

Consolidated Financial Statements and  
Report of Independent Certified Public Accountants

**THE COOPER UNION FOR THE ADVANCEMENT  
OF SCIENCE AND ART**

June 30, 2018 and 2017

# THE COOPER UNION FOR THE ADVANCEMENT OF SCIENCE AND ART

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## **REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

To the Board of Trustees of  
**The Cooper Union for the Advancement of Science and Art:**

We have audited the accompanying consolidated financial statements of The Cooper Union for the Advancement of Science and Art and its affiliates (the “College”), which comprise the consolidated balance sheets as of June 30, 2018 and 2017, and the related consolidated statements of activities and cash flows for the years then ended and the related notes to the consolidated financial statements.

### **Management’s responsibility for the financial statements**

Management is responsible for the preparation and fair presentation of these 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.

### **Auditor’s responsibility**

Our responsibility is to express an opinion on these 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 the auditor’s 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, the auditor considers internal control relevant to the College’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 the College’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 The Cooper Union for the Advancement of Science and Art and its affiliates, as of June 30, 2018 and 2017, 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.

*Grant Thornton LLP*

New York, New York  
December 19, 2018

**THE COOPER UNION FOR THE ADVANCEMENT OF SCIENCE AND ART**  
**Consolidated Balance Sheets**  
**As of June 30, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 31,134,043	\$ 33,851,762
Contributions receivable, net (Note 4)	1,578,294	1,126,538
Other receivables, net	2,019,288	1,156,727
Investments (Notes 2 and 3)	853,586,851	820,964,160
Prepaid expenses and other assets	4,189,642	2,802,587
Funds held by trustee (Notes 2, 7 and 8)	3,546,012	3,695,591
Lease issuance costs (Note 7)	2,958,329	3,166,296
Loans to students, net of allowance for doubtful loans of \$34,238 in 2018 and 2017	394,832	401,725
Plant assets, net (Note 5)	<u>147,562,234</u>	<u>154,167,158</u>
Total assets	<u>\$ 1,046,969,525</u>	<u>\$ 1,021,332,544</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 7,682,088	\$ 7,007,170
Accrued interest on long-term loans	2,094,898	2,094,898
Liability under charitable trusts and annuity agreements	5,288,572	5,679,054
Accrued postretirement benefit costs (Note 6)	31,795,274	33,021,447
Deferred revenue (Note 7)	103,670,959	104,279,365
Long-term loans, net (Note 8)	<u>226,989,850</u>	<u>226,593,071</u>
Total liabilities	<u>377,521,641</u>	<u>378,675,005</u>
Commitments and contingencies (Notes 9 and 12)		
NET (DEFICIT) ASSETS (Note 10)		
Unrestricted	(173,921,591)	(173,059,672)
Temporarily restricted	756,977,340	735,964,543
Permanently restricted	<u>86,392,135</u>	<u>79,752,668</u>
Total net assets	<u>669,447,884</u>	<u>642,657,539</u>
Total liabilities and net assets	<u>\$ 1,046,969,525</u>	<u>\$ 1,021,332,544</u>

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

**THE COOPER UNION FOR THE ADVANCEMENT OF SCIENCE AND ART**  
**Consolidated Statement of Activities**  
**For the year ended June 30, 2018, with comparative totals for the year ended June 30, 2017**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2018	2017
<b>OPERATIONS</b>					
Revenues and other support:					
Investment return utilized for operations (Note 2 and 10)	\$ 49,966,601	\$ -	\$ -	\$ 49,966,601	\$ 37,746,399
Student tuition and fees, net of tuition discount	12,302,857	-	-	12,302,857	10,551,933
Contributions	3,843,456	5,461,394	-	9,304,850	9,402,591
Government grants, contracts, and appropriations	568,787	-	-	568,787	236,114
Rental income (Notes 7 and 9)	3,142,681	-	-	3,142,681	4,302,960
Auxiliary enterprises	2,361,966	-	-	2,361,966	2,007,741
Other revenue	507,468	-	-	507,468	621,352
Net assets released from restrictions	1,372,320	(1,372,320)	-	-	-
<b>Total revenues and other support</b>	<b>74,066,136</b>	<b>4,089,074</b>	<b>-</b>	<b>78,155,210</b>	<b>64,869,090</b>
Expenses (Note 11):					
Salaries	29,489,201	-	-	29,489,201	30,103,328
Employee benefits	11,352,346	-	-	11,352,346	14,014,704
Interest (Note 8)	12,975,460	-	-	12,975,460	12,975,460
Depreciation and amortization	8,121,365	-	-	8,121,365	8,407,750
Occupancy and other related expenses	5,194,921	-	-	5,194,921	5,133,267
Supplies, services, and other office expenses	6,924,576	-	-	6,924,576	6,932,817
Other operating expenses	4,242,295	-	-	4,242,295	4,928,808
<b>Total expenses</b>	<b>78,300,164</b>	<b>-</b>	<b>-</b>	<b>78,300,164</b>	<b>82,496,134</b>
(Deficiency) excess of operating revenues over operating expenses before nonoperating activities and other changes	(4,234,028)	4,089,074	-	(144,954)	(17,627,044)
<b>NONOPERATING ACTIVITIES AND OTHER CHANGES</b>					
Net investment return (Note 2)	45,569,917	25,719,636	-	71,289,553	58,004,876
Net investment return utilized in operations (Notes 2 and 10)	(45,569,917)	(4,396,684)	-	(49,966,601)	(37,746,399)
Contributions for endowment	-	-	2,639,467	2,639,467	1,899,205
Net assets released from restrictions for capital and other reclassifications (Note 10)	399,229	(4,399,229)	4,000,000	-	-
Amounts not yet recognized as a component of net periodic postretirement cost (Note 6)	2,972,880	-	-	2,972,880	9,639,961
(Decrease) increase in net assets	(861,919)	21,012,797	6,639,467	26,790,345	14,170,599
Net (deficit) assets at beginning of year	(173,059,672)	735,964,543	79,752,668	642,657,539	628,486,940
Net (deficit) assets at end of year	\$ (173,921,591)	\$ 756,977,340	\$ 86,392,135	\$ 669,447,884	\$ 642,657,539

*The accompanying notes are an integral part of this consolidated financial statement.*

**THE COOPER UNION FOR THE ADVANCEMENT OF SCIENCE AND ART**  
**Consolidated Statement of Activities**  
**For the year ended June 30, 2017**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2017</u>
<b>OPERATIONS</b>				
Revenues and other support:				
Investment return utilized for operations (Note 2)	\$ 37,746,399	\$ -	\$ -	\$ 37,746,399
Student tuition and fees, net of tuition discount	10,551,933	-	-	10,551,933
Contributions	3,359,396	6,043,195	-	9,402,591
Government grants, contracts, and appropriations	236,114	-	-	236,114
Rental income (Notes 7 and 9)	4,302,960	-	-	4,302,960
Auxiliary enterprises	2,007,741	-	-	2,007,741
Other revenue	621,352	-	-	621,352
Net assets released from restrictions	<u>1,689,108</u>	<u>(1,689,108)</u>	<u>-</u>	<u>-</u>
Total revenues and other support	<u>60,515,003</u>	<u>4,354,087</u>	<u>-</u>	<u>64,869,090</u>
Expenses (Note 11):				
Salaries	30,103,328	-	-	30,103,328
Employee benefits	14,014,704	-	-	14,014,704
Interest (Note 8)	12,975,460	-	-	12,975,460
Depreciation and amortization	8,407,750	-	-	8,407,750
Occupancy and other related expenses	5,133,267	-	-	5,133,267
Supplies, services, and other office expenses	6,932,817	-	-	6,932,817
Other operating expenses	<u>4,928,808</u>	<u>-</u>	<u>-</u>	<u>4,928,808</u>
Total expenses	<u>82,496,134</u>	<u>-</u>	<u>-</u>	<u>82,496,134</u>
(Deficiency) excess of operating revenues over operating expenses before nonoperating activities and other changes	(21,981,131)	4,354,087	-	(17,627,044)
<b>NONOPERATING ACTIVITIES AND OTHER CHANGES</b>				
Net investment return (Notes 2 and 10)	32,997,448	25,007,428	-	58,004,876
Investment return utilized in operation (Note 10)	(32,997,448)	(4,748,951)	-	(37,746,399)
Contributions for endowment	-	-	1,899,205	1,899,205
Net assets released from restrictions for capital and other reclassifications (Note 10)	89,855	(68,506)	(21,349)	-
Amounts not yet recognized as a component of net periodic postretirement cost (Note 6)	<u>9,639,961</u>	<u>-</u>	<u>-</u>	<u>9,639,961</u>
(Decrease) increase in net assets	(12,251,315)	24,544,058	1,877,856	14,170,599
Net (deficit) assets at beginning of year	<u>(160,808,357)</u>	<u>711,420,485</u>	<u>77,874,812</u>	<u>628,486,940</u>
Net (deficit) assets at end of year	<u>\$ (173,059,672)</u>	<u>\$ 735,964,543</u>	<u>\$ 79,752,668</u>	<u>\$ 642,657,539</u>

*The accompanying notes are an integral part of this consolidated financial statement.*

**THE COOPER UNION FOR THE ADVANCEMENT OF SCIENCE AND ART**  
**Consolidated Statements of Cash Flows**  
**For the years ended June 30, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Changes in net assets	\$ 26,790,345	\$ 14,170,599
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	8,121,365	8,407,750
Amortization of deferred issuance costs	604,746	556,465
Net unrealized and realized gains on investments	(24,922,061)	(24,849,800)
Change in value of split-interest agreements	(296,443)	117,241
Permanently restricted contributions	(2,639,467)	(1,899,205)
Changes in assets and liabilities:		
Contributions receivable, net of amounts classified as financing activities	(365,716)	(520,241)
Other receivables	(862,561)	103,462
Prepaid expenses and other assets	(1,387,055)	69,320
Accounts payable and accrued expenses	674,918	1,457,241
Deferred revenue	(608,406)	(158,079)
Accrued postretirement benefit costs	(1,226,173)	(6,996,074)
Net cash provided by (used in) operating activities	<u>3,883,492</u>	<u>(9,541,321)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of investments	(41,645,254)	(58,569,708)
Proceeds from sales of investments	33,944,624	69,830,600
Collection of loans from students	6,893	17,067
Purchases of plant assets	(1,516,441)	(1,186,962)
Net cash (used in) provided by investing activities	<u>(9,210,178)</u>	<u>10,090,997</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Permanently restricted contributions	2,639,467	1,899,205
Change in contributions receivable related to financing activities	(86,040)	(221,472)
Use of interest reserve fund	149,579	230,590
Proceeds of new charitable gift annuities	238,686	284,157
Payments to beneficiaries under charitable annuities	(332,725)	(454,032)
Net cash provided by financing activities	<u>2,608,967</u>	<u>1,738,448</u>
Net (decrease) increase in cash and cash equivalents	(2,717,719)	2,288,124
Cash and cash equivalents at beginning of year	<u>33,851,762</u>	<u>31,563,638</u>
Cash and cash equivalents at end of year	<u>\$ 31,134,043</u>	<u>\$ 33,851,762</u>
Supplemental cash flow information:		
Cash paid during the year for interest	<u>\$ 12,975,460</u>	<u>\$ 12,975,460</u>

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



# THE COOPER UNION FOR THE ADVANCEMENT OF SCIENCE AND ART

## Notes to Consolidated Financial Statements

June 30, 2018 and 2017

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### 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Organization

The accompanying consolidated financial statements include the consolidated balance sheets, statements of activities and cash flows of The Cooper Union for the Advancement of Science and Art and its affiliates, The C.V. Starr Research Foundation at The Cooper Union for the Advancement of Science and Art, Inc. (formerly, The Cooper Union Research Foundation, Inc.) and Astor Place Holding Corporation (“Astor Place”) (the “College” or “The Cooper Union”).

The College was founded in 1859 through the bequest of Peter Cooper, a noted industrialist and philanthropist. The College was incorporated under a special act of the New York State Legislature in 1859 and is subject to the jurisdiction of the Regents of the University of the State of New York. It offers degree programs in architecture, art, and engineering. The College provided full-tuition scholarships to all students through the year ended June 30, 2014. In April 2013, the Board of Trustees of The Cooper Union voted to reduce the baseline scholarship to a minimum of 50% for undergraduate students beginning with the class entering in fall 2014. The College designated a tuition rate of \$43,250 and \$42,000 for full-time undergraduate students for the years ended June 30, 2018 and 2017, respectively.

The C.V. Starr Research Foundation at The Cooper Union for the Advancement of Science and Art, Inc. is an affiliated, not-for-profit corporation, which was founded in February 1976 for the purpose of enhancing the quality of education at the College by promoting, encouraging, and supporting scientific investigation and research by faculty and students.

The College is the sole stockholder of Astor Place, a corporation organized for the exclusive purpose of holding title to property, collecting income therefrom, and turning over the entire amount thereof less expenses to the College.

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting and include the accounts of the College, the C.V. Starr Research Foundation at The Cooper Union for the Advancement of Science and Art, Inc., and Astor Place. All significant inter organizational balances and transactions have been eliminated in consolidation.

#### Summary of Significant Accounting Policies

##### Basis of Presentation

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

*Unrestricted Net Assets* - Net assets not subject to donor-imposed stipulations.

*Temporarily Restricted Net Assets* - Net assets subject to donor-imposed stipulations that will be met either by actions of The Cooper Union or the passage of time. Donor-restricted contributions whose restrictions are met in the same reporting period as received are reported as unrestricted. Expirations of temporary restrictions on prior year net asset balances are reported as net assets released from restrictions.

# THE COOPER UNION FOR THE ADVANCEMENT OF SCIENCE AND ART

## Notes to Consolidated Financial Statements

June 30, 2018 and 2017

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*Permanently Restricted Net Assets* - Net assets subject to donor-imposed stipulations that they be maintained permanently by The Cooper Union. Generally, the donors of these assets permit The Cooper Union to use all or part of the income earned on related investments for general or specific purposes.

### **Accounting for Uncertainty in Income Taxes**

The Cooper Union for the Advancement of Science and Art and the C.V. Starr Research Foundation are exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code (the "IRC"). Astor Place is exempt from federal income tax under Section 501(c)(2) of the IRC.

The College has adopted the provisions of the Accounting Standard Codification ("ASC") 740, *Accounting for Uncertainties in Income Taxes*. ASC 740-10 clarifies the accounting for uncertainty in tax positions taken or expected to be taken in a tax return, including issues relating to financial statement recognition and measurement. This section provides that the tax effects from an uncertain tax position can be recognized in the consolidated financial statements only if the position is "more-likely-than-not" to be sustained if the position were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position, without regard to the likelihood that the tax position may be challenged.

The College is exempt from Federal and New York State income taxation by virtue of being an organization described in Section 501(c)(3) of the IRC and similar provisions of the New York State tax code. Nevertheless, the College may be subject to tax on income unrelated to its exempt purpose, unless that income is otherwise excluded by the IRC. The College believes that there are no material uncertain tax positions within its 2018 and 2017 consolidated financial statements.

### **Cash and Cash Equivalents**

Cash equivalents consist of short-term investments with original maturities of three months or less from the date of purchase, including treasury bills, except for those short-term investments that are managed by The Cooper Union's investment managers, which are included in investments.

### **Contributions**

Contributions, including unconditional promises to give, are reported as revenues in the period received. Contributions receivable are discounted to reflect the present value of estimated future cash flows using a risk-adjusted rate. In addition, an allowance for contributions receivable estimated to be uncollectible is provided.

### **Release of Restrictions on Net Assets Held for Acquisition of Property, Plant, and Equipment**

Contributions of property, plant, and equipment without donor stipulations concerning the use of such long-lived assets are reported as revenues of the unrestricted net assets class. Contributions of cash or other assets with donor stipulations to acquire or construct property, plant, and equipment are reported as revenues of the temporarily restricted net assets class; the restrictions are considered to be accomplished at the time such long-lived assets acquired, constructed, and placed into service.

### **Depreciation and Amortization**

Buildings, building improvements, software, and equipment are depreciated on a straight-line basis over their estimated useful lives ranging from 3 to 40 years. Leasehold improvements are amortized on a

# THE COOPER UNION FOR THE ADVANCEMENT OF SCIENCE AND ART

## Notes to Consolidated Financial Statements

June 30, 2018 and 2017

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straight-line basis over their estimated useful lives or the life of the lease to which they pertain, whichever is shorter.

### **Use of Estimates**

The preparation of the consolidated financial statements in conformity with U.S. 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include the fair value of real estate properties and non-exchange traded alternative investments, the useful lives assigned to fixed assets, accrued postretirement benefit obligations, the allowance for doubtful loans and contributions receivable, and liabilities under charitable trusts and annuity agreements. Actual results could differ from such estimates.

### **Fair Value Measurements**

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The three levels of the fair value hierarchy are as follows:

- Level 1 - inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that a reporting entity has the ability to access at the measurement date.
- Level 2 - inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 - inputs are unobservable inputs for the asset or liability.

The Cooper Union also measures certain investments using a net asset value (“NAV”) per ownership share, which is exempted from categorization within the fair value hierarchy and related disclosures. Instead, The Cooper Union separately discloses the information required for assets measured using the NAV practical expedient and discloses reconciling items between the total amount of investments categorized within the fair value hierarchy and total investments measured at fair value on the consolidated balance sheet.

### **Fair Value of Financial Instruments**

The fair value of investments is determined as indicated in Note 2. The carrying amount of long-term loans approximates fair value. The fair value of long-term loans is based on observable interest rates and maturity schedules that fall within Level 2 of the hierarchy of fair value inputs. The carrying amounts of all other financial instruments approximate fair value because of the short maturity of those instruments.

### **Deferred Giving Arrangements**

The Cooper Union enters into deferred giving agreements with donors to accept and administer charitable gift annuities, charitable remainder trusts, charitable lead trusts, unitrusts, and pooled income funds, the beneficiaries of which include The Cooper Union. The Cooper Union manages and invests these assets on behalf of donor stipulated beneficiaries until the agreement expires and the assets are distributed.

# THE COOPER UNION FOR THE ADVANCEMENT OF SCIENCE AND ART

## Notes to Consolidated Financial Statements

### June 30, 2018 and 2017

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Such split-interest agreements provide for payments to the donors or their beneficiaries based upon either the income earned on related investments or specified annuity amounts. Assets held under these arrangements are reported at fair value and included in investments in the accompanying consolidated balance sheets. Contribution revenue is recognized at the date the trust or annuity contract is established after recording liabilities for the present value of the estimated future payments expected to be made to the donors and/or other stipulated beneficiaries. The College has elected the fair value reporting option under ASC 825 which requires the liabilities under charitable trusts and annuity agreements to be measured at fair value annually based upon changes in the life expectancy of the donor or beneficiary and the discount rate in effect at the date of measurement. Such obligations have been categorized as Level 2 within the fair value hierarchy.

The discount rates used in the calculation of obligations due under charitable trusts and annuity agreements ranged from 1.0% to 8.4% at June 30, 2018 and ranged from 2.4% to 3.0% at June 30, 2017. State-mandated insurance reserves related to charitable gift annuity agreements are maintained at the required level.

#### **Nonoperating Activities**

Nonoperating activities are distinguished from operating activities and include excess of investment return (loss) over amounts utilized in operations, permanently restricted contributions, net assets released from restrictions for capital and other, amounts not yet recognized as a component of net periodic postretirement cost, and other nonrecurring items.

#### **Recently Issued Accounting Pronouncements**

In June 2018, the Financial Accounting Standards Board (“FASB”) issued Accounting Standard Update (“ASU”) 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which requires organizations to determine whether a contribution is conditional based on whether an agreement includes a barrier that must be overcome and either a right of return of assets transferred or a right of release of a promisor’s obligation to transfer assets. If the agreement (or a referenced document) includes both, the recipient is not entitled to the transferred assets (or a future transfer of assets) until it has overcome the barrier(s) in the agreement. For recipients, the effective date of the amendments will align with *Revenue from Contracts with Customers*: effective for annual periods beginning after December 15, 2017. The College is currently evaluating the new guidance and has not determined the impact this standard may have on its consolidated financial statements nor decided upon the method of adoption.

#### **Reclassifications**

Certain reclassifications were made to the 2017 consolidated financial statements to conform to the 2018 presentation. Such reclassifications did not change total assets, liabilities, revenues, expenses or changes in net assets as previously reflected in the 2017 consolidated financial statements.

#### **Subsequent Events**

The College evaluated its June 30, 2018 consolidated financial statements for subsequent events through December 19, 2018, the date the consolidated financial statements were available for issuance. The College is not aware of any subsequent events which would require recognition or disclosure in the consolidated financial statements.

**THE COOPER UNION FOR THE ADVANCEMENT OF SCIENCE AND ART**  
**Notes to Consolidated Financial Statements**  
**June 30, 2018 and 2017**

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**2. INVESTMENTS**

Investments in debt and equity securities with readily determinable fair values are reported at fair value based on quoted market values as of the reporting date. Alternative investments such as hedge funds, fund of funds, limited partnerships, and similar interests are reported based on amounts provided by the respective investment managers or general partners, at NAV per share as a practical expedient for fair value reporting. Because alternative investments are not readily marketable, NAV may differ significantly from the values that would have been reported had a ready market for such investments existed. Such differences could be material. The Cooper Union reviews and evaluates the values provided by its investment managers or general partners and agrees with the valuation methods and assumptions used in determining the fair value of its alternative investments as of the reporting date.

Real estate investments (Note 3) consist of land and building of the Chrysler Building (405 Lexington Avenue), 51 Astor Place, and 22-36 Astor Place, all located in New York City, New York.

Also included in investments are charitable trusts and gift annuities amounting to \$8,040,832 and \$7,778,679 as of June 30, 2018 and 2017, respectively. The Cooper Union's liability under these charitable trusts and gift annuities totaled \$4,456,290 and \$4,760,551 as of June 30, 2018 and 2017, respectively.

Treasury bills with original maturities of three months or less from the date of purchase, which are included in cash and cash equivalents, are considered Level 1 in the fair value hierarchy.

The Cooper Union invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit. Due to the level of risks associated with certain investment securities, it is at least reasonably possible that changes in the reported values of investment securities will occur in the near-term and that such changes could materially affect the amounts reported in the consolidated balance sheets.

**THE COOPER UNION FOR THE ADVANCEMENT OF SCIENCE AND ART**  
**Notes to Consolidated Financial Statements**  
**June 30, 2018 and 2017**

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The components of investment return for the years ended June 30, 2018 and 2017 follows:

	<u>2018</u>	<u>2017</u>
Real estate rental income, net (Note 3)	\$ 45,231,366	\$ 33,070,587
Interest and dividends	1,868,515	1,190,517
Unrealized gains on real estate investments	15,170,000	9,760,000
Unrealized gains on other investments	5,662,075	5,973,596
Realized gains on investments	4,089,986	8,563,445
Investment expenses	<u>(732,389)</u>	<u>(553,269)</u>
Net investment return	71,289,553	58,004,876
Investment returns classified amongst net assets as follows:		
Temporarily restricted	25,719,636	25,007,428
Unrestricted amounts utilized for operations	<u>45,569,917</u>	<u>32,997,448</u>
Excess of investment return over amounts utilized for operations and amounts classified as temporarily restricted	<u>\$ -</u>	<u>\$ -</u>

The amount of unrestricted amounts utilized for operations consists of (a) all real estate rental income, net of applicable real estate taxes, (b) the amount of spending from non-real estate endowment and other investments, as defined by the College's annual spending policy, approved by the Board of Trustees, and (c) net unrestricted investment returns.

The following tables present The Cooper Union's fair value hierarchy for investments as of June 30, 2018 and 2017. Certain investments that are measured at fair value using the NAV per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in these tables are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated balance sheets:

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	2018 Fair Value Measurements				# of Funds	Redemption or Liquidation Frequency	Days Notice
	Fair Value	Level 1	Level 2	Level 3			
Cash, cash equivalents, and short-term investments held by investment managers and trustees, including receivables due from broker of \$18,352	\$ 1,425,418	\$ 1,425,418	\$ -	\$ -			
Corporate bonds	2,600,331	-	2,600,331	-			
Equity securities:							
U.S. equity	43,368,928	43,368,928	-	-			
International equity	1,600,869	1,600,869	-	-			
Mutual funds	24,587,803	24,587,803	-	-			
Real estate	703,940,000	-	-	703,940,000			
Other	100,191	-	-	100,191			
Subtotal	<u>777,623,540</u>	<u>70,983,018</u>	<u>2,600,331</u>	<u>704,040,191</u>			
Investments valued at NAV:							
Hedge funds:							
Long/short equity	2,632,434	-	-	-	1	Quarterly	30
Absolute return	23,096,402	-	-	-	3	Quarterly	15-65
Funds of funds:							
Absolute return	6,851,224	-	-	-	1	Quarterly	60-90
Limited partnerships:							
Including receivables due from broker of \$12,676							
Global equity	13,557,620	-	-	-	1	Monthly	6
Absolute return	8,008,336	-	-	-	2	Quarterly, Annually	45-65
Venture capital funds	5,806,202	-	-	-	2	Illiquid	N/A
Growth-stage internet and mobile companies	5,578,979	-	-	-	1	Illiquid	N/A
Limited partnerships	9,672,812	-	-	-	5	Illiquid	N/A
Portfolio companies	759,302	-	-	-	1	Illiquid	N/A
Total investments	<u>\$ 853,586,851</u>	<u>\$ 70,983,018</u>	<u>\$ 2,600,331</u>	<u>\$ 704,040,191</u>			

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	2017 Fair Value Measurements				# of Funds	Redemption or Liquidation Frequency	Days Notice
	Fair Value	Level 1	Level 2	Level 3			
Cash, cash equivalents, and short-term investments held by investment managers and trustees, including receivables due from broker of \$30,133	\$ 2,585,800	\$ 2,585,800	\$ -	\$ -			
Corporate bonds	5,609,061	-	5,609,061	-			
Equity securities:							
U.S. equity	30,638,158	30,638,158	-	-			
International equity	1,487,417	1,487,417	-	-			
Mutual funds	22,948,113	22,948,113	-	-			
Real estate	688,770,000	-	-	688,770,000			
Other	124,971	-	-	124,971			
Subtotal	<u>752,163,520</u>	<u>57,659,488</u>	<u>5,609,061</u>	<u>688,894,971</u>			
Investments valued at NAV:							
Hedge funds:							
Long/short equity	2,512,745	-	-	-	1	Quarterly	30
Absolute return	20,849,567	-	-	-	3	Quarterly	15-65
Funds of funds:							
Absolute return	6,849,969	-	-	-	1	Quarterly	60-90
Limited partnerships:							
Including receivables due from broker of \$12,676							
Global equity	13,076,268	-	-	-	1	Monthly	6
Absolute return	7,725,213	-	-	-	2	Quarterly, Annually	45-65
Venture capital funds	3,727,159	-	-	-	2	Illiquid	N/A
Growth-stage internet and mobile companies	4,508,669	-	-	-	1	Illiquid	N/A
Limited partnerships	8,889,049	-	-	-	5	Illiquid	N/A
Portfolio companies	662,001	-	-	-	1	Illiquid	N/A
Total investments	<u>\$ 820,964,160</u>	<u>\$ 57,659,488</u>	<u>\$ 5,609,061</u>	<u>\$ 688,894,971</u>			

The Cooper Union had \$8,756,456 and \$13,397,719 of non-exchange traded assets that were subject to lock-up provisions as of June 30, 2018 and 2017, respectively. The remaining lock-up period of these assets ranges from 2 to 8 years. The Cooper Union's unfunded capital commitments approximated \$2.3 million and \$4.7 million as of June 30, 2018 and 2017, respectively.



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The following tables present The Cooper Union's activity for the years ended June 30, 2018 and 2017 for investments measured at fair value on a recurring basis using unobservable inputs (Level 3):

	<b>2018</b>				
	<b>Balance at June 30, 2017</b>	<b>Net Appreciation in Fair Value of Investments</b>	<b>Sales/ Redemptions</b>	<b>Purchases and Additions</b>	<b>Balance at June 30, 2018</b>
Real estate and other	\$ 688,894,971	\$ 15,170,000	\$ (24,780)	\$ -	\$ 704,040,191

  

	<b>2017</b>				
	<b>Balance at June 30, 2016</b>	<b>Net Appreciation in Fair Value of Investments</b>	<b>Sales/ Redemptions</b>	<b>Purchases and Additions</b>	<b>Balance at June 30, 2017</b>
Real estate and other	\$ 679,140,227	\$ 9,760,000	\$ (5,256)	\$ -	\$ 688,894,971

The Cooper Union recognizes transfers between levels of the fair value hierarchy at the beginning of the reporting period in which the date of the event or change in circumstances that caused the transfer occurs. There were no transfers within levels in fiscal 2018 or 2017.

**3. REAL ESTATE INVESTMENTS**

	<b>2018</b>	<b>2017</b>
Chrysler Building	\$ 700,600,000	\$ 685,600,000
51 Astor Place	2,030,000	1,920,000
22-36 Astor Place	<u>1,310,000</u>	<u>1,250,000</u>
Real estate investments	<u>\$ 703,940,000</u>	<u>\$ 688,770,000</u>

**Chrysler Building**

The Cooper Union owns the Chrysler Building at 405 Lexington Avenue in New York City. Legal title to both the land and building rests with The Cooper Union.

The Chrysler Building asset, which is included in investments at fair value, was valued at \$700,600,000 and \$685,600,000 as of June 30, 2018 and 2017, respectively. The fair value of the Chrysler Building asset is determined based on the net present value of future cash flows of rent derived from the lease agreement encumbering that property. The land under the Chrysler building has been valued at the historical cost determined on the date of gift and totals \$600,000 as of June 30, 2018 and 2017.

In August 1999, The Cooper Union entered into a lease agreement, which is scheduled to expire on December 31, 2147, for the land under the Chrysler Building (together with the building erected thereon).

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Under the terms of the lease agreement, annual rental income, which is recognized as real estate rental income within net investment return (Note 2), includes:

- Base annual rentals of \$7,750,000 through December 31, 2017 (see paragraph below for rentals derived thereafter).
- Additional rent through December 31, 2017 in an amount equal to 10% of the tenant's adjusted gross income that exceeds \$50,000,000. Adjusted gross income is defined as gross receipts, less tenant's costs allocable to each period. The additional rent for the years ended June 30, 2018 and 2017 totaled \$441,603 and \$882,629, respectively.
- An amount equivalent to the real estate taxes, which would be payable on the real property were it subject to taxation. Such amount is based on New York City's assessment of the value of the land and building and the existing tax rate then in effect. For the years ended June 30, 2018 and 2017, this tax equivalency payment totaled \$20,669,817 and \$20,819,418, respectively.

Contemporaneous with the October 2006 execution of the MetLife loan (Note 8), The Cooper Union entered into a modification of the Chrysler Building lease. In lieu of a rent reset based upon a percentage of the then fair value of the land, the amended terms fixed the basic annual rent schedule for the period January 1, 2018 through December 31, 2047 as follows: from January 1, 2018 to December 31, 2027, \$32,500,000; January 1, 2028 to December 31, 2037, \$41,000,000; and January 1, 2038 to December 31, 2047, \$55,000,000. As of January 1, 2048, and each 10-year anniversary thereafter, the basic rent shall be adjusted based upon the fair value of the land considered as vacant and unimproved, and the assumption that a building of 1,194,000 square feet can be built and utilized only for the then current use of the land irrespective of whether such then current use of the land represents its "highest and best use." In no event shall the new rent be less than the basic rent per annum payable on the last day of the preceding period (i.e., \$55,000,000).

The lessee of the Chrysler Building property has the right to sell or transfer its leasehold interest without the consent of The Cooper Union.

If the lessee were to default beyond applicable periods of notice and cure on its payments to The Cooper Union or fail to repair and maintain the Chrysler Building as and to the extent required by the lease agreement, the lessee's leasehold interest in the Chrysler Building would terminate (subject to cure rights held by the lessee's leasehold mortgagee) and all surviving tenant rentals in the building would be payable to The Cooper Union.

At all times, the lessee of the Chrysler Building property shall keep the building insured against loss or damage by fire or other casualty and the proceeds of such insurance shall be held for application to the cost of restoring, repairing, replacing, or rebuilding the building.

If the property were to be destroyed, the lessee must repair or replace the building as nearly as possible to the condition, quality and class immediately prior to such casualty and the basic rent and tax equivalency payment obligations continue.

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**51 Astor Place**

The Cooper Union owns the land at 51 Astor Place in New York City. In December 2007, The Cooper Union entered into a long-term ground lease with a developer that expires in 2109. The developer demolished the then-existing structure and constructed a new 12-story building at that property. The ground lease was amended and restated in January 2008, and further amended in October 2009, July 2011, and January 2012. Legal title to both the land and the new building rests with The Cooper Union.

The recorded value is based on the net present value of the anticipated future value of the land after the current lease expires in 2109. Possession of the building reverts to The Cooper Union in 2109.

In connection with the 51 Astor Place lease, The Cooper Union received net proceeds resulting from a \$96,970,000 financing transaction, representing the then present value of all basic annual rent payable under the lease through its expiration. The proceeds were recorded as deferred revenue (Note 7). Amortization of the deferred revenue is recorded as real estate rental income over the life of the lease.

**22-36 Astor Place**

The Cooper Union owns the land at 22-36 Astor Place (commonly known by the street address 26 Astor Place) in New York City. In December 2002, The Cooper Union entered into two related 99-year ground lease agreements, which expire in December 2101, for the land at that location. Under the terms of both leases, the lessee financed construction of a new building, and ownership of the building is held by The Cooper Union.

The recorded value is based on the net present value of the anticipated future value of the land after the current lease expires in 2101. Possession of the building reverts to The Cooper Union in 2101.

Under the terms of the 26 Astor Place lease agreements, The Cooper Union received rent of \$11,000,000, which was recorded as deferred revenue (Note 7). Amortization of the deferred revenue is recorded as real estate rental income over the life of the lease.

Under the terms of the lease agreements for both 51 Astor Place and 26 Astor Place, the developers (tenants) pay to The Cooper Union an amount equivalent to the real estate taxes payable on the real property (land and building) were it subject to taxation. Based on an agreement with New York City, beginning in October 2013, The Cooper Union is required to pay the city an amount equal to 50% of those tax equivalent payments, which totaled \$3,976,624 and \$3,601,963 for the years ended June 30, 2018 and 2017, respectively. The net amount is recognized as real estate rental income.

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**4. CONTRIBUTIONS RECEIVABLE, NET**

Contributions receivable, net, as of June 30, 2018 and 2017 are scheduled to be collected as follows:

	<u>2018</u>	<u>2017</u>
Year ended June 30:		
Less than one year	\$ 1,253,686	\$ 1,106,438
One year to three years	<u>442,782</u>	<u>224,313</u>
Contributions receivable, gross	1,696,468	1,330,751
Less: Allowance for uncollectible contributions receivable	(83,621)	(129,051)
Adjustment to reflect contributions receivable at present value (rates ranging from 0.08%-5.02%)	<u>(34,553)</u>	<u>(75,162)</u>
Contributions receivable, net	<u>\$ 1,578,294</u>	<u>\$ 1,126,538</u>

**5. PLANT ASSETS, NET**

Plant assets, net, as of June 30, 2018 and 2017 consist of the following:

	<u>2018</u>	<u>2017</u>
Land	\$ 150,000	\$ 150,000
Buildings and building improvements	235,594,233	235,594,233
Software and equipment	34,921,501	34,429,372
Leasehold improvements	<u>7,834,807</u>	<u>6,810,495</u>
Plant assets, gross	278,500,541	276,984,100
Less: Accumulated depreciation and amortization	<u>(130,938,307)</u>	<u>(122,816,942)</u>
Plant assets, net	<u>\$ 147,562,234</u>	<u>\$ 154,167,158</u>

Land consists solely of the property at the location of the Foundation Building on 7 East 7th Street in New York City, reported at original value of \$150,000 as of June 30, 2018 and 2017.

The land at 41 Cooper Square (41-55 Cooper Square) is leased from the City of New York and, therefore, is not included in plant assets. In 1987, the College exercised its right to renew the lease for a term that terminates on January 31, 2106.

Building and building improvements include the Foundation Building at 7 East 7th Street, the academic building at 41 Cooper Square, the President's Residence (recorded at \$2,549,115 at June 30, 2018 and 2017, which is subject to a gift annuity agreement with a liability of \$832,283 and \$918,504 at June 30, 2018 and 2017, respectively), and the residence hall built on the property leased at 29 Third Avenue in New York City.

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**6. PENSION PLAN AND POSTRETIREMENT BENEFITS**

A noncontributory, defined contribution, and annuity pension plan is available to all eligible employees who have met stipulated length of service and age requirements. The expenses for the plan for the years ended June 30, 2018 and 2017 amounted to \$2,053,532 and \$2,027,841, respectively. The Cooper Union also provides medical insurance benefits for its retired employees through a defined benefit plan. The following provides information about the plan's funded status reconciled with the accrued postretirement benefit obligation reported in The Cooper Union's consolidated balance sheets as of June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 33,021,447	\$ 40,017,521
Service cost	1,297,774	1,232,056
Interest cost	1,195,449	1,248,159
Actuarial gain	(2,848,949)	(8,533,791)
Benefits paid	<u>(870,447)</u>	<u>(942,498)</u>
Benefit obligation at end of year	<u>31,795,274</u>	<u>33,021,447</u>
Change in plan assets:		
Employer contribution	870,447	942,498
Benefits paid	<u>(870,447)</u>	<u>(942,498)</u>
Fair value of plan assets at end of year	<u>-</u>	<u>-</u>
Funded status	<u>\$ (31,795,274)</u>	<u>\$ (33,021,447)</u>

Cumulative amounts recognized in unrestricted net assets and not yet recognized in net periodic benefit cost as of June 30, 2018 and 2017 consist of:

	<u>2018</u>	<u>2017</u>
Net actuarial loss	<u>\$ 3,131,934</u>	<u>\$ 6,104,814</u>

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The following table provides the components of net periodic benefit cost for the plan for 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Components of net periodic benefit cost		
Service cost	\$ 1,297,774	\$ 1,232,056
Interest cost	1,195,449	1,248,159
Amortization of actuarial loss	<u>123,931</u>	<u>1,106,170</u>
Net periodic benefit cost	<u>\$ 2,617,154</u>	<u>\$ 3,586,385</u>

Amounts recognized in changes in unrestricted net assets for the years ended June 30, 2018 and 2017 consist of:

	<u>2018</u>	<u>2017</u>
Net actuarial gain	\$ (2,848,949)	\$ (8,533,791)
Amortization of net loss	<u>(123,931)</u>	<u>(1,106,170)</u>
Amounts not yet recognized as a component of net periodic benefit cost	<u>\$ (2,972,880)</u>	<u>\$ (9,639,961)</u>

The assumptions used in the measurement of the College's benefit obligation are shown in the following table:

	<u>2018</u>	<u>2017</u>
Discount rate	4.10%	3.80%
Rate of compensation increase	N/A	N/A

The assumptions used in the measurement of the net periodic benefit cost are shown in the following table:

	<u>2018</u>	<u>2017</u>
Discount rate	3.80%	3.25%
Rate of compensation increase	N/A	N/A

For measurement purposes, 23.1%/25.0% and 6.7%/6.7% pre-Medicare/post-Medicare annual rate of increase in the per capita cost of covered healthcare benefits were assumed for the years ended June 30, 2018 and 2017, respectively. The rates for the year ended June 30, 2018 reflect actual reported 2019 premium equivalent rates. The 2018 rates were assumed to decrease to ultimate rates of 4.00% for both pre-Medicare and post-Medicare by 2093 and remain at that level thereafter. The 2017 rates were assumed to decrease to ultimate rates of 4.0% and 3.9% for pre-Medicare and post-Medicare, respectively, by 2074 and remain level thereafter.

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Assumed healthcare cost trend rates have a significant effect on the amounts reported for the healthcare plan. A one-percentage-point change in assumed healthcare cost trend rates would have the following effects:

	<b><u>One- Percentage Point Increase</u></b>	<b><u>One- Percentage Point Decrease</u></b>
Effect on total of service and interest cost components	\$ 662,947	\$ (494,398)
Effect on accrued postretirement benefit obligation	6,308,681	(4,924,772)

The estimated net actuarial loss that will be amortized into net periodic benefit cost during fiscal 2019 is \$217,000.

The projected premium payments (i.e., employer contributions, which are equal to benefits paid) in each fiscal year from 2019 through 2028 are as follows:

<b>Year ending June 30,</b>	
2019	\$ 1,032,328
2020	1,078,451
2021	1,133,535
2022	1,190,105
2023	1,274,174
2024 through 2028 (in aggregate)	<u>6,984,874</u>
Projected premium payments	<u>\$ 12,693,467</u>

**7. PREPAID EXPENSES AND OTHER ASSETS AND DEFERRED REVENUE**

During the year ended June 30, 2008, in connection with the 99-year lease of 51 Astor Place (Note 3), The Cooper Union borrowed \$96,970,000 from an affiliate of the developer at a stated annual interest rate of 5.53% and a term expiring July 15, 2031. The loan is repayable solely out of rental payments due from the developer to the College under the ground lease. The loan is wholly nonrecourse to the College, which is held harmless if the developer defaults on the debt service payments. Upon delivery of possession to the developer, which occurred on July 10, 2009, the College reclassified the debt to deferred revenue as the College is held harmless if the developer defaults on the debt service payments and the College no longer has any obligation to make debt service payments. The deferred revenue is being amortized as rental income over the life of the 99-year lease. The balance of \$88,154,545 and \$89,134,040 is included in deferred revenue at June 30, 2018 and 2017, respectively. The College incurred \$4,488,904 in costs associated with entering into the loan. These costs have been deferred and are being amortized over the life of the debt. Total remaining unamortized costs of \$2,603,564 and \$2,783,110 as of June 30, 2018 and 2017, respectively, net of accumulated amortization of \$1,885,340 and \$1,705,794 as of June 30, 2018 and 2017, respectively.

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During the year ended June 30, 2004, under the terms of a 99-year lease of 26 Astor Place (further discussed in Note 3), The Cooper Union received \$11,000,000, which was recognized as deferred revenue. The deferred revenue is being amortized as rental income over the life of the lease. The unamortized balance of \$9,316,327 and \$9,428,571, net of accumulated amortization of \$1,683,674 and \$1,571,429 as of June 30, 2018 and 2017, respectively, is included in deferred revenue at June 30, 2018 and 2017, respectively. The College incurred \$423,154 in costs associated with entering into the lease. These costs have been deferred and are being amortized over the life of the lease. Total remaining unamortized costs of \$354,765 and \$359,039 as of June 30, 2018 and 2017, respectively, net of accumulated amortization of \$68,388 and \$64,114 as of June 30, 2018 and 2017, respectively.

Prepaid expenses and other assets and deferred revenue as of June 30, 2018 and 2017 consist of the following:

	<u>Prepaid Expenses and Other Assets</u>		<u>Deferred Revenue</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
26 Astor Place lease	\$ 354,765	\$ 359,039	\$ 9,316,327	\$ 9,428,571
51 Astor Place lease	2,603,564	2,783,110	88,154,545	89,134,040
Chrysler Building lease	<u>-</u>	<u>24,147</u>	<u>-</u>	<u>-</u>
Lease issuance costs	2,958,329	3,166,296	97,470,872	98,562,611
Debt service reserve fund	2,702,960	2,702,960	-	-
Interest reserve fund	<u>843,052</u>	<u>992,631</u>	<u>-</u>	<u>-</u>
Funds held by trustee	3,546,012	3,695,591	-	-
Balance from operations	<u>4,189,642</u>	<u>2,802,587</u>	<u>6,200,087</u>	<u>5,716,754</u>
	<u>\$ 10,693,983</u>	<u>\$ 9,664,474</u>	<u>\$ 103,670,959</u>	<u>\$ 104,279,365</u>

**8. LONG-TERM LOANS, NET**

In October 2006, the College entered into a \$175,000,000 nonrecourse loan with Metropolitan Life Insurance Company (MetLife) to fund future operations, build a new academic building, and retire existing debt. The term of the loan is 30 years with an annual interest rate of 5.87%. The loan is secured by a first priority mortgage on the College's fee interest in the Chrysler Building property and an assignment of all of the College's rights to the payment of basic rent, tax equivalency payments, and other sums due under the terms of the operating lease. The College incurred \$6,325,057 of costs associated with entering into the loan, which have been deferred and are being amortized over the life of the debt. Total remaining unamortized debt issuance costs of \$3,795,034 and \$4,005,869 as of June 30, 2018 and 2017, respectively, net of amortization of \$2,530,023 and \$2,319,188 as of June 30, 2018 and 2017, respectively.

In June 2014, The Cooper Union signed a commitment letter with a private lender for the securitization of tax equivalency payments to be received in accordance with the lease of 51 Astor Place, resulting in a \$58,760,000 loan which closed on August 27, 2014. Of the \$58,760,000 in loan proceeds, \$2,702,960 was



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deposited into a debt service reserve fund, \$2,149,939 was deposited into an interest reserve fund (balance of \$843,052 and \$992,631 at June 30, 2018 and 2017, respectively), and \$3,035,066 was used to pay costs associated with entering into the loan. In addition to the debt issuance costs paid from loan proceeds, the College paid \$683,828 directly in 2014, for total debt issuance costs of \$3,718,894, which are being amortized over the life of the loan. The unamortized balance of debt issuance costs totaled \$2,975,116 and \$3,161,060 as of June 30, 2018 and 2017, respectively, net of amortization of \$743,779 and \$557,834 as of June 30, 2018 and 2017, respectively. The term of the loan is 20 years with an annual interest rate of 4.60%. The lender has full recourse to the College in the event that the tax equivalency payments are not sufficient to pay the debt service.

The Cooper Union's projected debt service for the next five years, and in total thereafter, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<b>Year Ending June 30:</b>			
2019	\$ 3,253,282	\$ 12,928,029	\$ 16,181,311
2020	5,842,230	12,628,974	18,471,204
2021	6,194,547	12,276,656	18,471,203
2022	6,568,111	11,903,092	18,471,203
2023	6,964,203	11,507,000	18,471,203
2024 and thereafter (in aggregate)	<u>204,937,627</u>	<u>92,911,362</u>	<u>297,848,989</u>
	233,760,000	154,155,113	387,915,113
Less: Unamortized loan issuance costs	<u>(6,770,150)</u>	<u>-</u>	<u>(6,770,150)</u>
Totals	<u>\$ 226,989,850</u>	<u>\$ 154,155,113</u>	<u>\$ 381,144,963</u>

Interest expense on all long-term debt totaled \$12,975,460 for each of the years ended June 30, 2018 and 2017, respectively.

**9. OPERATING LEASE COMMITMENTS**

In 1989, The Cooper Union entered into an operating lease agreement expiring in 2038, as the lessee of property at 29 Third Avenue in New York City where the student residence building is located. Space at the Third Avenue site is subleased to tenants under operating leases that expire at various dates through 2024. Rent and related expenses for this lease totaled \$1,367,186 and \$1,374,173 for the years ended June 30, 2018 and 2017, respectively. Sublease rental income for these leases totaled \$1,369,806 and \$1,151,901 for the years ended June 30, 2018 and 2017, respectively.

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The following is a schedule by year of future minimum rental payments and sublease rental income, including future rent escalations, for the 29 Third Avenue site as of June 30, 2018:

<b>Year Ending June 30:</b>	<b>Sublease Rental Income</b>	<b>Minimum Rental Payments</b>
	<hr/>	<hr/>
2019	\$ 1,569,923	\$ 935,000
2020	1,650,122	950,000
2021	1,735,080	965,000
2022	1,825,096	980,000
2023	1,719,006	995,000
2024 and thereafter (in aggregate)	368,868	16,623,333

In addition, The Cooper Union leases, under an operating lease agreement, office space at 30 Cooper Square in New York City. This operating lease commenced on July 1, 1992 and expired on June 30, 2018, per a lease modification agreement in September 2013. The Cooper Union extended this lease through December 31, 2018 per a lease modification in May 2018. Rent expense for this lease totaled \$656,123 and \$697,520 for the years ended June 30, 2018 and 2017, respectively. Future remaining minimum rental payments due for the 30 Cooper Square property as of June 30, 2018 total \$358,351.

In addition, on May 6, 1987, The Cooper Union renewed its lease of the land at 41 Cooper Square from The City of New York, which was originally executed in 1908. The new 99-year lease covers the period February 1, 2007 through January 31, 2106, and the lease rate is \$100 per year. The Cooper Union has interpreted the 1908 lease agreement and the City's 1987 acknowledgement of continuation as allowing it to use the land for its educational purposes for what is effectively an indefinite period.

The operating lease commitments are not recognized as a liability in the consolidated financial statements.

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**10. NET ASSETS**

Temporarily restricted net assets as of June 30, 2018 and 2017 are available for the following purposes or periods:

	<u>2018</u>	<u>2017</u>
Purpose restrictions:		
Academic support	\$ 1,719,848	\$ 455,576
Student aid	3,778,442	8,148,076
Instruction and other	7,439,279	5,324,794
Time restrictions	4,074,998	3,508,584
Appreciation on real estate asset	700,000,000	685,000,000
Appreciation on endowment not yet appropriated for expenditure	<u>39,964,773</u>	<u>33,527,513</u>
Total temporarily restricted net assets	<u>\$ 756,977,340</u>	<u>\$ 735,964,543</u>

Permanently restricted net assets are restricted to investments in perpetuity, the income from which is expendable to support purposes as of June 30, 2018 and 2017 as follows:

	<u>2018</u>	<u>2017</u>
Specific purposes of The Cooper Union, principally instructional and student financial aid	\$ 71,541,228	\$ 64,901,761
General activities of The Cooper Union	14,250,907	14,250,907
Land, to be held in perpetuity	<u>600,000</u>	<u>600,000</u>
Total permanently restricted net assets	<u>\$ 86,392,135</u>	<u>\$ 79,752,668</u>

The Cooper Union's endowment consists of approximately 500 donor-restricted individual funds established for a variety of purposes. There are no board-designated funds.

The Cooper Union manages its long-term investments in accordance with the total return concept with the goal of maximizing long-term return within acceptable levels of risk. The Cooper Union's spending policy is designed to provide a stable level of financial support and to preserve the real value of its endowment.

The Cooper Union compares the performance of its investments against several benchmarks, including its asset allocation spending model policy index. In addition to the real estate income associated with the Chrysler building, the annual 2018 and 2017 spending authorizations from the endowment funds were calculated at 4.25% and 5%, respectively, of the average fair value of the endowment over the previous five years ended June 30<sup>th</sup> unless an endowment fund's spending rate is specifically stipulated otherwise by a donor. Using the latest audited financial statements, the calculation is performed during the budgeting process and the withdrawal request is proposed to the Board of Trustees for approval for use in support of the subsequent year's budget.

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The Cooper Union's management and investment of donor restricted endowment funds has historically been subject to the provisions of the Uniform Management of Institutional Funds Act ("UMIFA") and the New York State Trust Laws. In 2006, the Uniform Law Commission approved the model act, the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"), which serves as a guideline for states to use in enacting legislation. Among UPMIFA's most significant changes was the elimination of UMIFA's important concept of the historical dollar value threshold, the amount below which an organization could not spend from the fund in favor of a more robust set of guidelines about what constitutes prudent spending.

The Cooper Union follows the New York Prudent Management of Institutional Funds Act ("NYPMIFA"). In accordance with relevant accounting guidance and absent explicit donor stipulations to the contrary, management classifies as permanently restricted net assets: (a) the original value of gifts donated to its permanent endowment; (b) the original value of subsequent gifts to its permanent endowment; and (c) accumulations to its permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until such amounts are appropriated for expenditure by The Cooper Union in a manner consistent with the standard of prudence prescribed by NYPMIFA, and in accordance with the provisions set forth by FASB ASC Section 958-205-45, *Classification of Donor Restricted Endowment Funds Subject to UPMIFA*.

Pursuant to the investment policy approved by the Board of Trustees, The Cooper Union has interpreted the law as allowing The Cooper Union to appropriate for expenditure or accumulate so much of a donor-restricted endowment fund as The Cooper Union deems prudent for the uses, benefits, purposes, and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument, absent explicit donor stipulations to the contrary.

From time to time, the fair value of the assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the College to retain as a fund of permanent duration. In accordance with US GAAP, deficiencies of this nature are reported in unrestricted net assets. Underwater endowments totaled \$0 as of June 30, 2018 and 2017.

Donor-restricted amounts reported below include term endowments and appreciation reported as temporarily restricted net assets and the underwater amount of endowment funds reported as unrestricted net assets.

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Changes in endowment net assets for the fiscal years ended June 30, 2018 and 2017 are as follows:

	<b>2018</b>			<b>Total</b>
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	
<b>Endowment net assets, June 30, 2017</b>	\$ 52,302	\$ 719,114,465	\$ 79,752,668	\$ 798,919,435
Net investment return	41,236,420	25,153,222	-	66,389,642
Contributions, net	-	-	2,639,467	2,639,467
Distributions	(41,236,420)	(4,396,684)	-	(45,633,104)
Reclassifications	<u>(52,302)</u>	<u>52,302</u>	<u>4,000,000</u>	<u>4,000,000</u>
<b>Endowment net assets, June 30, 2018</b>	<u>\$ -</u>	<u>\$ 739,923,305</u>	<u>\$ 86,392,135</u>	<u>\$ 826,315,440</u>
	<b>2017</b>			<b>Total</b>
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	
<b>Endowment net assets, June 30, 2016</b>	\$ (233,635)	\$ 699,492,753	\$ 77,874,812	\$ 777,133,930
Net investment return	29,452,047	24,439,169	-	53,891,216
Contributions, net	-	-	1,899,205	1,899,205
Distributions	(29,255,965)	(4,748,951)	-	(34,004,916)
Reclassifications	<u>89,855</u>	<u>(68,506)</u>	<u>(21,349)</u>	<u>-</u>
<b>Endowment net assets, June 30, 2017</b>	<u>\$ 52,302</u>	<u>\$ 719,114,465</u>	<u>\$ 79,752,668</u>	<u>\$ 798,919,435</u>

During the fiscal year ended June 30, 2018, The Cooper Union reclassified \$4,000,000 from temporarily restricted net assets to permanently restricted net assets in accordance with donor stipulations, and this is reflected within the reclassifications line in the table above.

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**11. FUNCTIONAL EXPENSES**

The cost of providing programs by The Cooper Union has been summarized on a functional basis in the tables below. Accordingly, expenses have been charged to program and supporting services based on direct expenses and other specific allocation methods determined by management to be appropriate.

	<b>2018</b>			
	<b>Allocated Interest Expense</b>	<b>Allocated Depreciation and Amortization Expense</b>	<b>Direct Expenses</b>	<b>Total</b>
Program services:				
Instruction	\$ 6,646,602	\$ 3,948,715	\$ 20,285,593	\$ 30,880,910
Academic support	4,976,592	3,010,688	15,900,554	23,887,834
Public service	144,255	225,485	2,158,738	2,528,478
Research	53,945	-	465,743	519,688
Student services	218,582	119,529	4,552,237	4,890,348
Student aid	8,613	-	181,985	190,598
Auxiliary enterprises	307,145	447,333	885,094	1,639,572
Program services expenses	<u>12,355,734</u>	<u>7,751,750</u>	<u>44,429,944</u>	<u>64,537,428</u>
Supporting services:				
Management and general	482,523	225,013	9,874,343	10,581,879
Fundraising	137,203	144,602	2,899,052	3,180,857
Supporting services expenses	<u>619,726</u>	<u>369,615</u>	<u>12,773,395</u>	<u>13,762,736</u>
Total expenses	<u>\$ 12,975,460</u>	<u>\$ 8,121,365</u>	<u>\$ 57,203,339</u>	<u>\$ 78,300,164</u>
	<b>2017</b>			
	<b>Allocated Interest Expense</b>	<b>Allocated Depreciation and Amortization Expense</b>	<b>Direct Expenses</b>	<b>Total</b>
Program services:				
Instruction	\$ 6,620,212	\$ 3,936,866	\$ 21,263,207	\$ 31,820,285
Academic support	4,916,649	3,029,454	15,644,640	23,590,743
Public service	149,894	272,865	2,403,882	2,826,641
Research	51,502	-	446,971	498,473
Student services	275,428	198,840	6,141,075	6,615,343
Student aid	10,940	-	236,535	247,475
Auxiliary enterprises	314,857	443,921	1,086,262	1,845,040
Program services expenses	<u>12,339,482</u>	<u>7,881,946</u>	<u>47,222,572</u>	<u>67,444,000</u>
Supporting services:				
Management and general	479,153	307,646	10,372,630	11,159,429
Fundraising	156,825	218,158	3,517,722	3,892,705
Supporting services expenses	<u>635,978</u>	<u>525,804</u>	<u>13,890,352</u>	<u>15,052,134</u>
Total expenses	<u>\$ 12,975,460</u>	<u>\$ 8,407,750</u>	<u>\$ 61,112,924</u>	<u>\$ 82,496,134</u>

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**12. CONTINGENCIES**

The Cooper Union is a defendant in various lawsuits arising from the normal conduct of its affairs. Management believes that the settlement, if any, of the litigation is either subject to insurance coverage or not expected to have a material adverse effect on the consolidated financial statements of The Cooper Union.

As discussed in Note 1, The Cooper Union historically provided 100% tuition scholarships to undergraduate students. Starting with the class enrolling in September 2014, the institution began providing 50% tuition scholarships to all undergraduate students and additional aid to those students with financial need. It continues to provide 100% tuition scholarships to Pell-eligible students. Based on an interpretation of the institution's charter that it requires free tuition, a lawsuit was filed against Cooper Union seeking to force the institution to return to 100% tuition scholarships for all undergraduate students. The lawsuit was settled in December 2015 with no impact to the consolidated financial statements. Under the settlement, The Cooper Union is allowed to continue its current scholarship model, but was required to make a good-faith effort to develop a plan by January 2018 to return to a sustainable, full-tuition scholarship model that maintains The Cooper Union's strong reputation for academic quality in its art, architecture and engineering programs at their historic levels of enrollment. On January 15, 2018, The Cooper Union submitted this plan, under the title "Recommended Plan to Return to Full-Tuition Scholarships", to the institution's Board of Trustees and the New York State Office of the Attorney General. The Board of Trustees reviewed the plan, amended it, and on March 14, 2018 ratified the new plan.