

Financial Statements

For the years ended June 30, 2001 and 2000

Report of Financial Condition

For the fiscal year ended June 30, 2001, New School University achieved a balanced budget for the 21st consecutive year. Growing enrollment and revenue provided sound financial underpinnings for a thriving academic program. Unrestricted net assets (net of investment in plant) have more than doubled in the last five years, increasing from \$27 million in 1996 to \$61 million in 2001. Over the five-year period, investment return designated for long-term investment has contributed \$14 million, and operating, gift, grant and auxiliary activities have produced \$20 million of the increase in unrestricted net assets. In 2001, investment return designated for long-term investment added \$2.1 million, while operating, gift, grant and auxiliary activities added \$5.4 million to unrestricted net assets.

New School University's budget depends heavily – nearly 75% – on tuition revenue. Board policy has encouraged enrollment and revenue growth through strategic planning and coordination of capital investments in dormitories, other facilities and technology. The University's divisions have been successful in meeting this objective. For example, from fall 1996 to fall 2000, degree program enrollment increased 12.4%. Growth has been particularly strong among undergraduates, with the most rapid expansion at The New School, Parsons and Lang College. Adult education enrollment has declined somewhat (7%) since 1996, but revenues have remained stable as students have enrolled for longer courses and more hours. Over the five-year period, net tuition revenues have increased 40%, while total operating revenues have grown 34%. (The attack on the World Trade Center and the recession softened enrollment growth in fall 2001, but both enrollment and revenues continued to rise.)

Because New School University's student body is extraordinarily diverse, enrollment risk spans several distinct markets. Students come from 49 of the 50 states and from over 100 countries throughout the world. One quarter of the student body is international, and almost one quarter of U.S. resident students are minorities. Like New York City itself, New School University welcomes immigrants, drawing intellectual and cultural vitality from their diversity.

Each year University management asks: What's working and what's not? While New School University must keep its central academic mission in mind, we are willing when necessary to close programs that are not cost effective. At the same time, we look to develop new programs that tap our intellectual and physical resources and to expand existing programs to meet new demand. At this time in its history, the University's growth and fiscal stability hinge on a continued steady effort in enrollment management. This program is geared to expand the pool of applicants, to recruit greater numbers of highly qualified students, to effectively support students during their time at the University and to extend outreach to former students as alumni.

The University is also engaged in a set of management activities designed to diversify its revenues by increasing fundraising, securing additional local, state and federal support and developing auxiliary programs and revenues. In the last year, the University has made considerable progress in each of these areas and expects positive results to be reflected in subsequent financial statements.

Though the University's \$100 million endowment is modest by comparison to some other institutions, it has grown to this level in the last 20 years from a few million dollars. Generous supporters together with careful management by our Trustee Investment Committee have produced steady growth. For example, endowment investments generated a total return of 8.0% during the year ended June 30, 2001 at the same time that the S&P 500 index fell 14.8%. Annualized total returns of 7.8% for the three-year and 11.4% for the five-year periods ended June 30, 2001 equalled or exceeded blended market indices that reflect the University's allocation to equity and fixed-income investments. Endowment returns have consistently exceeded the University's 5% spending rate, producing significant growth in endowment resources from investment return.

Last June, in independent assessments of the University's financial condition, Moody's increased the University's credit rating to A3 and Standard & Poors to A-. They did so citing recent financial performance, a diverse enrollment base, our desirable location and valuable real estate. At the A level, the University enjoys more options and lower costs when issuing long-term debt. The rating agencies recognized that by building its multi-source revenue base and setting aside reserves each year, the University endows itself and assures its future. In February 2002, Moody's confirmed this upgrade.

During the 2001-2002 academic year, the President and the Board of Trustees have introduced a management plan to further improve financial performance, bolster academic programs and administrative services and extend the University's liberal arts offerings. This initiative will extend to each academic and administrative division through a budget model that stimulates revenue growth and fosters quality in academic offerings and administrative services. New budget rules are an important management tool for the University. They will foster even greater transparency in the budget process and encourage each division to develop reserves. Ongoing close attention to financial matters makes it increasingly likely that the University's track record of superior financial performance will continue in the future.



James Murtha
Executive Vice President



Steve Kennedy
Associate Vice President and Treasurer

STATEMENTS OF UNRESTRICTED REVENUES, EXPENSES AND OTHER CHANGES IN UNRESTRICTED NET ASSETS FOR FISCAL YEARS ENDED JUNE 30, 1997 TO 2001 (\$000'S)

| | 2001 | 2000 | 1999 | 1998 | 1997 |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|
| REVENUES AND GAINS | | | | | |
| Student tuition and fees | \$ 130,455 | \$ 119,471 | \$ 110,799 | \$ 98,343 | \$ 90,581 |
| Less, University sponsored financial aid | (23,074) | (20,196) | (18,042) | (15,337) | (13,387) |
| Less, externally funded financial aid | (3,261) | (3,696) | (2,960) | (3,437) | (2,977) |
| Net tuition and fees | 104,120 | 95,579 | 89,797 | 79,569 | 74,217 |
| Contributions | 2,577 | 8,650 | 9,166 | 3,661 | 2,674 |
| State and private grants and contracts | 1,634 | 1,787 | 2,179 | 1,980 | 2,440 |
| Federal grants and contracts | 2,338 | 2,146 | 2,249 | 1,955 | 1,703 |
| Investment return: | | | | | |
| Pursuant to spending policy | 1,665 | 3,183 | 2,345 | 2,031 | 1,842 |
| Designated for long-term investment | 2,081 | 1,069 | 969 | 3,540 | 6,326 |
| Other | 3,610 | 3,482 | 1,487 | 2,034 | 2,004 |
| Auxiliary enterprises - student dormitories and health center | 8,460 | 7,783 | 6,622 | 6,203 | 5,686 |
| Services of educational departments | 1,088 | 1,292 | 811 | 655 | 1,098 |
| Other income | 5,858 | 3,146 | 2,964 | 3,236 | 4,122 |
| Net assets released from restrictions | 15,500 | 11,500 | 8,010 | 14,588 | 8,817 |
| Total unrestricted revenues, gains and net assets released | \$ 148,931 | \$ 139,617 | \$ 126,599 | \$ 119,452 | \$ 110,929 |
| EXPENSES AND LOSSES | | | | | |
| Educational program services: | | | | | |
| Instruction and departmental research | \$ 49,726 | \$ 46,146 | \$ 42,733 | \$ 39,743 | \$ 38,112 |
| Academic support | 19,402 | 16,118 | 13,115 | 11,721 | 10,810 |
| Student services | 8,613 | 7,282 | 6,935 | 6,643 | 5,984 |
| Sponsored research and programs | 5,728 | 5,339 | 6,055 | 5,720 | 6,037 |
| Auxiliary enterprises - student dormitories and health center | 7,582 | 6,593 | 5,468 | 5,118 | 4,591 |
| Services of educational departments | 1,097 | 1,358 | 1,454 | 1,589 | 1,991 |
| General support services: | | | | | |
| Institutional support | 24,677 | 21,935 | 25,309 | 22,265 | 19,975 |
| Operation and maintenance of plant | 12,305 | 12,264 | 11,552 | 10,768 | 10,143 |
| | 129,130 | 117,035 | 112,621 | 103,567 | 97,643 |
| Depreciation and amortization | 7,810 | 7,965 | 7,882 | 6,926 | 5,448 |
| Interest on indebtedness | 3,790 | 3,858 | 2,442 | 2,217 | 2,097 |
| Total expenses | 140,730 | 128,858 | 122,945 | 112,710 | 105,188 |
| | 8,201 | 10,759 | 3,654 | 6,742 | 5,741 |
| OTHER | | | | | |
| Extraordinary loss on extinguishment of debt | \$ - | \$ - | \$ - | \$ - | \$ (734) |
| Reclassification of temporarily and permanently restricted net assets | - | (1,405) | 2,673 | - | - |
| Increase in unrestricted net assets | \$ 8,201 | \$ 9,354 | \$ 6,327 | \$ 6,742 | \$ 5,007 |

SCHEDULE OF UNRESTRICTED NET ASSETS AS OF JUNE 30, 1997 TO 2001 (\$000'S)

| | | | | | |
|--|-------------------|-------------------|------------------|------------------|------------------|
| Unrestricted net assets | | | | | |
| For operations and designated activities | \$ 19,774 | \$ 14,303 | \$ 6,425 | \$ 1,383 | \$ 1,158 |
| Designated for quasi-endowment | 41,353 | 39,401 | 38,516 | 36,216 | 32,175 |
| Net investment in plant | 48,230 | 47,452 | 46,861 | 47,876 | 45,400 |
| Total unrestricted net assets | \$ 109,357 | \$ 101,156 | \$ 91,802 | \$ 85,475 | \$ 78,733 |

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Trustees,
New School University;

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

A handwritten signature in blue ink that reads "PricewaterhouseCoopers LLP". The signature is written in a cursive, flowing style.

October 5, 2001
(except for Note 9, for which
the date is October 16, 2001)

STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2001 AND 2000

| | 2001 | 2000 |
|--|----------------|----------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 16,358,070 | \$ 17,669,175 |
| Accounts and loans receivable | 9,062,746 | 10,124,129 |
| Prepaid expenses, deposits and deferred charges | 5,605,484 | 6,117,958 |
| Contributions receivable | 11,537,918 | 13,868,628 |
| Investments | 118,338,125 | 105,791,139 |
| Land, buildings and equipment, net | 108,350,016 | 100,026,650 |
| Funds held by trustees | 18,939,333 | 22,795,346 |
| Assets held in charitable remainder trust | 4,546,683 | 4,549,906 |
| Interests in other split-interest agreements | 1,878,519 | 1,790,337 |
| Art collection | - | - |
| Total assets | \$ 294,616,894 | \$ 282,733,268 |
| LIABILITIES AND NET ASSETS | | |
| Liabilities | | |
| Accounts payable and accrued liabilities | \$ 12,027,316 | \$ 12,917,225 |
| Refundable federal student loan grants | 3,703,374 | 3,623,001 |
| Unearned tuition, fees and other deferred revenue | 9,679,192 | 10,517,414 |
| Notes payable | 2,000,000 | 1,000,000 |
| Amounts held for others under charitable remainder trust | 1,432,208 | 1,331,503 |
| Long-term debt | 77,059,108 | 73,606,166 |
| Total liabilities | \$ 105,901,198 | \$ 102,995,309 |
| Net assets | | |
| Unrestricted | 109,357,392 | 101,156,201 |
| Temporarily restricted | 38,574,174 | 38,170,236 |
| Permanently restricted | 40,784,130 | 40,411,522 |
| Total net assets | 188,715,696 | 179,737,959 |
| Total liabilities and net assets | \$ 294,616,894 | \$ 282,733,268 |

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

STATEMENTS OF UNRESTRICTED REVENUES, EXPENSES AND OTHER CHANGES IN UNRESTRICTED NET ASSETS FOR THE YEARS ENDED JUNE 30, 2001 AND 2000

| | 2001 | 2000 |
|--|----------------|----------------|
| REVENUES AND GAINS | | |
| Student tuition and fees | \$ 130,454,885 | \$ 119,471,059 |
| Less, University sponsored financial aid | (23,074,212) | (20,196,207) |
| Less, externally funded financial aid | (3,260,804) | (3,696,129) |
| Net tuition and fees | 104,119,869 | 95,578,723 |
| Contributions | 2,577,141 | 8,650,497 |
| State and private grants and contracts | 1,633,454 | 1,787,278 |
| Federal grants and contracts | 2,337,681 | 2,145,856 |
| Investment return | | |
| Pursuant to spending policy | 1,664,873 | 3,183,203 |
| Designated for long-term investment | 2,081,379 | 1,069,030 |
| Designated for operations and debt service | 3,610,417 | 3,481,555 |
| Auxiliary enterprises: student dormitories and health center | 8,460,308 | 7,782,866 |
| Services of educational departments | 1,088,079 | 1,292,112 |
| Other income | 5,857,830 | 3,146,259 |
| Net assets released from restrictions | 15,500,316 | 11,500,260 |
| Total unrestricted revenues, gains and net assets released | 148,931,347 | 139,617,639 |
| EXPENSES AND LOSSES | | |
| Educational program services | | |
| Instruction and departmental research | 49,726,129 | 46,146,507 |
| Academic support | 19,401,466 | 16,117,767 |
| Auxiliary enterprises: student dormitories and health center | 7,581,914 | 6,592,646 |
| Student services | 8,613,104 | 7,281,610 |
| Sponsored research and programs | 5,728,355 | 5,339,191 |
| Services of educational departments | 1,097,419 | 1,358,337 |
| General support services | | |
| Institutional support | 24,676,805 | 21,934,980 |
| Operation and maintenance of plant | 12,304,555 | 12,264,303 |
| Total educational and general support services | 129,129,747 | 117,035,341 |
| Depreciation and amortization | 7,810,384 | 7,965,324 |
| Interest on indebtedness | 3,790,018 | 3,857,512 |
| Total expenses | 140,730,149 | 128,858,177 |
| | 8,201,198 | 10,759,462 |
| OTHER | | |
| Reclassification to temporarily restricted net assets | - | (1,168,473) |
| Reclassification to permanently restricted net assets | - | (236,341) |
| Increase in unrestricted net assets | \$ 8,201,198 | \$ 9,354,648 |

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

STATEMENTS OF CHANGES IN NET ASSETS FOR THE YEARS ENDED JUNE 30, 2001 AND 2000

| | <u>2001</u> | <u>2000</u> |
|--|----------------|----------------|
| UNRESTRICTED NET ASSETS | | |
| Total revenues and gains | \$ 133,431,031 | \$ 128,117,379 |
| Net assets released from restrictions | 15,500,316 | 11,500,260 |
| Reclassification to temporarily restricted net assets | - | (1,168,473) |
| Reclassification to permanently restricted net assets | - | (236,341) |
| Total expenses | (140,730,149) | (128,858,177) |
| Increase in unrestricted net assets | 8,201,198 | 9,354,648 |
| TEMPORARILY RESTRICTED NET ASSETS | | |
| Contributions | 12,724,477 | 3,022,805 |
| Change in value of split-interest agreements | 88,738 | 98,384 |
| Investment return | | |
| Pursuant to spending policy | 2,695,056 | 1,162,809 |
| Designated for long-term investment | 1,053,111 | 519,908 |
| Write-off of outstanding contributions receivable | (657,135) | (2,199,520) |
| Reclassification from permanently restricted net assets | 175,000 | - |
| Reclassification from unrestricted net assets | - | 1,168,473 |
| Net assets released from restrictions | (15,500,316) | (11,500,260) |
| Increase (decrease) in temporarily restricted net assets | 578,931 | (7,727,401) |
| PERMANENTLY RESTRICTED NET ASSETS | | |
| Contributions | 441,453 | 367,036 |
| Investment return designated for long-term investment | 110,741 | 26,905 |
| Write-off of outstanding contributions receivable | (66,667) | (259,272) |
| Reclassification to temporarily restricted net assets | (175,000) | - |
| Reclassification from unrestricted net assets | - | 236,341 |
| Change in value of split-interest agreements | (112,919) | (146,337) |
| Increase in permanently restricted net assets | 197,608 | 224,673 |
| Increase in net assets | 8,977,737 | 1,851,920 |
| NET ASSETS | | |
| Beginning of year | 179,737,959 | 177,886,039 |
| End of year | \$ 188,715,696 | \$ 179,737,959 |

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

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2001 AND 2000

| | 2001 | 2000 |
|---|---------------|---------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | \$ 8,977,737 | \$ 1,851,920 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities | | |
| Depreciation and amortization | 7,810,384 | 7,965,324 |
| Amortization of discounts on bonds payable and deferred charges | (93,505) | (92,707) |
| Net realized gains and unrealized appreciation on investments | (3,205,004) | (2,464,746) |
| Contributed securities | (933,337) | (1,352,170) |
| Proceeds of contributions restricted for | | |
| Investment in endowment | (475,087) | (371,530) |
| Investment in buildings and equipment | (2,097,934) | (3,207,895) |
| Changes in operating assets and liabilities | | |
| Accounts receivable, net | 1,192,476 | (39,409) |
| Contributions receivable | 2,330,710 | 6,331,546 |
| Prepaid expenses, deposits and deferred charges | 642,192 | 540,109 |
| Interests in other split-interest agreements | (88,182) | 1,396,312 |
| Accounts payable and accrued liabilities | (889,909) | 305,640 |
| Unearned tuition, fees and other deferred revenue | (838,221) | 1,685,356 |
| Amounts held for others under charitable remainder trust | 100,705 | (136,747) |
| Net cash provided by operating activities | 12,433,025 | 12,411,003 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of investments | (441,866,595) | (204,808,457) |
| Proceeds from sales of investments | 433,457,950 | 199,576,301 |
| Increase in assets held in charitable remainder trusts | 3,223 | 133,001 |
| Purchase of buildings and equipment | (10,358,748) | (13,429,808) |
| Student and employee loans issued, net | (131,093) | (790,132) |
| Net cash used in investing activities | (18,895,263) | (19,319,095) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from issuance of short-term debt | 2,000,000 | 3,816,146 |
| Principal payment on short-term debt | (1,000,000) | - |
| Change in funds held by trustee for debt service and construction funds | 3,856,013 | 6,028,604 |
| Principal payments on long-term debt | (2,358,274) | (1,593,943) |
| Proceeds of contributions restricted for | | |
| Investment in endowment | 475,087 | 371,530 |
| Investment in buildings and equipment | 2,097,934 | 3,207,895 |
| Change in refundable federal student loan grants | 80,373 | (406,166) |
| Net cash provided by financing activities | 5,151,133 | 11,424,066 |
| Net (decrease) increase in cash and cash equivalents | (1,311,105) | 4,515,974 |
| Cash and cash equivalents, beginning of year | 17,669,175 | 13,153,201 |
| Cash and cash equivalents, end of year | \$ 16,358,070 | \$ 17,669,175 |
| SUPPLEMENTAL INFORMATION | | |
| Interest paid | \$ 3,830,253 | \$ 3,500,142 |
| Capital lease obligations incurred | \$ - | \$ 2,816,146 |

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

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2001 AND 2000

1. BUSINESS

New School University ("the New School") was founded in 1919 as America's first university for adults. Over the years, it has grown into an accredited degree-granting institution having eight divisions with both degree students and continuing education students. Today the New School is a complex urban university located in New York City with graduate, undergraduate and professional degree programs committed to life-long learning in many fields. The New School is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Net Asset Classifications

The New School reports information regarding its financial position and activities according to three classes of net assets: permanently restricted, temporarily restricted and unrestricted.

- Permanently restricted net assets contain donor-imposed restrictions that stipulate the resources be maintained permanently, but permit the New School to use the income from the resources for either specified or unspecified purposes.
- Temporarily restricted net assets contain donor-imposed restrictions that permit the New School to use or expend the assets as specified. The restrictions are satisfied either by the passage of time or by action of the University.
- Unrestricted net assets are not restricted by donors, or the donor-imposed restrictions have expired. The New School's Board of Trustees has designated a portion of the unrestricted net assets for fixed assets and long-term investment (quasi-endowment).

Cash and Cash Equivalents

Except for cash and cash equivalents held by equity and fixed income managers of the New School's commingled endowment portfolio which are classified as investments, cash and cash equivalents include cash on hand and temporary investments purchased with an initial maturity of three months or less.

Land, Buildings and Equipment

Land, buildings and equipment are stated at cost or, if acquired by gift, at appraised value at date of donation. Costs of building alterations are capitalized. Costs of repairs and maintenance are expensed.

Depreciation and amortization are calculated on the straight-line basis over the estimated useful lives of the related assets as follows:

| | <u>ESTIMATED USEFUL LIFE</u> |
|-------------------------|-----------------------------------|
| Buildings | 40 years |
| Building improvements | 15 to 30 years |
| Leasehold improvements | Shorter of lease term or 35 years |
| Furniture and equipment | 5 years |
| Computer equipment | 3 years |

Investments

Investments are reported on a trade-date basis. Investments in equity securities with readily determined fair values and all debt securities are recorded at fair values determined on the basis of quoted market values. Investments in mutual funds, which are primarily invested in publicly traded securities, are carried at fair value as reported by the mutual funds. Investments in mortgage loans receivable are carried at unpaid principal, and investments in real estate and privately held securities are carried at cost or estimated fair value at date of donation.

The first in, first out ("FIFO") or average cost methods are used in computing realized gains or losses. Unrealized appreciation or depreciation is determined by comparing cost to fair value at the beginning and end of the year. Gains or losses and unrealized appreciation or depreciation on investments are generally recognized as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations. To the extent that restrictions are met in the same period, gains are reported as increases in unrestricted net assets.

The investment objectives for the New School endowment and quasi-endowment net assets are to preserve the principal value of those funds, in both absolute as well as real terms, and to maximize over the long term the total rate of return earned without assuming an unreasonable degree of risk. In connection with these investment objectives, the Board of Trustees has adopted a spending policy. The amount available for spending is determined annually by applying a rate (5% for fiscal 2001 and 2000) to the market value of the endowment and quasi-endowment assets for the preceding two calendar years ended December 31.

Art Collection

The New School's art collection consists of works of art, including prints, paintings, photographs and sculptures, that are held for the purposes of public exhibition, education and research. Each of the items is cataloged, preserved and cared for, and activities verifying their existence and assessing their condition are performed continuously by the New School's curator. The collection is subject to a policy that, if any work of art is sold, the proceeds will be classified as temporarily restricted net assets and used to acquire other items for the collection.

The art collection, which was acquired through purchases and contributions since the New School's inception, is not recognized as an asset on the balance sheet. Purchases of collection items are recorded as decreases in unrestricted net assets in the year in which the items are acquired, or as decreases in temporarily restricted net assets if the assets used to purchase the items are restricted by donors. Contributed collection items are not reflected on the financial statements. Proceeds from sales or insurance recoveries are reflected as increases in the appropriate net asset classes.

Unearned Tuition and Fees

Revenue from student tuition and fees is generally recognized totally in the fiscal year in which the academic term predominantly falls. However, tuition received prior to fiscal year end for summer courses is deferred until the next fiscal period.

Fair Value of Financial Instruments

The recorded value approximates market value for all financial instruments other than student and employee loans receivable and long-term debt. See Note 3 regarding fair value of student and employee loans receivable and Note 9 for fair value of long-term debt.

Contributions

Unconditional promises to give are recognized as revenue in the period received. Conditional contributions are recognized as revenue when the conditions on which they depend have been substantially met.

The New School records contributions as temporarily restricted if they are received with donor stipulations that limit their use through purpose or time restrictions. Through June 30, 2000, to the extent that restrictions were met in the same period, such contributions were reported as unrestricted support. Effective July 1, 2000, all donor restricted contributions are recorded as temporarily restricted. This change did not have a material adverse impact on the New School's financial statements. When donor restrictions expire, that is, when a purpose restriction is fulfilled or a time restriction ends, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of changes in net assets as net assets released from restrictions. Contributions of cash restricted for the acquisition or construction of long-lived assets are reclassified to unrestricted net assets when the capital assets are placed in service.

The New School has interests in charitable remainder trusts and other split-interest agreements. Where the New School does not serve as the trustee, the interest is carried at the present value of the estimated future benefit to be received when the trust assets are distributed. Where the New School serves as the trustee, the investments are reflected as assets held in charitable remainder trust and a liability ("Amounts held for others") is reflected on the statement of financial position.

Certain unpaid volunteers have contributed their time, primarily to assist the New School with fundraising activities. The value of these contributed services is not reflected in the accompanying statements.

Government Grants and Private Contracts

Government grants and certain private contracts are principally accounted for as exchange transactions, rather than as contributions, and revenue is reported as earned.

Functional Classification of Expenses

The costs of providing the programs and supporting services of the New School are summarized in Note 13. Fundraising costs are expensed as incurred and include salaries and employee benefits of program staff who develop proposals for fundraising; solicit contributions for those needs and for endowment purposes from individuals, corporations, government agencies and foundations; and conduct specific fundraising events.

Advertising and Promotion Costs

The costs of advertising and promotion are expensed as incurred except for direct costs incurred primarily for direct response advertising and course catalogs related to the next fiscal year programs. At June 30, 2001 and 2000, \$272,027 and \$741,907 of advertising costs were reflected as prepaid expenses on the statement of financial position. Advertising expenses reflected in the statement of changes in net assets totaled \$4,378,569 and \$4,622,927 for fiscal 2001 and 2000, respectively.

Estimates

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

Reclassifications

Certain amounts in the fiscal 2000 financial statements have been reclassified to conform with the fiscal 2001 presentation.

3. ACCOUNTS AND LOANS RECEIVABLE

Accounts and loans receivable consisted of the following at June 30, 2001 and 2000, respectively:

| | 2001 | 2000 |
|--|---------------------|----------------------|
| Student accounts receivable | | |
| Student accounts receivable | \$ 5,036,030 | \$ 5,729,222 |
| Less, allowance for doubtful accounts | (3,876,917) | (3,286,576) |
| | <u>1,159,113</u> | <u>2,442,646</u> |
| Other accounts receivable | | |
| Accounts receivable due from grantors | 1,020,747 | 1,249,137 |
| Accrued interest and other | 1,109,970 | 790,523 |
| | <u>2,130,717</u> | <u>2,039,660</u> |
| Student and employee loans receivable | | |
| Student loans | 5,989,265 | 5,847,444 |
| Employee loans | 874,099 | 811,155 |
| Less, allowance for doubtful loans | (1,090,448) | (1,016,776) |
| | <u>5,772,916</u> | <u>5,641,823</u> |
| Total accounts and loans receivable | \$ 9,062,746 | \$ 10,124,129 |

The allowance for doubtful loans is intended to provide for student loans, both in repayment status and not yet in repayment status (borrowers still in school or in the grace period following graduation), that may not be collected.

The determination of fair value of student loans receivable, which are federally sponsored student loans with U.S. government mandated interest rates and repayment terms and subject to significant restrictions as to their transfer or disposition, could not be made without incurring excessive costs. The fair value of employee loans receivable was \$874,063 and \$818,837 at June 30, 2001 and 2000, respectively.

4. CONTRIBUTIONS RECEIVABLE

Contributions receivable are expected to be collected as follows at June 30, 2001 and 2000, respectively:

| | 2001 | 2000 |
|--|----------------------|----------------------|
| Fiscal year 2001 | \$ - | \$ 6,498,916 |
| Fiscal year 2002 | 5,872,039 | 3,601,129 |
| Fiscal year 2003 | 2,710,341 | 2,427,514 |
| Fiscal year 2004 | 1,597,862 | 1,352,482 |
| Fiscal year 2005 | 1,066,500 | 811,749 |
| Fiscal year 2006 | 1,095,000 | 536,764 |
| Thereafter | 1,284,150 | 1,158,257 |
| | <u>13,625,892</u> | <u>16,386,811</u> |
| Less, allowance for uncollectible amounts | (1,054,257) | (1,109,066) |
| Less, discount to present value (at rates of 4.22% to 7.43%) | (1,033,717) | (1,409,117) |
| | <u>\$ 11,537,918</u> | <u>\$ 13,868,628</u> |

The New School had received conditional promises, which consisted of the following at June 30, 2001 and 2000:

| | 2001 | 2000 |
|---|----------------------|----------------------|
| Bequest intentions for which the New School has received notification | \$ 8,885,600 | \$ 9,772,724 |
| Conditioned on raising matching funds | 2,000,000 | 2,400,000 |
| Other revocable agreements | 2,105,959 | 2,105,959 |
| | <u>\$ 12,991,559</u> | <u>\$ 14,278,683</u> |

Such conditional promises will be recorded as contributions when the conditions are satisfied.

5. INVESTMENTS AND ASSETS HELD IN CHARITABLE REMAINDER TRUST

Investments

Investments consisted of the following at June 30, 2001 and 2000:

| | 2001 | | 2000 | |
|---|--------------------------|-----------------------|--------------------------|----------------------|
| | COST OR DONATED VALUE | CARRYING VALUE | COST OR DONATED VALUE | CARRYING VALUE |
| Pooled investments | | | | |
| Cash and cash equivalents | \$ 4,050,038 | \$ 4,050,038 | \$ 1,793,158 | \$ 1,793,158 |
| Fixed income securities | 34,163,447 | 36,504,476 | 37,340,293 | 37,543,678 |
| Equity securities, principally common stocks | 40,078,139 | 44,497,503 | 37,750,164 | 38,038,085 |
| Investments in mutual funds | | | | |
| Harbor International | 5,726,095 | 7,298,087 | 4,824,527 | 8,358,833 |
| Other | 1,508,030 | 1,083,075 | 3,632,978 | 4,498,141 |
| Total pooled investments | <u>85,525,749</u> | <u>93,433,179</u> | <u>85,341,120</u> | <u>90,231,895</u> |
| Other investments | | | | |
| Cash and cash equivalents | 184,793 | 184,793 | 3,987 | 3,987 |
| Fixed income securities | 22,124,724 | 22,153,633 | 11,763,605 | 11,541,448 |
| Equity securities | 1,574,704 | 1,550,824 | 1,870,364 | 1,645,567 |
| Fixed-income mutual funds | 512,685 | 503,379 | - | - |
| Real estate | 512,317 | 512,317 | 2,279,890 | 2,118,242 |
| Mortgage loans receivable | - | - | 250,000 | 250,000 |
| | <u>\$110,434,972</u> | <u>\$ 118,338,125</u> | <u>\$101,508,966</u> | <u>\$105,791,139</u> |

As discussed more fully in Note 2, all investments other than mortgage loans receivable and real estate are carried at fair value. As discussed in Note 10, a portion of the pooled investments that are unrestricted quasi-endowment have been pledged as collateral for the \$8 million revolving credit facility agreement with a bank.

Investment return on pooled investments, operating funds and funds held in trust and its classification in the statements of unrestricted revenues, expenses and other changes in unrestricted net assets and changes in net assets is as follows:

| | 2001 | | | |
|--|--------------|---------------------------|---------------------------|--------------|
| | UNRESTRICTED | TEMPORARILY RESTRICTED | PERMANENTLY RESTRICTED | TOTAL |
| Dividends and interest | \$ 5,756,308 | \$ 2,695,056 | \$ 40,228 | \$ 8,491,592 |
| Realized gains (losses) | 101,168 | (101,352) | - | (184) |
| Change in unrealized appreciation | 1,980,212 | 1,154,463 | 70,513 | 3,205,188 |
| Less, custodial and advisory fees | (481,018) | - | - | (481,018) |
| Total return on investments | 7,356,670 | 3,748,167 | 110,741 | 11,215,578 |
| Investment return designated for operations pursuant to spending rate | (1,664,874) | (2,695,056) | - | (4,359,930) |
| Other investment income designated for operations and debt service | (3,610,417) | - | - | (3,610,417) |
| Investment return designated for long-term investment | \$ 2,081,379 | \$ 1,053,111 | \$ 110,741 | \$ 3,245,231 |

| | 2000 | | | |
|--|--------------|---------------------------|---------------------------|--------------|
| | UNRESTRICTED | TEMPORARILY RESTRICTED | PERMANENTLY RESTRICTED | TOTAL |
| Dividends and interest | \$ 7,201,844 | \$ 228,887 | \$ 85,020 | \$7,515,751 |
| Realized gains (losses) | 1,850,534 | 1,738,194 | (67,917) | 3,520,811 |
| Change in unrealized appreciation | (781,503) | (284,364) | 9,802 | (1,056,065) |
| Less, custodial and advisory fees | (537,087) | - | - | (537,087) |
| Total return on investments | 7,733,788 | 1,682,717 | 26,905 | 9,443,410 |
| Investment return designated for operations pursuant to spending rate | (3,183,203) | (1,162,809) | - | (4,346,012) |
| Other investment income designated for operations and debt service | (3,481,555) | - | - | (3,481,555) |
| Investment return designated for long-term investment | \$ 1,069,030 | \$ 519,908 | \$ 26,905 | \$ 1,615,843 |

Assets Held in Charitable Remainder Trust

Assets held in a charitable remainder trust for which the New School serves as the trustee consisted of the following at June 30, 2001 and 2000:

| | 2001 | | 2000 | |
|-----------------------------------|--------------|--------------|--------------|--------------|
| | COST | FAIR VALUE | COST | FAIR VALUE |
| Cash equivalents | \$ 54,673 | \$ 54,673 | \$ 66,351 | \$ 66,351 |
| Equity securities and funds | 181,023 | 175,510 | 172,022 | 227,995 |
| Fixed income securities and funds | 4,129,984 | 4,316,500 | 4,272,807 | 4,255,560 |
| Total | \$ 4,365,680 | \$ 4,546,683 | \$ 4,511,180 | \$ 4,549,906 |

6. INTERESTS IN OTHER SPLIT-INTEREST AGREEMENTS

Other split-interest agreements, for which the New School is not the trustee, consisted of the following at June 30, 2001 and 2000:

| | <u>2001</u> | <u>2000</u> |
|-----------------------------|---------------------|---------------------|
| Pooled income fund | \$ 202,738 | \$ 210,207 |
| Charitable remainder trusts | 260,142 | 260,624 |
| Life estate gifts | 1,415,639 | 1,319,506 |
| | <u>\$ 1,878,519</u> | <u>\$ 1,790,337</u> |

These carrying values represent the current market value of the assets discounted at rates ranging from 6.7% to 8.0%.

7. LAND, BUILDINGS AND EQUIPMENT

Land, buildings, plant and equipment consisted of the following at June 30, 2001 and 2000:

| | <u>2001</u> | <u>2000</u> |
|---|-----------------------|-----------------------|
| Land and buildings | | |
| 55 West 13th Street | \$ 23,798,212 | \$ 23,570,069 |
| 131 East 12th Street | 13,782,726 | 13,096,358 |
| 66 and 70 Fifth Avenue and 2 West 13th Street | 19,055,936 | 18,161,496 |
| 65 Fifth Avenue (Albert List Academic Center) | 15,367,600 | 15,241,243 |
| 66-76 West 12th Street and 63-69 West 11th Street | 13,927,471 | 13,658,494 |
| 150 West 85th Street | 5,434,840 | 5,411,585 |
| 560 Seventh Avenue (David Schwartz Fashion Education Center) | 4,831,448 | 4,831,448 |
| University residences | 1,570,068 | 1,570,068 |
| 68 Fifth Avenue | 558,253 | 558,253 |
| 72 Fifth Avenue | 9,924,797 | 9,426,624 |
| 22-26 East 14th Street | 14,931,852 | 14,675,378 |
| 24-30 West 18th Street | 5,775,000 | - |
| | <u>128,958,203</u> | <u>120,201,016</u> |
| Furniture and equipment | 23,477,457 | 27,440,431 |
| Leasehold improvements | 5,866,507 | 4,949,339 |
| Construction in progress: computer systems and other capital projects | 5,201,264 | 3,019,294 |
| | <u>163,503,431</u> | <u>155,610,080</u> |
| Less, accumulated depreciation and amortization | (55,153,415) | (55,583,430) |
| Total property, plant and equipment, net | <u>\$ 108,350,016</u> | <u>\$ 100,026,650</u> |

In connection with the Dormitory Authority of the State of New York ("the Authority") Series 1997 Revenue Bond agreement, land and buildings located at 66 and 70 Fifth Avenue and 2 West 13th Street have been pledged as collateral under the debt agreement. Under the Series 1999 Revenue Bond agreement issued through the Authority, land and buildings located at 22-26 East 14th Street and 72 Fifth Avenue have been pledged as collateral. Additionally, the New York City Industrial Development Agency holds a leasehold interest in the 55 West 13th Street land and building. Land located at 24-30 West 18th Street has been pledged as collateral for the mortgage note payable entered into on November 6, 2000. (See Note 9.)

8. FUNDS HELD BY TRUSTEES

Funds held by trustees in connection with the issuance of long-term debt consisted of the following at June 30, 2001 and 2000:

| | <u>2001</u> | <u>2000</u> |
|---------------------------|----------------------|-------------------|
| Cash and cash equivalents | \$ 1,417,320 | \$ 4,763,043 |
| U.S. Treasury securities | 15,775,843 | 16,326,071 |
| U.S. agency securities | 1,746,170 | 1,706,232 |
| | <u>\$ 18,939,333</u> | <u>22,795,346</u> |

Funds held by trustees in connection with the issuance of long-term debt (see Note 9) consisted of the following at June 30, 2001 and 2000:

| | <u>2001</u> | | | | | |
|---|---------------------------------------|-----------------------------|-------------------------|---------------------------------|---|---------------------|
| | CONSTRUCTION FUND AND EQUIPMENT | ARBITRAGE REBATE FUND | DEBT SERVICE FUND | DEBT SERVICE RESERVE FUND | BUILDING AND EQUIPMENT RESERVE FUND | TOTAL |
| Dormitory Authority of the State of New York | | | | | | |
| 1999 Series | \$ 9,033,638 | \$ - | \$ 1,773,675 | \$ 3,200,170 | \$ - | \$14,007,483 |
| 1997 Series | - | 95,527 | 382,733 | 1,038,893 | 260,710 | 1,777,863 |
| New York City Industrial Development Agency | | | | | | |
| 1994 Series A | 27,872 | - | 92,459 | 358,812 | - | 479,143 |
| 1994 Series B | 19,730 | - | 187,794 | 169,556 | - | 377,080 |
| 1995 Series A | 4 | - | 420,930 | 1,161,685 | - | 1,582,619 |
| 1995 Series B | - | - | 141,215 | 146,658 | - | 287,873 |
| Dormitory Authority tax-exempt capital lease | | | | | | |
| | 427,272 | - | - | - | - | 427,272 |
| Total | <u>\$ 9,508,516</u> | <u>\$ 95,527</u> | <u>\$ 2,998,806</u> | <u>\$ 6,075,774</u> | <u>\$ 260,710</u> | <u>\$18,939,333</u> |

| | <u>2000</u> | | | | | |
|---|---------------------------------------|-----------------------------|-------------------------|---------------------------------|---|---------------------|
| | CONSTRUCTION FUND AND EQUIPMENT | ARBITRAGE REBATE FUND | DEBT SERVICE FUND | DEBT SERVICE RESERVE FUND | BUILDING AND EQUIPMENT RESERVE FUND | TOTAL |
| Dormitory Authority of the State of New York | | | | | | |
| 1999 Series | \$11,945,566 | \$ - | \$ 1,772,538 | \$ 3,173,022 | \$ - | \$16,891,126 |
| 1997 Series | - | 58,528 | 420,853 | 1,028,228 | 127,114 | 1,634,723 |
| New York City Industrial Development Agency | | | | | | |
| 1994 Series A | 13,444 | - | 105,221 | 347,728 | - | 466,393 |
| 1994 Series B | 13,184 | - | 194,357 | 159,981 | - | 367,522 |
| 1995 Series A | 3 | - | 883,609 | 1,074,005 | - | 1,957,617 |
| 1995 Series B | - | - | 150,924 | 134,343 | - | 285,267 |
| Dormitory Authority tax-exempt capital lease | | | | | | |
| | 1,192,698 | - | - | - | - | 1,192,698 |
| Total | <u>\$13,164,895</u> | <u>\$ 58,528</u> | <u>\$ 3,527,502</u> | <u>\$ 5,917,307</u> | <u>\$ 127,114</u> | <u>\$22,795,346</u> |

9. LONG-TERM DEBT

Long-term debt consisted of the following at June 30, 2001 and 2000:

| | MATURITY DATE | INTEREST % RATE | 2001 PRINCIPAL BALANCE | 2000 PRINCIPAL BALANCE |
|---|----------------------|-----------------|------------------------|------------------------|
| New York City Industrial Development Agency Civic Facility Revenue Bonds | | | | |
| Series 1994 A Tax Exempt | 9/1/2002 to 2014 | 5.30 to 6.20 | \$ 4,350,000 | \$ 4,350,000 (A) |
| Series 1994 B Taxable | 9/1/2006 | 8.1 | 1,290,000 | 1,450,000 (A) |
| Series 1995 A Tax Exempt | 9/1/97 to 2015 | 4.40 to 5.75 | 8,500,000 | 9,225,000 (A) |
| Series 1995 B Taxable | 9/1/2006 | 6.88 | 980,000 | 1,110,000 (A) |
| Dormitory Authority of the State of New York Bonds | | | | |
| Series 1997 Revenue Bonds | 7/1/2003 to 7/1/2026 | 4.70 to 5.75 | 13,220,000 | 13,220,000 (B) |
| Series 1999 Revenue Bonds | 7/1/2000 to 7/1/2033 | 3.75 to 5.00 | 41,935,000 | 42,500,000 (C) |
| | | | \$ 70,275,000 | \$ 71,855,000 |
| Dormitory Authority Capital Leases | | | | |
| Series 1998 | 9/23/98 to 9/23/2001 | 4.85 | 94,344 | 460,510 (D) |
| Series 1999 | 10/20/99 to 4/20/05 | 6.32 | 1,930,530 | 2,342,637 (D) |
| Mortgage Note Payable | 11/5/2002 | 8.0 | 5,775,000 | — (E) |
| | | | 78,074,874 | 74,658,147 |
| Less, unamortized discount on | | | | |
| Authority and Agency Revenue Bonds | | | (1,015,766) | (1,051,981) |
| | | | \$ 77,059,108 | \$ 73,606,166 |

- (A) On September 13, 1994 and June 30, 1995, the New School entered into loan agreements with the New York City Industrial Development Agency (“the Agency”) to finance a portion of the costs of acquisition and improvement of an existing building located at 55 West 13th Street. Concurrently with the issuance of both series of bonds, the Agency and the New School entered into a lease agreement whereby the New School leased the 55 West 13th Street facility to the Agency for the term of the bonds. During the 1995 bond issuance, both parties also simultaneously executed a lease agreement whereby the Agency subleased its leasehold interest in the facility back to the New School for the terms of the bonds.
- (B) On April 29, 1997, the New School entered into a loan agreement with the Dormitory Authority to issue Insured Revenue Bonds in the amount of \$13,220,000 to finance the acquisition, construction, renovation and other improvements of equipment and facilities. The New School has pledged tuition revenues and executed a mortgage on the 66 and 70 Fifth Avenue and 2 West 13th Street land and buildings as collateral for the loan.
- (C) On May 20, 1999 the New School entered into a loan agreement with the Dormitory Authority to issue Insured Revenue Bonds in the amount of \$42,500,000. A portion of the proceeds was used to prepay \$9,085,000 of taxable debt issued by Student Loan Marketing Association in 1996 and 1997. The remaining proceeds are being used to finance the acquisition, renovations and improvements to new and existing facilities and equipment. The New School has pledged tuition revenues and executed mortgages on the newly acquired 22-26 East 14th Street and 72 Fifth Avenue Condominium interests as collateral for the loan.
- (D) On September 23, 1998 and October 20, 1999, the University entered into the Tax Exempt Leasing Program (“TELP”) with the Dormitory Authority of the State of New York (“the Dormitory Authority”) and third-party lessors, incurring indebtedness of \$1,060,162 and \$2,816,147 for various computer equipment and software components. The leased computer equipment has been pledged as collateral.
- (E) On November 6, 2000, the New School entered into a \$5,775,000 mortgage note payable agreement with a firm in which the principal is a member of the Board of Trustees of the New School. The mortgage note financed the purchase of land located at 24-30 West 18th Street and the land is held as collateral for the loan. Through the November 5, 2002 maturity date of the loan, the New School has the option either to sell the land to the firm for \$5,775,000 or pay off the mortgage loan in full.

The 1997 bonds issued through the Authority require the New School to maintain building and equipment reserve

funds to provide for necessary repairs, maintenance and asset replacements. All Industrial Development Agency and Dormitory Authority bond series require debt service reserve funds to be maintained as further security for principal repayment. (See Note 8.)

The 1994 and 1995 lease agreements with the Industrial Development Agency and the 1997 and 1999 loan agreements with the Dormitory Authority require the New School to meet certain covenant conditions as a prerequisite to incurring long-term debt or refinancing existing debt. Additionally, all lease and loan agreements require the New School to maintain a percentage of unrestricted net assets to total long-term debt outstanding in excess of 40% at June 30, 2001 and 33% at June 30, 2000. At June 30, 2001 and 2000, unrestricted net assets, as defined, were 79% and 73% of long-term debt, respectively.

All lease and loan agreements also require that the percentage of total scheduled debt service in the current or any future year to unrestricted revenues not exceed 8%. At June 30, 2001 and 2000, the percentages were 4.1% and 4.4%.

The aggregate fair value of total long-term debt was estimated to be approximately \$72,493,000 and \$70,122,000 at June 30, 2001 and 2000, respectively.

At June 30, 2001, aggregate principal maturities of long-term debt (including capital lease payments) for each of the next five fiscal years and thereafter are as follows:

| | |
|------------------|---------------|
| Fiscal year 2002 | \$ 1,747,908 |
| Fiscal year 2003 | 7,586,718 |
| Fiscal year 2004 | 2,181,681 |
| Fiscal year 2005 | 2,378,567 |
| Fiscal year 2006 | 2,065,000 |
| Thereafter | 62,115,000 |
| | \$ 78,074,874 |

Subsequent to year-end, on October 16, 2001, the New School entered into a loan agreement with the Dormitory Authority to issue Insured Revenue Bonds in the amount of \$21,500,000. The loan proceeds will be used to acquire and renovate a building located at 118 West 13th Street for use as a student dormitory. The future principal payments are not included in the preceding table of aggregate principal maturities of long-term debt nor on the statement of financial position at June 30, 2001.

Deferred debt issuance costs, included with prepaid expenses, deposits and deferred charges on the balance sheet, were \$3,120,403 and \$3,250,120 at June 30, 2001 and 2000, respectively, and are being amortized over the terms of the related debt, which range from 5 to 35 years.

10. BANK NOTE PAYABLE

The New School has a working capital line of credit of \$1,000,000 available with a bank. At June 30, 2000, the outstanding balance under this arrangement was \$1,000,000. Additionally, commencing in fiscal 2001, the New School has a revolving credit facility of \$8,000,000 available with this bank. Outstanding borrowings are collateralized by unrestricted quasi-endowment securities having a carrying value of approximately \$24,500,000 at June 30, 2001. At June 30, 2001, the outstanding balance under this arrangement was \$2,000,000.

11. NET ASSETS

Net assets consisted of the following at June 30, 2001 and 2000:

| | <u>2001</u> | <u>2000</u> |
|--|-----------------------|-----------------------|
| Unrestricted net assets | | |
| For operations and designated activities | \$ 19,773,775 | \$ 14,303,044 |
| Designated for quasi-endowment | 41,353,376 | 39,401,210 |
| Net investment in plant | 48,230,241 | 47,451,947 |
| | <u>109,357,392</u> | <u>101,156,201</u> |
| Temporarily restricted net assets | | |
| Scholarships and departmental activities | 29,075,019 | 30,430,520 |
| Building construction and equipment | 7,636,985 | 6,006,394 |
| Split-interest agreements | 1,862,170 | 1,733,322 |
| | <u>38,574,174</u> | <u>38,170,236</u> |
| Permanently restricted net assets | | |
| Endowment principal, income principally for student financial aid and faculty support | 37,669,655 | 37,193,119 |
| Charitable remainder trusts, income unrestricted | 3,114,475 | 3,218,403 |
| | <u>40,784,130</u> | <u>40,411,522</u> |
| Total net assets | <u>\$ 188,715,696</u> | <u>\$ 179,737,959</u> |

The split-interest agreements and the realized gains and unrealized appreciation of endowment investments included in temporarily restricted net assets are restricted for scholarships and departmental activities. Such realized gains were \$13,463,372 and \$13,564,724 at June 30, 2001 and 2000, respectively, and such unrealized appreciation was \$3,145,053 and \$1,990,590 at June 30, 2001 and 2000, respectively.

Unrestricted net assets designated for quasi-endowment consisted of the following:

| | <u>2001</u> | <u>2000</u> |
|-------------------------|----------------------|----------------------|
| Principal | \$ 16,072,180 | \$ 15,818,729 |
| Realized gains | 20,499,860 | 20,663,347 |
| Unrealized appreciation | 4,781,336 | 2,919,134 |
| | <u>\$ 41,353,376</u> | <u>\$ 39,401,210</u> |

12. NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions due to the passage of time or by incurring expenses satisfying the restricted purposes specified by the donors as follows for fiscal 2001 and 2000:

| | <u>2001</u> | <u>2000</u> |
|--|---------------|---------------|
| Scholarships and departmental activities | \$ 14,106,738 | \$ 6,544,129 |
| Investment in buildings and equipment | 1,393,578 | 4,956,131 |
| | <hr/> | <hr/> |
| | \$ 15,500,316 | \$ 11,500,260 |

13. FUNCTIONAL CLASSIFICATION OF EXPENSES

Total expenses are classified on a functional basis for fiscal 2001 and 2000 as follows:

| | <u>2001</u> | <u>2000</u> |
|------------------------|----------------|----------------|
| Programs | 103,556,883 | 95,617,187 |
| Supporting services | | |
| Management and general | 25,544,527 | 23,195,760 |
| Auxiliary enterprises | 8,850,962 | 7,557,754 |
| Fundraising | 2,777,777 | 2,487,476 |
| | <hr/> | <hr/> |
| | \$ 140,730,149 | \$ 128,858,177 |

14. RELATED-PARTY TRANSACTIONS

The New School has a conflict of interest policy, which requires any transaction that involves a company or firm associated with a member of the Board of Trustees to be approved in advance by a special committee of the Board of Trustees. In order to be acceptable, such a transaction must both provide a "substantial" benefit to the New School and be in the "best interests" of the New School. Furthermore, the New School's conflict of interest policy contains a presumption against such transactions and therefore, very few are even proposed. The New School incurred \$574,729 and \$576,023 in fiscal 2001 and 2000, respectively, for services provided by an acting studio in which an officer is also a member of the Board of Trustees of the New School, such amounts include \$140,670 and \$73,157 payable as of June 30, 2001 and 2000, respectively. In fiscal 2001, the New School also paid \$300,300 in interest expense to and received \$300,300 in rental income from two firms in which the principal was also a member of the Board of Trustees.

15. RETIREMENT AND POST-RETIREMENT HEALTH BENEFIT PLANS

Retirement Plans

The New School has a defined contribution retirement plan which covers substantially all employees except union employees and which is funded through direct payments to the Teachers' Insurance and Annuity Association and/or College Retirement Equities Fund for the purchase of individual annuities. For each eligible employee, the New School's contributions are determined as a percentage of each covered employee's salary, taking into account the age and accrued service of each employee. Contributions to union retirement plans are based on rates required by union contracts. Retirement contributions paid by the New School under these plans and charged to expense for fiscal 2001 and 2000, respectively, were approximately \$3,291,000 and \$2,817,000.

Post-Retirement Health Plan

The New School provides certain health care benefits for past and future non union full-time employees who retire at 65 years of age with 10 or more years of service. This benefit pays up to \$1,500 per year for the Medicare Supplement Part B coverage for each eligible person.

The New School funds its post-retirement health benefits costs on a pay-as-you-go basis. The following table presents the plan's funded status reconciled with amounts recognized in the New School's balance sheet at June 30, 2001 and 2000, respectively:

| | 2001 | 2000 |
|---|----------------|--------------|
| Change in benefit obligation | | |
| Benefit obligation at beginning of year | \$ 1,135,000 | \$ 1,114,000 |
| Service cost | 69,000 | 61,000 |
| Interest cost | 78,000 | 81,000 |
| Actuarial (gain) loss | (72,000) | (97,000) |
| Benefits paid | (50,000) | (24,000) |
| Benefit obligation at end of year | \$ 1,160,000 | \$ 1,135,000 |
| Change in plan assets | | |
| Fair value of plan assets at beginning of year | - | - |
| Company contribution | 50,000 | 24,000 |
| Benefits paid | (50,000) | (24,000) |
| Fair value of plan assets at end of year | \$ - | \$ - |
| Funded status at end of year | (1,160,000) | (1,135,000) |
| Unrecognized actuarial gain | (1,430,000) | (213,000) |
| Unrecognized prior service cost | 239,000 | 258,000 |
| Unrecognized transition | 440,000 | 471,000 |
| Accrued benefit cost recognized in the balance sheet | \$ (1,911,000) | \$ (619,000) |
| Weighted-average discount rate assumption as of June 30 | 7.50% | 8.00% |
| Components of net periodic benefit cost | | |
| Service cost | \$ 69,000 | \$ 61,000 |
| Interest cost | 78,000 | 81,000 |
| Amortization of (gain) loss | (15,000) | - |
| Amortization of prior service cost | 19,000 | 19,000 |
| Amortization of transition obligation | 31,000 | 31,000 |
| Net periodic benefit cost | \$ 182,000 | \$ 192,000 |

The effect of a 1% point increase or decrease in the assumed health care cost trend rates for fiscal 2001 would have a negligible effect on the total of the service and interest cost components and on post-retirement benefit obligations.

16. OTHER COMMITMENTS AND CONTINGENCIES

The New School leases dormitory, classroom, office and student center and theater space under various leases expiring through the year 2027. Rent expense is recognized on a straight-line basis over the term of the leases. The excess of rent expense accrued on a straight-line basis over rental payments is included in accrued expenses on the balance sheet. Rental expense under operating leases for fiscal 2001 and 2000 was \$6,002,475 and \$4,550,398, respectively.

Minimum rental commitments under operating leases for each of the next five fiscal years and thereafter were as follows at June 30, 2001:

| | |
|---------------------------|---------------|
| Year ending June 30, 2002 | \$ 8,583,433 |
| Year ending June 30, 2003 | 8,055,106 |
| Year ending June 30, 2004 | 7,356,333 |
| Year ending June 30, 2005 | 6,479,589 |
| Year ending June 30, 2006 | 6,679,619 |
| Thereafter | 35,154,952 |
| | <hr/> |
| | \$ 72,309,032 |

At June 30, 2001, construction and other commitments were approximately \$15,892,000. The construction is being financed by available resources and long-term debt.