RENSSELAER POLYTECHNIC INSTITUTE

Combined Financial Statements

For the Years Ended
June 30, 2001 and 2000

RENSSELAER POLYTECHNIC INSTITUTE

COMBINED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2001 AND 2000

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PRICEWATERHOUSECOOPERS

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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 financial position of Rensselaer Polytechnic Institute and its affiliates at June 30, 2001 and 2000, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of Rensselaer's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

September 6, 2001

RENSSELAER POLYTECHNIC INSTITUTE

Combined Statements of Financial Position at June 30, 2001 and 2000 (in thousands)

Assets	*2001*	*2000*
Cash and cash equivalents	$ 45,440	$ 22,507
Accounts receivable, net		
Student related and other	12,772	13,152
Research, training and other agreements	14,961	18,664
Pledges receivable	9,804	10,679
Contributions from external trusts	4,250	3,967
Inventories	2,003	1,592
Prepaid expenses and other assets	3,993	16,403
Deposits with bond trustees	10,585	18,547
Student loans receivable, net	31,852	31,817
Investments, at market	632,493	756,131
Land, buildings and equipment, net	264,210	252,185
Total assets	$ 1,032,363	$ 1,145,644

Liabilities		
Accounts payable and accrued expenses	$ 61,859	$ 30,476
Deferred gift obligations	10,510	11,664
Deferred revenue	10,022	10,244
Short-term portion of long-term debt	5,984	6,087
Notes payable	800	1,300
Deposits	662	602
Accrued postretirement benefits	12,014	11,982
Refundable government loan funds	24,585	23,213
Long-term debt	101,968	108,140
Total liabilities	228,404	203,708
Net Assets		
Unrestricted	555,481	677,424
Temporarily restricted	102,728	123,024
Permanently restricted	145,750	141,488
Total net assets	803,959	941,936
Total liabilities and net assets	$ 1,032,363	$ 1,145,644

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, 2001 (in thousands), with comparative 2000 totals

	Unrestricted	*Temporarily* *Restricted*	*Permanently* *Restricted*	*Total* *2001*	*Total* *2000*
Operating Revenue:					
Student related revenue:					
Student tuition and fees, net					
Undergraduate	$ 67,879	$ -	$ -	$ 67,879	$ 60,200
Graduate	26,363			26,363	24,704
Continuing education	25,540			25,540	26,865
Fees	1,561			1,561	661
Auxiliary services	36,036			36,036	32,795
Student related revenue	157,379	-		157,379	145,225
Gifts	27,611	11,522		39,133	31,038
Grants and contracts:					
Federal and State	37,126	4,816		41,942	41,955
Private	5,500	25		5,525	6,559
Grants and contracts	42,626	4,841		47,467	48,514
Investment return:					
Dividends and interest	11,862	3,556		15,418	13,209
Realized gains spent	6,223	3,726		9,949	9,409
Interest on student loans	892			892	737
Investment return	18,977	7,282		26,259	23,355
Rensselaer Technology Park	5,710			5,710	5,772
Other	7,889			7,889	8,969
Net assets released from restrictions	24,691	(24,691)		-	-
Total operating revenue	284,883	(1,046)		283,837	262,873
Operating Expenses:					
Instruction	110,080			110,080	108,149
Research:					
Sponsored	39,627			39,627	37,785
Departmental	4,069			4,069	5,803
Student services	8,125			8,125	7,531
Institutional and academic support	60,184			60,184	54,381
Externally funded scholarships and fellowships	7,824			7,824	6,585
Auxiliary services	28,114			28,114	26,898
Rensselaer Technology Park	4,349			4,349	4,727
Total operating expenses	262,372			262,372	251,859
Change in net assets from operating activities	22,511	(1,046)		21,465	11,014
Non-operating:					
Realized and unrealized gains, net	(98,683)	(18,610)		(117,293)	196,888
Expired life income contracts	370	(663)	293		
Adjustment for minimum pension liability	(45,820)			(45,820)	
Life income and endowment gifts		695	3,969	4,664	8,300
Change in value of deferred gifts		(672)		(672)	(958)
Loss on disposal of assets	(321)			(321)	(1,358)
Change in net assets from non-operating activities	(144,454)	(19,250)	4,262	(159,442)	202,872
Total change in net assets	(121,943)	(20,296)	4,262	(137,977)	213,886
Net assets at beginning of year	677,424	123,024	141,488	941,936	728,050
Net assets at end of year	$ 555,481	$ 102,728	$ 145,750	$ 803,959	$ 941,936

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, 2000 (in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2000
Operating Revenue:				
Student related revenue:				
Student tuition and fees, net				
Undergraduate	$ 60,200	$ -	$ -	$ 60,200
Graduate	24,704			24,704
Continuing education	26,865			26,865
Fees	661			661
Auxiliary services	32,795			32,795
Student related revenue	145,225			145,225
Gifts	22,296	8,742		31,038
Grants and contracts:				
Federal and State	37,644	4,311		41,955
Private	6,528	31		6,559
Grants and contracts	44,172	4,342		48,514
Investment return:				
Dividends and interest	10,353	2,856		13,209
Realized gains spent	5,970	3,439		9,409
Interest on student loans	737			737
Investment return	17,060	6,295		23,355
Rensselaer Technology Park	5,772			5,772
Other	8,969			8,969
Net assets released from restrictions	21,687	(21,687)		
Total operating revenue	265,181	(2,308)		262,873
Operating Expenses:				
Instruction	108,149			108,149
Research:				
Sponsored	37,785			37,785
Departmental	5,803			5,803
Student services	7,531			7,531
Institutional and academic support	54,381			54,381
Externally funded scholarships and fellowships	6,585			6,585
Auxiliary services	26,898			26,898
Rensselaer Technology Park	4,727			4,727
Total operating expenses	251,859			251,859
Change in net assets from operating activities	13,322	(2,308)		11,014
Non-operating:				
Realized and unrealized gains, net	169,489	27,250	149	196,888
Loss on extinguishment of debt				
Expired life income contracts	173	(200)	27	
Life income and endowment gifts		750	7,550	8,300
Change in value of deferred gifts		(958)		(958)
Loss on disposal of assets	(1,358)			(1,358)
Change in net assets from non-operating activities	168,304	26,842	7,726	202,872
Total change in net assets	181,626	24,534	7,726	213,886
Net assets at beginning of year	495,798	98,490	133,762	728,050
Net assets at end of year	$ 677,424	$ 123,024	$ 141,488	$ 941,936

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, 2001 and 2000 (in thousands)

		2001		2000
Cash Flow from operating activities				
Total change in net assets	$	(137,977)	$	213,886
Adjustments to reconcile change in net assets to net cash provided by operating activities:				
Depreciation		20,000		18,560
Loss on disposal of assets		321		1,358
Provision for uncollectible accounts and loans		696		1,477
Realized and unrealized loss/(gains) on investments exceeding amount spent		107,344		(206,297)
Prepaid pension		12,738		(2,437)
Contributions of equipment and other capital items		(5,645)		(5,239)
Contribution restricted for long term investment		(4,664)		(8,300)
Other		(283)		-
Changes in operating assets and liabilities:				
Accounts receivable		2,783		(11,994)
Pledges receivable		875		10,187
Inventories		(411)		208
Prepaid expense and other assets		(328)		(367)
Accounts payable and accrued expenses		33,395		8,769
Present value of deferred gifts		(1,154)		958
Deferred revenue and deposits		(162)		(589)
Accrued postretirement benefits		32		126
Net cash provided by operating activities		27,560		20,306
Cash flow from investing activities				
Proceeds from sale of investments		324,871		258,193
Purchase of investments		(318,526)		(262,922)
Realized gains spent		9,949		9,409
Additional student loans granted		(5,404)		(4,804)
Student loans paid		5,973		5,393
Purchase of land, building and equipment, net		(26,701)		(37,028)
Net cash used in investing activities		(9,838)		(31,759)
Cash flow from financing activities				
Contributions restricted for endowments		4,664		8,300
Payment of annuity obligations		(2,012)		(1,977)
Note payable		(500)		(300)
Repayment of debt		(6,275)		(6,696)
Government loan funds		1,372		706
Deposit with bond trustees		7,962		15,385
Net cash provided by financing activities		5,211		15,418
Net increase in cash and cash equivalents		22,933		3,965
Cash and cash equivalents at beginning of the year		22,507		18,542
Cash and cash equivalents at end of the year	$	45,440	$	22,507
Non cash investing activities				
Gifts of equipment and other capital items	$	5,645	$	5,239
Supplemental disclosures of cash flow information				
Cash paid during the year for interest	$	6,328	$	6,243

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 130 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 inter-organizational 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, adjustment for minimum pension liability, life income and endowment gifts and loss on disposal of assets.

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 2000 balances have been reclassified to conform with the 2001 presentation.

COMBINED NET ASSETS

Combined net assets of Rensselaer are comprised of the following:

(In Thousands)

Detail of Net Assets	Unrestricted	Temporarily Restricted	Permanently Restricted	2001	2000
Operating					
Undesignated	$ 31,646	$	$	$ 31,646	$ 13,687
Board designated	4,876			4,876	3,344
Donor restricted for instruction, research and scholarship		37,875		37,875	35,149
Funding for facilities	161,990			161,990	161,157
Funding for student loans	5,523		2,297	7,820	7,121
Annuity and life income		20,718		20,718	20,391
Adjustment for minimum pension liability	(45,820)			(45,820)	–
Endowment and other assets functioning as endowment	397,266	44,135	143,453	584,854	701,087
Total net assets	$ 555,481	$102,728	$145,750	$803,959	$941,936

OTHER INFORMATION

The undergraduate student discount rate was 38.8% and 39.5% for the years ended June 30, 2001 and 2000, respectively.

Student tuition by segment and location, is as follows:

	(In Thousands) 2001	2000
Undergraduate tuition:		
Troy Campus	$110,850	$ 99,447
Less institutional aid	(42,971)	(39,247)
Net undergraduate tuition	67,879	60,200
Graduate tuition:		
Troy Campus	13,739	12,916
Hartford Campus	12,624	11,788
Total graduate tuition	26,363	24,704
Continuing education:		
Troy Campus	14,211	14,234
Hartford Campus	11,329	12,631
Total continuing education	$25,540	$26,865

Receivable allowances:

	2001	2000
Student-related receivables	$ 2,062	$ 2,910
Loans to students	4,925	5,529
Hartford Campus	121	433
Rensselaer Technology Park	97	97
Research, training and other agreements	789	235
Total allowances	$ 7,994	$ 9,204

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)

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

	(In Thousands)	
	2001	2000
In one year or less	$ 7,006	$ 6,311
Between one year and three years	3,845	5,822
Less:		
Present value discount (4.35 – 6.43%)	(716)	(1,061)
Allowance for uncollectible pledges	(331)	(393)
Total	$ 9,804	$10,679

Conditional pledges, which are not accrued, approximate $8,297,000 at June 30, 2001, of which $1,188,000 was unrestricted as to purpose. The remaining conditional pledges are restricted to purpose as follows: $1,555,000 current programs; $5,179,000 endowment; and $376,000 plant. It is anticipated that the conditional pledges will be collected over an average life of three years. Bequest expectancies totaling $35,212,000 have been excluded from these amounts and are not recorded in the financial statements. In compliance with donor stipulations related to the recently announced $360,000,000 transformational gift, income will be recognized as cash payments are received.

Rensselaer has been awarded approximately $33,521,000 and $36,616,000 of grants and contracts which have not been advanced or expended as of June 30, 2001 and 2000, respectively, and accordingly, not recorded in the financial statements. Indirect cost recovery of $8,864,000 and $9,001,000 is included in grants and contracts revenue in 2001 and 2000. Unbilled receivables for research, training and similar agreements, at June 30, 2001 and 2000 were approximately $816,000 and $6,419,000, 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 agreements for changes in the value of the assets, accretion of the discount and other changes in the estimates of future benefits. The liability for the present value of deferred gifts of $10,510,000, and $11,664,000, at June 30, 2001 and 2000, 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.

OTHER INFORMATION (continued)

The following table compares expenses by type for the years ended June 30, 2001 and 2000, respectively.

	(In Thousands) 2001	2000
Salaries and wages	$ 111,731	$ 103,534
Employee benefits excluding retirement	18,500	16,381
Retirement plan expense	4,666	5,690
Subtotal employee benefits	23,166	22,071
Total compensation	134,897	125,605
Supplies & services	64,871	64,370
Utilities	8,165	6,926
Employee travel	5,018	4,860
Taxes & insurance	3,308	3,482
Telecommunications	1,082	1,218
Library materials	2,130	1,776
Interest on debt	6,639	6,465
Depreciation	20,000	18,560
Student aid and fellowships	15,116	16,303
Provision for uncollectible accounts	696	1,477
Other	450	817
Total nonsalary	127,475	122,279
Total expenses	$262,372	$251,859

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
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, (continued)

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 $83,185,000 of the investment portfolio at June 30, 2001 is invested in international securities that 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)			
	2001		2000	
	Carrying Value	Cost	Carrying Value	Cost
Short-term investments	$ 24,855	$ 24,907	$ 41,001	$ 42,135
Bonds and notes	132,966	134,096	132,286	136,940
Domestic equity securities	286,234	273,835	277,849	228,715
Foreign equity securities	83,185	77,975	113,411	73,591
Real estate	449	449	449	449
Equity partnerships	104,750	94,690	191,135	80,836
Other	54	54	0	0
Total investments	$632,493	$606,006	$756,131	$562,666

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, (continued)

Investments (continued)

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

	(In Thousands) 2001	2000
Realized gain	$ 57,775	$104,053
Unrealized (losses)/gains	(165,119)	102,244
Total realized and unrealized (losses)/gains, net	($107,344)	$206,297
Realized gains spent	(9,949)	(9,409)
Non-operating realized and unrealized (losses)/gains, net	($117,293)	$196,888

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, 2001, there were approximately $6,321,000 of open or unsettled forward exchange contracts to sell foreign currency and $6,177,000 of open or unsettled forward exchange contracts to purchase foreign currency. These contracts are denominated in six North American, European and Asian currencies and will settle at various dates through March, 2002. In addition, the following futures contracts were open at June 30, 2001.

	(In Thousands) Long Positioned	Short Positioned
United States Treasury Note Futures	$620	$4,842

All futures contracts will expire in September, 2001. 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.

Interest rate swap contracts, under which Rensselaer agrees to pay variable rates of interest, are considered to be a hedge against changes in the cash flow requirements of Rensselaer's fixed-rate debt obligations. Accordingly, the interest rate swap contracts are reflected at fair value in Rensselaer's consolidated balance sheet and the related portion of fixed-rate debt being hedged is reflected at an amount equal to the sum of its carrying value plus an adjustment representing the change in fair value of the debt obligations attributable to the interest rate risk being hedged. The net gain or loss on the ineffective portion of these interest rate swap contracts was not material in 2001 or 2000.

FINANCIAL INSTRUMENTS, (continued)

Investments (continued)

At June 30, 2001, Rensselaer has committed to investing an additional $60.5 million in various private equity and real estate limited partnerships.

Investment management fees were $1,644,200 and $1,611,000 in 2001 and 2000, respectively, and are netted against dividends and interest.

Debt Outstanding

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

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

	Year of Final Maturity	Weighted Average Annual Interest Rate	(In Thousands) June 30 2001	2000
Core Debt				
U.S. Department of Education Dormitory Bonds and 1988 Mortgage Loan	2018	3.0%	$2,513	$ 2,621
Rensselaer County IDA - Industrial Development Facility Issue: Series 1997A (1)	2022	4.34%	11,321	12,063
Series 1999A and B (2)	2030	5.05%	39,812	39,766
Dormitory Authority of the State of New York (DASNY) Series D	2005	5.57%	3,180	3,565
Series 1993	2022	5.01%	20,871	22,579

FINANCIAL INSTRUMENTS, (continued)

Debt Outstanding (continued)

	Year of Final Maturity	Weighted Average Annual Interest Rate	(In Thousands) June 30 2001	2000
Power Authority State of New York, 1997 (3)	2006	6.5% (imputed)	368	399
Power Authority State of New York, 1999 (4)	2005	5.25% (imputed)	15	0
New York State Urban Development Corporation (UDC) CII mortgage loan (5)	2026	11.1% (imputed)	4,257	4,335
Enlarged City School District of Troy - School 14	2001	4.1%	234	467
Rensselaer Hartford Graduate Center, Inc. Debt				
State of Connecticut Health and Education Facilities Authority – 1985 Mortgage Agreement (6)	2006	5.25%	2,674	3,019
Subtotal core debt			85,245	88,814

FINANCIAL INSTRUMENTS, (continued)

Debt Outstanding (continued)

	Year of Final Maturity	Weighted Average Annual Interest Rate	(In Thousands) June 30 2001	2000
Special Purpose Debt				
Rensselaer Technology Park Debt				
Town of North Greenbush IDA - Industrial Development Facility 1993 issue	2001	4.9%	0	300
Fleet Bank 1995 Term Loan (7)	2005	6.98%	8,283	8,860
1998 Term Loan (8)	2013	6.305%	6,556	6,900
Student Loan Program Debt				
DASNY 1992 CUEL	2009	6.5%	7,868	9,353
Sallie Mae Student Loan Program	2002	4.572%	800	1,300
Subtotal special purpose debt			23,507	26,713
Total Debt			$ 108,752	$ 115,527

FINANCIAL INSTRUMENTS, (continued)

Debt Outstanding (continued)

Debt principal outstanding is reflected net of bond discount and/or capitalized issuance cost where applicable in the amount of $2,803,000 and $2,944,000 at June 30, 2001 and 2000, 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 $77,175,000 and by pledges of specified portions of tuition, fees and revenues from various facilities. In addition, at June 30, 2001, Rensselaer had $2,880,000 of pledged endowment assets and $10,585,000 of assets held by trustees for construction, student loans, debt service and other project-related expenses. Certain of the long term debt and notes payable contain restrictive covenants including the maintenance of specified deposits with trustees.

Notes to Debt Outstanding

1. On March 12, 1997, Rensselaer entered into an agreement with the Rensselaer County Industrial Development Agency, providing for the issuance of $13,240,000 in revenue bonds for the purpose of financing the renovation of three of Rensselaer's buildings and the acquisition of a new student record system. The bonds bear a variable interest rate that resets weekly, but in no event may exceed 12% per annum.

2. On June 30, 1999, Rensselaer entered into an agreement with Rensselaer County Industrial Development Agency, which provided for the issuance of $41,110,000 in revenue bonds. Proceeds from the issue in the amount of $24,196,000 were used for the construction and/or renovation of three buildings and issuance costs. An additional portion of the proceeds, $16,255,000, together with an institutional payment of $9,344,000, were deposited with the Trustee in an irrevocable escrow account to legally defease Dormitory Authority Series 1991 Bonds. The escrow account was invested in cash and United States Treasury obligations, which will provide for the future payment of all interest, principal and call premiums on the defeased bonds. In order to meet these future obligations, the amount deposited in escrow was $689,000 greater than the par value of the defeased debt. In addition, $668,000 in unamortized discount and capitalized issuance costs related to the Series 1991 bonds was written off. Neither the assets of the escrow account nor the outstanding issue are included in the accompanying balance sheet.

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

FINANCIAL INSTRUMENTS, (continued)

Debt Outstanding (continued)

4. On August 2, 1999, Rensselaer entered into an agreement with the Power Authority of the State of New York, which provided an interest free loan, having a face amount of $421,000, for the purpose of financing the implementation of energy conservation improvement projects, as approved by the Authority. Approximately $233,553, the difference between the total of all drawdowns and the net present value of the liability discounted at a rate of 5.25%, will be recorded as an addition to Rensselaer's net assets at the conclusion of all drawdowns, expected by the end of calendar 2001. Drawdowns to date total $15,000 at June 30, 2001.

5. 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. As of June 30, 2001, the discount associated with the UDC mortgage loan is approximately $ 18,543,000.

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

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

8. On August 3, 1998, Rensselaer entered into an agreement with Fleet Bank, which provided a $7,400,000 term loan for the purpose of refinancing existing debt and funding the construction of a new multi-tenant office building at the Rensselaer Technology Park. The fully amortizing loan matures on August 1, 2013, and carries a floating interest rate at LIBOR plus one-quarter of one percent. In conjunction with this financing, Rensselaer entered into an interest rate swap agreement, effectively paying a fixed rate of interest at 6.305% for the term of the loan.

As of June 30, 2001, Rensselaer had standby letters of credit with HSBC Bank USA totaling $705,000 for liability insurance security and workers compensation security purposes. There were no draws against either of these letters of credit during the 2000-01 fiscal year. Rensselaer also has mortgage loan guarantees in place for two loans made by HSBC Bank

FINANCIAL INSTRUMENTS, (continued)

Debt Outstanding (continued)

USA in 1996 to finance construction and renovation costs for on-campus fraternity residential facilities. The combined balance of the two mortgage loans, which totaled $900,000 at inception, was $700,000 on June 30, 2001.

Principal and interest payments due on all long-term debt as of June 30, 2001 for each of the next five fiscal years are:

	(In Thousands)
Year	Amount
2002	$13,501
2003	12,275
2004	11,967
2005	12,381
2006	12,414

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 $124,977,240 on June 30, 2001.

LAND, BUILDINGS, AND EQUIPMENT

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

	(In Thousands)	
	2001	2000
Land and improvements	$ 16,820	$ 16,413
Buildings	303,611	274,554
Equipment	167,028	152,661
Construction in progress	3,481	20,771
Total land, buildings & equipment	490,940	464,399
Less accumulated depreciation	(226,730)	(212,214)
	$ 264,210	$ 252,185

RETIREMENT PLANS

Defined Benefit Plans

The following table sets forth Rensselaer's defined benefit and postretirement plans' change in projected benefit obligation, change in plan assets, funded status (the postretirement plans are unfunded) and amounts recognized in Rensselaer's balance sheet at June 30, 2001 and 2000. The defined benefit plan calculations were based upon data as of or projected to April 1, 2001 and 2000. Postretirement benefit plan calculations were based upon data as of July 1, 2000 and 1999. Rensselaer's funding policy is based upon and is in compliance with ERISA requirements.

RETIREMENT PLANS, (continued)

Defined Benefit Plans

	(In Thousands)			
	Defined Benefit		Postretirement	
	2001	2000	2001	2000
Change in projected benefit obligation				
Benefit obligation at beginning of year	($204,567)	($205,883)	($ 9,440)	($9,845)
Service cost	(4,686)	(4,886)	(306)	(307)
Interest cost	(14,923)	(14,018)	(680)	(636)
Actual expenses	450	450		
Changes in Discount Rate	(4,032)	8,211		
Amendments/Curtailments/Special terminations				8
Plan participants' contributions	(341)	(347)	(910)	
Actuarial (loss)/gain	2,286	(1,300)	(196)	908
Benefits paid	13,304	13,206	1,478	432
Benefit obligation at end of year	($212,508)	($204,567)	($10,053)	($9,440)

	(In Thousands)			
	Defined Benefit		Postretirement	
	2001	2000	2001	2000
Change in plan assets				
Fair value of plan assets at beginning of year	$230,514	$198,952	$ –	$ –
Actual expense	(450)	(450)		
Actual return on plan assets	(46,039)	40,532		
Employer contribution	2,895	4,339		
Plan participants' contribution	341	347		
Benefits paid	(13,305)	(13,206)	–	–
Fair value of plan assets at end of year	$173,956	$230,514	$ –	$ –

Funded status and amount recognized				
Funded status	($38,553)	$25,946	($10,053)	($ 9,440)
Unrecognized net actuarial loss	67,543	2,509	(391)	(591)
Transition assets	(13,636)	(16,368)		
Unrecognized prior service cost	2,851	3,502	(1,570)	(1,951)
Prepaid/(accrued) benefit cost	$18,206	$15,589	($12,014)	($11,982)
Minimum pension liability	(48,671)	–	–	–
Total (liability)/asset	($30,465)	$15,589	($12,014)	($11,982)

RETIREMENT PLANS, (continued)

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

	(In Thousands)			
	Defined Benefit		Postretirement	
	2001	2000	2001	2000
Service cost	$ 4,686	$ 4,886	$ 306	$ 307
Interest cost	14,923	14,018	680	636
Expected return on plan assets	(17,249)	(16,062)		
Recognized net actuarial loss	0	1,142		
Amortization of unrecognized net asset at transition	(2,733)	(2,733)		
Amortization of prior service cost	651	651	(386)	(385)
Net periodic benefit cost	$ 278	$ 1,902	$ 600	$ 558

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:

	Defined Benefit		Postretirement	
	2001	2000	2001	2000
Discount rate	7.25%	7.50%	7.25%	7.50%
Expected return on plan assets	8.25%	8.25%		
Rate of compensation increase	4.5 %	4.5 %		

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 assumed health care cost trend rate used was 8.0% and 8.5% for 2001 and 2000, 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.

Assumed health care cost trend rates have a significant effect on the amounts reported for the postretirement benefit. A one-percentage point change in the health care cost trend rates would have the following effects:

RETIREMENT PLANS, (continued)

	(In Thousands) 1-Percentage Point Increase	(In Thousands) 1-Percentage Point Decrease
Effect on total of service and interest cost components	$ 36	$ (31)
Effect on postretirement benefit obligation	$283	$(255)

Defined Contribution Plan

Rensselaer and the Center also have non-contributory Defined Contribution Plans open to full-time employees who have met minimum service requirements. Contributions to these plans (8% of employee salary) were $3,324,000 and $2,815,000 in fiscal 2001 and 2000, respectively.

In addition, the Center has its own pension plan in association with Teachers Insurance and Annuity Association and College Retirement Equities Fund (TIAA-CREF). The TIAA-CREF is a money purchase plan so there is no past service cost. The Center's contributions to this plan (8% of employee salary) were $460,000 and $413,000 in fiscal 2001 and 2000, respectively.