RENSSELAER POLYTECHNIC INSTITUTE

Combined Financial Statements

For the Years Ended
June 30, 1998 and 1997

RENSSELAER POLYTECHNIC INSTITUTE

COMBINED FINANCIAL STATEMENTS

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JUNE 30, 1998 AND 1997

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PRICEWATERHOUSECOOPERS

Report of Independent Accountants

To the Board of Trustees
Rensselaer Polytechnic Institute

In our opinion, the accompanying combined statements of financial position and the related combined statements of activities and of cash flows present fairly, in all material respects, the combined financial position of Rensselaer Polytechnic Institute at June 30, 1998 and 1997, and the combined changes in their net assets and their cash flows for the years then ended, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Institute'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 generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers LLP

Albany, New York
August 28, 1998

RENSSELAER POLYTECHNIC INSTITUTE

Combined Statements of Financial Position at June 30, 1998 and 1997 (in thousands)

Assets	*1998*	*1997*
Cash and cash equivalents	$21,102	$17,865
Accounts receivable, net		
Student related and other	16,685	14,283
Research, training and other agreements	10,163	10,554
Pledges receivable	9,076	9,813
Inventories	1,785	1,954
Prepaid expenses and other assets	12,446	14,266
Deposits with bond trustees	18,972	26,945
Student loans receivable, net	32,084	32,897
Investments, at market	497,431	444,888
Land, buildings and equipment, net	218,763	210,881
Total assets	838,507	784,346

Liabilities		
Accounts payable and accrued expenses	23,094	23,351
Deferred gift obligations	18,377	16,516
Deferred revenue	6,167	6,959
Short-term portion of long-term debt	8,828	7,856
Notes payable	1,800	2,200
Deposits	456	1,380
Accrued postretirement benefits	11,677	11,694
Refundable government loan funds	21,415	20,357
Long-term debt	102,308	111,083
Total liabilities	194,122	201,396
Net Assets		
Unrestricted	442,067	399,462
Temporarily restricted	79,580	67,375
Permanently restricted	122,738	116,113
Total net assets	644,385	582,950
Total liabilities and net assets	$838,507	$784,346

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

RENSSELAER POLYTECHNIC INSTITUTE

Combined Statement of Activities for the year ended June 30, 1998 (in thousands), with comparative 1997 totals

	Unrestricted	*Temporarily Restricted*	*Permanently Restricted*	*Total 1998*	*Total 1997*
Operating Revenue:					
Student related revenue:					
Student tuition and fees, net					
Graduate	$22,637	$	$	$22,637	$22,047
Undergraduate	47,912			47,912	44,926
Continuing education	26,795			26,795	22,469
Fees	444			444	277
Sales and service of auxiliaries	27,926			27,926	25,361
Student related revenue	125,714			125,714	115,080
Gifts	7,431	9,186		16,617	19,178
Grants and contracts:					
Federal and State	34,535			34,535	33,887
Private	5,900	28		5,928	6,822
Grants and contracts	40,435	28		40,463	40,709
Investment return:					
Dividends and interest	9,698	2,935		12,633	12,830
Realized gains spent	4,557	1,907		6,464	5,993
Interest on student loans	969			969	1,099
Investment return	15,224	4,842		20,066	19,922
Rensselaer Technology Park	4,866			4,866	4,912
Other	6,919			6,919	6,048
Net assets released from restrictions	10,303	(10,303)			
Total operating revenue	210,892	3,753		214,645	205,849
Operating Expenses:					
Instruction	87,123			87,123	80,879
Research:					
Sponsored	31,427			31,427	31,188
Departmental	4,549			4,549	5,722
Student services	5,754			5,754	5,416
Institutional and academic support	38,640			38,640	37,501
Externally funded scholarships and fellowships	6,621			6,621	6,362
Auxiliary enterprises	22,693			22,693	22,697
Rensselaer Technology Park	3,967			3,967	4,130
Voluntary Separation Program					4,124
Other	3,863			3,863	2,721
Total operating expenses	204,637			204,637	200,740
Change in net assets from operating activities	6,255	3,753		10,008	5,109
Non-operating:					
Realized and unrealized gains, net	38,448	9,076	1,811	49,335	52,593
Expired life income contracts	22	(725)	703		
Life income and endowment gifts		2,154	4,111	6,265	8,488
Change in value of deferred gifts		(2,053)		(2,053)	(1,068)
Loss on disposal of assets	(2,120)			(2,120)	(1,049)
Change in net assets from non-operating activities	36,350	8,452	6,625	51,427	58,964
Total change in net assets	42,605	12,205	6,625	61,435	64,073
Net assets at beginning of year	399,462	67,375	116,113	582,950	518,877
Net assets at end of year	$442,067	$79,580	$122,738	$644,385	$582,950

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

RENSSELAER POLYTECHNIC INSTITUTE

Combined Statement of Activities for the year ended June 30, 1997 (in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 1997
Operating Revenue:				
Student related revenue:				
Student tuition and fees, net				
Graduate	$22,047	$	$	$22,047
Undergraduate	44,926			44,926
Continuing education	22,469			22,469
Fees	277			277
Sales and service of auxiliaries	25,361			25,361
Student related revenue	115,080			115,080
Gifts	9,008	10,170		19,178
Grants and contracts:				
Federal and State	33,887			33,887
Private	6,716	106		6,822
Grants and contracts	40,603	106		40,709
Investment return:				
Dividends and interest	9,632	3,198		12,830
Realized gains spent	4,333	1,660		5,993
Interest on student loans	1,099			1,099
Investment return	15,064	4,858		19,922
Rensselaer Technology Park	4,912			4,912
Other	6,048			6,048
Net assets released from restrictions	11,763	(11,763)		
Total operating revenue	202,478	3,371		205,849
Operating Expenses:				
Instruction	80,879			80,879
Research:				
Sponsored	31,188			31,188
Departmental	5,722			5,722
Student services	5,416			5,416
Institutional and academic support	37,501			37,501
Externally funded scholarships and fellowships	6,362			6,362
Auxiliary enterprises	22,697			22,697
Rensselaer Technology Park	4,130			4,130
Voluntary Separation Program	4,124			4,124
Other	2,721			2,721
Total operating expenses	200,740			200,740
Change in net assets from operating activities	1,738	3,371		5,109
Non-operating:				
Realized and unrealized gains, net	42,543	8,348	1,702	52,593
Expired life income contracts	283	(283)		
Life income and endowment gifts		2,761	5,727	8,488
Change in value of deferred gifts		(1,068)		(1,068)
Loss on disposal of assets	(1,049)			(1,049)
Change in net assets from non-operating activities	41,777	9,758	7,429	58,964
Total change in net assets	43,515	13,129	7,429	64,073
Net assets at beginning of year	355,947	54,246	108,684	518,877
Net assets at end of year	$399,462	$67,375	$116,113	$582,950

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

RENSSELAER POLYTECHNIC INSTITUTE

Combined Statements of Cash Flows for the years ended June 30, 1998 and 1997 (in thousands)

	1998	*1997*
Cash Flow from operating activities:		
Total change in net assets	$61,435	$64,073
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	16,521	18,077
Loss on disposal of assets	2,120	1,049
Provision for uncollectible accounts	1,728	2,212
Realized and unrealized gains on investments exceeding amount spent	(49,335)	(52,593)
Prepaid pension	1,904	1,991
Contributions of equipment and other capital items	(3,032)	(2,522)
Contribution restricted for long term investment	(6,265)	(8,488)
Other	(143)	(44)
Changes in operating assets and liabilities:		
Accounts receivable	(3,346)	(7,191)
Pledges receivable	344	(4,813)
Inventories	169	519
Prepaid expense and other assets	(84)	111
Accounts payable and accrued expenses	1,343	6,684
Present value of deferred gifts	1,861	1,075
Deferred revenue and deposits	(1,716)	691
Accrued postretirement benefits	(17)	25
Net cash provided by operating activities	23,487	20,856
Cash flow from investing activities		
Proceeds from sale of investments	387,350	338,248
Purchase of investments	(390,558)	(342,689)
Additional student loans granted	(4,064)	(3,333)
Student loans paid	5,232	5,685
Purchase of land, building and equipment, net	(23,491)	(23,864)
Net cash used in investing activities	(25,531)	(25,953)
Cash flow from financing activities		
Contributions restricted for endowments	6,265	8,488
Payment of annuity obligations	(1,632)	(1,352)
Proceeds from long term borrowings		13,648
Note payable	(400)	(700)
Repayment of debt	(7,983)	(8,154)
Government loan funds	1,058	(188)
Deposit with bond trustees	7,973	(8,177)
Net cash provided by financing activities	5,281	3,565
Net increase (decrease) in cash and cash equivalents	3,237	(1,532)
Cash and cash equivalents at beginning of the year	17,865	19,397
Cash and cash equivalents at end of the year	$21,102	$17,865
Non cash item:		
Gifts of equipment and other capital items	$3,032	$2,522
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	$5,709	$5,943

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

Rensselaer Polytechnic Institute (Rensselaer) is a nonsectarian, coeducational institution composed of five schools: Architecture, Engineering, Humanities and Social Sciences, Lally School of Management and Technology, and Science. More than 100 programs and 700 courses lead to bachelor's, master's, and doctoral degrees in all five schools.

BASIS OF PRESENTATION

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

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

Expenses are generally reported as decreases in unrestricted net assets. Expirations of donor-imposed stipulations that simultaneously increase one class of net assets and decrease another are reported as reclassifications between the applicable classes of net assets.

Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value at the date of gift. Contributions and investment return with donor-imposed restrictions are reported as temporarily restricted revenues and are reclassified to unrestricted net assets when an expense is incurred that satisfies the donor-imposed restriction.

Non-operating activities include realized and unrealized gains on investments not used to support operations, changes in the value of deferred gift arrangements and life income and endowment gifts.

BASIS OF PRESENTATION (continued)

All highly liquid debt instruments purchased with an original maturity of three months or less are considered to be cash equivalents.

Inventories consist mainly of bookstore goods and maintenance supplies and are stated at the lower of cost or current market value, based upon the first-in, first-out method.

Land, buildings and equipment are carried at cost or at the fair market value at the date of the gift. Depreciation is computed on a straight-line basis over the estimated useful lives of buildings (50 years) and equipment (3-20 years). All gifts of land, buildings and equipment are recorded as unrestricted operating activity unless explicit donor stipulations specify how the donated assets must be used. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the donor restrictions are reported as being released when the donated or acquired long-lived assets are placed in service.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

Certain 1997 balances have been reclassified to conform with the 1998 presentation. A reclass of Center activity reduced the Rensselaer Learning Institute's revenues and expenses by $14,717,000 in 1997.

RENSSELAER HARTFORD GRADUATE CENTER, INC.

On December 31, 1996, Rensselaer and Rensselaer Hartford Graduate Center, Inc., formerly The Hartford Graduate Center, Inc., signed an Agreement for Governance whereby the Center became a membership corporation with Rensselaer as the sole member of the Center. In accordance with AICPA Statement of Position 94-3, Reporting of Related Entities by Not-for-Profit Organizations, Rensselaer combined the accounts of the Center.

Selected Center financial data is as follows:

	(In Thousands) 1998	1997
Net assets		
Unrestricted	$ 9,714	$ 6,757
Temporarily restricted	84	81
Total net assets	$ 9,798	$ 6,838
Revenue (after release of restrictions)		
Rensselaer Learning Institute	$ 14,093	$ 11,358
Other unrestricted	14,069	12,489
Temporarily restricted	3	9
Total revenue	28,165	23,856
Expenses		
Rensselaer Learning Institute	12,258	7,307
Other expenses, including depreciation and amortization expenses of $512 in 1998 and $687 in 1997	12,947	15,269
Total expenses	$ 25,205	$ 22,576
Total change in net assets	$ 2,960	$ 1,280
Net cash generated from operations	$ 2,209	$ 2,718

COMBINED NET ASSETS

Combined net assets of Rensselaer are comprised of the following:

	(In Thousands)				
Detail of Net Assets	Unrestricted	Temporarily Restricted	Permanently Restricted	1998	1997
Operating					
Undesignated	$ 511	$	$	$ 511	$ 4,635
Board designated	16,562			16,562	11,822
Donor restricted for instruction, research and scholarship		26,164		26,164	23,979
Funding for facilities	140,070			140,070	130,766
Funding for student loans	3,159		2,665	5,824	5,083
Annuity and life income		20,154		20,154	17,434
Endowment and other assets functioning as endowment	281,765	33,262	120,073	435,100	389,231
Total net assets	$442,067	$ 79,580	$122,738	$644,385	$582,950

OTHER INFORMATION

Student tuition, net of institutional aid, is as follows:

	(In Thousands) 1998	1997
Graduate tuition	$ 22,637	$ 22,047
Undergraduate tuition	77,525	70,207
Less institutional aid	(29,613)	(25,281)
Net undergraduate tuition	47,912	44,926

Included in institutional and academic support are provisions for uncollectible student tuition accounts as follows:

	1998	1997
Graduate	$ 300	$ 300
Undergraduate	1,000	1,000
	1,300	1,300

Receivable allowances:	(In Thousands) 1998	1997
Student-related receivables	$ 3,721	$ 3,443
Loans to students	7,055	7,410
Rensselaer Hartford Graduate Center, Inc.	156	180
Rensselaer Technology Park	197	213
Research, training and other agreements	242	260
Total allowances	$ 11,371	$ 11,506

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

OTHER INFORMATION (continued)

Rensselaer has accrued $9,076,000 for unconditional pledges receivable of which $8,059,000 is expected to be collected in less than a year. The remaining $1,017,000 is expected to be collected over one to three years. Conditional pledges, which are not accrued, approximate $5,461,000 at June 30, 1998, of which $676,000 was unrestricted as to purpose. The remaining conditional pledges are restricted to purpose as follows: $1,600,000 current programs; $2,159,000 endowment; and $1,026,000 plant. It is anticipated that the conditional pledges will be collected over an average life of three years. Bequest expectancies totaling $31,076,000 have been excluded from these amounts and are not recorded in the financial statements.

Rensselaer has been awarded approximately $31,936,000 and $35,774,000 of grants and contracts which have not been advanced or expended as of June 30, 1998 and 1997, respectively, and accordingly, not recorded in the financial statements. Indirect cost recovery of $7,931,000 and $8,793,000 is included in grants and contracts revenue in 1998 and 1997. Unbilled receivables for research, training and similar agreements, at June 30, 1998 and 1997 were $1,766,000 and $2,021,000, respectively.

Rensselaer's deferred gift agreements with donors consist of irrevocable charitable remainder trusts and pooled income funds for which Rensselaer is the remainder beneficiary. Assets held in these trusts are included in investments. Contribution revenues are recognized at the dates the trusts are established net of the liabilities for the present value of the estimated future payments to be made to the donors and/or other beneficiaries. The liabilities are adjusted during the term of the trusts for changes in the value of the assets, accretion of the discount and other changes in the estimates of future benefits. The liability for the present value of deferred gifts of $18,377,000 and $16,516,000 at June 30, 1998 and 1997, respectively, is based upon actuarial estimates and assumptions regarding the duration of the agreements and the rates to discount the liability. Circumstances affecting these assumptions can change the estimate of this liability in future periods.

In September 1996, Rensselaer offered a Voluntary Separation Program (VSP) to tenured faculty and regular exempt and non-exempt employees who completed one year of service as of September 5, 1996. Rensselaer's cost for the program (including employee benefits) of $4,124,000 was recognized as an expense in 1997.

OTHER INFORMATION (continued)

The following table compares expenses by type for the years ended June 30, 1998 and 1997, respectively.

	(In Thousands) 1998	1997
Salaries and wages	$ 88,923	$ 84,628
Employee benefits excluding retirement	16,118	14,996
Retirement plan expense	4,113	3,921
Subtotal employee benefits	20,231	18,917
Total compensation	109,154	103,545
Supplies & services	31,334	30,323
Utilities	6,331	6,455
Employee travel	3,604	3,029
Taxes & insurance	2,758	1,852
Telecommunications	989	1,043
Library materials	1,686	1,739
Interest on debt	6,957	7,144
Depreciation	16,521	18,077
Student aid and fellowships	14,218	14,045
Provision for uncollectible accounts	1,728	2,212
Voluntary Separation Plan		4,124
Other	9,357	7,152
Total nonsalary	95,483	97,195
Total expenses	$204,637	$200,740

FINANCIAL INSTRUMENTS

Investments

Rensselaer's investments are recorded in the following manner:

Investments	Value as Recorded
Short term investments consisting principally of money market funds and short term notes	At quoted market value which approximates cost
Equity securities, bonds, notes	At quoted market value
Private equity partnerships	Estimated fair value determined by the general partner
Real estate and other	At cost

FINANCIAL INSTRUMENTS

Investments (continued)

As noted above, the values of certain investments as recorded are based upon estimates regarding their fair value. These values do not necessarily represent the amounts that Rensselaer would realize upon liquidation of these investments. Additionally, approximately $84,962,000 of the investment portfolio at June 30, 1998 is invested in international securities which are subject to the additional risk of currency fluctuation.

Realized gains and losses are recognized on an average cost basis when securities are sold. Purchase and sale transactions are recorded on a trade date basis.

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

(In Thousands)

	1998		1997	
	Carrying Value	Cost	Carrying Value	Cost
Short-term investments	$ 23,026	$ 23,113	$ 32,062	$ 32,062
Bonds and notes	137,072	133,474	109,244	107,527
Domestic equity securities	202,336	161,210	184,175	141,822
Foreign equity securities	84,962	72,857	82,370	60,144
Real estate	164	164	771	771
Private equity partnerships	49,727	40,619	35,166	28,749
Other	144	144	1,100	1,100
Total investments	$497,431	$431,581	$444,888	$372,175

Rensselaer has adopted a "total return" policy for endowment spending. This approach considers current yield (primarily interest and dividends) as well as the net appreciation in the market value of investments when determining a spending amount. Under this policy, the Board of Trustees establishes a spending rate which is then applied to the average market value of investments. Current yield is recorded as revenue and the difference between current yield and the spending rate produces the use of realized gains spent under the total return formula.

FINANCIAL INSTRUMENTS

Investments (continued)

Total gains (reflected as both operating and non-operating activity) are as follows:

	(In Thousands) 1998	1997
Realized gains	$60,013	$36,742
Unrealized (losses)/gains	(4,214)	21,844
Total realized and unrealized gains, net	$55,799	$58,586
Realized gains spent	(6,464)	(5,993)
Non-operating realized and unrealized gains, net	$49,335	$52,593

Investments include derivative financial instruments that have been acquired to reduce overall portfolio risk by hedging exposure to certain assets held in the portfolio. At June 30, 1998, there were approximately $5,992,000 of open or unsettled forward exchange contracts to sell foreign currency and $5,826,000 of open or unsettled forward exchange contracts to purchase foreign currency. These contracts are denominated in nine European and Asian currencies and will settle at various dates through May 1999. In addition, the following futures contracts were open at June 30, 1998.

	(In Thousands) Long Positioned	Short Positioned
United States Treasury Note Futures	$ 3,871	$3,871
United States Treasury Bond Futures	4,697	1,978
Municipal Bond Futures	1,743	0
	$10,311	$5,849

All futures contracts will expire in September 1998. Futures contracts are settled in cash at their fair value on a daily basis, while forward contracts are marked to market monthly. The market and credit risks related to these derivative investments are not materially different from the risks associated with similar underlying assets in the portfolio.

At June 30, 1998, Rensselaer has committed to investing an additional $34.0 million in various private equity and real estate limited partnerships.

Investment management fees were $1,657,000 and $1,594,000 in 1998 and 1997, respectively, and are netted against investment returns.

FINANCIAL INSTRUMENTS

Debt Outstanding (continued)

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

Outstanding debt and notes payable of Rensselaer are comprised of the following:

($ In Thousands)

	Original Amount	Year of Final Maturity	Weighted Average Annual Interest Rate	June 30 1998	June 30 1997
Core Debt					
US Department of Education Dormitory Bonds and 1988 Mortgage Loan	$ 3,500	2018	3.0%	$ 2,827	$ 2,926
Industrial Development Facility Issue: Series 1997A	13,240	2022	4.34%	13,046	13,038
Dormitory Authority of the State of New York (DASNY) Series B, C, D, Series 1991 & 1993	91,145	2022	5.6%	58,372	63,607
Power Authority State of New York, 1997	408	2004	6.5% (imputed)	408	408
New York Urban Development Corporation (UDC) CII mortgage loan	4,846	2026	11.1% (imputed)	4,477	4,540
School 14	2,100	2001	4.1%	933	1,167

FINANCIAL INSTRUMENTS

Debt Outstanding (continued)

($ In Thousands)

	Original Amount	Year of Final Maturity	Weighted Average Annual Interest Rate	June 30 1998	June 30 1997
Rensselaer Hartford Graduate Center, Inc. Debt					
State of Connecticut Health and Education Facilities Authority 1988 Mortgage Agreement	5,700	2006	6.4%	3,640	3,918
Subtotal core debt	120,939			83,703	89,604
Special Purpose Debt					
Rensselaer Technology Park Debt					
Industrial Development Facility 1988 and 1993 issues	5,495	2003	7.1%	2,489	3,072
Student Loan Marketing Association (Sallie Mae) 1990 issues	3,000	2000	9.0%	3,000	3,000
Fleet Bank Loan 1995	11,000	2005	7.0%	9,896	10,362
Student Loan Program Debt					
DASNY 1992 CUEL	15,999	2009	6.3%	12,048	12,773
Sallie Mae Student Loan Program	3,600	2002	6.2%	1,800	2,200
Incubator Center Debt					
UDC High Technology Incubators	200	1997	None	-0-	128
Subtotal Special Purpose Debt	39,294			29,233	31,535
Total Debt	$ 160,233			$112,936	$121,139

FINANCIAL INSTRUMENTS

Debt Outstanding (continued)

Debt principal outstanding is reflected net of bond discount and/or capitalized issuance cost where applicable in the amount of $2,458,000 and $2,638,000 at June 30, 1998 and 1997, respectively. Such costs are being amortized on the straight-line method over the term of the related indebtedness.

Long-term debt and notes payable are collateralized by certain physical properties with a carrying value of $93,077,000 and by pledges of specified portions of tuition, fees and revenues from various facilities. In addition, at June 30, 1998, Rensselaer had $5,889,000 of pledged endowment assets and $18,972,000 of assets held by trustees for construction, student loans, debt service and other project-related expenses. Certain of the long term debt and notes payable contain restrictive covenants including the maintenance of specified deposits with trustees.

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

On May 2, 1994, Rensselaer entered into an agreement with the Student Loan Marketing Association. The loan has been reduced to an outstanding principal balance of $1,800,000. The interest rate (currently at 6.2%) will reset bi-annually and the note will mature on June 16, 2002.

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

On October 14, 1996, Rensselaer entered into an agreement with the Power Authority of the State of New York, which provided an interest free loan, having a face amount of $1,928,000, for the purpose of financing the implementation of energy conservation improvement projects, as approved by the Authority. Approximately $719,000, the difference between the total of all drawdowns and the net present value of the liability discounted at a rate of 6.5% has been recorded as an addition to Rensselaer's net assets.

FINANCIAL INSTRUMENTS

Debt Outstanding (continued)

On March 12, 1997, Rensselaer entered into an agreement with Rensselaer County Industrial Development Agency, which provided a $13,240,000 loan for the purpose of financing the renovation of three of Rensselaer's buildings and the acquisition of a new student record system. The bonds will bear a variable interest rate established each bond year not to exceed 12% per annum.

On October 28, 1985, the Center entered into an agreement with the State of Connecticut Health and Educational Facilities Authority that provided a $5,700,000 mortgage for the purpose of constructing a parking garage. The mortgage bears an interest rate of 6.4% and matures on July 1, 2006. This debt is a general obligation of the Center.

The Center has a $1,500,000 line of credit agreement with a bank that bears interest at prime, as defined. This agreement matures on November 29, 1998. There were no borrowings under this agreement at June 30, 1998. Borrowings under this agreement are collaterized by certain investments, equipment and other income receipts of the Center.

Principal and interest payments due on all long-term debt as of June 30, 1998 for each of the next five fiscal years are:

	(In Thousands)
Year	Amount
1999	$15,957
2000	16,282
2001	18,779
2002	16,382
2003	14,768

The fair value of Rensselaer's financial debt instruments based on the borrowing rates currently available for loans with similar terms and average maturities was estimated at $126,172,000 on June 30, 1998.

LAND, BUILDINGS, AND EQUIPMENT

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

	(In Thousands)	
	1998	1997
Land and improvements	$ 15,961	$ 15,536
Buildings	255,599	236,148
Equipment	135,928	139,250
Construction in progress	5,170	11,948
Total land, buildings & equipment	412,658	402,882
Less accumulated depreciation	(193,895)	(192,001)
	$ 218,763	$ 210,881

RETIREMENT PLANS

Defined Benefit Plans

The following table sets forth Rensselaer's defined benefit plans' combined funded status and amounts recognized in Rensselaer's balance sheet at June 30, 1998 and 1997. The calculations were based upon data as of or projected to April 1, 1998 and 1997, respectively, except for employee census information which was as of July 1, 1997 and 1996 and projected to April 1, 1998 and 1997, respectively.

Actuarial present value of benefit obligations:

	(In Thousands)	
	1998	1997
Vested	$(189,080)	$ (158,776)
Accumulated	$(190,470)	$ (160,722)
Plan assets at fair value, consisting of group annuity insurance contracts and stocks and bonds	$207,973	$ 173,250
Projected present value of benefit obligations	(197,811)	(170,263)
Plan assets in excess of projected benefit obligation	10,162	2,987
Unrecognized net loss	18,912	30,073
Prior service cost not yet recognized in net periodic pension expense	4,804	5,454
	33,878	38,514
Remaining unrecognized transition asset	(21,834)	(24,566)
Prepaid pension cost (included in prepaid expenses and other assets)	$ 12,044	$ 13,948

RETIREMENT PLANS

Defined Benefit Plans (continued)

Net pension cost included the following components:

	(In Thousands) 1998	1997
Service cost	$ 4,586	$ 4,567
Interest cost on projected benefit obligation	11,957	10,912
Actual return on assets	(45,828)	(16,479)
Net amortization and deferral	31,189	2,197
Net periodic pension cost	1,904	1,197
Settlement and curtailment loss	0	76
Total pension cost	$ 1,904	$ 1,273

As of June 30, the weighted average rates forming the basis of net periodic pension cost and amounts recognized in Rensselaer's statement of financial position were:

	1998	1997
Discount rate	7.00%	7.50%
Expected long term rate of return	9.00%	9.00%
Salary progression	4.50%	5.00%

Net periodic pension cost is reflected in institutional and academic support. Rensselaer's funding policy is based upon and is in compliance with ERISA requirements. There were no employer contributions to the Plans in fiscal 1998 and 1997.

Defined Contribution Plan

Rensselaer also has a non-contributory Defined Contribution Retirement Plan open to full-time employees who have met minimum service requirements. Rensselaer's contributions to this plan (8.0% of employee salary) were $2,209,000 and $1,930,000 in fiscal 1998 and 1997, respectively.

Rensselaer Hartford Graduate Center, Inc.

The Center has its own pension plan in association with Teachers Insurance and Annuity Association and College Retirement Equities Fund (TIAA-CREF).

The TIAA-CREF plan is a money purchase plan so there is no past service cost. The Center's contributions to this plan (8% in 1998 and 11% in 1997 of employee salary) were $365,000 and $485,000 in fiscal 1998 and 1997, respectively.

RETIREMENT PLANS

Rensselaer Hartford Graduate Center, Inc. (continued)

Effective July 1, 1997, the Center established a defined contribution plan in association with Fidelity Investments. The Center has agreed to contribute 8% of the enrolled employees' total salaries as a match to the plan, which amounted to $97,000 for the year ended June 30, 1998.

POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

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

The following table sets forth the status of the combined plans, which are unfunded, as of June 30:

	(In Thousands) 1998	1997
Accumulated postretirement benefit obligation:		
Retirees	$ (3,921)	$ (3,366)
Fully eligible active plan participants	(699)	(733)
Other active plan participants	(4,668)	(3,799)
Total	(9,288)	(7,898)
Plan assets at fair value	0	0
Accumulated postretirement benefit obligation in excess of plan assets	(9,288)	(7,898)
Unrecognized prior service cost	(2,706)	(3,087)
Unrecognized net (gain) / loss	317	(709)
Accrued postretirement benefit cost	$(11,677)	$(11,694)

Net periodic postretirement benefit cost for the years ended June 30, 1998 and 1997 includes the following components and is included in academic and institutional support:

	(In Thousands) 1998	1997
Service cost of benefits earned	$ 274	$ 253
Interest cost on accumulated postretirement benefit obligation	605	542
Net amortization and deferral	(385)	(381)
Net periodic postretirement benefit cost	494	414
Curtailment gain	(161)	0
Total periodic postretirement benefit cost	$ 333	$ 414

POSTRETIREMENT BENEFITS OTHER THAN PENSIONS (continued)

Actual net claims paid by Rensselaer during 1998 and 1997 totaled approximately $350,000 and $375,000, respectively. The discount rate used in determining the expense for accumulated postretirement benefit obligation was 7.0% and 7.5% for 1998 and 1997 respectively. The assumed health care cost trend rate used was 9.5% and 10.0% for 1998 and 1997, respectively; decreasing gradually in future years to an ultimate rate of 5.5% by the year 2006. A plan amendment established a maximum of $85 per month for retired employees who retire after normal retirement age. Once Rensselaer's share of medical premiums for Medicare eligible retirees reaches the $85 per month maximum, the health care cost trend rate will no longer have any effect. An increase in the assumed health care cost trend rates by 1% per year would increase the accumulated postretirement benefit obligation by 3.60% and the service and interest cost components of the net periodic postretirement benefit cost by 4.88%.

Plan contributions and the actuarial present value of accumulated plan benefits are prepared based on certain assumptions pertaining to interest rates, inflation rates and employee demographics, all of which are subject to change. Due to uncertainties inherent in the estimations and assumptions process, it is at least reasonably possible that changes in these estimates and assumptions in the near term would be material to the financial statements.

SUBSEQUENT EVENTS

On August 3, 1998 Rensselaer entered into an agreement with Fleet Bank, which provided a $7,400,000 term loan for the Rensselaer Technology Park. Proceeds were used to refinance existing debt, and fund the construction of a new multi-tenant office building. The fully amortizing loan matures on August 1, 2013, and carries a floating interest rate at Libor plus one-quarter of one percent. In conjunction with this financing, Rensselaer entered into an interest rate swap agreement, effectively fixing the rate of interest at 6.3% for the term of the loan.