



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

Consolidated Financial Statements

June 30, 2012 and 2011

(With Independent Auditors' Report Thereon)



KPMG LLP
Suite 200
1305 Walt Whitman Road
Melville, NY 11747-4302

Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of The Cooper Union for the Advancement of Science and Art and its affiliates (collectively referred to as The Cooper Union) as of June 30, 2012 and 2011, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of The Cooper Union's management. 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 financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of The Cooper Union's internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2012 and 2011, and the statements of activities and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 6 to the consolidated financial statements, The Cooper Union adopted the Accounting Standards Codification Section 958-205-45, *Classification of Donor-Restricted Endowment Funds Subject to UPMIFA*, for classification of donor-restricted endowment funds due to the enactment of the New York Prudent Management of Institutional Funds Act in 2011.

KPMG LLP

March 7, 2013

**THE COOPER UNION FOR THE ADVANCEMENT
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Consolidated Balance Sheets

June 30, 2012 and 2011

Assets	2012	2011
Cash and cash equivalents	\$ 25,214,975	13,603,450
Contributions receivable, net (note 3)	1,662,367	4,001,655
Other receivables	839,326	977,078
Investments (notes 2 and 5)	666,680,417	664,909,704
Prepaid expenses and other assets (note 5)	9,983,038	10,277,990
Loans to students, net of allowance for doubtful loans of \$34,238 in 2012 and 2011	508,428	491,073
Plant assets, net (note 4)	<u>190,477,844</u>	<u>196,247,099</u>
Total assets	<u>\$ 895,366,395</u>	<u>890,508,049</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 5,937,588	5,963,676
Accrued interest	856,041	856,041
Liability under charitable trusts and annuity agreements	5,078,940	5,154,099
Accrued postretirement benefit costs (note 7)	27,882,606	22,908,163
Deferred revenue (note 8)	105,364,580	105,448,371
Long-term loans (note 5)	<u>175,000,000</u>	<u>175,000,000</u>
Total liabilities	<u>320,119,755</u>	<u>315,330,350</u>
Net assets:		
Unrestricted	(83,914,752)	(53,002,279)
Temporarily restricted (note 6)	591,831,979	562,016,316
Permanently restricted (note 6)	<u>67,329,413</u>	<u>66,163,662</u>
Total net assets	<u>575,246,640</u>	<u>575,177,699</u>
Total liabilities and net assets	<u>\$ 895,366,395</u>	<u>890,508,049</u>

See accompanying notes to consolidated financial statements.

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Consolidated Statement of Activities

Year ended June 30, 2012

(With comparative totals for the year ended June 30, 2011)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>	
				<u>2012</u>	<u>2011</u>
Operations:					
Revenues and other support:					
Investment return utilized for operations (note 2)	\$ 38,203,981	—	—	38,203,981	33,054,557
Student tuition and fees, net of tuition discount	3,141,881	—	—	3,141,881	3,013,966
Contributions	3,662,932	1,856,612	1,165,751	6,685,295	9,439,840
Government grants and contracts	691,612	—	—	691,612	195,048
Appropriations – State of New York aid	73,568	—	—	73,568	71,138
Rental income (note 8)	2,478,349	—	—	2,478,349	3,320,603
Auxiliary enterprises	1,793,554	—	—	1,793,554	1,733,400
Other revenue	88,765	—	—	88,765	175,906
Net assets released from restrictions	1,619,032	(1,619,032)	—	—	—
Total revenues and other support	<u>51,753,674</u>	<u>237,580</u>	<u>1,165,751</u>	<u>53,157,005</u>	<u>51,004,458</u>
Expenses (note 9):					
Salaries	25,472,469	—	—	25,472,469	25,452,191
Employee benefits	10,124,094	—	—	10,124,094	10,064,387
Interest (note 5)	10,272,500	—	—	10,272,500	10,272,500
Depreciation and amortization	8,652,021	—	—	8,652,021	8,731,206
Occupancy and other related expenses	6,340,642	—	—	6,340,642	7,398,281
Supplies, services, and other office expenses	6,254,376	—	—	6,254,376	5,376,255
Other operating expenses	2,497,037	—	—	2,497,037	2,254,476
Total expenses	<u>69,613,139</u>	<u>—</u>	<u>—</u>	<u>69,613,139</u>	<u>69,549,296</u>
(Deficiency) excess of operating revenues over operating expenses before nonoperating activities and other changes	(17,859,465)	237,580	1,165,751	(16,456,134)	(18,544,838)
Nonoperating activities and other changes:					
(Deficiency) excess of investment return (under) over amounts utilized in operations (note 2)	(10,925,736)	31,109,485	—	20,183,749	31,655,510
Net assets released from restrictions for capital	1,531,402	(1,531,402)	—	—	—
Amounts not yet recognized as a component of net periodic cost (note 7)	(3,658,674)	—	—	(3,658,674)	3,375,520
(Decrease) increase in net assets	(30,912,473)	29,815,663	1,165,751	68,941	16,486,192
Net assets at beginning of year	(53,002,279)	562,016,316	66,163,662	575,177,699	558,691,507
Net assets at end of year	<u>\$ (83,914,752)</u>	<u>591,831,979</u>	<u>67,329,413</u>	<u>575,246,640</u>	<u>575,177,699</u>

See accompanying notes to consolidated financial statements.

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Consolidated Statement of Activities

Year ended June 30, 2011

(With comparative totals for the year ended June 30, 2010)

	Unrestricted	Temporarily restricted	Permanently restricted	Total	
				2011	2010
Operations:					
Revenues and other support:					
Investment return utilized for operations (note 2)	\$ 33,054,557	—	—	33,054,557	31,997,365
Student tuition and fees, net of tuition discount	3,013,966	—	—	3,013,966	2,980,031
Contributions	2,910,053	3,435,545	3,094,242	9,439,840	11,545,956
Government grants and contracts	195,048	—	—	195,048	222,038
Appropriations – State of New York aid	71,138	—	—	71,138	77,304
Rental income (notes 5 and 8)	3,320,603	—	—	3,320,603	3,072,146
Auxiliary enterprises	1,733,400	—	—	1,733,400	1,499,949
Other revenue	175,906	—	—	175,906	89,660
Net assets released from restrictions	1,431,133	(1,431,133)	—	—	—
Total revenues and other support	45,905,804	2,004,412	3,094,242	51,004,458	51,484,449
Expenses (note 9):					
Salaries	25,452,191	—	—	25,452,191	23,764,424
Employee benefits	10,064,387	—	—	10,064,387	11,618,814
Interest (note 5)	10,272,500	—	—	10,272,500	10,380,027
Depreciation and amortization	8,731,206	—	—	8,731,206	6,680,793
Occupancy and other related expenses	7,398,281	—	—	7,398,281	6,627,197
Supplies, services, and other office expenses	5,376,255	—	—	5,376,255	5,020,857
Other operating expenses	2,254,476	—	—	2,254,476	2,074,209
Total expenses	69,549,296	—	—	69,549,296	66,166,321
(Deficiency) excess of operating revenues over operating expenses before nonoperating activities and other changes	(23,643,492)	2,004,412	3,094,242	(18,544,838)	(14,681,872)
Nonoperating activities and other changes:					
Excess of investment return over amounts utilized in operations (note 2)	7,952,557	23,702,953	—	31,655,510	44,296,106
Net assets released from restrictions for capital	2,713,238	(2,713,238)	—	—	—
Net asset reclassification for the adoption of ASC Section 958-205-45 (note 6)	(515,557,152)	515,557,152	—	—	—
Amounts not yet recognized as a component of net periodic cost (note 7)	3,375,520	—	—	3,375,520	(302,432)
(Decrease) increase in net assets	(525,159,329)	538,551,279	3,094,242	16,486,192	29,311,802
Net assets at beginning of year	472,157,050	23,465,037	63,069,420	558,691,507	529,379,705
Net assets at end of year	\$ (53,002,279)	562,016,316	66,163,662	575,177,699	558,691,507

See accompanying notes to consolidated financial statements.

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Consolidated Statements of Cash Flows

Years ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Increase in net assets	\$ 68,941	16,486,192
Adjustments to reconcile increase in net assets to net cash used in operating activities:		
Amounts not yet recognized as a component of net periodic cost	3,658,674	(3,375,520)
Depreciation and amortization expense	8,652,021	8,731,206
Net unrealized and realized gains on investments	(27,367,415)	(34,815,599)
Change in value of split-interest agreements	361,971	231,842
Permanently restricted contributions	(1,165,751)	(3,094,242)
Contributions restricted for capital purposes	(76,107)	(342,021)
Changes in assets and liabilities:		
Contributions receivable, net of amounts classified as financing activities	714,883	(221,035)
Other receivables	137,752	713,855
Prepaid expenses and other assets	294,952	302,184
Accounts payable and accrued expenses	302,329	(72,646)
Deferred revenue	(83,791)	(1,080,096)
Accrued postretirement benefit costs	1,315,769	1,731,246
Net cash used in operating activities	<u>(13,185,772)</u>	<u>(14,804,634)</u>
Cash flows from investing activities:		
Purchases of investments	(32,063,730)	(37,321,825)
Proceeds from sales of investments	57,660,432	47,752,685
Increase in loans to students	(17,355)	(14,714)
Decrease in accounts payable for capital expenditures	(328,417)	(881,019)
Purchases of plant assets	(2,882,766)	(5,732,713)
Net cash provided by investing activities	<u>22,368,164</u>	<u>3,802,414</u>
Cash flows from financing activities:		
Permanently restricted contributions	1,165,751	3,094,242
Contributions restricted for capital purposes	76,107	342,021
Decrease in contributions receivable related to financing activities	1,624,405	1,788,321
Proceeds of new charitable gift annuities	150,000	305,144
Payments to beneficiaries under charitable annuities	(587,130)	(552,060)
Net cash provided by financing activities	<u>2,429,133</u>	<u>4,977,668</u>
Net increase (decrease) in cash and cash equivalents	11,611,525	(6,024,552)
Cash and cash equivalents at beginning of year	<u>13,603,450</u>	<u>19,628,002</u>
Cash and cash equivalents at end of year	<u>\$ 25,214,975</u>	<u>13,603,450</u>
Supplemental cash flow information:		
Cash paid during the year for interest	\$ 10,272,500	10,272,500

See accompanying notes to consolidated financial statements.

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Notes to Consolidated Financial Statements

June 30, 2012 and 2011

(1) Organization and Summary of Significant Accounting Policies

Organization

The accompanying consolidated financial statements include the consolidated balance sheets and consolidated statements of activities and cash flows of The Cooper Union for the Advancement of Science and Art (the College) 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 was founded in 1859 through the bequest of Peter Cooper, a noted industrialist and philanthropist. Consistent with Peter Cooper's wishes, the College remains one of the few private, full-tuition scholarship colleges in the United States. It offers degree programs in architecture, art, and engineering. The College has designated a \$37,500 tuition charge for full-time students. All students are required to apply for certain outside tuition assistance programs for which they are eligible. 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.

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 (collectively referred to as The Cooper Union). All significant interorganizational balances and transactions have been eliminated in consolidation.

Summary of Significant Accounting Policies

(a) Basis of Presentation

Net assets and revenues, expenses, and 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 are reported as unrestricted. Expirations of temporary restrictions on prior year net asset balances are reported as net assets released from restrictions.

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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.

(b) *Income Tax Status*

The College and the C.V. Starr Research Foundation at The Cooper Union for the Advancement of Science and Art, Inc. are exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. Astor Place is exempt from federal income tax under Section 501(c)(2) of the Internal Revenue Code. The Cooper Union recognizes the effects of income tax positions only if those positions are more likely than not of being sustained. The Cooper Union evaluates, on an annual basis, the effects of any uncertain tax positions on its financial statements. As of June 30, 2012 and 2011, The Cooper Union has not identified or provided for any such positions.

(c) *Cash and Cash Equivalents*

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

(d) *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 future cash flows at a risk-adjusted rate. In addition, an allowance for contributions receivable estimated to be uncollectible is provided.

(e) *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 to be used to acquire property, plant, and equipment with such donor stipulations are reported as revenues of the temporarily restricted net assets class; the restrictions are considered to be released at the time such long-lived assets are placed into service.

(f) *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 straight-line basis over their estimated useful lives or the life of the lease, whichever is shorter.

(g) *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

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June 30, 2012 and 2011

the reporting period. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include fair value of real estate and alternative investments, the useful lives of fixed assets, accrued postretirement benefit costs, allowance for doubtful loans and contributions receivable, liability under charitable trusts and annuity agreements, and liabilities for asset retirement obligations. The current economic environment has increased the degree of uncertainty inherent in these estimates and assumptions.

(h) *Fair Value of Financial Instruments*

The fair value of investments is determined as indicated in note 2. The carrying amount of long-term loans payable approximates fair value because they carry an interest rate similar to the market rate offered by similar instruments. The carrying amounts of all other financial instruments approximate fair value because of the short maturity of those instruments.

(i) *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 of access at the measurement date.
- Level 2 inputs are 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.

Classification in Level 2 or 3, for alternative investments measured at net asset value, is based on The Cooper Union's ability to redeem its interest at or near the date of the consolidated balance sheet; if the interest can be redeemed in the near term, the investment is classified in Level 2.

(j) *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 these beneficiaries until the agreement expires and the assets are distributed.

Such split-interests 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 beneficiaries. The liabilities under charitable trusts and annuity agreements are adjusted annually for changes in the life expectancy of

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the donor or beneficiary, amortization of the discount, and other changes in the estimates of future payments.

(k) *Nonoperating activities*

Within unrestricted net assets, nonoperating activities are distinguished from operating activities and include excess (deficiency) of investment return over (under) amounts utilized in operations, net assets released from restriction for capital, amounts not yet recognized as a component of net periodic benefit cost, and other nonrecurring items.

(l) *Prior Year Financial Information*

Certain reclassifications have been made to the 2011 consolidated financial statements to conform to the 2012 presentation.

(2) *Investments*

Investments in debt and equity securities are reported at fair value based on quoted market values. Alternative investments such as hedge funds, fund of funds, and limited partnerships are reported based on amounts provided by the investment managers or general partners, at net asset value, as a practical expedient to fair value. Because alternative investments are not readily marketable, net asset value may differ significantly from the values that would have been reported had a ready market for these investments existed. Such differences could be material. The Cooper Union reviews and evaluates the values provided by the investment managers or general partners and agrees with the valuation methods and assumptions used in determining the fair value of the alternative investments. The College owns the Chrysler Building. Legal title to both the land and building, subject to a lease (note 8) that is scheduled to expire in 2147, rests with the College. The fair value of the Chrysler Building is determined based on the net present value of future cash flows related to net rental income.

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

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The following tables present The Cooper Union's fair value hierarchy for investments as of June 30, 2012 and 2011:

	Fair value	2012			Redemption or liquidation	Days' notice
		Level 1	Level 2	Level 3		
Financial assets:						
Cash, cash equivalents, and short-term investments held by investment managers and trustees	\$ 5,391,692	5,391,692	—	—	Daily	1
Bonds	2,768,410	2,768,410	—	—	Daily	1
Equity securities:						
U.S. equity	14,553,561	14,553,561	—	—	Daily	1
International equity	3,333,219	3,333,219	—	—	Daily	1
Mutual funds	4,901,126	4,901,126	—	—	Daily	1
Hedge funds:						
Long/short equity	12,915,228	7,542,088	5,373,140	—	Daily, monthly, quarterly	1 – 30
Absolute return	16,376,296	—	11,108,748	5,267,548	Quarterly, subject to lockup	45 – 65
Fund of funds:						
Long/short equity	3,320,715	—	3,320,715	—	Quarterly	60
Absolute return	5,775,652	—	—	5,775,652	Biennial	90
Limited partnerships:						
Global equity	12,233,529	—	12,233,529	—	Monthly	60
Absolute return	17,858,590	—	6,212,945	11,645,645	Quarterly, annually	45 – 65
Nonmarketable assets	9,685,373	—	—	9,685,373	Illiquid	N/A
Real estate and other:						
Other	617,026	—	—	617,026	Illiquid	N/A
Real estate	556,950,000	—	—	556,950,000	Illiquid	N/A
Total	\$ 666,680,417	38,490,096	38,249,077	589,941,244		

The Cooper Union has \$5,267,548, of Level 3 investments that are subject to lockup until February 1, 2013. The Cooper Union's unfunded capital commitments approximated \$4.4 million at June 30, 2012.

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	Fair value	2011			Redemption or liquidation	Days' notice
		Level 1	Level 2	Level 3		
Financial assets:						
Cash, cash equivalents, and short-term investments held by investment managers and trustees	\$ 3,320,170	3,320,170	—	—	Daily	1
Bonds	2,545,140	2,545,140	—	—	Daily	1
Equity securities:						
U.S. equity	26,408,269	26,408,269	—	—	Daily	1
International equity	10,761,408	10,761,408	—	—	Daily	1
Mutual funds	5,512,560	5,512,560	—	—	Daily	1
Hedge funds:						
Long/short equity	15,227,514	9,996,884	5,230,630	—	Daily, quarterly, subject to lockup	1-90
Absolute return	20,942,152	—	20,942,152	—	Quarterly	14-90
Fund of funds:						
Long/short equity	3,315,638	—	3,315,638	—	Quarterly, subject to lockup	14-90
Absolute return	3,628,783	—	3,628,783	—	Quarterly	90
Limited partnerships:						
Global equity	13,321,193	—	13,321,193	—	Monthly	14-90
Long/short equity	11,832,251	—	11,832,251	—	Quarterly	14-90
Absolute return	17,826,561	—	11,692,763	6,133,798	Monthly, annually	14-90
Nonmarketable assets	7,907,914	—	—	7,907,914	Illiquid	N/A
Real estate and other:						
Other	620,151	—	—	620,151	Illiquid	N/A
Real estate	521,740,000	—	—	521,740,000	Illiquid	N/A
Total	\$ 664,909,704	58,544,431	69,963,410	536,401,863		

The Cooper Union has \$3,315,638 and \$3,192,147 of Level 3 investments that are subject to lockup until August 30, 2011 and September 30, 2011, respectively.

The following tables present The Cooper Union's activity for the fiscal years ended June 30, 2012 and 2011 for investments measured at fair value on a recurring basis using unobservable inputs (Level 3):

		2012				Total
		Hedge funds	Fund of funds	Limited partnership	Real estate and other	
Ending balance, June 30, 2011	\$	—	—	14,041,712	522,360,151	536,401,863
Transfers from Level 2 to 3		—	3,628,784	6,542,922	—	10,171,706
Net appreciation (depreciation) in fair value of investments		267,548	146,868	(1,279,069)	35,206,875	34,342,222
Sales/redemptions		—	—	(2,384,062)	—	(2,384,062)
Purchases		5,000,000	2,000,000	4,409,515	—	11,409,515
Ending balance, June 30, 2012	\$	5,267,548	5,775,652	21,331,018	557,567,026	589,941,244

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	2011				
	Hedge funds	Fund of funds	Limited partnership	Real estate and other	Total
Ending balance, June 30, 2010	\$ 2,905,663	3,078,031	15,832,510	509,367,012	531,183,216
Net appreciation in fair value of investments	—	—	3,267,801	15,225,981	18,493,782
Sales/redemptions	—	—	(1,929,894)	(2,232,842)	(4,162,736)
Purchases	—	—	899,558	—	899,558
Transfers from Level 3 to 2	(2,905,663)	(3,078,031)	(4,028,263)	—	(10,011,957)
Ending balance, June 30, 2011	\$ —	—	14,041,712	522,360,151	536,401,863

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 to or from Level 1 in 2012 and 2011.

The components of investment return for the years ended June 30, 2012 and 2011 are as follows:

	2012	2011
Real estate rental income	\$ 30,392,051	26,655,297
Interest and dividends	980,454	3,844,825
Unrealized gains on investments	24,802,243	30,417,551
Realized gains on investments	2,565,172	4,398,048
Investment expenses	(352,190)	(605,654)
Net investment return	58,387,730	64,710,067
Less amounts classified as:		
Temporarily restricted	31,109,485	23,702,953
Unrestricted amount utilized for operations	38,203,981	33,054,557
(Deficiency) excess of investment return over (under) amount utilized for operations and classified as unrestricted	\$ (10,925,736)	7,952,557

Included in investments in real estate is one real estate investment amounting to \$555 million and \$520 million at June 30, 2012 and 2011, respectively. Also included in investments are charitable trusts and gift annuities amounting to \$7,901,242 and \$8,261,977 at June 30, 2012 and 2011, respectively.

The Cooper Union invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risks associated with certain investment securities, it is at least reasonably possible that changes in the 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.

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(3) Contributions Receivable

Contributions receivable at June 30, 2012 and 2011 are scheduled to be collected as follows:

	<u>2012</u>	<u>2011</u>
Year ended June 30:		
Less than one year	\$ 1,717,589	2,533,706
One year to five years	330,377	1,714,158
	<u>2,047,966</u>	<u>4,247,864</u>
Less allowance for uncollectible contributions receivable	(64,283)	(77,194)
Adjustment to reflect contributions receivable at discount value (0.08% – 8.25%)	<u>(321,316)</u>	<u>(169,015)</u>
	<u>\$ 1,662,367</u>	<u>4,001,655</u>

(4) Plant Assets

Plant assets consist of the following at June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Land and land improvements	\$ 150,000	150,000
Buildings and building improvements	235,594,233	234,688,997
Software and equipment	30,602,015	29,252,520
Leasehold improvements	3,001,629	3,001,629
Construction in progress	<u>1,266,467</u>	<u>638,432</u>
	270,614,344	267,731,578
Accumulated depreciation and amortization	<u>(80,136,500)</u>	<u>(71,484,479)</u>
	<u>\$ 190,477,844</u>	<u>196,247,099</u>

Included in plant assets is a building of \$2,549,115, which is subject to a gift annuity agreement.

(5) Long-Term Loans

On October 6, 2006, the College entered into a \$175,000,000 nonrecourse loan with Metropolitan Life Insurance Company (MetLife) to build a new academic building, retire existing debt, and fund future operations. The term of the loan is 30 years with an annual interest rate of 5.87%. The amortization period is based on 18 years with interest only for the first 12 years. The loan is secured by a first priority mortgage on the College's fee interest in the Chrysler 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 in costs associated with entering into the loan. These costs have been deferred and are being amortized over the life of the debt.

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The projected debt service for the MetLife loan for the next five years and thereafter is as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2013	\$ —	10,272,500	10,272,500
2014	—	10,272,500	10,272,500
2015	—	10,272,500	10,272,500
2016	—	10,272,500	10,272,500
2017	—	10,272,500	10,272,500
2018 and thereafter (in aggregate)	175,000,000	129,823,685	304,823,685

On December 31, 2007, the College, owner of 51 Astor Place, entered into a 99-year ground lease with a developer. The ground lease was amended and restated on January 31, 2008, and further amended on October 13, 2009, July 29, 2011, and January 12, 2012. Pursuant to the terms of the ground lease, as amended, the College was permitted to continue to occupy the 51 Astor Place site under a sublease agreement through July 31, 2011. In connection with this transaction, the College 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 surrender of the facility to the developer, which occurred on July 10, 2009, the College reclassified the debt in fiscal year 2010 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 on a straight-line basis over the life of the lease.

The College incurred approximately \$4.4 million in costs associated with entering into the loan. These costs have been deferred and are being amortized over the life of the debt.

Total debt issuance costs of \$8,759,545 and \$9,149,936 at June 30, 2012 and 2011, respectively, net of amortization of \$2,031,747 and \$1,641,356 at June 30, 2012 and 2011, respectively, are included in prepaid expenses and other assets in the accompanying consolidated balance sheets.

Interest expense on all long-term debt was \$10,272,500 in both 2012 and 2011.

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(6) Net Assets

Temporarily restricted net assets at June 30, 2012 and 2011 are available for the following purposes or periods:

	<u>2012</u>	<u>2011</u>
Purpose restrictions:		
Academic support	\$ 7,492,717	8,994,945
Student aid	8,325,448	7,610,022
Instruction	1,932,154	2,867,175
Other	5,169,043	6,113,913
Time restrictions	4,340,556	5,873,109
Appreciation on real estate asset	555,000,000	520,000,000
Appreciation on endowment not yet appropriated	9,572,061	10,557,152
Total temporarily restricted net assets	<u>\$ 591,831,979</u>	<u>562,016,316</u>

Permanently restricted net assets at June 30, 2012 and 2011 are restricted to investments in perpetuity, the income from which is expendable to support:

	<u>2012</u>	<u>2011</u>
Specific purposes of The Cooper Union, principally instructional and student financial aid	\$ 52,804,811	52,284,160
General activities of The Cooper Union	14,524,602	13,879,502
Total permanently restricted net assets	<u>\$ 67,329,413</u>	<u>66,163,662</u>

The Cooper Union's endowment consists of approximately 470 individual funds established for a variety of purposes, which are donor-restricted endowment funds. There are no board-designated funds. The fair values of 240 and 19 endowment accounts were less than their original value (underwater) by a total of approximately \$1,306,000 and \$225,000 at June 30, 2012 and 2011, respectively.

The Cooper Union manages its long-term investments in accordance with the total return concept and 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.

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

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important concept of 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 the accounting guidance associated with NYPMIFA, 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 those 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 disclosure provisions set forth by Financial Accounting Standards Board Accounting Standards Codification (ASC) Section 958-205-45, *Classification of Donor-Restricted Endowment Funds Subject to UPMIFA*. The Cooper Union adopted NYPMIFA at the beginning of fiscal year 2011 and as a result, reclassified approximately \$515.6 million of unrestricted net assets to temporarily restricted net assets.

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.

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.

Changes in endowment net assets for the fiscal years ended June 30, 2012 and 2011 were as follows:

	2012			Total
	Unrestricted	Temporarily restricted	Permanently restricted	
Net assets, June 30, 2011	\$ (224,822)	543,117,561	66,163,662	609,056,401
Net investment return	24,367,627	32,191,061	—	56,558,688
Contributions	—	—	1,165,751	1,165,751
Distributions	(25,449,118)	(796,178)	—	(26,245,296)
Net assets, June 30, 2012	<u>\$ (1,306,313)</u>	<u>574,512,444</u>	<u>67,329,413</u>	<u>640,535,544</u>

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	2011			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Net assets, June 30, 2010	\$ 511,599,754	4,482,944	63,069,420	579,152,118
Net assets reclassification for the adoption of ASC Subtopic 958-205	(515,557,152)	515,557,152	—	—
Net investment return	31,186,109	23,077,465	—	54,263,574
Contributions	—	—	3,094,242	3,094,242
Distributions	(27,453,533)	—	—	(27,453,533)
Net assets, June 30, 2011	\$ (224,822)	543,117,561	66,163,662	609,056,401

(7) 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, 2012 and 2011 amounted to \$1,909,538 and \$1,895,678, 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 amount reported in The Cooper Union's consolidated balance sheets as of June 30, 2012 and 2011:

	2012	2011
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 22,908,163	24,552,437
Service cost	670,828	700,886
Interest cost	1,185,792	1,157,753
Actuarial loss	(993,159)	(2,279,145)
Actuarial assumptions	4,795,454	(700,822)
Benefits paid	(684,472)	(522,946)
Benefit obligation at end of year	27,882,606	22,908,163
Change in plan assets:		
Employer contribution	684,472	522,946
Benefits paid	(684,472)	(522,946)
Fair value of plan assets at end of year	—	—
Funded status	\$ (27,882,606)	(22,908,163)

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	2012	2011
Amount recognized in the consolidated balance sheets consists of:		
Accrued benefits cost – beginning of year	\$ 22,908,163	24,552,437
Amounts not yet recognized as a component of net periodic cost	3,658,674	(3,375,520)
Net periodic benefit cost	2,000,241	2,254,192
Employer contribution	(684,472)	(522,946)
Net amount recognized	\$ 27,882,606	22,908,163
Weighted average discount rate assumptions as of June 30	4.00%	5.50%
	2012	2011
Components of net periodic benefit cost:		
Service cost	\$ 670,828	700,886
Interest cost	1,185,792	1,157,753
Recognized actuarial loss	143,621	395,553
Net periodic benefit cost	\$ 2,000,241	2,254,192
Benefit cost weighted average discount rate assumptions for the years ended June 30	5.50%	5.25%

For measurement purposes, a 10.5% and 12.0% annual rate of increase in the per capita cost of covered healthcare benefits was assumed for fiscal year 2012 and 2011, respectively. The rate was assumed to decrease by 1.5% per year to an ultimate rate of 3.0% in 2018 and remain at that level thereafter.

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:

	One- percentage- point increase	One- percentage- point decrease
Effect on total of service and interest cost components	\$ 299,854	(226,799)
Effect on postretirement benefit obligation	2,681,800	(2,233,055)

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The projected premium payments in each fiscal year from 2013 through 2022 are as follows:

Year ending June 30:	
2013	\$ 947,000
2014	1,092,000
2015	1,179,000
2016	1,259,000
2017	1,344,000
2018 through 2022 (in aggregate)	<u>7,811,000</u>
	<u>\$ 13,632,000</u>

At June 30, 2012, the net loss of \$8,092,285 was not yet recognized as a component of net periodic benefit cost. In addition to service and interest costs, the projected net periodic postretirement benefit cost for fiscal year 2013 includes amortization of actuarial losses of \$694,764.

(8) Operating Leases

In February 1998, The Cooper Union entered into an operating lease agreement, which is scheduled to expire on December 31, 2147, for the land under the Chrysler Building. Under the terms of the lease agreement, annual rental income from the real property included:

- An amount of basic annual rent of \$7,000,000 through December 31, 2012, and \$7,750,000 through December 31, 2017. As of January 1, 2018 and each 10-year anniversary thereafter, the basic rent shall be adjusted based on the fair value of the property and the assumption that a building of 1,194,000 square feet can be built.
- An amount equivalent to the taxes 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 subject to the existing tax rate.

Contemporaneous with the execution of the MetLife loan (note 5), The Cooper Union entered into a modification agreement for the lease above. The amended terms include that the basic annual rent schedule be adjusted to the following: 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 by agreement between The Cooper Union and the tenant based upon the fair market 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.

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In December 2002, The Cooper Union entered into two related operating lease agreements, which expire on December 2101, for the land located at 26 Astor Place in New York City. Under the terms of both leases, the tenant will finance construction of a new building, ownership to be held by The Cooper Union. Under the terms of the lease agreements, rental income from the real property includes:

- Total rent of \$11,000,000 received by The Cooper Union at June 30, 2004 was recorded as deferred revenue in the accompanying consolidated balance sheets and is being recognized into income over the lives of the leases. The remaining balance is \$9,989,796 and \$10,102,041 at June 30, 2012 and 2011, respectively.
- An amount equivalent to the taxes 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 subject to the existing tax rate. This amount was reduced by 50% beginning in fiscal year 2012 based on an agreement with New York City.

In 1989, The Cooper Union entered into an operating lease agreement expiring in 2038, as the lessee of property on 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 were \$1,121,367 and \$1,070,384 in 2012 and 2011, respectively. Sublease income for these leases was \$1,025,199 and \$979,235 in 2012 and 2011, respectively. The following is a schedule by year of future minimum rental payments and sublease income, including future rent escalations, as of June 30, 2012, for the Third Avenue site:

	<u>Minimum rental payments</u>	<u>Sublease income</u>
Year ending June 30:		
2013	\$ 845,000	1,105,260
2014	860,000	1,169,389
2015	875,000	1,226,915
2016	890,000	1,287,847
2017	905,000	1,352,399
2018 and thereafter (in aggregate)	22,368,334	8,165,947

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 expires in 2013. Rent expense for this lease was \$723,657 and \$710,231 in 2012 and 2011, respectively. Minimum rental payments are expected to be approximately \$746,000 in fiscal year 2013.

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(9) Functional Expenses

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

	<u>2012</u>	<u>2011</u>
Program services:		
Instruction	\$ 25,220,150	24,652,403
Academic support	19,218,913	18,863,629
Public service	3,301,749	3,887,505
Research	580,175	279,761
Student services	3,752,200	3,592,528
Student aid	1,018,833	1,369,922
Auxiliary enterprises	2,335,649	2,196,578
	<u>55,427,669</u>	<u>54,842,326</u>
Supporting services:		
Management and general	9,882,350	10,474,385
Fund-raising	4,303,120	4,232,585
	<u>14,185,470</u>	<u>14,706,970</u>
Total expenses	<u>\$ 69,613,139</u>	<u>69,549,296</u>

(10) Subsequent Events

In connection with the preparation of the consolidated financial statements, The Cooper Union evaluated events subsequent to June 30, 2012 and through March 7, 2013, which was the date the consolidated financial statements were available for issuance, and concluded that no additional disclosures are required.