>

Estimated Fair Value

At June 30, 2007, the fair value of the University's long-term debt instruments totaled \$146,519.

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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 is recorded in nonoperating activities as an adjustment to the change in value of the interest rate swap agreement. As of June 30, 2007, the fair value of the interest rate swap was an asset of \$350 and was recorded in Notes and Other Accounts Receivable on the consolidated Balance Sheet. This agreement continues in effect until July 1, 2032.

7. National Technical Institute for the Deaf (NTID)

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 72% 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 is 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.

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--College Retirement Equities Fund (TIAA-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 contribution expense for 2007 and 2006 was \$14,013 and \$13,435, 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.

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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 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.

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

	2007	2006
Change in projected benefit obligation		
Projected benefit obligation at beginning of year	\$ 113,581	\$ 129,752
Service cost	2,799	4,123
Interest cost	6,189	6,527
Participants' contributions	303	284
Actuarial gain	(14,258)	(23,678)
Benefits paid	(2,875)	(3,427)
Projected benefit obligation at end of year	<u>\$ 105,739</u>	<u>\$ 113,581</u>
Funded status		
Projected benefit obligation	\$105,739	\$113,581
Unamortized prior service benefit	-	5,318
Unrecognized net actuarial loss	-	(26,654)
Accrued benefit cost	<u>\$105,739</u>	<u>\$92,245</u>
Discount rates		
Net periodic benefit cost	6.25%	5.25%
Year-end benefit obligation	6.33%	6.25%

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In fiscal 2007, the University adopted FAS 158 and recognized a cumulative effect of a change in accounting principle of \$6,249 comprised of (\$4,439) in unrecognized prior service credit and \$10,688 of unrecognized actuarial loss. The components of net periodic postretirement benefit costs are as follows at June 30:

	2007	2006
Service cost	\$ 2,799	\$ 4,123
Interest cost	6,189	6,527
Amortization of unrecognized prior service benefit	(879)	(879)
Amortization of loss	1,708	6,385
Net periodic postretirement benefit cost	<u>9,817</u>	<u>16,156</u>
Net periodic postretirement benefit cost allocated for operating activities	2,799	4,128
Net periodic postretirement benefit cost allocated for nonoperating activities	<u>\$7,018</u>	<u>\$12,028</u>

For measurement purposes, a 10% and 11% annual rate of increase in the per capita cost of covered medical and prescription drug benefits, respectively, was assumed for fiscal year 2007. The corresponding rates for fiscal year 2006 were 11% and 13%, respectively. For the 2007 projections, these rates were assumed to decrease gradually to 5% by 2012 and remain at that level thereafter. The change in net periodic postretirement cost from 2006 to 2007 is largely attributable to a change in delivery of prescription benefits and an increase in the employee population eligible for the Retiree Medical Account.

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	\$ 1,800	\$ (1,370)
Effect on postretirement benefit obligation	18,003	(14,560)

Benefit Payments

At June 30, 2007, the aggregated future estimated benefit payments, which reflect future services, are as follows:

Fiscal Year(s)	Employer Payments
2008	\$ 3,076
2009	3,179
2010	3,870
2011	3,256
2012	3,339
2013-2017	<u>\$ 16,635</u>

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The University expects to recognize postretirement benefit amortization in fiscal 2008 of \$459, comprised of (\$879) for prior service credit and \$1,338 for actuarial loss.

Contributions

The University's contributions to the plan, net of participant contributions and the Medicare subsidy, are estimated to be \$3,076 for fiscal year 2008.

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. Prior to January 1, 2007, the University qualified 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 was a decrease in expense of \$6,700.

Effective January 1, 2007, the University changed the prescription drug coverage for Medicare-eligible retirees to insured Medicare Prescription Plans and, therefore, no longer qualifies for the employer subsidy under Medicare Part D. As such, the actuarial determination of the University's periodic postretirement benefit cost no longer includes the effect of any subsidy.

9. Statement of Activities – Operating Expenses by Function

	2007	2006
Instruction	\$ 166,959	\$ 163,000
Research	25,638	28,719
Public service	16,254	13,296
Academic support	35,200	33,899
Student services	34,373	31,201
Institutional support	27,664	27,230
Auxiliary enterprises	71,560	68,897
	<u>\$ 377,648</u>	<u>\$ 366,242</u>

Institutional support includes fundraising expenses of \$4,454 and \$4,255 in 2007 and 2006, 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.

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The University is obligated, under certain limited partnership agreements, to make additional capital contributions up to contractual levels. The timing and amounts of the contributions will be determined by the general partners. Such commitments were approximately \$52,287 and \$30,967 at June 30, 2007 and 2006, respectively.

The University was committed under several construction contracts amounting to approximately \$13,498 and \$17,426 at June 30, 2007 and 2006, respectively. These contracts relate to the renovations and construction of various on-campus facilities.