Rensselaer Polytechnic Institute

Consolidated Financial Statements
June 30, 2017 and 2016

Rensselaer Polytechnic Institute
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June 30, 2017 and 2016

Report of Independent Auditors

To the Board of Trustees
Rensselaer Polytechnic Institute

We have audited the accompanying consolidated financial statements of Rensselaer Polytechnic Institute and Affiliates ("Rensselaer"), which comprise the consolidated statement of financial position as of June 30, 2017 and June 30, 2016, and the related consolidated statements of activities and of cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to Rensselaer's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Rensselaer's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Rensselaer Polytechnic Institute and Affiliates as of June 30, 2017 and June 30, 2016, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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Emphasis of Matter

As discussed in Note 2j to the consolidated financial statements, Rensselaer changed the manner in which it accounts for its net periodic pension costs and net periodic postretirement benefit costs in 2017. Our opinion is not modified with respect to this matter.

PricewaterhouseCoopers LLP

Hartford, CT
October 18, 2017

Rensselaer Polytechnic Institute
Consolidated Statements of Financial Position
June 30, 2017 and 2016

(in thousands of dollars)	2017	2016
Assets		
Cash and cash equivalents	$ 1,476	$ 6,131
Accounts receivable, net		
Student related and other	2,539	2,726
Research, training, and other agreements	13,617	17,529
Contributions receivable, net	34,077	38,441
Contributions from external remainder trusts	24,087	14,757
Prepaid expenses and other assets	7,685	7,084
Student loans receivable, net	29,625	29,655
Investments, at market - endowment, annuity and life income funds	684,311	639,567
Land, buildings and equipment, net	672,954	679,659
Total assets	$ 1,470,371	$ 1,435,549
Liabilities		
Accounts payable and accrued expenses	$ 33,920	$ 34,913
Short-term borrowings	4,500	15,800
Split interest agreement obligations	8,408	6,736
Deferred revenue	26,882	24,954
Other liabilities	18,785	17,409
Pension liability	125,322	153,954
Accrued postretirement benefits	17,218	15,340
Refundable government loan funds	31,083	30,535
Capital leases payable	19,819	20,165
Long-term debt	733,321	742,366
Total liabilities	1,019,258	1,062,172
Net assets		
Unrestricted		
Endowment, Plant and Other Operations	181,832	167,578
Defined Benefit Pension Plan	(348,551)	(373,083)
Unrestricted	(166,719)	(205,505)
Temporarily restricted	187,692	166,992
Permanently restricted	430,140	411,890
Total net assets	451,113	373,377
Total liabilities and net assets	$ 1,470,371	$ 1,435,549

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

Rensselaer Polytechnic Institute
Consolidated Statements of Activities
Year Ended June 30, 2017 with summarized comparative totals for the year ended June 30, 2016

(in thousands of dollars)	Unrestricted	Temporarily Restricted	Permanently Restricted	Total June 30, 2017	Total June 30, 2016
Operating revenue					
Student related revenue					
Student tuition and fees, net					
Undergraduate	$ 163,324	$ -	$ -	$ 163,324	$ 154,344
Graduate	46,578	-	-	46,578	45,575
Education for working professionals	1,984	-	-	1,984	2,398
Fees	1,065	-	-	1,065	1,245
Auxiliary services	67,140	-	-	67,140	59,748
Student related revenue	280,091	-	-	280,091	263,310
Gifts	15,893	7,365	-	23,258	22,228
Grants and contracts					
Direct					
Federal	43,580	-	-	43,580	47,862
State	6,086	-	-	6,086	6,926
Private	8,108	-	-	8,108	6,847
Indirect	16,877	-	-	16,877	16,187
Grants and contracts	74,651	-	-	74,651	77,822
Investment return					
Dividends and interest	7,134	5,371	37	12,542	7,853
Realized accumulated gains used to meet spending policy	9,241	8,384	-	17,625	21,572
Interest on student loans	21	-	-	21	27
Investment return designated for operations	16,396	13,755	37	30,188	29,452
Rensselaer Technology Park	4,259	-	-	4,259	4,155
Other	1,587	37	-	1,624	7,713
Net assets released from restrictions	21,385	(21,385)	-	-	-
Total operating revenue	414,262	(228)	37	414,071	404,680
Operating expense					
Instruction	139,807	-	-	139,807	133,252
Research					
Sponsored	87,865	-	-	87,865	90,497
Unsponsored	19,604	-	-	19,604	18,965
Student services	30,606	-	-	30,606	30,182
Institutional and academic support	77,440	-	-	77,440	74,499
Externally funded scholarships and fellowships	13,655	-	-	13,655	13,404
Auxiliary services	40,603	-	-	40,603	35,835
Rensselaer Technology Park	6,430	-	-	6,430	6,190
Total operating expenses	416,010	-	-	416,010	402,824
Change in net assets from operating activities	(1,748)	(228)	37	(1,939)	1,856
Non-operating					
Realized and unrealized gains (losses), net of spending policy and initiatives	17,667	15,008	33	32,708	(45,001)
Other components of net periodic benefit costs	(7,922)	-	-	(7,922)	(6,625)
Adjustments for pension and post-retirement liability	30,677			30,677	(37,214)
Life income and endowment gifts		6,441	10,770	17,211	21,611
Change in value of life income contracts	25	538	6,535	7,098	(4,872)
Gain (loss) on disposal of fixed assets	(97)	-	-	(97)	(106)
Other reclassifications and transfers	184	(1,059)	875	-	-
Change in net assets from nonoperating activities	40,534	20,928	18,213	79,675	(72,207)
Increase (Decrease) in net assets	38,786	20,700	18,250	77,736	(70,351)
Beginning of year	(205,505)	166,992	411,890	373,377	443,728
End of year	$ (166,719)	$ 187,692	$ 430,140	$ 451,113	$ 373,377

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

Rensselaer Polytechnic Institute
Consolidated Statements of Activities
Year Ended June 30, 2016

(in thousands of dollars)	Unrestricted	Temporarily Restricted	Permanently Restricted	Total June 30, 2016
Operating revenue				
Student related revenue				
Student tuition and fees, net				
Undergraduate	$ 154,344	$ -	$ -	$ 154,344
Graduate	45,575	-	-	45,575
Education for working professionals	2,398	-	-	2,398
Fees	1,245	-	-	1,245
Auxiliary services	59,748	-	-	59,748
Student related revenue	263,310	-	-	263,310
Gifts	16,382	5,846	-	22,228
Grants and contracts				
Direct				
Federal	47,862	-	-	47,862
State	6,926	-	-	6,926
Private	6,847	-	-	6,847
Indirect	16,187	-	-	16,187
Grants and contracts	77,822	-	-	77,822
Investment return				
Dividends and interest	4,804	3,012	37	7,853
Realized accumulated gains used to meet spending policy	11,429	10,143	-	21,572
Interest on student loans	27	-	-	27
Investment return designated for operations	16,260	13,155	37	29,452
Rensselaer Technology Park	4,153	2	-	4,155
Other	7,676	37	-	7,713
Net assets released from restrictions	17,974	(17,974)	-	-
Total operating revenue	403,577	1,066	37	404,680
Operating expense				
Instruction	133,252	-	-	133,252
Research				
Sponsored	90,497	-	-	90,497
Unsponsored	18,965	-	-	18,965
Student services	30,182	-	-	30,182
Institutional and academic support	74,499	-	-	74,499
Externally funded scholarships and fellowships	13,404	-	-	13,404
Auxiliary services	35,835	-	-	35,835
Rensselaer Technology Park	6,190	-	-	6,190
Total operating expenses	402,824	-	-	402,824
Change in net assets from operating activities	753	1,066	37	1,856
Non-operating				
Realized and unrealized (losses) gains, net of spending policy and initiatives	(27,563)	(17,425)	(13)	(45,001)
Other components of net periodic benefit costs	(6,625)	-	-	(6,625)
Adjustments for pension and post-retirement liablity	(37,214)			(37,214)
Life income and endowment gifts	-	1,314	20,297	21,611
Change in value of life income contracts	(27)	(1,001)	(3,844)	(4,872)
Gain (loss) on disposal of fixed assets	(106)	-	-	(106)
Other reclassifications and transfers	786	(1,053)	267	-
Change in net assets from nonoperating activities	(70,749)	(18,165)	16,707	(72,207)
Increase (decrease) in net assets	(69,996)	(17,099)	16,744	(70,351)
Beginning of year	(135,509)	184,091	395,146	443,728
End of year	$ (205,505)	$ 166,992	$ 411,890	$ 373,377

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

Rensselaer Polytechnic Institute
Consolidated Statements of Cash Flows
Years Ended June 30, 2017 and 2016

(in thousands of dollars)	2017	2016
Cash flow from operating activities		
Received from student-related revenues	$ 235,654	$ 218,637
Received from sponsored programs	80,154	73,831
Received from donors	22,452	21,427
Received from investment income	13,156	7,750
Received from Rensselaer Technology Park	4,031	4,420
Received from other	1,468	7,867
Payments to employees and fringe benefits	(198,429)	(188,776)
Payments to vendors and suppliers	(92,668)	(86,668)
Payments for scholarships and fellowships	(5,519)	(4,652)
Payments for Interest expense	(38,256)	(37,750)
Payments for pension and post retirement obligations	(4,730)	(8,076)
Payments for other expenses	(7,655)	(7,083)
Net cash increase from operating activities	9,658	927
Cash flow from investing activities		
Proceeds from sale of investments	450,480	187,635
Purchase of investments	(435,994)	(169,457)
Additional student loans granted	(5,416)	(5,709)
Student loans paid	4,955	4,540
Proceeds from sale of land, building, and equipment	185	70
Purchase of land, building and equipment	(20,696)	(12,888)
Net cash (decrease) increase from investing activities	(6,486)	4,191
Cash flow from financing activities		
Contributions restricted for long term investments	13,412	8,590
Payment of annuity obligations	(942)	(868)
Payment of debt issuance costs	-	(160)
Proceeds from loans	81,300	95,308
Repayment of debt	(102,145)	(118,068)
Government loan funds	548	541
Net cash (decrease) from financing activities	(7,827)	(14,657)
Net (decrease) in cash and cash equivalents	(4,655)	(9,539)
Cash and cash equivalents		
Beginning of year	6,131	15,670
End of year	$ 1,476	$ 6,131
Non-cash investing activities		
Contributed securities	1,395	3,134
Non-cash gifts: life insurance, life estates, and trusts	9,118	704
Gifts of equipment and other capital items	186	351

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

(in thousands of dollars)

1. Organization

Rensselaer Polytechnic Institute (Rensselaer or The Institute) is a nonsectarian, coeducational institution composed of five schools: Engineering; Science; Architecture; Humanities, Arts, and Social Sciences; and the Lally School of Management & Technology; as well as an interdisciplinary degree in Information Technology. Rensselaer offers more than 145 programs at the bachelor's, master's, and doctoral levels. Students are encouraged to work in interdisciplinary programs that allow them to combine scholarly work from several departments or schools. The Institute provides rigorous, engaging, interactive learning environments and campus-wide opportunities for leadership, collaboration, and creativity. Rensselaer Technology Park is a university related park for technology ventures seeking a unique environment focused on the interface between industry and education.

2. Summary of Significant Accounting Policies

(a) Basis of Presentation and Tax Status

The financial statements are presented on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (GAAP) and have been prepared to focus on the Institute as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions.

The accompanying financial statements include the Rensselaer Hartford Graduate Center, Inc., a branch of the Institute focused on education for working professionals, which is a separate entity consolidated in the financial statements. Rensselaer and the Center are collectively referred to herein as the Institute. All significant inter-organizational accounts have been eliminated in consolidation. The Institute is a not-for-profit organization as described in section 501(c)(3) of the Internal Revenue Code, and is generally exempt from income taxes pursuant to the Code. In accordance with accounting standards, the Institute evaluates its income tax status each year.

(b) Net Asset Classification

The Institute is incorporated in and subject to the laws of New York, which incorporate the provisions outlined in the New York Prudent Management of Institution Funds Act (NYPMIFA.) Under NYPMIFA, the assets of donor-imposed restricted funds may be appropriated by the Institute for expenditure. Net assets having similar characteristics have been classified in the following categories:

- *Permanently restricted net assets* are subject to donor-imposed stipulations that they be maintained permanently or until prudently appropriated by the Board of Trustees of the Institute in accordance with New York State law. Generally, the donors of these assets permit the Institute to use all or part of the investment return on these assets to support program activities, principally financial aid and instruction.

- *Temporarily restricted net assets* used by the Institute are subject to donor-imposed or legal stipulations that can be fulfilled by actions of the Institute pursuant to those stipulations or that expire with the passage of time. Realized and unrealized gains on permanently and temporarily restricted assets are reported as temporarily restricted net assets in accordance with New York State law.

(in thousands of dollars)

- *Unrestricted net assets* are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Trustees or may otherwise be limited by contractual agreements with outside parties.

(c) Consolidated Statement of Activities

The Consolidated Statement of Activities reports changes in net assets from operating and non-operating activities. Operating activities primarily include revenues and expense related to on-going educational and research efforts as well as gifts and net return on the Institute's endowment. Operating net assets released from restrictions include support for such program activities as financial aid and instruction. Contributions with donor-imposed restrictions are reported as temporarily restricted revenues and are reclassified to unrestricted net assets when the donor-imposed restriction is satisfied. Expenses are generally reported as decreases in unrestricted net assets.

Non-operating activities primarily include investment return net of spending, changes in life income and endowment gifts and gain or loss on the disposal of assets or liabilities. Non-operating net assets released from restrictions primarily represent amounts for facilities and equipment. Contributions restricted for the acquisition of land, buildings and equipment and specific programs are reported as temporarily restricted revenues. These contributions are reclassified to unrestricted net assets upon acquisition of the assets or being placed in service. Contributions received of a capital nature, that is, contributions to be used for facilities and equipment or to be invested by the Institute to generate a return that will support operations, are included in non-operating activities.

Revenues are derived from various sources as follows:

- *Student related revenue* includes tuition revenue from undergraduate, graduate, and working professionals, as well as, student fees and auxiliary services. The undergraduate student discount rate was 45.5% and 43.1% for the years ended June 30, 2017 and 2016, respectively.

(in thousands of dollars)

Student tuition by segment and location is as follows:

	2017	2016
Undergraduate tuition		
Troy Campus tuition revenue	$ 294,325	$ 266,694
Institutional aid	(134,051)	(115,076)
Total undergraduate academic tuition revenue	160,274	151,618
Summer tuition revenue	3,050	2,726
Total undergraduate tuition	$ 163,324	$ 154,344
Graduate tuition		
Troy Campus tuition revenue	$ 47,355	$ 46,354
Institutional aid	(999)	(1,011)
Total graduate academic tuition revenue	46,356	45,343
Summer tuition revenue	222	232
Total graduate tuition	$ 46,578	$ 45,575
Education for working professionals		
Troy Campus	$ 892	$ 782
Hartford Campus	1,152	1,742
Total education for working professionals revenue	2,044	2,524
Institutional aid	(60)	(126)
Total education for working professionals tuition	$ 1,984	$ 2,398

- *Contributions*- Contributions, including unconditional promises to give (pledges), are recognized as revenue in the appropriate net asset class in the period received. A pledge is initially recorded at present value based on an appropriate market rate. Restricted contributions are released to unrestricted net assets when an expense is incurred that satisfies the donor-imposed restriction. Contributions of assets other than cash are recorded at their estimated fair value at the date of gift. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Additional information can be found in Note 3b.

- *Government grants and contracts*- The Institute has been awarded approximately $94,370 and $90,463 of grants and contracts which have not been advanced or expended as of June 30, 2017 and 2016, respectively, and accordingly, are not recorded in the financial statements.

- *Investment return* - Net appreciation (depreciation) in the fair value of investments, which consists of dividends and interest, realized gains and losses and the unrealized appreciation or depreciation on those investments, is recognized in the Consolidated Statement of Activities.

(in thousands of dollars)

(d) Cash and Cash Equivalents
Cash and cash equivalents include all highly liquid debt instruments with maturity of three months or less when purchased. They are carried at cost, which approximated fair value. Cash that is part of the Institute's investment portfolio is reported as investments and included in Note 5.

(e) Accounts and Notes Receivable
Accounts and notes receivable include amounts arising from tuition and fees, Rensselaer Technology Park activity and amounts owed on research contracts. They are carried at net realizable value.

(f) Investments
The Institute's investments are recorded in the financial statements at fair value. Investment income is recorded on an accrual basis, and purchase and sale transactions are recorded on a trade-date basis. Realized gains and losses are recognized on an average cost basis when securities are sold.

(g) Land, Buildings and Equipment
Land, buildings and equipment are carried at cost or at the fair value at the date of the gift. Depreciation is computed on a straight-line basis over the estimated useful lives of buildings, including building components, (10-50 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.

(h) Refundable Government Loan Funds
Amounts received from Federal government to fund a portion of the Federally-sponsored student loans are ultimately refundable to the Federal government and have been reported as advances from the Federal government for student loans in the consolidated statement of financial position. The recorded value of student loan instruments approximates fair value.

(i) Use of Estimates
The preparation of financial statements 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.

(j) Recently Adopted Accounting Standards
On July 1, 2016, the Institute early adopted new accounting standard related to *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. The standard requires service costs be reported as an employee cost within operating income. The other components are reported separately outside of operations. The amendment allows for practical expedient for comparative purposes as the estimate basis for applying the retrospective requirement. Rensselaer has used the practical expedient. The disclosure change can be seen in footnote 9 for both fiscal years 2017 and 2016.

In conjunction with the adoption of the standard, Rensselaer has elected to change its policy regarding administrative cost of the defined benefit pension plan. Previously, administrative costs have been included in the service cost component of net periodic benefit costs. As the true service

(in thousands of dollars)

cost of the plan is zero, as it is frozen to future benefit accruals, Rensselaer has elected to net administrative costs of the plan against the expected return on plan assets for the defined benefit plan.

For fiscal year 2016, the adoption of the standard moved $6,625 of net periodic benefit cost from operating expenses to non-operating. The $6,625 can now be seen in the line titled “Other components of net periodic benefit cost” on the Consolidated Statement of Activities. The remaining $2,962 that was reflected in the defined benefit and post-retirement expense has been moved to institutional and academic support. This amount represents $401 of service cost and $2,525 of interest expense on the pension debt. These changes had no effect on total net assets.

(k) Reclassifications

It is the Institute’s policy to reclassify, where appropriate, prior year financial statements to conform to the current year presentation. Certain 2016 reclassifications were made to the Consolidated Statement of Activities to conform to the current year.

3. Receivables

(a) Accounts Receivable

The Institute’s receivables are comprised of student related, research, training and other agreements and are reviewed and monitored for aging and collectability on a regular basis. There is also a corresponding allowance for uncollectable accounts at June 30, 2017 and 2016. Accounts receivable from the following sources were outstanding as of June 30:

	2017	2016
Student related receivables	$ 2,297	$ 2,088
Research, training and other agreements	13,797	17,662
Rensselaer Technology Park	290	392
Other	367	659
Gross account receivable	16,751	20,801
Less: Allowance for doubtful accounts	(595)	(546)
Net accounts receivable	$ 16,156	$ 20,255

(b) Contributions Receivable

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

	2017	2016
Less than one year	$ 1,076	$ 1,906
Between one and five years	25,109	24,945
More than five years	14,710	19,639
Gross contributions receivable	40,895	46,490
Less: Unamortized discount	(6,395)	(7,585)
Less: Allowance for uncollectible amounts	(423)	(464)
Net contributions receivable	$ 34,077	$ 38,441

(in thousands of dollars)

There were no conditional pledges at June 30, 2017. Bequest expectancies totaling $121,348 have been also excluded from these amounts and are not recorded in the financial statements. In compliance with donor stipulations related to a $360,000 transformational gift, revenue is being recognized as periodic cash payments are received. Revenue of $10,000 related to the transformational gift was recognized in 2017 and 2016, respectively.

(c) Student Loans Receivable

Student loan programs are funded by many sources, including institutional sources and governmental programs, including the Federal Perkins Loan Program. The amount received from the government's portion of the Perkins loan program are refundable to the federal government and reported as a liability on the Institute's statement of financial position.

The Institute regularly assesses the adequacy of the allowance for credit losses relating to these loans by performing ongoing evaluations of the student loan portfolio, including such factors as the differing economic risks associated with each loan category, the financial condition of specific borrowers, the economic environment in which the borrowers operate, and the level of delinquent loans.

The following provides enhanced disclosures about the student loan receivables and allowances associated with the institutional and federal loan programs.

	2017			2016		
	Receivable	Allowance	Net Receivable	Receivable	Allowance	Net Receivable
Institutional loans	$ 992	$ (743)	$ 249	$ 1,051	$ (748)	$ 303
Federal loans	30,986	(1,610)	29,376	30,511	(1,159)	29,352
Total loan receivable	$ 31,978	$ (2,353)	$ 29,625	$ 31,562	$ (1,907)	$ 29,655

	Institutional	Federal	Total Allowance
Allowance at beginning of year	$ (748)	$ (1,159)	$ (1,907)
Current year provisions	5	(451)	(446)
Allowance at end of year	$ (743)	$ (1,610)	$ (2,353)

4. Split Interest Agreements

Split interest gift agreements consist primarily of irrevocable charitable remainder trusts, pooled income funds and charitable gift annuities for which the Institute is the remainder beneficiary. Assets held in these trusts are included in investments and recorded at their fair value when received. The value of split interest assets included in the investments at June 30, 2017 and 2016 were $18,813 and $17,402, respectively. 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. Discount rates range from 1.2% to 10.6%. The liability for the present value of deferred gifts of $8,408 and $6,736 at June 30, 2017 and 2016, respectively, is based upon actuarial estimates and assumptions regarding the duration of the agreements and the

(in thousands of dollars)

rates to discount the liability. Circumstances affecting these assumptions can change the estimate of this liability in future periods.

Rensselaer is also beneficiary of certain perpetual trusts held and administered by others. The fair value of these trusts at June 30, 2017 and 2016 was $64,340 and $59,616 respectively, and included in the investment balance. The present values of the estimated future cash receipts from the trusts are recognized as contributions from external trusts and contribution revenue at the date Rensselaer is notified of the establishment of the trust. Distributions from the trusts are recorded as investment income in the period they are received and the fair value of the institutions investment of those distributions are disclosed in Note 5. Changes in fair value of the trusts are recorded as gain or loss in permanently restricted net assets.

5. Investments

The Institute's investments are overseen by the Investment Committee of the Board of Trustees. The fair value and cost of investments at June 30 is as follows:

	2017		2016	
	Fair Value	**Cost**	**Fair Value**	**Cost**
Cash and cash equivalents	$ 22,598	$ 22,598	$ 36,338	$ 36,338
Fixed income	69,695	68,742	82,368	79,445
Domestic equity	126,327	124,404	80,253	75,983
Global equity	53,211	38,028	64,429	53,350
Foreign equity	126,516	99,206	70,735	61,625
Real assets	4,287	4,115	3,186	2,873
Marketable alternatives				
Fixed income	33,098	25,764	28,363	18,864
Multi strategy	9,634	8,368	28,479	16,392
Equity	16,677	14,737	13,393	15,179
Private investments				
Fixed income	6,518	10,179	7,623	10,179
Real assets	57,606	104,427	65,438	110,382
Equity	93,804	64,921	99,346	69,730
Subtotal	619,971	585,489	579,951	550,340
Perpetual trusts held by others	64,340	51,829	59,616	51,829
Total investments	$ 684,311	$ 637,318	$ 639,567	$ 602,169

- At June 30, 2017, Rensselaer has committed to investing approximately an additional $6,000 in private investments related to various equity and real asset partnerships.

(a) Investment Classification Descriptions

Fixed Income

This category contains investments in public and nonpublic fixed income securities, including convertible bonds, corporate bonds, foreign sovereign bonds, high yield bonds, and U.S. government and government sponsored bonds. These investments may be held directly by the Institute, or indirectly through outside managers that the Institute has hired for specific mandates. In addition, they are subject to a variety of liquidity restrictions that normally range from three days to three months.

(in thousands of dollars)

Domestic Equity
This category includes investments in U.S. equities. These investments may be held directly by the Institute, or indirectly through outside managers that the Institute has hired for specific mandates. In addition, they are subject to a variety of liquidity restrictions that normally range from three days to three months.

Global Equity
This category contains investments in U.S. and non-U.S. developed market and emerging market equities. These investments may be held directly by the Institute, or indirectly through outside managers that the Institute has hired for specific mandates. In addition, they are subject to a variety of liquidity restrictions that normally range from three days to three months.

Foreign Equity
This category contains investments in non-U.S. developed market and emerging market equities. These investments may be held directly by the Institute, or indirectly through outside managers that the Institute has hired for specific mandates. In addition, they are subject to a variety of liquidity restrictions that normally range from three days to three months.

Real Assets
This category contains investments in a U.S. and non-U.S. assets, including real estate, infrastructure, and commodity. These investments may be held directly by the Institute, or indirectly through outside managers that the Institute has hired for specific mandates. In addition, they are long-term in nature and liquidity is asset specific.

Marketable Alternatives
This category contains investments in a variety of partnerships and similar entities focused on primarily marketable investments in the U.S and non-U.S. markets. The individual managers utilize a variety of strategies, including distressed, event-driven, long/short, relative value, global macro, and sector specific. Most of these investments have an initial lockup and offer liquidity, thereafter, ranging from thirty days to one year.

Private Investments
This category contains investments in U.S. and non-U.S. partnerships and similar entities focused primarily on venture capital investments, buyouts, growth equity, real estate, infrastructure, commodity, and fixed income. The capital commitments made by the Institute are drawn down over time by the manager. As investments mature and/or are realized, distributions are made by the manager to the Institute during the life of the partnership, typically 10 years. The Institute does not have any redemption rights in these investments.

Perpetual Trusts
This category includes certain perpetual trusts held and administered by others for which Rensselaer is the beneficiary.

(in thousands of dollars)

(b) Spending from Endowment Funds

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.

(c) Dividends, Interest and Realized and Unrealized Gains and Losses

Total dividends, interest and realized and unrealized gains (reflected as both operating and non-operating activity) are as follows:

	2017	2016
Dividends and interest available for spending	$ 12,542	$ 7,853
Realized gains (loss)	47,814	24,470
Unrealized gains (loss)	4,191	(46,047)
Investment return	64,547	(13,724)
Investment management fees	1,672	1,852
Net investment return	$ 62,875	$ (15,576)

(d) Fair Value

The Institute is permitted under US GAAP to estimate the fair value of an investment at the measurement date using the reported Net Asset Value (NAV) without further adjustment unless the entity expects to sell the investment at a value other than NAV or if the NAV is not calculated in accordance with US GAAP. The Institute's investments in private investments, real assets and marketable alternatives are fair valued based on the most current NAV.

The Institute performs additional procedures including due diligence reviews on its investments in investment companies and other procedures with respect to the capital account or NAV provided to ensure conformity with US GAAP. The Institute has assessed factors including, but not limited to, managers' compliance with Fair Value Measurement standard, price transparency and valuation procedures in place, the ability to redeem at NAV at the measurement date, and existence of certain redemption restrictions at the measurement date.

The three levels are fair value hierarchies related to Institute valued and directly managed investments are:

Level 1 Quoted prices in active markets for identical assets or liabilities. Market price data is generally obtained from exchange or dealer markets.

Level 2 Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the same term of the assets or liabilities. Inputs are obtained from various sources including market participants, dealers, and brokers.

(in thousands of dollars)

Level 3 Pricing inputs are unobservable and include situations where there is little, if any, market activity for the investment.

Directly managed corporate investments which can be redeemed at net asset value (NAV) by the Institute on the measurement date or in the near future are classified as Level 2. Directly managed investments which cannot be redeemed on the measurement date or in the near term are classified as Level 3.

The following table presents the financial instruments carried at fair value as of June 30, 2017 and 2016, by caption on the consolidated statement of financial position, based on the valuation hierarchy defined above:

	2017				
	Quoted Prices in Active Markets Level 1	**Significant Other Observable Level 2**	**Significant Unobservable Level 3**	**NAV Investments Valued by Practical Expedient**	**Total Fair Value**
Cash and cash equivalents	$ 21,863	$ 734	$ -	$ -	$ 22,597
Fixed income	47,885	-	-	21,810	69,695
Domestic equity	126,272	-	35	20	126,327
Global equity	30,049	-	-	23,162	53,211
Foreign equity	85,036	-	-	41,480	126,516
Real assets	-	-	4,287	-	4,287
Marketable alternatives					
Fixed income	-	-	-	33,098	33,098
Multi strategy	-	-	-	9,634	9,634
Domestic equity	-	-	-	16,677	16,677
Private investments					
Fixed Income	-	-	890	5,628	6,518
Real assets	-	-	-	57,606	57,606
Equity	-	-	-	93,805	93,805
Subtotal	311,105	734	5,212	302,920	619,971
Perpetual Trusts held by others	-	-	64,340	-	64,340
Total investments	$ 311,105	$ 734	$ 69,552	$ 302,920	$ 684,311

(in thousands of dollars)

	2016				
	Quoted Prices in Active Markets Level 1	Significant Other Observable Level 2	Significant Unobservable Level 3	NAV Investments Valued by Practical Expedient	Total Fair Value
Cash and cash equivalents	$ 35,731	$ 607	$ -	$ -	$ 36,338
Fixed income	17,121	20,414	-	44,833	82,368
Domestic equity	80,198	-	35	20	80,253
Global equity	24,176	-	-	40,253	64,429
Foreign equity	37,209	-	-	33,526	70,735
Real assets	-	-	3,186	-	3,186
Marketable alternatives					
Fixed income	-	-	-	28,363	28,363
Multi strategy	-	-	-	28,479	28,479
Domestic equity	-	-	-	13,393	13,393
Private investments					
Fixed Income	-	-	890	6,733	7,623
Real assets	-	-	-	65,438	65,438
Equity	-	-	-	99,346	99,346
Subtotal	194,435	21,021	4,111	360,384	579,951
Perpetual Trusts held by others	-	-	59,616	-	59,616
Total investments	$ 194,435	$ 21,021	$ 63,727	$ 360,384	$ 639,567

Investments valued using the practical expedient primarily include Rensselaer's ownership in alternative investments (principally limited partnership interests in marketable alternatives, private investments, real estate, and other similar funds). The value of certain alternative investments represents the ownership interest in the NAV of the respective partnership and consists of securities that do not have readily determinable fair values. The fair values of the securities held by limited partnerships that do not have readily determinable fair values are determined by the general partner taking into consideration, among other things, the cost of the securities, prices of recent significant placements of securities of the same issuer, and subsequent developments concerning the companies to which the securities relate. The Institute regularly reviews and evaluates the values provided by the investment managers and agrees with the valuation methods and assumptions used in determining the fair value of these investments.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Institute believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

(in thousands of dollars)

The following table is a roll-forward of the consolidated statement of financial position amounts at June 30, 2017 and 2016 for financial instruments classified by Rensselaer within Level 3 of the fair value hierarchy defined above:

	2017				
Level 3 Investments	**Domestic Equity**	**Real Assets**	**Private Investments**	**Perpetual Trusts**	**Total**
Fair value, beginning of year	$ 35	$ 3,186	$ 890	$ 59,616	$ 63,727
Purchases	-	1,020	-	-	1,020
Change in value	-	81	-	4,724	4,805
Fair value, end of year	$ 35	$ 4,287	$ 890	$ 64,340	$ 69,552

	2016				
Level 3 Investments	**Domestic Equity**	**Real Assets**	**Private Investments**	**Perpetual Trusts**	**Total**
Fair value, beginning of year	$ 35	$ 3,047	$ 890	$ 63,057	$ 67,029
Unrealized gains (loss)	-	22	-	-	22
Purchases	-	117	-	-	117
Change in value	-	-	-	(3,441)	(3,441)
Fair value, end of year	$ 35	$ 3,186	$ 890	$ 59,616	$ 63,727

Contributions from external remainder trusts, reported separately from investments at market, are also considered Level 3 of the fair value hierarchy defined above. The following table rolls forward the values, as of June 30:

	2017	2016
Level 3 Contributions from external remainder trusts		
Fair value, beginning of year	$ 14,757	$ 14,562
Unrealized gains (loss)	1,562	(246)
Purchases / gifts	7,982	582
Sales / settlements	(214)	(141)
Fair value, end of year	$ 24,087	$ 14,757

In accordance with currently effective standards updates for estimating fair value of investments, the Institution conducted a review of valuation changes between hierarchies Level 1 and Level 2 occurring during fiscal year 2017 and noted no material valuation changes.

(in thousands of dollars)

6. Endowment

Rensselaer's endowment consists of approximately 700 individual donor restricted endowment funds and 85 board designated endowment funds for a variety of purposes plus assets that have been designated for endowment: pledges receivables, split interest agreements, and other net assets. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. The net assets associated with endowment funds are classified and reported based on the existence or absence of donor imposed restrictions.

Endowment and similar funds are invested under direction of the Board of Trustees to achieve maximum long-term total return with prudent concern for the preservation of investment capital. All investments of endowment and similar funds are recorded in the statement of financial position as long-term investments, including cash balances held by external investment managers. The fair value of endowment investments (separately invested and pooled) was $662,719 and $620,075 as of June 30, 2017 and June 30, 2016, respectively.

Endowment net assets consist of the following at June 30:

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
True endowment funds	$ 59,258	$ 123,308	$ 408,953	$ 591,519
Board-designated endowment funds	105,007	-	-	105,007
Total endowment net assets	$ 164,265	$ 123,308	$ 408,953	$ 696,526

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
True endowment funds	$ 55,666	$ 108,806	$ 394,249	$ 558,721
Board-designated endowment funds	98,947	-	-	98,947
Total endowment net assets	$ 154,613	$ 108,806	$ 394,249	$ 657,668

The unrestricted portion of true endowment funds represent amounts that have been appropriated by the Board of Trustees but not yet drawn from the endowment, net of the effect of underwater endowments.

(in thousands of dollars)

Changes in endowment net assets as of June 30:

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 154,613	$ 108,806	$ 394,249	$ 657,668
Net gifts	-	-	6,812	6,812
Yield (dividends and interest)	7,109	5,371	37	12,517
Investment gains(losses), realized and unrealized	26,908	25,069	4,714	56,691
Reclassification of underwater endowments	2,800	(2,800)	-	-
Reclassifications and other changes	(2,389)	2,360	3,141	3,112
Endowment additions	34,428	30,000	14,704	79,132
Amounts appropriated for expenditure	24,776	13,329	-	38,105
Investment management fees and other expenditures	-	2,169	-	2,169
Endowment deductions	24,776	15,498	-	40,274
Endowment net assets, end of year	$ 164,265	$ 123,308	$ 408,953	$ 696,526

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 186,336	$ 126,660	$ 377,102	$ 690,098
Net gifts	-	-	20,296	20,296
Yield (dividends and interest)	4,804	2,989	37	7,830
Investment gains(losses), realized and unrealized	(16,134)	(5,349)	(3,438)	(24,921)
Reclassification of underwater endowments	(8,334)	8,334	-	-
Reclassifications and other changes	9,174	(8,309)	252	1,117
Endowment additions	(10,490)	(2,335)	17,147	4,322
Amounts appropriated for expenditure	21,233	13,133	-	34,366
Investment management fees and other expenditures	-	2,386	-	2,386
Endowment deductions	21,233	15,519	-	36,752
Endowment net assets, end of year	$ 154,613	$ 108,806	$ 394,249	$ 657,668

(in thousands of dollars)

Description of Amounts Classified as Permanently Restricted Net Assets and Temporarily Restricted Net Assets at June 30: (Endowments Only)

	2017	
Restricted for	**Temporarily Restricted**	**Permanently Restricted**
Scholarship support	$ 40,480	$ 100,203
Fellowship support	9,056	15,036
Faculty support	45,816	85,423
Program support	25,565	82,463
Awards and prizes	2,340	3,970
Institutional support	51	121,858
Permanent and Temporarily Restricted net asset purpose	$ 123,308	$ 408,953

	2016	
Restricted for	**Temporarily Restricted**	**Permanently Restricted**
Scholarship support	$ 35,285	$ 94,339
Fellowship support	8,469	14,954
Faculty support	39,420	79,867
Program support	23,616	83,747
Awards and prizes	1,970	3,781
Institutional support	46	117,561
Permanent and Temporarily Restricted net asset purpose	$ 108,806	$ 394,249

(a) Interpretation of Relevant Law

The New York Prudent Management of Institutional Funds Act (“NYPMIFA”) became effective on September 17, 2010 and governs the management and investment of funds held by not-for-profit corporations and other institutions. Absent donor stipulations to the contrary, the statutory guidelines contained in NYPMIFA relate to the prudent management, investment and expenditure of donor-restricted endowment funds without regard to the original value of the gifts. However, NYPMIFA contains specific factors that must be considered prior to making investment decisions or appropriating funds for expenditure.

(in thousands of dollars)

The Board of Trustees' interpretation of its fiduciary responsibilities for donor-restricted endowment funds under New York State's Not-for-Profit Corporation Law, including NYPMIFA, is to preserve intergenerational equity to the extent possible by prudently managing, investing, and spending from the endowment funds. This principle holds that future endowment beneficiaries should receive at least the same level of economic support that the current generation receives. As a result of this interpretation, the Institute classifies as permanently restricted net assets the un-appropriated portion of (a) the original value of gifts donated to a true endowment fund, (b) the original value of subsequent gifts to a true endowment fund, and (c) accumulations to a true endowment fund made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Unspent appropriations related to donor-restricted endowment funds are classified as temporarily restricted net assets until the amounts are expended by the Institute in a manner consistent with the donor's intent. The remaining portion of donor-restricted endowment funds that are not classified as permanently or temporarily restricted net assets are classified as unrestricted net assets.

The Board of Trustees determines the appropriate amount to withdraw from endowment and similar funds on an annual basis to provide support for operations with prudent concern for the long-term growth in the underlying assets as well as the specific factors detailed in NYPMIFA. The Board-approved spending policy is designed to insulate endowment support for programming from short-term fluctuations in capital markets.

(b) Endowment Funds with Deficits

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the value of the initial and subsequent donor gift amounts (deficit). When donor endowment deficits exist, they are classified as a reduction of unrestricted net assets. Deficits of this nature reported in unrestricted net assets were $18,869 and $22,046 as of June 30, 2017 and 2016, respectively. These deficits resulted from unfavorable market fluctuations that occurred shortly after the investment of newly established endowments, and authorized appropriation that was deemed prudent.

(c) Return Objectives and Risk Parameters

Rensselaer has adopted endowment investment and spending policies that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of endowment assets. Under this policy, the return objective for the endowment assets, measured over a full market cycle, shall be to maximize the return against a blended index, based on the endowment's target allocation applied to the appropriate individual benchmarks. Rensselaer expects its endowment funds over time, to provide an average rate of return of approximately 7.1 percent annually. Actual returns in any given year may vary from this amount.

(d) Strategies Employed for Achieving Investment Objectives

To achieve its long-term rate of return objectives, Rensselaer relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized gains) and current yield (interest and dividends). Rensselaer targets a diversified asset allocation that places greater emphasis on equity-based investments to achieve its long-term objectives within prudent risk constraints.

(in thousands of dollars)

(e) Endowment Spending Policy

The Board of Trustees of Rensselaer determines the method to be used to appropriate endowment funds for expenditure. Calculations are performed for individual endowment funds at a rate of 5.0 percent of the rolling 20 quarter average market value on a unitized basis one year subsequent to the calculation. The corresponding calculated spending allocations are distributed in equal quarterly installments on the first day of each quarter from the current net total or accumulated net total investment returns for individual endowment funds. In establishing this policy, the Board considered the expected long term rate of return on its endowment.

7. Land, Building, and Equipment

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

	2017	2016
Land and land improvements	$ 36,544	$ 34,168
Buildings	930,277	928,737
Equipment	227,054	228,461
Construction in progress	16,508	6,654
Gross land, building and equipment	1,210,383	1,198,020
Less: Accumulated depreciation	(537,429)	(518,361)
Net land, building and equipment	$ 672,954	$ 679,659

Building assets includes the value of the Asset Retirement Obligation intangible for which amortization of $10 and $11 were reported in the periods ended June 30, 2017 and 2016, respectively. The depreciation expense related to the building, land improvements and equipment were $27,942 and $28,974 in the periods ended June 30, 2017 and 2016, respectively.

As of June 30, 2017, Rensselaer had $2,298 of open commitments to contractors for construction on work being performed.

(in thousands of dollars)

8. Bonds and Notes Payable

The Institute has entered into various debt obligations, all of which are repaid from the general operations of the Institute, as appropriate. Outstanding bonds and notes payable are as follows:

	Year of Final Maturity	Average Annual Interest Rate	Outstanding 2017	Outstanding 2016
U.S. Department of Education Dormitory Bonds				
and 1988 Mortgage Loan	2018	3.00%	$ 270	$ 444
Rensselaer County IDA - Industrial Development Facility Issue				
Series 1997A (Note a) - VRD	2022	1.18%	5,175	5,667
Troy Industrial Development Authority Civic Facility Issue				
Series 2002E (Note b) - Fixed	2037	4.99%	24,503	24,484
Series 2010 Rensselaer Taxable Bonds (Note d) - Fixed	2021	5.60%	204,357	204,197
City of Troy Capital Resource Corporate Series 2010A&B (Note c) - Fixed	2040	5.08%	341,058	347,658
Series 2015 (Note g) - Fixed	2035	4.53%	78,135	80,112
Senior Notes				
Series 2011A (Note e) - Fixed	2026	4.35%	39,836	39,818
Series 2014A (Note f) fixed	2029	3.99%	39,987	39,986
Total bonds and notes payable			$ 733,321	$ 742,366

	2017	2016
Debt issuance costs	$ (4,257)	$ (4,568)
Net Bond Premium (Discount)	5,308	5,590
Net components subject to amortization	1,051	1,022
Bond principal	732,270	741,344
Total bonds and notes payable	$ 733,321	$ 742,366

Debt principal outstanding is reflected net of bond premiums, discounts, and debt issuance costs and where applicable are being amortized on the straight-line method over the term of the related indebtedness.

Long-term debt is collateralized by certain physical properties with a carrying value of $514 at June 30, 2017 and 2016, respectively. At June 30, 2017 and 2016, Rensselaer did not have assets held by trustees for construction, debt service and other project-related expenses.

(in thousands of dollars)

Notes to Debt Outstanding

(a) On March 12, 1997, Rensselaer entered into an agreement with the Rensselaer County Industrial Development Agency, providing for the issuance of $13,240 in variable rate demand (VRD) 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 are subject to a remarketing agreement and bear a variable interest rate that resets weekly, but in no event may exceed 12% per annum. In the event that Rensselaer receives notice of any option tender on its variable-rate-bonds, or if the bonds become subject to mandatory tender, the purchase price of the bonds will be paid from the remarketing of such bonds. However, if the remarketing proceeds are insufficient, Rensselaer will have a general obligation to purchase the bonds tendered pending reissuance under its multi modal provisions. On July 6, 2017 all outstanding bonds were called for redemption and paid in full with the indenture lien released.

(b) On May 1, 2002, Rensselaer entered into an agreement with the Troy Industrial Development Authority, which provided for the issuance of $218,880 in Series 2002 A-E revenue bonds, including $202,980 in variable rate mode. The transaction also generated a $1,130 premium on the Series 2002A bonds. Proceeds from the issue in the amount of $203,150 were utilized for the construction costs of two buildings, related campus-wide infrastructure improvements, issuance costs and to legally defease Dormitory Authority Series 1993 Bonds. On April 20, 2010 Series 2002 B, C and D bonds totaling $177,980 were refinanced with Series 2010 A Tax Exempt bonds. On September 1, 2011 Rensselaer remarketed its Series 2002E bonds for $25,000 to convert them from variable rate to fixed rate bonds. Maturities on the bonds range from 2026 to 2037 with a final maturity on April1, 2037. Interest rates on the bond range from 4.63% to 5.20% and payments are due March 1 and September 1, commencing on March 1, 2012.

(c) On April 20, 2010, Rensselaer entered into an agreement with the City of Troy Capital Resource Corporation which provided for the issuance of $358,810 in fixed rate revenue bonds, Series 2010A for $311,630 and Series 2010B for $47,180. Proceeds from the issuance were used to refinance Series 2002 B, C and D, Series 2007 and Series 2008 A and B bonds as well as paying 2010 termination expenses on several interest rate swap agreements. Interest rates on the bonds range from 5.00% to 5.13%. Maturities on the bonds range from 2012 to 2030 with a final maturity of September 1, 2040. Interest payments are due March 1 and September 1, commencing on September 1, 2010.

(d) On April 20, 2010, Rensselaer issued Series 2010 Taxable bonds for $205,000. Proceeds from this issuance were used to pay off various term loans and to pay termination expenses on several interest rate swap agreements. The interest rate on the bonds is 5.60%. Maturity date on the bonds is September 1, 2020. The bonds are an unsecured general obligation of the institute. Interest payments are due March 1 and September 1, commencing on September 1, 2010.

(e) On September 27, 2011, Rensselaer issued Series 2011-A Senior Notes pursuant to a note purchase agreement. Proceeds from this $40,000 issuance were applied to the defined benefit pension obligation. The interest on the notes is 4.35%. Final maturity date on the notes is September 1, 2026. Interest payments are due March 1 and September 1, commencing on March 1, 2012. The note is an unsecured obligation of the Institute.

(in thousands of dollars)

(f) On December 15, 2014, Rensselaer issued Series 2014-A Senior Notes pursuant to a note purchase agreement. Proceeds from this $40,000 issuance were applied to the defined benefit pension obligation. The interest on the notes is 3.99%. Final maturity date on the notes is December 14, 2029. Interest payments are due June 15 and December 15, commencing on June 15, 2015. The note is an unsecured obligation of the Institute.

(g) On December 1, 2015, Rensselaer entered into an agreement with the City of Troy Capital Resource Corporation which provided for the issuance of $80,000 in fixed rate revenue bonds, Series 2015. The transaction generated a $7,400 million premium. Proceeds from the issuance were used to legally defease Series 1999 A&B and Series 2006 revenue bonds. Interest rates on the bonds range from 1.5% to 5.0%. Maturities on the bonds range from 2016 to 2032 with final maturity August 1, 2035.

(h) Lines of Credit

As of June 30, 2017, Rensselaer had a standby letter of credit with Bank of America of $1,250 and $250 for general liability insurance and professional liability insurance security purposes, respectively, related to current construction projects on the Troy, New York campus. There were no draws against these letters of credit during the fiscal year. Rensselaer also has a mortgage loan guarantee in place for one loan made by HSBC Bank USA in 1996 to finance construction and renovation costs for an on-campus fraternity residential facility. The balance of the mortgage loan, which totaled $600 at inception and was paid in September 2015.

The Institute has an unsecured line of credit with Bank of America valued at $30,000, with interest calculated on the outstanding balance at a daily rate of term LIBOR plus 1.05% or at Prime Rate minus 0.50%. There was an outstanding balance of $4,500 and $15,800 on the line of credit at June 30, 2017 and 2016, respectively. The Institute has an unsecured line of credit with Key Bank valued at $20,000, with interest calculated on the outstanding balance at a daily rate of term LIBOR plus 1.60%. There were no outstanding balances on the line of credit at June 30, 2017 and June 30, 2016. The Bank of America line has a renewal date of January 31, 2018 and Key Bank line has a renewal date of December 31, 2017.

On August 5, 2014 a Letter of Credit in the amount of $19,700 was issued for the Institute by the Bank of America with the Department of Education (DOE) as beneficiary. It was established to satisfy certain DOE financial reporting requirements. It was amended on October 31, 2016 to $20,300 with an expiration of October 31, 2017. The issuance of the letter of credit did not affect the availability under the Institute's existing lines of credit.

(in thousands of dollars)

Principal payments due on all long-term debt as of June 30, 2017 for each of the next five fiscal years are:

Year		Amount
2018	$	9,479
2019		9,916
2020		10,230
2021		215,730
2022		16,375
Principal payments thereafter		470,540
Total bonds and notes principal payable		732,270
Net premiums and debt issuance costs		1,051
Bonds and notes payable	$	733,321

9. 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, 2017 and 2016. The defined benefit plan calculations were based upon data as of or projected to June 30, 2017 and 2016. Postretirement benefit plan calculations were based upon data as of July 1, 2016 and 2015. Rensselaer's funding policy is based upon and is in compliance with ERISA requirements.

In fiscal 2014 the Institute changed the amortization period used for actuarial gains and losses. The change in amortization period reflects the fact that greater than 90% of the pension plan participants are now inactive. As a result, the amortization period for gains and losses was changed from the average future service period of active participants to the expected future lifetime of the inactive participants in the plan. The effect of the change will be to reduce the net periodic benefit cost with the offset reflected in non-operating income (expense). There is no impact on the unfunded liability reported on the Statement of Financial Position.

Additionally, the Institute amended its pension plan effective June 30, 2014 to freeze all future benefit accruals for future service of all plan participants. This was treated as a curtailment and has been reflected as such within the footnote disclosures.

In fiscal 2015, the Institute updated the actuarial assumption related to participant mortality from the RP-2000 with generational improvements table to the white-collar mortality table with generational improvements using scale MP-2014. In fiscal 2016, the Institute revised the post-retirement mortality assumption to the sex-distinct RP-2015 mortality improvement scale on a generational basis, in order to reflect the continued improvement in mortality rates. In fiscal 2017, the mortality scale was updated from scale MP-2015 to scale MP-2016.

(in thousands of dollars)

	Defined Benefit		Post-retirement	
Change in benefit obligation	**2017**	**2016**	**2017**	**2016**
Benefit obligation, beginning of year	$ (412,483)	$ (389,724)	$ (15,340)	$ (15,932)
Service cost	(2,759)	(1,935)	(731)	(557)
Interest cost	(13,029)	(15,141)	(546)	(531)
Plan participants' contribution	-	-	(1,300)	(1,129)
Amendments/Curtailments/Special	-	-	-	70
Actuarial gain (loss)	15,857	(29,934)	(1,231)	834
Benefits paid	23,465	21,492	1,930	1,905
Administrative expense paid	2,699	2,759	-	-
Benefit obligation, end of year	$ (386,250)	$ (412,483)	$ (17,218)	$ (15,340)

The accumulated benefit obligation for the defined benefit pension plan was $386,250 and $412,483 as of June 30, 2017 and 2016, respectively.

	Defined Benefit		Post-Retirement	
	2017	**2016**	**2017**	**2016**
Change in plan assets				
Fair value plan assets, beginning of year	$ 258,529	$ 272,612	$ -	$ -
Actual return on plan assets	24,462	2,868		-
Employer contribution	4,100	7,300	630	776
Plan participants' contributions		-	1,300	1,129
Benefits paid	(23,465)	(21,492)	(1,930)	(1,905)
Administrative expense paid	(2,699)	(2,759)		-
Fair value plan assets, end of year	$ 260,927	$ 258,529	$ -	$ -
Funded status and amount recognized in the statement of financial position				
Liability	$ (125,322)	$ (153,954)	$ (17,218)	$ (15,340)
Amounts recognized in unrestricted net assets				
Net prior service cost (credit)	$ -	$ -	$ (464)	$ (627)
Net actuarial (gain) loss	(221,525)	(253,481)	(554)	(1,832)
Unrestricted net assets	$ (221,525)	$ (253,481)	$ (1,018)	$ (2,459)
Other changes in plan assets and benefit obligations recognized in unrestricted net assets				
New prior service cost (credit)	$ -	$ -	$ -	$ (70)
New net actuarial (gain) loss	(22,384)	45,696	1,231	(834)
Amortization of prior service (cost) credit	-	-	163	156
Amortization of actuarial gain (loss)	(9,572)	(7,814)	48	166
Net periodic benefit cost components:				
Service Costs	-	-	731	557
Interest cost	13,029	15,142	546	531
Expected return on plan assets	(15,177)	(16,696)	-	-
Amortization of:				
Prior Service cost (credit)	-	-	(163)	(156)
Net Actuarial (gain) loss	9,572	7,814	(48)	(166)
Net periodic benefit cost (income)	7,424	6,260	1,066	766
Other changes in plan assets and benefit obligations recognized in unrestricted net assets	$ (24,532)	$ 44,142	$ 2,508	$ 184
Changes recognized in net assets from operating activities	-	-	731	487
Changes recognized in net assets from non-operating activities	(24,532)	44,142	1,777	(303)
	$ (24,532)	$ 44,142	$ 2,508	$ 184

(in thousands of dollars)

The components of net periodic benefit cost other than the service cost component are included in the line item “Other components of net periodic benefit cost”. Service costs for the post-retirement plan are included in “Institutional and academic support”. The defined benefit pension plan has no service cost related to active participants as the plan is frozen to future accruals. Administrative costs to maintain the plan are netted against expected return on plan assets and shown in other components of net periodic benefit cost on the Consolidated Statement of Activities.

The amounts of net losses in unrestricted net assets expected to be recognized as components of the net periodic benefit cost in fiscal year ending June 30, 2018 are $9,251 and ($41) for the defined pension plan and postretirement plan, respectively.

The following are expected future benefit payments:

Fiscal year ending	Defined Benefit	Post Retirement
2018	$ 24,154	$ 1,050
2019	24,386	1,118
2020	24,539	1,118
2021	24,617	1,296
2022	24,395	1,417
2023-2027	120,972	7,638

The weighted average rates forming the basis of net periodic benefit cost and amounts recognized in Rensselaer’s statement of financial position at June 30 were:

	Defined Benefit		Post-retirement	
	2017	2016	2017	2016
Benefit obligations				
Discount rate	3.50%	3.25%	3.50%	3.25%
Net periodic benefit cost				
Discount rate	3.25%	4.00%	3.25%	3.84%
Expected return on plan assets	6.75%	6.75%		

For measurement purposes, a 7.25 percent annual rate of increase in the per capita cost of covered pre-65 medical, post- 65 medical benefits and a 10.5 percent annual rate of increase in prescription drug benefits, respectively, was assumed for fiscal year 2017. These rates were assumed to decrease gradually to 3.89 percent for fiscal year 2075 and remain at that level thereafter. 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 except for grandfathered participants not subject to the cap and pre-65 coverage.

(in thousands of dollars)

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

	1-Percentage Point Increase	1-Percentage Point Decrease
Effect on total of service and interest cost components	95	(82)
Effect on postretirement benefit obligation	876	(785)

Defined Benefit Plan
In the aggregate, Rensselaer's Defined Benefit Plan will be invested to ensure solvency of the plan over its remaining life and to meet pension obligations as required. A secondary goal is to earn the highest net rate of return within prudent risk limits to ensure the achievement of the primary goal.

Defined Contribution Plan
Rensselaer and the Center also have noncontributory Defined Contribution Plans open to full-time employees who have met minimum service requirements. Contributions to these plans (8% of employee salary) were $10,186 and $9,800 in fiscal 2017 and 2016, respectively.

Plan Investments
The Plan investments have been accounted for in accordance with the fair value measurement standard as described in Note 5. Full disclosures surrounding the descriptions of major investment categories and fair value requirements can also be found in Note 5.

The fair values of Rensselaer's pension plan assets at June 30 by asset category are as follows:

	2017			
	Quoted Prices in Active Markets Level 1	Significant Other Observable Level 2	NAV Investments Valued by Practical Expedient	Total Fair Value
Cash and cash equivalents	$ 8,157	$ -	$ -	$ 8,157
Fixed income	5,809	75,153	6,482	87,444
Domestic equity	65,557	-	-	65,557
Foreign equity	22,952	-	11,499	34,451
Insurance contracts	-	5,467	-	5,467
Marketable alternatives				
Fixed income	-	-	21,820	21,820
Other strategies	-	-	1,368	1,368
Private investments				
Fixed income	-	-	7,301	7,301
Real assets	-	-	18,174	18,174
Equity	-	-	11,188	11,188
Total pension investments	$ 102,475	$ 80,620	$ 77,832	$ 260,927

(in thousands of dollars)

	2016			
	Quoted Prices in Active Markets Level 1	Significant Other Observable Level 2	NAV Investments Valued by Practical Expedient	Total Fair Value
Cash and cash equivalents	$ 7,168	$ -	$ -	$ 7,168
Fixed income	2,821	75,401	6,698	84,920
Domestic equity	51,900	-	-	51,900
Foreign equity	14,952	-	9,271	24,223
Insurance contracts	-	8,896	-	8,896
Marketable alternatives				
Fixed income	-	-	20,245	20,245
Other strategies	-	-	17,213	17,213
Private investments				
Fixed income	-	-	9,641	9,641
Real assets	-	-	22,247	22,247
Equity	-	-	12,076	12,076
Total pension investments	$ 76,841	$ 84,297	$ 97,391	$ 258,529

The Plan contains features that allow participants to have a percentage of their benefits fluctuate based on the return of an S&P 500 index account. Rensselaer maintains assets in that index fund to hedge those liabilities that are not part of the above asset allocation.

Rensselaer’s expected contributions for fiscal year ending June 30, 2018 are $7,100 and $1,050 to the defined benefit pension plan and postretirement plan, respectively.

(in thousands of dollars)

10. Natural Expense Classification

The following table compares expenses by type for the years ended June 30, 2017 and 2016, respectively:

	2017	2016
Salaries and wages	$ 161,183	$ 153,466
Employee benefits excluding retirement	26,026	25,647
Retirement plan expense	10,917	10,297
Employee benefits total	36,943	35,944
Total compensation	198,126	189,410
Supplies and services	65,898	61,458
Utilities	10,410	10,483
Employee travel	6,374	6,433
Taxes and insurance	7,528	6,730
Telecommunications	563	532
Library materials	2,587	2,543
Interest on debt	38,383	40,756
Depreciation and amortization	27,952	28,985
Student aid and fellowships	50,938	50,125
Operating lease agreements	6,752	5,173
Provision for uncollectible accounts	499	196
Total non-salary	217,884	213,414
Total expenses by functional category	$ 416,010	$ 402,824

11. Commitments and Contingencies

In the normal course of business, the Institute has been named a defendant in various claims. Although there can be no assurance as to the eventual outcome of litigation in which Rensselaer has been named, in the opinion of management such litigation will not, in the aggregate, have a material adverse effect on Rensselaer's financial position.

Guarantee
During 2012, the Institute entered into a guarantee agreement with an apartment complex, adjacent to campus, for 100% of the lease revenue for the ten year period ending June 2022. The guarantee was provided in consideration for exclusive RPI student leasing rights. The gross rental value for the remaining five years at June 30, 2017 is $5,028.

(in thousands of dollars)

Leases

At June 30, 2017, the minimum annual commitments under capital and operating leases for real property and equipment are as follows:

	Operating leases	Capital leases
2018	$ 4,211	$ 1,629
2019	3,797	1,637
2020	3,516	1,639
2021	3,130	1,639
2022	2,680	1,633
Thereafter	19,370	26,626
Total leases	$ 36,704	34,803
Less: Amount representing interest		(14,984)
Present value of minimum lease payments		$ 19,819

12. Asset Retirement Obligations

The following is a summary of the asset retirement obligation which is included in other liabilities and supplies expense:

	2017	2016
Change in asset retirement obligation		
Asset retirement obligation, beginning of year	$ 10,667	$ 10,170
Accretion expense	227	497
Asset retirement obligation, end of year	$ 10,894	$ 10,667

(in thousands of dollars)

13. Cash Flow Statement

The Institute has presented cash flows from operating activities in the statement of cash flows using the direct method. The following table reconciles total changes in net assets to net cash provided by or used in operating activities.

	2017	2016
Adjustments to reconcile change in net assets to net cash provided by operations		
Total change in net assets	$ 77,736	$ (70,351)
Depreciation and amortization	27,952	28,985
Accretion expense	227	497
(Gain) loss on disposal of fixed assets	96	106
Benefit (provision) for uncollectible accounts and loans	47	111
Loans receivable cancellations	446	97
Realized and unrealized losses (gains) on investments	(50,332)	23,430
Amortization of bond (premiums) discounts and issuance costs	29	188
Loss of defeasance	-	579
Interest expense defeased	-	1,942
Contributions of equipment and other capital items	(186)	(351)
Receipt of contributed securities and life insurance	(2,531)	(3,255)
Contributions to external trusts	(7,982)	(582)
Contributions restricted for long term investment	(12,469)	(8,591)
Change in value of life income contracts	(6,769)	5,415
Changes in operating assets and liabilities		
Accounts receivable	187	1,559
Contributions receivable	4,364	(9,914)
Research receivables	3,913	(1,845)
Prepaid expense and other assets	(602)	(35)
Accounts payable and accrued expenses	(994)	(1,957)
Deferred revenue and other liabilities	3,280	(1,351)
Pension and post retirement liabilities	(26,754)	36,250
Net cash provided (used) in operating activities	$ 9,658	$ 927
Supplemental disclosure		
Cash paid during year for interest	$ 38,235	$ 37,395

14. Subsequent Events

On July 6, 2017 all outstanding 1997A Bonds were called for redemption. The bonds were paid in full and the lien of indenture was released. There were no additional subsequent events through October 18, 2017, the date on which the consolidated financial statements were available for issuance.