

RENSSELAER POLYTECHNIC INSTITUTE

Financial Statements

**For the Year Ended
June 30, 1996 and 1995**

Report of Independent Accountants

Board of Trustees
Rensselaer Polytechnic Institute

We have audited the accompanying statement of financial position of Rensselaer Polytechnic Institute as of June 30, 1996, and the related statements of activities and cash flows for the year then ended. We previously audited and reported upon the financial statements as of and for the year ended June 30, 1995, which are presented in condensed form for comparative purposes only. These financial statements are the responsibility of Rensselaer's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Rensselaer Polytechnic Institute as of June 30, 1996 and the changes in its net assets and its cash flows for the year then ended in conformity with generally accepted accounting principles.

As discussed in the notes to the financial statements, in 1996 Rensselaer changed its method of accounting for contributions in accordance with Statement of Financial Accounting Standards No. 116, "Accounting for Contributions Received and Contributions Made."

Albany, New York
September 6, 1996

Coopers & Lybrand L.L.P.

RENSSELAER POLYTECHNIC INSTITUTE

FINANCIAL STATEMENTS

FOR THE YEARS ENDED
JUNE 30, 1996 AND 1995

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RENSSELAER POLYTECHNIC INSTITUTE

Statement of Financial Position at June 30, 1996 and 1995 (in thousands)

<i>Assets</i>	<i>1996</i>	<i>1995</i>
Cash and cash equivalents	\$19,197	\$13,245
Accounts receivable, net		
Student related and other	9,728	7,651
Research, training and other agreements	12,060	9,354
Inventories	2,346	2,065
Prepaid expenses and other assets	16,190	11,236
Deposits with bond trustees	18,636	28,460
Student loans receivable, net	35,936	38,227
Investments, at market	385,500	336,016
Land, buildings and equipment, net	196,803	186,984
Total assets	696,396	633,238
<i>Liabilities</i>		
Accounts payable and accrued expenses	13,653	12,772
Present value of deferred gifts	15,441	952
Deferred revenues	6,363	6,852
Short-term portion of long-term debt	7,508	6,449
Notes payable	2,800	3,300
Deposits	1,125	1,147
Accrued postretirement benefits	11,100	11,167
Refundable government loan funds	20,545	20,315
Long-term debt	101,795	102,034
Total liabilities	180,330	164,988
<i>Net Assets</i>		
Unrestricted	353,650	281,975
Temporarily restricted	53,732	81,284
Permanently restricted	108,684	104,991
Total net assets	516,066	468,250
Total liabilities and net assets	\$696,396	\$633,238

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

RENSSELAER POLYTECHNIC INSTITUTE

Statements of Activities for the year ended June 30, 1996 (in thousands), with comparative 1995 totals

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 1996	Total 1995
Operating Revenue:					
Student related revenue:					
Student tuition and fees, net					
Graduate	\$12,442	\$	\$	\$12,442	\$12,074
Undergraduate	46,052			46,052	47,535
Continuing education	9,918			9,918	9,319
Fees	525			525	573
Sales and service of auxiliaries	25,649			25,649	25,536
Student related revenue	94,586			94,586	95,037
Gifts	6,973	18,530		25,503	16,521
Grants and contracts:					
Federal and State	34,197			34,197	35,499
Private	5,264			5,264	6,446
Grants and contracts	39,461			39,461	41,945
Investment return:					
Dividends and interest	7,633	3,439		11,072	11,840
Realized gains spent	4,885	1,982		6,867	5,884
Interest on student loans	1,206			1,206	1,189
Investment return	13,724	5,421		19,145	18,913
Rensselaer Technology Park	4,064			4,064	3,269
Other	4,390			4,390	3,919
Net assets released from restrictions	12,195	(12,195)			
Total revenue, gains and other support	175,393	11,756		187,149	179,604
Operating Expenses:					
Instruction	65,617			65,617	63,611
Research:					
Sponsored	34,146			34,146	34,170
Departmental	4,517			4,517	6,444
Student services	5,569			5,569	5,323
Institutional and academic support	27,407			27,407	23,372
Externally funded scholarships and fellowships	5,956			5,956	6,833
Auxiliary enterprises	22,653			22,653	23,968
Rensselaer Technology Park	3,665			3,665	3,068
Other	3,827			3,827	3,032
Total expenses	173,357			173,357	169,821
Change in net assets from operating activities	2,036	11,756		13,792	9,783
Non-operating:					
Realized and unrealized gains, net	37,893	4,437	819	43,149	25,293
Expired life income contracts	2,869	(3,135)	266		
Life income and endowment gifts		1,558	2,608	4,166	10,790
Change in value of deferred gifts		(957)		(957)	
Loss on disposal of assets	(779)			(779)	(523)
Change in net assets from non-operating activities	39,983	1,903	3,693	45,579	35,560
Total change in net assets prior to cumulative effect of accounting changes	42,019	13,659	3,693	59,371	45,343
Cumulative effect of accounting changes	29,656	(41,211)		(11,555)	
Net change in net assets	71,675	(27,552)	3,693	47,816	45,343
Net assets at beginning of year	281,975	81,284	104,991	468,250	422,907
Net assets at end of year	\$553,650	\$53,732	\$108,684	\$516,066	\$468,250

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

RENSSELAER POLYTECHNIC INSTITUTE

Statement of Cash Flows for the years ended

June 30, 1996 and 1995 (in thousands)

	1996	1995
<i>Cash Flow from operating activities:</i>		
Total change in net assets	\$47,816	\$45,343
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	16,942	16,611
Loss on disposal of assets	779	523
Provision for uncollectible accounts	3,580	2,077
Realized and unrealized gains on investments exceeding amount spent	(43,149)	(25,293)
Cumulative effect of accounting changes	11,555	0
Prepaid pension	(6,803)	(3,088)
Contributions of equipment and other capital items	(1,178)	(3,395)
Contribution restricted for long term investment	(4,166)	(10,790)
Other	241	300
Changes in operating assets and liabilities:		
Accounts receivable	(6,222)	(3,307)
Inventories	(281)	(19)
Prepaid expense and other assets	96	(94)
Accounts payable and accrued expenses	3,900	(2,447)
Present value of deferred gifts	1,962	113
Deferred revenue	(511)	778
Accrued postretirement benefits	(67)	(271)
Net cash provided by operating activities	24,494	17,041
<i>Cash flow from investing activities</i>		
Proceeds from sale of investments	434,075	363,596
Purchase of investments	(439,438)	(374,735)
Additional student loans granted	(4,333)	(6,060)
Student loans paid	4,483	4,099
Purchase of land, building, equipment net	(26,362)	(24,503)
Net cash used in investing activities	(31,575)	(37,603)
<i>Cash flow from financing activities</i>		
Contributions restricted for endowments	4,166	10,790
Payment of annuity obligations	(1,375)	(1,353)
Proceeds from long term borrowings	11,000	2,643
Note payable	(500)	(300)
Repayment of debt	(10,312)	(5,554)
Government loan funds	230	(25)
Deposit with bond trustees	9,824	5,231
Net cash provided by financing activities	13,033	11,432
Net increase (decrease) in cash and cash equivalents	5,952	(9,130)
Cash and cash equivalents at beginning of the year	13,245	22,375
Cash and cash equivalents at end of the year	\$19,197	\$13,245
<i>Non cash item:</i>		
Gifts of equipment and other capital items	\$1,178	\$3,395
<i>Supplemental disclosures of cash flow information:</i>		
Cash paid during the year for interest	\$5,787	\$6,097

The accompanying notes are an integral part of the financial statements

RENSSELAER POLYTECHNIC INSTITUTE - Notes to the Financial Statements

Rensselaer Polytechnic Institute (The Institute) has been at the forefront of scientific and technological education since 1824.

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 financial statements of The Institute have been prepared on the accrual basis and include the Rensselaer Technology Park. All significant interorganizational accounts have been eliminated.

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the organization's financial statements for the year ended June 30, 1995, from which the summarized information was derived.

Unrestricted net assets include all resources which are not subject to donor-imposed restrictions other than those which only obligate the Institute to utilize funds in furtherance of 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 the Institute 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.

During 1996, the Institute adopted Statement of Financial Accounting Standard (SFAS) No. 116, "Accounting for Contributions Received and Contributions Made," and applied this

BASIS OF PRESENTATION (continued)

standard on a retroactive basis. SFAS No. 116 establishes accounting standards for contributions and applies to all entities that receive or make contributions. It also requires recognition of the expiration of donor-imposed restrictions in the period in which the restrictions expire.

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

Inventories 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 1995 balances have been reclassified to conform with the 1996 presentation.

NET ASSETS

<u>Detail of Net Assets</u>	<u>Temporarily Permanently</u>			<u>1996</u>	<u>1995</u>
	<u>Unrestricted</u>	<u>Restricted</u>	<u>Restricted</u>		
Operating funds					
Undesignated	\$ 8,163	\$	\$	\$ 8,163	\$ 5,504
College designated	8,176			8,176	7,037
Donor restricted for instruction, research and scholarship		22,915		22,915	14,471
Funding for facilities	123,918			123,918	119,726
Funding for student loans	2,003		2,665	4,668	6,022
Annuity and life income funds		13,336		13,336	26,733
Endowment and other funds functioning as endowment	<u>211,390</u>	<u>17,481</u>	<u>106,019</u>	<u>334,890</u>	<u>288,757</u>
Total Net assets	<u>\$353,650</u>	<u>\$53,732</u>	<u>\$108,684</u>	<u>\$516,066</u>	<u>\$468,250</u>

RENSSELAER POLYTECHNIC INSTITUTE - Notes to the Financial Statements

OTHER INFORMATION

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

	<u>(In Thousands)</u>	
	<u>1996</u>	<u>1995</u>
Graduate tuition	<u>\$12,442</u>	<u>\$12,074</u>
Undergraduate tuition	<u>\$69,823</u>	<u>\$68,794</u>
Less institutional aid	<u>(23,771)</u>	<u>(21,259)</u>
Net undergraduate tuition	<u>\$46,052</u>	<u>\$47,535</u>

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

	<u>1996</u>	<u>1995</u>
Graduate	<u>\$ 300</u>	<u>\$ 150</u>
Undergraduate	<u>1,000</u>	<u>950</u>
	<u>\$ 1,300</u>	<u>\$ 1,100</u>

	<u>(In Thousands)</u>	
Receivable Allowances:	<u>1996</u>	<u>1995</u>
Student-related receivables	<u>\$ 3,280</u>	<u>\$3,150</u>
Loans to students	<u>6,723</u>	<u>4,582</u>
Rensselaer Technology Park	<u>213</u>	<u>222</u>
Research, training and other agreements	<u>258</u>	<u>226</u>
Total allowances	<u>\$10,474</u>	<u>\$8,180</u>

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.

The Institute has accrued \$5,000,000 for unconditional pledges receivable expected to be collected within one year. Conditional pledges approximate \$10,137,000 at June 30, 1996 of which \$905,000 was unrestricted as to purpose. The remaining conditional pledges are restricted to purpose as follows: \$3,375,000 current programs; \$2,660,000 endowment; and \$3,197,000 plant. It is anticipated that the conditional pledges will be collected over an average life of three years. Bequest expectancies totaling \$33,192,000 have been excluded from these amounts.

OTHER INFORMATION (continued)

Rensselaer has been awarded approximately \$31,807,000 and \$31,308,000 of grants and contracts which have not been advanced or expended as of June 30, 1996 and 1995, respectively, and accordingly, not recorded in the financial statements. Indirect cost recovery of \$8,793,000 and \$9,150,000 is included in grants and contracts revenue in 1996 and 1995, respectively. Unbilled receivables for research, training and similar agreements, at June 30, 1996 and 1995 were \$1,332,000 and \$1,109,000, respectively.

The Institute's deferred gift agreements with donors consist of irrevocable charitable remainder trusts and pooled income funds for which the Institute is the remainder beneficiary. Assets held in these trusts are included in investments. Under SFAS 116, 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. At July 1, 1995, temporarily restricted net assets were decreased to record the accumulated deferred gift liability of \$12,527,000. The liability for the present value of deferred gifts 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.

Additionally, as of July 1, 1995, as a result of adopting SFAS 116, accumulated gains on gifts of \$28,840,000 which were previously reported as temporarily restricted net assets were reclassified to unrestricted net assets. The Institute had incurred expenses in previous years which met the restrictions related to these gains.

Summary of cumulative effect of accounting changes:

	<u>(In Thousands)</u>		<u>Total</u> <u>1996</u>
	<u>Unrestricted</u>	<u>Temporarily</u> <u>Restricted</u>	
Retroactive reclassification of expired temporarily restricted net assets	\$28,840	\$(28,840)	\$
Recognition of deferred gift liability		(12,527)	(12,527)
Recognition of realized appreciation on limited partnerships	<u>816</u>	<u>156</u>	<u>972</u>
	<u>\$29,656</u>	<u>\$(41,211)</u>	<u>\$(11,555)</u>

RENSSELAER POLYTECHNIC INSTITUTE - Notes to the Financial Statements

OTHER INFORMATION (continued)

The following table compares expenses by type for the years ended June 30, 1996 and June 30, 1995, respectively.

	<u>(In Thousands)</u>	
	<u>1996</u>	<u>1995</u>
Salaries and wages	\$ 77,210	\$ 74,811
Employee benefits excluding retirement	14,131	12,709
Retirement plan expense	<u>2,671</u>	<u>2,577</u>
Subtotal employee benefits	<u>16,802</u>	<u>15,286</u>
Total compensation	<u>94,012</u>	<u>90,097</u>
Supplies & services	21,705	24,094
Utilities	6,428	6,420
Employee travel	3,179	2,866
Taxes & insurance	1,872	1,843
Telecommunications	1,328	1,245
Library materials	1,719	1,600
Interest on debt	6,891	6,893
Depreciation	16,942	16,611
Student aid and fellowships	13,804	14,425
Provision for uncollectible accounts	3,580	2,077
Other	<u>1,897</u>	<u>1,650</u>
Total nonsalary	<u>79,345</u>	<u>79,724</u>
Total expenses	<u>\$173,357</u>	<u>\$169,821</u>

FINANCIAL INSTRUMENTS

Investments

The Institute's investments are recorded in the following manner:

<u>Investments</u>	<u>Value as Recorded</u>
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 the Institute would realize upon liquidation of these investments. Additionally, approximately \$54,878,000 of the investment portfolio at June 30, 1996 is invested in international securities which are subject to the additional risk of currency fluctuation.

Effective July 1, 1995, the Institute records its investments in private equity partnerships at fair value. Previously, partnerships were recorded at cost. The effect of this change, \$972,000, is recorded as an element of the cumulative effect of changes in accounting principles in the statement of activities. The current year effect on net assets was approximately \$3,928,000.

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

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

	<u>(In Thousands)</u>			
	<u>1996</u>		<u>1995</u>	
	<u>Carrying</u> <u>Value</u>	<u>Cost</u>	<u>Carrying</u> <u>Value</u>	<u>Cost</u>
Short-term investments	\$ 17,661	\$ 17,668	\$ 33,723	\$ 33,546
Bonds and notes	98,973	98,502	81,541	78,901
Domestic equity securities	184,510	148,542	134,682	110,745
Foreign equity securities	54,878	43,869	64,019	51,320
Real estate	2,483	2,483	2,846	2,846
Private equity partnerships	25,620	20,720	18,105	18,105
Other	<u>1,375</u>	<u>1,375</u>	<u>1,100</u>	<u>1,100</u>
Total Investments	<u>\$385,500</u>	<u>\$333,159</u>	<u>\$336,016</u>	<u>\$296,563</u>

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:

	<u>(In Thousands)</u>	
	<u>1996</u>	<u>1995</u>
Realized Gains	\$41,383	\$ 5,325
Unrealized Gains	8,633	25,852
Realized Gains Spent	<u>(6,867)</u>	<u>(5,884)</u>
Total	<u>\$43,149</u>	<u>\$25,293</u>

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, 1996, the portfolio held foreign currency forward contracts with a net value of \$72,000. The majority of these investments are marked to market on a daily basis. 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, 1996, Rensselaer has committed to investing an additional \$23.6 million in various private equity and real estate limited partnerships.

Investment management fees were \$1,255,000 and \$1,068,000 in 1996 and 1995, respectively, and are netted against investment returns.

Debt Outstanding

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 the Institute and includes borrowings for educational, general and auxiliary purposes. Special purpose debt represents debt that is repaid from sources outside the general operations of the Institute. Included in special purpose debt are projects that are unique to Rensselaer such as the Rensselaer Technology Park, the Incubator Center and the Rensselaer Student Loan Program.

FINANCIAL INSTRUMENTS

Debt Outstanding (continued)

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

(\$ In Thousands)

	Original <u>Amount</u>	Year of Final <u>Maturity</u>	Weighted Average Annual Interest <u>Rate</u>	<u>June 30</u> <u>1996</u>	<u>1995</u>
<u>Core Debt</u>					
US Department of Education Dormitory Bonds and 1988 Mortgage Loan	\$ 3,500	2018	3.0%	\$ 3,022	\$ 3,115
Dormitory Authority of the State of New York (DASNY) Series B, C, D, Series 1991 & 1993	91,145	2022	5.5%	68,541	72,644
New York Urban Development Corporation (UDC) CII mortgage loan	4,846	2026	11.1% (imputed)	4,598	4,644
School 14	<u>2,100</u>	2001	4.1%	<u>1,400</u>	<u>1,633</u>
Subtotal core debt	<u>101,591</u>			<u>77,561</u>	<u>82,036</u>
<u>Special Purpose Debt</u>					
<u>Technology Park Debt</u>					
Industrial Development Facility Issue: 1988, 1989, and 1993 Rensselaer Technology Park issues	6,995	2005	6.4%	3,641	5,500
Student Loan Marketing Association (Sallie Mae) 1990 Rensselaer Technology Park issues	3,000	2000	9.0%	3,000	3,000
<u>Rensselaer Technology Park Bank Loans:</u>					
Key Bank 1995	2,643	2011	8.8%	-0-	2,636
Fleet Bank 1995	11,000	2005	7.0%	10,797	-0-
Other	375	1997	9.0%	28	80

FINANCIAL INSTRUMENTS

Debt Outstanding (continued)

	(\$ In Thousands)			June 30	
	Original Amount	Year of Final Maturity	Weighted Average Annual Interest Rate	1996	1995
<u>Student Loan Program Debt</u>					
DASNY 1992 CUEL	15,999	2009	6.2%	14,143	15,093
Sallie Mae Student Loan Program	3,600	1997	6.5%	2,800	3,300
<u>Incubator Center Debt</u>					
UDC High Technology Incubators	<u>200</u>	1997	none	<u>133</u>	<u>138</u>
Subtotal					
Special Purpose Debt	<u>43,812</u>			<u>34,542</u>	<u>29,747</u>
Total Debt	<u>\$145,403</u>			<u>\$112,103</u>	<u>\$111,783</u>

Debt principal outstanding is reflected net of bond discount and/or capitalized issuance cost where applicable in the amount \$2,575,440 and \$2,707,534 at June 30, 1996 and 1995, 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 \$76,599,000 and by pledges of specified portions of tuition, fees and revenues from various facilities. In addition, at June 30, 1996, Rensselaer had \$5,387,000 of pledged endowment assets and \$18,636,000 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 \$700,000 with increasing annual amounts through maturity.

FINANCIAL INSTRUMENTS (continued)

Debt Outstanding (continued)

On May 2, 1994 Rensselaer entered into an agreement with the Student Loan Marketing Association. The loan, which expires on an annual basis, has since been reduced to an outstanding principal balance of \$2,800,000. On June 14, 1996, Rensselaer renewed the loan for an additional year at an interest rate of 6.47%. The interest rate will reset in the middle of the term on December 13, 1996, and the note will mature on June 16, 1997.

On November 28, 1995, The Institute 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.

Principal and interest payments due on all long-term debt as of June 30, 1996 for each of the next five fiscal years are:

	(In Thousands)
<u>Year</u>	<u>Amount</u>
1997	17,153
1998	14,424
1999	14,175
2000	14,014
2001	15,738

The fair value of The Institute's financial debt instruments based on the borrowing rates currently available for loans with similar terms and average maturities was estimated at \$115,303,000 on June 30, 1996.

LAND, BUILDINGS, AND EQUIPMENT

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

	(In Thousands)	
	<u>1996</u>	<u>1995</u>
Land and improvements	\$ 14,683	\$ 14,119
Buildings	210,658	191,407
Equipment	129,335	124,789
Construction in progress	<u>10,354</u>	<u>12,709</u>
Total land, buildings & equipment	365,030	343,024
Less accumulated depreciation	<u>(168,227)</u>	<u>(156,040)</u>
	<u>\$196,803</u>	<u>\$186,984</u>

RETIREMENT PLANS

Defined Benefit Plans

Prior to December 31, 1995, Rensselaer had two defined benefit retirement plans, contributory and non-contributory. The non-contributory plan has been closed to new employees since July 1, 1988, and was terminated as of December 31, 1995. The active participants have been given the opportunity to enroll in the Defined Contribution Retirement Program. The following table sets forth the plans' combined funded status and amounts recognized in The Institute's balance sheet at June 30, 1996 and 1995. The calculations were based upon data as of or projected to April 1, 1996 and 1995, respectively, except for employee census information which was as of July 1, 1995 and 1994 and projected to April 1, 1996 and 1995, respectively.

Actuarial present value of benefit obligations:

	<u>(In Thousands)</u>	
	<u>1996</u>	<u>1995</u>
Vested	\$ <u>(146,696)</u>	\$ <u>(130,197)</u>
Accumulated	\$ <u>(149,413)</u>	\$ <u>(132,988)</u>
Plan assets at fair value, consisting of group annuity insurance contracts and stocks and bonds	\$ 167,979	\$ 144,710
Projected present value of benefit obligations	<u>(159,266)</u>	<u>(142,851)</u>
Plan assets in excess of projected benefit obligation	8,713	1,859
Unrecognized net loss	28,658	32,894
Prior service cost not yet recognized in net periodic pension expense	<u>6,111</u>	<u>6,762</u>
	43,482	41,515
Remaining unrecognized transition asset	<u>(27,544)</u>	<u>(30,627)</u>
Prepaid pension cost (included in prepaid expenses and other assets)	\$ <u>15,938</u>	\$ <u>10,888</u>

RETIREMENT PLANS (continued)

Defined Benefit Plans

Net pension cost included the following components:

	<u>(In Thousands)</u>	
	<u>1996</u>	<u>1995</u>
Service cost	\$ 4,210	\$ 4,092
Interest cost on projected benefit obligation	10,422	10,214
Actual return on assets	(26,686)	(10,749)
Net amortization and deferral	<u>13,043</u>	<u>(2,433)</u>
Net periodic pension cost	989	1,124
Settlement loss	42	0
Curtailment gain	<u>0</u>	<u>(15)</u>
Total pension cost	\$ <u>1,031</u>	\$ <u>1,109</u>

As of June 30, the weighted average rates forming the basis of net periodic pension cost and amounts recognized in The Institute's balance sheet were:

	<u>1996</u>	<u>1995</u>
Discount rate	7.25%	7.75%
Expected long term rate of return	9.00%	9.00%
Salary progression	5.00%	5.00%

Net periodic pension cost is reflected in institutional and academic support. The Institute's funding policy is based upon and is in compliance with ERISA requirements. Employer contributions to the plan of \$4,321,000 and \$4,203,000 were made in the fiscal years 1996 and 1995, respectively.

Defined Contribution Plan

The Institute also has a non-contributory Defined Contribution Retirement Plan open to full-time employees who have met minimum service requirements. The Institute's contributions to this plan (8.0% of Employee salary) were \$1,647,000 and \$1,468,000 in fiscal 1996 and 1995, respectively.

POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

Based upon service at retirement date, The Institute pays for a portion of health care benefits for retired employees.

The following table sets forth the status of the plan, which is unfunded, as of June 30:

	<u>(In Thousands)</u>	
	<u>1996</u>	<u>1995</u>
Accumulated postretirement benefit obligation:		
Retirees	\$ (3,206)	\$ (2,333)
Fully eligible active plan participants	(649)	(424)
Other active plan participants	<u>(4,151)</u>	<u>(2,804)</u>
Total	(8,006)	(5,561)
Plan assets at fair value	<u>0</u>	<u>0</u>
Accumulated postretirement benefit obligation in excess of plan assets	<u>(8,006)</u>	<u>(5,561)</u>
Unrecognized prior service cost	(3,469)	(5,339)
Unrecognized net (gain) / loss	<u>375</u>	<u>(267)</u>
Accrued postretirement benefit cost	<u>\$(11,100)</u>	<u>\$(11,167)</u>

Net periodic postretirement benefit cost for the years ended June 30, 1996 and 1995 includes the following components and is included in academic and institutional support:

	<u>(In Thousands)</u>	
	<u>1996</u>	<u>1995</u>
Service cost of benefits earned	\$ 262	\$ 160
Interest cost on accumulated postretirement benefit obligation	563	397
Amortization of unrecognized prior service costs	<u>(381)</u>	<u>(528)</u>
Net periodic postretirement benefit cost	<u>\$ 444</u>	<u>\$ 29</u>

POSTRETIREMENT BENEFITS OTHER THAN PENSIONS (continued)

Actual net claims paid by The Institute during 1996 and 1995 totaled approximately \$434,000 and \$299,000, respectively. The discount rate used in determining the expense for accumulated postretirement benefit obligation was 7.50% and 7.75% for 1996 and 1995, respectively. The assumed health care cost trend rate used was 10.5% and 11% for 1996 and 1995, 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 The Institute'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 3.74% and the service and interest cost components of the net periodic postretirement benefit cost by 4.37%.

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 a least reasonably possible that changes in these estimates and assumptions in the near term would be material to the financial statements.