Rensselaer Polytechnic Institute

Consolidated Financial Statements
June 30, 2019 and 2018

Rensselaer Polytechnic Institute
Index
June 30, 2019 and 2018

Page(s)

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, 2019 and 2018, 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, 2019 and 2018, 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.

Emphasis of Matter

As discussed in Note 2 to the consolidated financial statements, Rensselaer changed the manner in which it presents net assets and reports certain aspects of its financial statements as a not-for-profit entity in 2019. Our opinion is not modified with respect to this matter.

PricewaterhouseCoopers LLP

Hartford, Connecticut
October 7, 2019

Rensselaer Polytechnic Institute
Consolidated Statements of Financial Position
June 30, 2019 and 2018

(in thousands of dollars)	2019	2018 (as restated)
Assets		
Cash and cash equivalents	$ 17,585	$ 1,495
Accounts receivable, net		
Student related and other	6,923	4,603
Research, training, and other agreements	17,824	16,199
Contributions receivable, net	31,709	35,515
Contributions from external remainder trusts	24,005	23,565
Prepaid expenses and other assets	7,212	9,793
Student loans receivable, net	23,950	29,310
Investments, at market endowment, annuity and life income funds	742,169	723,360
Land, buildings and equipment, net	663,882	663,644
Total assets	$ 1,535,259	$ 1,507,484
Liabilities		
Accounts payable and accrued expenses	$ 33,466	$ 34,380
Short term borrowings	-	5,400
Split interest agreement obligations	7,003	7,882
Deferred revenue	52,505	29,412
Other liabilities	17,967	20,123
Pension liability	104,139	90,299
Accrued postretirement benefits	17,634	16,872
Refundable government loan funds	32,318	31,684
Capital leases payable	17,378	17,871
Long term debt	704,626	719,214
Total liabilities	987,036	973,137
Net assets		
Without donor restrictions	(105,767)	(103,265)
With donor restrictions		
Restricted by time and purpose	184,079	192,825
Restricted in perpetuity	469,911	444,787
With donor restriction	653,990	637,612
Total net assets	548,223	534,347
Total liabilities and net assets	$ 1,535,259	$ 1,507,484

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

Rensselaer Polytechnic Institute
Consolidated Statements of Activities
Year Ended June 30, 2019 with summarized comparative totals for the year ended June 30, 2018

(in thousands of dollars)	Without Donor Restrictions	With Donor Restriction	Total June 30, 2019	Total June 30, 2018 (as restated)
Operating revenue				
Student related revenue				
Tuition and fees, net	$ 253,031	$ -	$ 253,031	$ 227,131
Auxiliary services, net	63,675	-	63,675	59,036
Student related revenue	316,706	-	316,706	286,167
Gifts	17,752	8,105	25,857	34,489
Grants and contracts				
Direct				
Federal	43,740	-	43,740	43,481
State	8,556	-	8,556	6,965
Private	15,201	-	15,201	10,496
Indirect	16,894	-	16,894	17,071
Grants and contracts	84,391	-	84,391	78,013
Investment return				
Dividends and interest	6,459	5,284	11,743	11,929
Realized accumulated gains used to meet spending policy	9,941	9,620	19,561	18,683
Interest on student loans	18	-	18	16
Investment return designated for operations	16,418	14,904	31,322	30,628
Other	6,977	30	7,007	10,871
Net assets released from restrictions	19,803	(19,803)	-	-
Total operating revenue	462,047	3,236	465,283	440,168
Operating expense				
Salaries and wages	176,731	-	176,731	169,015
Employee benefits	38,447	-	38,447	36,861
Supplies, services and other	79,438	-	79,438	76,539
Occupancy, taxes and insurance	25,601	-	25,601	25,170
Interest on debt	36,558	-	36,558	37,822
Depreciation and amortization	28,054	-	28,054	27,612
Student aid and fellowships	47,726	-	47,726	43,935
Total operating expenses	432,555	-	432,555	416,954
Change in net assets from operating activities	29,492	3,236	32,728	23,214
Nonoperating				
Realized and unrealized (losses) gains, net of spending policy and initiatives	(3,442)	(5,410)	(8,852)	25,057
Other components of net periodic benefit costs	(8,922)	-	(8,922)	(7,754)
Adjustments for pension and post retirement liability	(18,253)	-	(18,253)	27,074
Life income and endowment gifts	-	23,107	23,107	7,999
Loss on extinguishment of debt	(9,376)	-	(9,376)	-
Change in value of life income contracts	19	3,425	3,444	7,644
Other reclassifications and transfers	7,980	(7,980)	-	-
Change in net assets from nonoperating activities	(31,994)	13,142	(18,852)	60,020
Increase (decrease) in net assets	(2,502)	16,378	13,876	83,234
Net assets, beginning of year, as restated	(103,265)	637,612	534,347	451,113
Net assets, end of year	$ (105,767)	$ 653,990	$ 548,223	$ 534,347

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

Rensselaer Polytechnic Institute
Consolidated Statements of Activities
Year Ended June 30, 2018

(in thousands of dollars)	Without Donor Restrictions	With Donor Restriction	Total June 30, 2018 (as restated)
Operating revenue			
Student related revenue			
Tuition and fees, net	$ 227,131	$ -	$ 227,131
Auxiliary services, net	59,036	-	59,036
Student related revenue	286,167	-	286,167
Gifts	21,246	13,243	34,489
Grants and contracts			
Direct			
Federal	43,481	-	43,481
State	6,965	-	6,965
Private	10,496	-	10,496
Indirect	17,071	-	17,071
Grants and contracts	78,013	-	78,013
Investment return			
Dividends and interest	6,649	5,280	11,929
Realized accumulated gains used to meet spending policy	9,517	9,166	18,683
Interest on student loans	16	-	16
Investment return designated for operations	16,182	14,446	30,628
Other	10,841	30	10,871
Net assets released from restrictions	18,802	(18,802)	-
Total operating revenue	431,251	8,917	440,168
Operating expense			
Salaries and wages	169,015	-	169,015
Employee benefits	36,861	-	36,861
Supplies, services and other	76,539	-	76,539
Occupancy, taxes and insurance	25,170	-	25,170
Interest on debt	37,822	-	37,822
Depreciation and amortization	27,612	-	27,612
Student aid and fellowships	43,935	-	43,935
Total operating expenses	416,954	-	416,954
Change in net assets from operating activities	14,297	8,917	23,214
Nonoperating			
Realized and unrealized (losses) gains, net of spending policy and initiatives	13,581	11,476	25,057
Other components of net periodic benefit costs	(7,754)	-	(7,754)
Adjustments for pension and post retirement liability	27,074	-	27,074
Life income and endowment gifts	-	7,999	7,999
Change in value of life income contracts	18	7,626	7,644
Other reclassifications and transfers	1,856	(1,856)	-
Change in net assets from nonoperating activities	34,775	25,245	60,020
Increase in net assets before effect of accounting standard adoption	49,072	34,162	83,234
Cumulative effect of accounting standard adoption	14,382	(14,382)	-
Change in net assets after cumulative effect of accounting standard adoption, as restated	63,454	19,780	83,234
Net assets, beginning of year, as reported	(166,719)	617,832	451,113
Net assets, end of year, as restated	$ (103,265)	$ 637,612	$ 534,347

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

Rensselaer Polytechnic Institute
Consolidated Statements of Cash Flows
Years Ended June 30, 2019 and 2018

(in thousands of dollars)	**2019**	**2018**
Cash flow from operating activities		
Received from student-related revenues	$ 286,278	$ 246,316
Received from sponsored programs	80,250	78,326
Received from donors	25,081	29,139
Received from investment income	12,201	12,154
Received from Rensselaer Technology Park	7,971	4,106
Received from other	2,893	6,390
Payments to employees and fringe benefits	(214,259)	(204,960)
Payments to vendors and suppliers	(96,868)	(91,994)
Payments for scholarships and fellowships	(6,299)	(6,293)
Payments for Interest expense	(37,931)	(37,438)
Payments for pension and post retirement obligations	(13,223)	(16,774)
Payments for other expenses	(8,959)	(9,217)
Net cash increase from operating activities	37,135	9,755
Cash flow from investing activities		
Proceeds from sale of investments	154,649	161,208
Purchase of investments	(151,719)	(146,871)
Additional student loans granted	2	(4,704)
Student loans paid	5,452	5,178
Proceeds from sale of land, building, and equipment	583	370
Purchase of land, building and equipment	(18,875)	(19,320)
Net cash (decrease) increase from investing activities	(9,908)	(4,139)
Cash flow from financing activities		
Contributions restricted for long term investments	18,888	9,988
Payment of annuity obligations	(863)	(969)
Payment of debt extinguishment costs	(8,974)	-
Payment of debt issuance costs	(558)	-
Proceeds from loans	208,000	71,400
Repayment of debt	(228,264)	(86,617)
Government loan funds	634	601
Net cash (decrease) from financing activities	(11,137)	(5,597)
Net increase in cash and cash equivalents	16,090	19
Cash and cash equivalents		
Beginning of year	1,495	1,476
End of year	$ 17,585	$ 1,495
Noncash activities		
Contributed securities	$ 3,027	$ 1,541
Non cash gifts: life insurance, life estates, and trusts	5,884	-
Gifts of equipment and other capital items	10,339	461

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:

- Net assets *without donor restrictions* are not subject to donor imposed stipulations and may be designated for specific purposes by action of the Board of Trustees or may otherwise be limited by contractual agreements with outside parties. Net assets within this classification are generally related to revenues and related expenses associated with the core activities of the Institute. In addition, investment return, changes in post-retirement liabilities and certain types of philanthropic support are also included.

- Net assets *with donor restrictions* 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. Net assets within this

(in thousands of dollars)

classification are also 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.

Net assets consisted of the following at June 30:

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total Net Assets	Without Donor Restrictions	With Donor Restrictions	Total Net Assets
ENDOWMENT						
Scholarships	1,036	167,860	168,896	1,115	154,734	155,849
Fellowships	3	25,669	25,672	6	27,036	27,042
Faculty support	71	146,665	146,736	102	150,229	150,331
Program support	4,192	177,774	181,966	4,101	171,655	175,756
Awards and prizes	-	7,760	7,760	-	7,654	7,654
Institutional support	73,704	78,574	152,278	75,774	78,059	153,833
Board-designated endowment:						
Scholarship and fellowships	24,197	271	24,468	17,426	275	17,701
Faculty support	13,648	-	13,648	13,702	-	13,702
Program support	58,238	258	58,496	56,858	273	57,131
Awards and prizes	1,480	2	1,482	1,465	-	1,465
Institutional support	30,249	-	30,249	30,716	-	30,716
	127,812	531	128,343	120,167	548	120,715
Underwater endowments	(1,110)	(14,040)	(15,150)	(990)	(14,382)	(15,372)
Total Endowment	205,708	590,793	796,501	200,275	575,533	775,808
OTHER						
Pledges	-	7,258	7,258	-	7,332	7,332
Gifts	2,737	21,009	23,746	2,411	18,498	20,909
Annuities and trusts	-	32,265	32,265	-	33,584	33,584
Plant and other operations	41,656	-	41,656	23,277	-	23,277
Defined benefit pension plan	(355,868)	2,665	(353,203)	(329,228)	2,665	(326,563)
Total Other	(311,475)	63,197	(248,278)	(303,540)	62,079	(241,461)
Total Net Assets, as restated	**(105,767)**	**653,990**	**548,223**	**(103,265)**	**637,612**	**534,347**

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 ongoing 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 with donor restriction revenues and are reclassified to without donor restriction net assets when the donor-imposed restriction is satisfied. Expenses are generally reported as decreases in without donor restriction net assets.

Non-operating activities primarily include investment return, net of spending, changes in life income and endowment gifts and adjustments to postretirement liabilities. Contributions restricted for the acquisition of land, buildings and equipment and specific programs are

(in thousands of dollars)

reported as with donor restriction revenues. These contributions are reclassified to without donor restriction net assets upon 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 and fee revenue from undergraduate, graduate, and working professionals, as well as, apartment and dorm revenue, meal plan revenue, medical insurance fees, and other auxiliary revenue.

The Institute recognizes student related revenue within the fiscal year in which services are provided. Institutional aid, in the form of scholarships and grants-in-aid, include amounts funded by the Institute's operations, endowment, research funds, and gifts, reduce the published price of tuition and fees, apartment and dorms, and meal plans for students receiving such aid. As such, institutional aid is referred to as a discount and represents the difference between the stated charge for student related revenue and the amount that is billed to the student and/or third parties making payments on behalf of the student. Cash payments to students in excess of published prices, excluding compensation, are reported as *Student aid and fellowship* expense in the consolidated statements of activities.

Payments of tuition and fees, apartment and dorms, and meals for all of the terms are recognized as performance obligations are met. Because the academic term for summer spans two reporting periods, a portion of this revenue is included in deferred revenue at June 30, 2019 and 2018. Deferred revenue is shown in Note 2h.

Other auxiliary services revenue includes laptop sales to students, sales within the student union, ticket sales for athletic and community events, parking services, and other miscellaneous activities. Revenue for these items is recorded when the performance obligation is satisfied.

(in thousands of dollars)

Student related revenue by contract is as follows:

		2019		2018
Tuition and fee revenue, net				
Undergraduate tuition revenue	$	346,165	$	308,721
Graduate tuition revenue		59,571		54,379
Education for working professionals revenue		1,980		2,200
Fees		11,657		10,808
Total tuition and fee revenue		419,373		376,108
Institutional aid allocated to tuition and fees		(166,342)		(148,977)
Total tuition and fee revenue, net	$	253,031	$	227,131
Auxiliary services, net				
Apartment and dorm revenue, net				
Apartment and dorm revenue	$	35,229	$	31,332
Institutional aid allocated to apartment and dorms		(1,984)		(1,768)
Total apartment and dorm revenue, net		33,245		29,564
Meal plan revenue, net				
Meal plan revenue		22,942		21,372
Institutional aid allocated to meal plans		(489)		(425)
Total meal plan revenue, net		22,453		20,947
Medical insurance fee revenue		3,942		3,610
Other auxiliary services				
Laptop sales		1,759		1,723
Rensselaer Union		1,569		1,360
Other		707		1,832
Total other auxiliary services		4,035		4,915
Total auxiliary services revenue, net	$	63,675	$	59,036

- *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 without donor restriction 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 receives sponsored program funding from various governmental and corporate sources. The funding may represent a reciprocal transaction in exchange for an equivalent benefit in return, or may be a nonreciprocal transaction in which the resources provided are for the benefit of the Institute, the funding organization's mission, or the public at large.

  Revenues from exchange transactions are recognized as the performance obligations are met, which in some cases, may be as the related costs are incurred.

(in thousands of dollars)

Revenues from non-exchange transactions (contributions) may be subject to conditions, in the form of both a barrier to entitlement and right of return for amounts paid (or a release from obligation to make future payments). Revenues from conditional non-exchange transactions are recognized as the barrier is met.

The Institute has been awarded approximately $93,609 and $95,558 of grants and contracts which have not been advanced or expended and are classified as conditional contributions as of June 30, 2019 and 2018, respectively, and accordingly, are not recorded in the financial statements.

- *Net 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, less investment fees, is recognized in the Consolidated Statement of Activities.

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 6.

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 (5-20 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. Deferred Revenue

Payments received for future periods are reported as deferred revenue. Deferred revenue includes amounts prepaid for student related revenue, sponsored research and other prepaid amounts. The Rensselaer Tech Park revenue stems primarily from building and land lease revenue and is recorded over the corresponding contract term. The activity and balances for deposits and deferred revenue from contracts with customers are shown in the following table.

(in thousands of dollars)

	Student related revenue	Grants and contacts	Rensselaer Tech Park	Capital projects	Total deferred revenue
Balance at June 30, 2017	1,386	12,397	13,098	-	26,881
Revenue recognized	(1,386)	(3,375)	(782)	-	(5,543)
Payments received for future performance obligations	1,221	6,330	523	-	8,074
Balance at June 30, 2018	1,221	15,352	12,839	-	29,412
Revenue recognized	(1,221)	(9,824)	(593)	-	(11,638)
Payments received for future performance obligations	13,681	7,437	4,257	9,356	34,731
Balance at June 30, 2019	13,681	12,965	16,503	9,356	52,505

i. Refundable Government Loan Funds

Amounts received from the 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. The authority to make new Perkins Loans ended on September 30, 2017, and final disbursements were permitted through June 30, 2018. As of June 30, 2019, the Institute has collected approximately $6,200 that is to be refunded to the Federal government once remittance guidance is received.

j. 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.

k. Recently Adopted Accounting Standards

- *ASU 2014-09: Revenue from Contracts with Customers*

As of July 1, 2018, the Institute adopted the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers, as amended, which supersedes or replaces nearly all Generally Accepted Accounting Principles (GAAP) revenue recognition guidance. ASU 2014-09 applies to exchange transactions with customers that are bound by contracts or similar arrangements and establishes a performance obligation approach to revenue recognition.

As a result of adopting this standard, certain prior year amounts for student related revenues have been reclassified to conform to the required presentation. Following the adoption of the ASU, we continue to recognize revenue from students as services are provided which corresponds to the year in which the related academic services are rendered. There was no material impact to the financial statements as a result of

(in thousands of dollars)

adoption. The ASU has been applied retrospectively to all periods presented, with no effect on net assets in the previously issued financial statements.

- *ASU 2016-14: Presentation of Financial Statements for Not-for-Profit Entities*

In 2019, the Institute retroactively adopted ASU 2016–14, Presentation of Financial Statements of Not-for-Profit Entities. ASU 2016–14 provides for additional disclosure requirements and modifies net asset reporting. The standard requires the Institute to restate its net assets (i.e., unrestricted, temporarily restricted, and permanently restricted) into two categories: net assets without donor restrictions (previously unrestricted net assets) and net assets with donor restrictions (previously temporarily and permanently restricted net assets), among other requirements. As a result of adopting this standard, $14,382 of underwater endowment funds were restated to move unrestricted net assets (without donor restrictions) to net assets with donor restrictions to conform to the presentation requirements.

- *ASU 2018-08: Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions made*

In 2019, the Institute adopted ASU 2018-08, Clarifying the Scope and Accounting Guidance for Contributions Received and Contribution Made. ASU 2018-08 aims to assist entities in (1) evaluating whether transactions should be accounted for as contributions or exchange transactions and (2) determining whether a contribution is conditional. The Institute has adopted the standard on a modified prospective basis in fiscal year 2019, the effect of which increased receivables by $1,172, decreased deferred revenue by $2,706, and increased grants and contracts revenue by $3,878.

- ASU 2018-14: *Changes to the Disclosure Requirements for Defined Benefit Plans*

In 2019, the Institute retroactively early adopted a new accounting standard related to *Changes to the Disclosure Requirements for Defined Benefit Plans*. The standard removes disclosures that are no longer considered cost beneficial, clarifies the specific requirements of disclosures, and adds disclosures requirements identified as relevant. The disclosure changes can be seen in footnote 10 for both fiscal years 2019 and 2018.

I. Accounting Standards to be Adopted

- *ASU 2016-02: Leases (Topic 842)*

In February 2016, the FASB issued ASU 2016-02. The objective of this standard update is to provide a representation of an entity's leasing activities. This standard update requires that lease assets and lease liabilities be recognized on the balance sheet and key information about leasing arrangements be disclosed. ASU 2016-02 will be effective for the Institute's fiscal year ended June 30, 2020. The Institute will apply the standard utilizing modified retrospective approach. The Institute is currently assessing the potential impact of this standard update on its consolidated financial statements.

(in thousands of dollars)

- *ASU 2016-18: Statement of Cash Flows - Restricted Cash*

  In November 2016, the FASB issued ASU 2016-18. The objective of this standard update is to require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. This standard update requires that the Institute self-define what restricted cash means. ASU 2016-18 will be effective for the Institute's fiscal year ended June 30, 2020. The Institute will apply the standard utilizing the retrospective approach. The Institute is currently assessing the potential impact of this standard update on its cash flow statement.

- *ASU 2018-13: Fair Value*

  In August 2018, the FASB issued ASU 2018-13. The objective of this standard update is to improve the effectiveness of fair value measurement disclosures. ASU 2018-13 will be effective for the Institute's fiscal year ended June 30, 2021. The Institute is currently assessing the potential impact of this standard update on its disclosures.

m. Reclassifications

It is the Institute's policy to reclassify, where appropriate, prior year financial statements to conform to the current year presentation.

In conjunction with the adoption of ASU 2014-09, the Institute changed the reporting of certain student fees and institutional scholarships and fellowships. For fiscal year 2018, this reclassification increased revenue from tuition and fees, net by $3,770, reduced revenue from auxiliary services, net by $11,307, and reduced student aid and fellowship expense by $7,537.

For fiscal 2018, the Institute also reclassified the loss on disposal of assets from non-operating to operating expense and changed the presentation of operating expenses from functional to natural classification on the statement of activities. The reconciliation of functional to natural classification of expense is shown in Note 11.

The reclassifications had no effect on the change in total net assets.

(in thousands of dollars)

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, 2019 and 2018. Accounts receivable from the following sources were outstanding as of June 30:

	2019	2018
Student related receivables	$ 6,220	$ 4,284
Research, training and other agreements	18,142	16,452
Rensselaer technology park	375	285
Other	674	427
Gross account receivable	25,411	21,448
Less: Allowance for doubtful accounts	(664)	(646)
Net accounts receivable	$ 24,747	$ 20,802

b. Contributions Receivable

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

	2019	2018
Less than one year	$ 3,803	$ 1,700
Between one and five years	22,004	27,744
More than five years	11,130	12,509
Gross contributions receivable	36,937	41,953
Less: Unamortized discount	(4,892)	(5,986)
Less: Allowance for uncollectible amounts	(336)	(452)
Net contributions receivable	$ 31,709	$ 35,515

There were no conditional pledges at June 30, 2019. Bequest expectancies totaling $130,105 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 2019 and 2018, 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 Federal Perkins Loan Program expired on September 30, 2017 and no new disbursements

(in thousands of dollars)

are permitted after June 30, 2018. The Institute has begun liquidation of its revolving fund in fiscal year 2019.

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.

	2019			2018		
	Receivable	Allowance	Net Receivable	Receivable	Allowance	Net Receivable
Institutional loans	$ 884	$ (716)	$ 168	$ 945	$ (701)	$ 244
Federal loans	25,081	(1,299)	23,782	30,503	(1,437)	29,066
Total loan receivable	$ 25,965	$ (2,015)	$ 23,950	$ 31,448	$ (2,138)	$ 29,310

	2019			2018		
	Institutional	Federal	Total Allowance	Institutional	Federal	Total Allowance
Allowance at beginning of year	$ (701)	$ (1,437)	$ (2,138)	$ (743)	$ (1,610)	$ (2,353)
Current year provisions	(15)	138	123	42	173	215
Allowance at end of year	$ (716)	$ (1,299)	$ (2,015)	$ (701)	$ (1,437)	$ (2,138)

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, 2019 and 2018 were $15,263 and $17,906, 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 $7,003 and $7,882 at June 30, 2019 and 2018, respectively, is based upon actuarial estimates and assumptions regarding the duration of the agreements and the rates to discount the liability. Circumstances affecting these assumptions can change the estimate of this liability in future periods.

Rensselaer is also beneficiary of certain perpetual trusts held and administered by others. The fair value of these trusts at June 30, 2019 and 2018 was $68,524 and $67,226 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

(in thousands of dollars)

investment of those distributions are disclosed in Note 6. Changes in fair value of the trusts are recorded as gain or loss in with donor restriction net assets.

5. Financial Assets and Liquidity Resources

As of June 30, 2019 and 2018, the Institute has the following financial assets that are available within one year of the balance sheet date to meet cash needs for general expenditures. In addition to these assets, a significant portion of the Institute's annual expenditures will be funded by current year operating revenues including tuition and grant and contract income. The Institute has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

	2019	2018
Financial assets:		
Cash	17,585	1,495
Accounts receivable	6,512	4,181
Loan receivable	424	1,458
Contributions receivable	3,803	1,700
Investments: appropriated for spending in the following year	29,646	29,734
Toal financial assets available within one year	57,970	38,568
Liquidity resources:		
Bank lines of credit (undrawn)	50,000	44,600
	107,970	83,168

Additionally, within the endowment the Institute has board-designated funds of $116,345 and $109,847 and accumulated gains from unrestricted endowments of $72,594 and 74,784, at June 30, 2019 and 2018. Although the Institute does not intend to spend from this endowment, other than amounts appropriated for general expenditure as part of its annual budget approval and appropriation process, amounts from its board-designated funds and accumulated gains from unrestricted endowments could be made available if necessary.

6. 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:

(in thousands of dollars)

	2019		2018	
	Fair Value	Cost	Fair Value	Cost
Cash and cash equivalents	$ 37,853	$ 37,853	$ 28,041	$ 28,041
Fixed income	89,141	84,707	85,030	84,565
Domestic equity	179,653	157,521	150,785	134,791
Global equity	33,382	21,400	33,004	21,400
Foreign equity	132,204	101,050	136,762	101,579
Real assets	34,210	84,683	45,478	89,138
Marketable alternatives	59,340	50,417	57,871	47,453
Private investments	107,862	84,594	119,163	88,389
	673,645	622,225	656,134	595,356
Perpetual trusts held by others	68,524	51,688	67,226	51,688
Total investments	$ 742,169	$ 673,913	$ 723,360	$ 647,044

At June 30, 2019, Rensselaer has committed to investing approximately an additional $4,469 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.

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 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 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

(in thousands of dollars)

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 period 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.

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:

	2019	2018
Dividends and interest available for spending	$ 11,743	$ 11,929
Realized and unrealized gains (loss), net of fees	10,709	43,740
Net investment return	22,452	55,669

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.

(in thousands of dollars)

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.

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, 2019 and 2018, by caption on the consolidated statement of financial position, based on the valuation hierarchy defined above:

(in thousands of dollars)

	2019				
	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	$ 37,118	$ 735	$ -	$ -	$ 37,853
Fixed income	58,456	-	-	30,685	89,141
Domestic equity	179,598	-	35	20	179,653
Global equity	33,382	-	-	-	33,382
Foreign equity	87,056	-	-	45,148	132,204
Real assets	-	-	3,056	31,154	34,210
Marketable alternatives	-	-	-	59,340	59,340
Private investments	-	-	890	106,972	107,862
	395,610	735	3,981	273,319	673,645
Perpetual trusts held by others	-	-	68,524		68,524
Total investments	$ 395,610	$ 735	$ 72,505	$ 273,319	$ 742,169

	2018				
	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	$ 27,304	$ 737	$ -	$ -	$ 28,041
Fixed income	55,736	-	-	29,294	85,030
Domestic equity	150,571	-	35	179	150,785
Global equity	33,004	-	-	-	33,004
Foreign equity	89,492	-	-	47,270	136,762
Real assets	-	-	3,275	42,203	45,478
Marketable alternatives	-	-	-	57,871	57,871
Private investments	-	-	890	118,273	119,163
	356,107	737	4,200	295,090	656,134
Perpetual trusts held by others	-	-	67,226	-	67,226
Total investments	$ 356,107	$ 737	$ 71,426	$ 295,090	$ 723,360

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

(in thousands of dollars)

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.

The following table is a roll-forward of the consolidated statement of financial position amounts at June 30, 2019 and 2018 for financial instruments classified by Rensselaer within Level 3 of the fair value hierarchy defined above:

	2019				
	Domestic Equity	Real Assets	Private Investments	Perpetual Trusts	Total
Level 3 Investments					
Fair value, beginning of year	$ 35	$ 3,275	$ 890	$ 67,226	$ 71,426
Purchases	-	-	-	-	-
Sales	-	-	-	-	-
Change in value	-	(219)	-	1,298	1,079
Fair value, end of year	$ 35	$ 3,056	$ 890	$ 68,524	$ 72,505

	2018				
	Domestic Equity	Real Assets	Private Investments	Perpetual Trusts	Total
Level 3 Investments					
Fair value, beginning of year	$ 35	$ 4,287	$ 890	$ 64,340	$ 69,552
Purchases	-	-	-	-	-
Sales	-	(1,020)	-	(132)	(1,152)
Change in value	-	8	-	3,018	3,026
Fair value, end of year	$ 35	$ 3,275	$ 890	$ 67,226	$ 71,426

(in thousands of dollars)

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:

	2019	2018
Level 3 Contributions from external remainder trusts		
Fair value, beginning of year	$ 23,565	$ 24,087
Unrealized gains (loss)	1,538	3,918
Purchases / gifts	5,884	-
Sales / settlements	(6,982)	(4,440)
Fair value, end of year	$ 24,005	$ 23,565

There were no material transfers or valuation changes between hierarchies Level 1 and Level 2 during fiscal year 2019.

7. Endowment

Rensselaer's endowment consists of approximately 734 individual donor restricted endowment funds and 87 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 endowment does not include any term 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 $725,145 and $703,547 as of June 30, 2019 and June 30, 2018, respectively.

Endowment net assets, excluding unspent income funds, consist of the following at June 30:

	2019		
	Without Donor Restriction	With Donor Restriction	Total
True endowment funds	$ 72,595	$ 560,884	$ 633,479
Board designated endowment funds	116,345	-	116,345
Total endowment net assets	$ 188,940	$ 560,884	$ 749,824

(in thousands of dollars)

	2018		
	Without Donor Restriction	With Donor Restriction	Total
True endowment funds	$ 74,785	$ 545,423	$ 620,208
Board designated endowment funds	109,847	-	109,847
Total endowment net assets	$ 184,632	$ 545,423	$ 730,055

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.

Changes in endowment net assets as of June 30:

	2019		
	Without Donor Restriction	With Donor Restriction	Total
Endowment net assets, beginning of year	$ 184,632	$ 545,423	$ 730,055
Net gifts	1,144	17,037	18,181
Yield (dividends and interest)	6,085	5,284	11,369
Investment return, net	6,275	5,831	12,106
Reclassifications and other changes	6,830	2,143	8,973
Endowment additions	20,334	30,295	50,629
Amounts appropriated for expenditure	16,026	14,834	30,860
Endowment deductions	16,026	14,834	30,860
Endowment net assets, end of year	$ 188,940	$ 560,884	$ 749,824

	2018		
	Without Donor Restriction	With Donor Restriction	Total
Endowment net assets, beginning of year	$ 164,266	$ 532,259	$ 696,525
Reclassification of underwater funds	17,522	(17,522)	-
Endowment net assets, beginning of year, as restated	$ 181,788	$ 514,737	$ 696,525
Net gifts	427	7,941	8,368
Yield (dividends and interest)	6,606	5,279	11,885
Investment return, net	23,073	23,265	46,338
Reclassifications and other changes	(3,139)	8,601	5,462
Endowment additions	26,967	45,086	72,053
Amounts appropriated for expenditure	24,123	14,400	38,523
Endowment deductions	24,123	14,400	38,523
Endowment net assets, end of year, as restated	$ 184,632	$ 545,423	$ 730,055

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

(in thousands of dollars)

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.

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 with donor restriction 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 with donor 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 with donor restricted net assets are classified as without donor restricted 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. Funds with Deficiencies

From time to time, the fair value of assets associated with individual endowment funds may fall below the value of the initial and subsequent donor gift amounts. To the extent that a donor restricted endowment fund falls below its historic value a deficit would exist and it would be reported as a reduction of net assets with donor restrictions. Subject to the terms of the gift, spending from an endowment fund in a deficit position would continue under the spending policy so long as the fund is impaired less than twenty percent relative to its historical dollar value. When deficiencies exist, they are classified in the net asset category where the original gift was classified. Deficiencies reported in with donor restriction net assets were $14,040 and $14,382 as of June 30, 2019 and 2018, respectively. Currently, 207 donor restricted endowment funds exist with deficiencies, which together have an original gift value of $98,644 and a current fair value of $84,604. Deficiencies reported in without donor restriction net assets were $1,110 and $990 as of June 30, 2019 and 2018, respectively. Currently, the Institute has 14 funds with deficiencies in without donor restriction, which together have an original gift value of $8,809 and a current fair value of $7,700. These deficiencies primarily resulted from unfavorable market fluctuations 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

(in thousands of dollars)

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.

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.

8. Land, Building, and Equipment

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

	2019	2018
Land and land improvements	$ 38,030	$ 37,812
Buildings	949,376	940,263
Equipment	235,124	226,491
Construction in progress	21,853	13,308
Gross land, building and equipment	1,244,383	1,217,874
Less: Accumulated depreciation	(580,501)	(554,230)
Net land, building and equipment	$ 663,882	$ 663,644

Building assets includes the value of the Asset Retirement Obligation intangible for which amortization of $9 was reported in the periods ended June 30, 2019 and 2018. The depreciation expense related to the building, land improvements and equipment were $28,045 and $27,602 in the periods ended June 30, 2019 and 2018, respectively.

As of June 30, 2019, Rensselaer had $4,051 of open commitments to contractors for construction work being performed.

(in thousands of dollars)

9. 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 2019	Outstanding 2018
U.S. Department of Education Dormitory Bonds and 1988 Mortgage Loan	2018	3.00 %	$ -	$ 91
Troy Industrial Development Authority Civic Facility Issue Series 2002E (Note a) - Fixed	2037	4.99 %	24,543	24,524
Series 2010 Rensselaer Taxable Bonds (Note c) - Fixed	2021	5.60 %	-	204,518
City of Troy Capital Resource Corporate Series				
Series 2010 A&B (Note b) - Fixed	2040	5.08 %	326,726	334,117
Series 2015 (Note f) - Fixed	2035	4.56 %	74,054	76,122
Series 2018 Taxable Bonds (Note h) - Fixed	2048	5.25 %	134,483	-
Senior Notes				
Series 2011A (Note d) - Fixed	2026	4.35 %	39,872	39,854
Series 2014A (Note e) - Fixed	2029	3.99 %	39,989	39,988
Series 2018 (Note g) - Fixed	2035	4.76 %	64,959	-
Total bonds and notes payable			$ 704,626	$ 719,214

	2019	2018
Debt issuance costs	$ (3,933)	$ (3,946)
Net bond premium (discount)	4,829	5,058
Net components subject to amortization	896	1,112
Bond principal	703,730	718,102
Total bonds and notes payable	$ 704,626	$ 719,214

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 was collateralized by certain physical properties and improvements with a total carrying value of $0 and $1,341 at June 30, 2019 and 2018, respectively. At June 30, 2019 and 2018, Rensselaer did not have assets held by trustees for construction, debt service and other project-related expenses.

Notes to Debt Outstanding

(a) 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

(in thousands of dollars)

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 decease 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% are due March 1 and September 1, commencing on March 1, 2012.

(b) 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.

(c) 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. On December 17, 2018 Series 2010 Taxable bonds were defeased with proceeds from Series 2018 Taxable bonds of $135,000, proceeds from Series 2018 Senior Notes of $65,000 and $5,000 in principal paid by the Institute.

(d) 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.

(e) 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.

(f) 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 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.

(g) On December 17, 2018, Rensselaer issued Series 2018 Senior Notes pursuant to a note purchase agreement. Proceeds from this $65,000 issuance were used to pay off a portion of the Series 2010 Taxable bonds. The interest rate on the notes is 4.76%. Final maturity date

(in thousands of dollars)

is December 17, 2035. Interest payments are due June 17 and December 17, commencing on June 17, 2019. The note is an unsecured obligation of the institute.

(h) On December 17, 2018 Rensselaer issued Taxable bonds for $135,000. Proceeds from this issuance were used to pay off a portion of the Series 2010 Taxable bonds. The interest rate on the bonds is 5.246%. Maturity date on the bonds is September 1, 2048. The bonds are an unsecured general obligation of the institute. Interest payments are due March 1 and September 1, commencing on March 1, 2019.

(i) Letters of Credit

As of June 30, 2019, Rensselaer had a standby letter of credit with Bank of America of $750 for general liability insurance security purposes related to current construction projects on the Troy, New York campus. There were no draws against this letter of credit during the fiscal year.

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 $0 and $5,400 on the line of credit at June 30, 2019 and 2018, 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, 2019 and June 30, 2018. The Bank of America line has a renewal date of January 27, 2020 and Key Bank line has a renewal date of February 28, 2020.

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. It was further amended on October 12, 2017 to $20,917 with an expiration date of October 31, 2018. The issuance of the letter of credit did not affect the availability under the Institute's existing lines of credit. On May 24, 2019 the DOE cancelled Rensselaer's LOC issued by Bank of America as the financial reporting requirements were satisfied.

Principal payments due on all long-term debt as of June 30, 2019 for each of the next five fiscal years are:

Year	**Amount**
2020	$ 11,665
2021	13,150
2022	16,375
2023	19,805
2024	20,465
Principal payments thereafter	622,270
Total bonds and notes principal payable	703,730
Net premiums and debt issuance costs	896
Bonds and notes payable	$ 704,626

(in thousands of dollars)

10. 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, 2019 and 2018. The defined benefit plan calculations were based upon data as of or projected to June 30, 2019 and 2018. Postretirement benefit plan calculations were based upon data as of July 1, 2018 and 2017. 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 reduced the net periodic benefit cost with the offset reflected in non-operating income (expense). There was 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.

The Institute utilizes actuarial assumptions related to participant mortality from the white-collar mortality table RP-2014 scaled for projecting future mortality improvements. In fiscal 2019, the mortality scale was updated from scale MP-2017 to MP-2018.

	Defined Benefit		Post-retirement	
	2019	2018	2019	2018
Change in benefit obligation				
Benefit obligation, beginning of year	$ (355,939)	$ (386,250)	$ (16,872)	$ (17,218)
Service cost	-	-	(650)	(724)
Interest cost	(13,747)	(13,096)	(648)	(600)
Plan participants' contribution	-	-	(1,425)	(1,382)
Amendments/Curtailments/Special	-	-	84	(9)
Actuarial gain (loss)	(24,420)	18,885	29	606
Benefits paid	27,827	24,522	1,848	2,455
Benefit obligation, end of year	$ (366,279)	$ (355,939)	$ (17,634)	$ (16,872)

The accumulated benefit obligation for the defined benefit pension plan was $366,279 and $355,939 as of June 30, 2019 and 2018, respectively.

(in thousands of dollars)

	Defined Benefit				Post-retirement			
		2019		2018		2019		2018
Change in plan assets								
Fair value plan assets, beginning of year	$	265,639	$	260,927	$	-	$	-
Actual return on plan assets		11,528		13,534		-		-
Employer contribution		12,800		15,700		423		1,074
Plan participants' contributions		-		-		1,425		1,381
Benefits paid		(27,827)		(24,522)		(1,848)		(2,455)
Fair value plan assets, end of year	$	262,140	$	265,639	$	-	$	-
Funded status and amount recognized in the statement of financial position liability	$	(104,139)	$	(90,299)	$	(17,634)	$	(16,872)
Amounts recognized in without donor restriction net assets								
Net prior service cost (credit)	$	-	$	-	$	(209)	$	(292)
Net actuarial (gain) loss		(213,004)		(194,856)		(1,107)		(1,129)
Without donor restriction net assets	$	(213,004)	$	(194,856)	$	(1,316)	$	(1,421)
Other changes in plan assets and benefit obligations recognized in without donor restriction net assets								
New prior service cost (credit)	$	-	$	-	$	(84)	$	9
New net actuarial (gain) loss		26,893		(17,419)		(29)		(606)
Amortization of prior service (cost) credit		-		-		168		162
Amortization of actuarial gain (loss)		(8,745)		(9,251)		50		31
		18,148		(26,670)		105		(404)
Net periodic benefit cost components:								
Service costs		-		-		650		723
Interest cost		13,747		13,096		648		600
Expected return on plan assets		(14,000)		(15,000)		-		-
Amortization of								
Prior service cost (credit)		-		-		(168)		(162)
Net actuarial (gain) loss		8,745		9,251		(50)		(30)
Net periodic benefit cost		8,492		7,347		1,080		1,131
Other changes in plan assets and benefit obligations recognized in without donor restriction net assets	$	26,640	$	(19,323)	$	1,185	$	727
Changes recognized in net assets from operating activities	$	-	$	-	$	650	$	723
Changes recognized in net assets from non-operating activities		26,640		(19,323)		535		4

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 employee benefits expense. 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.

(in thousands of dollars)

The following are expected future benefit payments:

	Defined Benefit	Post Retirement
Fiscal Year Ending		
2020	24,894	1,064
2021	24,901	1,237
2022	24,301	1,289
2023	24,470	1,368
2024	24,368	1,459
2025-2029	115,284	7,217

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	
	2019	2018	2019	2018
Benefit obligations				
Discount rate	3.25 %	4.00 %	3.25 %	4.00 %
Net periodic benefit cost				
Discount rate	4.00 %	3.50 %	4.00 %	3.50 %
Expected return on plan assets	6.25 %	6.75 %		

For measurement purposes, a 6.75 percent annual rate of increase in the per capita cost of covered pre-65 medical, post- 65 medical benefits and a 9.0 percent annual rate of increase in prescription drug benefits, respectively, was assumed for fiscal year 2019. These rates were assumed to decrease gradually to 3.784 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.

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 $11,002 and $10,745 in fiscal 2019 and 2018, respectively.

(in thousands of dollars)

Plan Investments

The Plan investments have been accounted for in accordance with the fair value measurement standard as described in Note 6. Full disclosures surrounding the descriptions of major investment categories and fair value requirements can also be found in Note 6.

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

	2019			
	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	$ 16,321	$ -	$ -	$ 16,321
Fixed income	5,408	89,986	4,502	99,896
Domestic equity	63,975	-	-	63,975
Foreign equity	19,393	-	11,905	31,298
Insurance contracts	-	6,319	-	6,319
Real assets	-	-	8,643	8,643
Marketable alternatives	-	-	23,404	23,404
Private investments	-	-	12,284	12,284
Total pension investments	$ 105,097	$ 96,305	$ 60,738	$ 262,140

	2018			
	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	$ 10,369	$ -	$ -	$ 10,369
Fixed income	4,506	76,570	4,504	85,580
Domestic equity	70,588	49	316	70,953
Foreign equity	24,496	-	12,233	36,729
Insurance contracts	-	7,074	-	7,074
Real assets	-	-	12,218	12,218
Marketable alternatives	-	-	24,671	24,671
Private investments	-	-	18,045	18,045
Total pension investments	$ 109,959	$ 83,693	$ 71,987	$ 265,639

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, 2020 are $3,000 and $1,063 to the defined benefit pension plan and postretirement plan, respectively.

(in thousands of dollars)

11. Functional Expense Classification

Expenses are presented by functional classification in alignment with the overall mission of academic instruction and research of the Institute. Functional expenses are categorized as academic and research, student services and support, and general and administrative. Student services and support include various student-supporting functions such as admissions, health and career services, and athletics, as well as auxiliary services, including room and board and related student aid.

Natural expenses attributable to more than one functional expense category are allocated using reasonable cost allocation techniques. Depreciation, plant operations and maintenance expenses are allocated on a square footage basis. Interest expense on indebtedness is allocated to the functional categories that have benefited from the associated debt.

The following table compares expenses by type for the years ended June 30, 2019 and 2018, respectively:

(in thousands of dollars)

	2019			
Natural Classification	Instruction and Research	Student Services and Support	General Administration and Operations	Total
Salaries and wages	127,593	23,303	25,835	176,731
Employee benefits	31,141	6,355	951	38,447
Supplies, services and other	32,177	30,707	16,554	79,438
Occupancy, taxes and insurance	8,676	10,432	6,493	25,601
Interest on debt	29,222	3,744	3,592	36,558
Depreciation and amortization	19,477	6,093	2,484	28,054
Student aid and fellowships	42,410	4,675	641	47,726
Total operating expenses	290,696	85,309	56,550	432,555
Net periodic benefit cost other than service cost	-	-	8,922	8,922
Total expenses	290,696	85,309	65,472	441,477

	2018			
Natural Classification	Instruction and Research	Student Services and Support	General Administration and Operations	Total
Salaries and wages	121,867	22,007	25,141	169,015
Employee benefits	30,334	5,989	538	36,861
Supplies, services and other	32,928	28,798	14,813	76,539
Occupancy, taxes and insurance	8,824	10,137	6,209	25,170
Interest on debt	30,006	3,841	3,975	37,822
Depreciation and amortization	19,243	5,888	2,481	27,612
Student aid and fellowships	38,682	4,399	854	43,935
Total operating expenses	281,884	81,059	54,011	416,954
Net periodic benefit cost other than service cost	-	-	7,754	7,754
Total expenses	281,884	81,059	61,765	424,708

12. 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

(in thousands of dollars)

guarantee was provided in consideration for exclusive Rensselaer student leasing rights. The gross rental value for the remaining five years at June 30, 2019 is $3,261.

Leases

At June 30, 2019, the minimum annual commitments under capital and operating leases for real property and equipment are as follows:

	Operating leases	Capital leases
2020	$ 4,463	$ 1,514
2021	4,069	1,514
2022	3,515	1,508
2023	3,164	1,490
2024	2,924	1,496
Thereafter	14,226	21,515
Total leases	$ 32,361	29,037
Less: Amount representing interest		(11,659)
Present value of minimum lease payments		$ 17,378

13. Asset Retirement Obligations

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

	2019	2018
Change in asset retirement obligation		
Asset retirement obligation, beginning of year	$ 11,334	$ 10,894
Accretion expense	335	440
Disposals	(8)	-
Asset retirement obligation, end of year	$ 11,661	$ 11,334

14. Subsequent Events

In October 2019, Rensselaer received a grant of $30,000 to purchase a high performance computing system and has committed to the acquisition of a substantial portion of the equipment.

There were no additional subsequent events through October 7, 2019, the date on which the consolidated financial statements were issued.