THE COOPER UNION FOR THE ADVANCEMENT OF SCIENCE AND ART

Consolidated Financial Statements

June 30, 2009 and 2008

(With Independent Auditors' Report Thereon)

KPMG LLP
345 Park Avenue
New York, NY 10154

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, 2009 and 2008, and the related consolidated statements of changes in unrestricted net assets, changes in net assets, 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 as of June 30, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 1 to the financial statements, The Cooper Union adopted the provisions of Statement of Financial Accounting Standards No. 157, *Fair Value Measurements*, as amended, effective July 1, 2008.

KPMG LLP

November 20, 2009

THE COOPER UNION FOR THE ADVANCEMENT
OF SCIENCE AND ART

Consolidated Balance Sheets

June 30, 2009 and 2008

Assets		**2009**	**2008**
Cash and cash equivalents	$	36,422,626	108,137,102
Contributions receivable, net (note 3)		8,707,302	10,755,701
Other receivables		1,193,112	921,246
Investments (note 2)		613,518,130	710,457,946
Prepaid expenses and other assets (note 5)		11,473,584	12,167,143
Loans to students, net of allowance for doubtful loans of $34,238 and $39,884 in 2009 and 2008, respectively		436,204	450,101
Plant assets, net (notes 2 and 4)		190,103,048	109,672,473
Total assets	$	861,854,006	952,561,712
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses	$	18,614,457	17,970,275
Deferred revenue (note 8)		11,518,457	10,723,055
Accrued interest (note 5)		856,041	856,041
Other liabilities		52,194	156,102
Liability under charitable trusts and annuity agreements		5,815,242	5,563,552
Accrued postretirement benefit costs (note 7)		22,262,910	20,392,580
Asset retirement obligation		1,385,000	1,385,000
Long-term loans (note 5)		271,970,000	271,970,000
Total liabilities		332,474,301	329,016,605
Net assets:			
Unrestricted		398,704,185	497,933,459
Temporarily restricted (note 6)		68,932,059	64,519,531
Permanently restricted (note 6)		61,743,461	61,092,117
Total net assets		529,379,705	623,545,107
Total liabilities and net assets	$	861,854,006	952,561,712

See accompanying notes to consolidated financial statements.

THE COOPER UNION FOR THE ADVANCEMENT OF SCIENCE AND ART

Consolidated Statements of Changes in Unrestricted Net Assets

Years ended June 30, 2009 and 2008

	2009	2008
Operations:		
Revenues and other support:		
Investment return utilized for operations (note 2)	$ 33,982,575	30,964,998
Student tuition and fees	33,749,689	32,641,199
Tuition discount	(30,799,677)	(29,747,457)
Net student tuition and fees	2,950,012	2,893,742
Contributions	2,937,569	2,620,973
Government grants and contracts	784,041	750,643
Appropriations – State of New York aid	89,628	91,121
Rental income (notes 5 and 8)	2,802,477	4,729,474
Auxiliary enterprises	1,670,114	1,796,033
Other revenue	474,592	605,401
	45,691,008	44,452,385
Net assets released from restrictions	1,792,236	1,505,414
Total revenues and other support	47,483,244	45,957,799
Expenses:		
Program services:		
Instruction	18,246,104	18,920,421
Academic support	14,870,919	13,073,228
Public service	3,186,949	2,833,673
Research	205,001	82,516
Student services	3,539,511	3,359,099
Student aid	1,792,305	1,743,615
Auxiliary enterprises	2,129,233	2,132,828
	43,970,022	42,145,380
Supporting services:		
Management and general (note 5)	11,846,833	8,569,052
Fund-raising	3,596,119	3,298,480
	15,442,952	11,867,532
Total expenses	59,412,974	54,012,912
Excess of operating expenses over operating revenues and other support	(11,929,730)	(8,055,113)
Nonoperating activity:		
Deficiency of investment return over amount utilized for operations (note 2)	(87,460,633)	(1,230,804)
Decrease in unrestricted net assets before gain (loss) not yet recognized as a component of net periodic cost	(99,390,363)	(9,285,917)
Gain (loss) not yet recognized as a component of net periodic cost (note 7)	161,089	(5,659,931)
Decrease in unrestricted net assets	$ (99,229,274)	(14,945,848)

See accompanying notes to consolidated financial statements.

THE COOPER UNION FOR THE ADVANCEMENT OF SCIENCE AND ART

Consolidated Statements of Changes in Net Assets

Years ended June 30, 2009 and 2008

	2009	2008
Changes in unrestricted net assets:		
Total unrestricted revenues and other support, before net assets released from restrictions	$ 45,691,008	44,452,385
Operations:		
Net assets released from restrictions	1,792,236	1,505,414
Total unrestricted expenses	(59,412,974)	(54,012,912)
Excess of operating expenses over unrestricted operating revenues and other support before nonoperating activity and other changes	(11,929,730)	(8,055,113)
Deficiency of investment return over amount utilized for operations (note 2)	(87,460,633)	(1,230,804)
Gain (loss) not yet recognized as a component of net periodic benefit cost (note 7)	161,089	(5,659,931)
Decrease in unrestricted net assets	(99,229,274)	(14,945,848)
Changes in temporarily restricted net assets:		
Contributions	10,552,835	7,833,346
Investment (losses) gains (note 2)	(4,348,071)	1,512,249
Net assets released from restrictions	(1,792,236)	(1,505,414)
Increase in temporarily restricted net assets	4,412,528	7,840,181
Changes in permanently restricted net assets:		
Contributions	651,344	2,147,804
Increase in permanently restricted net assets	651,344	2,147,804
Decrease in net assets	(94,165,402)	(4,957,863)
Net assets at beginning of year	623,545,107	628,502,970
Net assets at end of year	$ 529,379,705	623,545,107

See accompanying notes to consolidated financial statements.

THE COOPER UNION FOR THE ADVANCEMENT OF SCIENCE AND ART

Consolidated Statements of Cash Flows

Years ended June 30, 2009 and 2008

	2009	2008
Cash flows from operating activities:		
Decrease in net assets	$ (94,165,402)	(4,957,863)
Adjustments to reconcile decrease in net assets to net cash used in operating activities:		
(Gain) loss not yet recognized as a component of net periodic cost	(161,089)	5,659,931
Depreciation and amortization expense	3,351,492	3,663,604
Net unrealized and realized losses (gains) on investments	82,440,176	(8,735,275)
Change in value of split-interest agreements	833,565	1,822,354
Permanently restricted contributions	(651,344)	(2,147,804)
Contributions restricted for capital purposes	(9,656,298)	(6,518,308)
Changes in assets and liabilities:		
Contributions receivable, net of amounts classified as financing activities	4,731,649	4,697,122
Other receivables	(271,866)	(177,433)
Prepaid expenses and other assets, net of amortization of debt issuance costs	693,559	(476,118)
Accounts payable and accrued expenses	(1,133,803)	1,537,359
Deferred revenue	795,402	(69,174)
Other liabilities	(103,908)	97,263
Asset retirement obligation	—	(165,328)
Accrued postretirement benefit costs	2,031,419	1,131,314
Net cash used in operating activities	(11,266,448)	(4,638,356)
Cash flows from investing activities:		
Purchases of investments	(74,979,605)	(57,134,242)
Proceeds from sales of investments	89,479,245	26,416,610
Decrease in loans to students	13,897	26,549
Increase in accounts payable for capital expenditures	1,777,985	9,359,741
Purchases of plant assets	(83,782,067)	(49,558,288)
Net cash used in investing activities	(67,490,545)	(70,889,630)
Cash flows from financing activities:		
Permanently restricted contributions	651,344	2,147,804
Contributions restricted for capital purposes	9,656,298	6,518,308
Increase in contributions receivable related to financing activities	(2,683,250)	(5,698,014)
Debt issuance costs	—	(4,456,051)
Proceeds of new charitable gift annuities in excess of contributions recognized	85,415	150,275
Proceeds from loan	—	96,970,000
Payments to beneficiaries under charitable annuities	(667,290)	(640,813)
Net cash provided by financing activities	7,042,517	94,991,509
Net (decrease) increase in cash and cash equivalents	(71,714,476)	19,463,523
Cash and cash equivalents at beginning of year	108,137,102	88,673,579
Cash and cash equivalents at end of year	$ 36,422,626	108,137,102
Supplemental cash flow information:		
Cash paid during the year for interest	$ 14,272,500	11,999,919

See accompanying notes to consolidated financial statements.

(1) Organization and Summary of Significant Accounting Policies

Organization

The accompanying consolidated financial statements include the balance sheet, changes in net assets, 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 $33,000 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.

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.

(c) 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 received 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 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 the reporting period. Actual results could differ from those estimates.

(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) Other Significant Accounting Policies

Other significant accountant policies are set forth in the consolidated financial statements and the following notes.

(j) Prior Year Financial Information

Certain reclassifications have been made to the 2008 financial statements to conform to the 2009 presentation.

(k) Recent Accounting Standards

Effective July 1, 2008, The Cooper Union adopted Financial Accounting Standards Board (FASB) Statement No. 157, *Fair Value Measurements* (Statement 157). Statement 157 defines fair value, requires expanded disclosures about fair value measurements, and establishes a three-level hierarchy for fair value measurements based on the observable inputs to the valuation of an asset or liability at the measurement date. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It prioritizes the inputs to the valuation techniques used to measure fair value by giving the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements), and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements).

In conjunction with the adoption of SFAS 157, The Cooper Union elected to early adopt the measurement provisions of Accounting Standards Update No. 2009-12, *Fair Value Measurements and Disclosures – Investments in Certain Entities That Calculate Net Asset Value per Share (or its Equivalent)* for investment in funds that do not have readily determinable fair values including hedge funds and convertible preferred stock. This guidance amends SFAS 157 and allows for the estimation of the fair value of investments in investment companies for which the investment does not have a readily determinable fair value using net asset value per share or its equivalent. Net asset value, in many instances, may not equal fair value that would be calculated pursuant to SFAS 157.

Effective June 30, 2009, The Cooper Union adopted FASB Staff Position No. 117-1, *Endowments of Not-for-Profit Organizations – Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* (FSP 117-1). FSP 117-1 provides guidance on the net asset classification of donor restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA), and requires disclosures about endowment funds. As of June 30, 2009, New York State had not enacted the provisions of UPMIFA and, accordingly, the impact of FSP 117-1 has been limited to additional disclosures regarding The Cooper Union's endowment funds.

Effective June 30, 2009, The Cooper Union adopted FASB Statement No. 165, *Subsequent Events* (Statement 165). Statement 165 establishes principles and requirements for subsequent events and applies to accounting for and disclosure of subsequent events not addressed in other applicable generally accepted accounting principles. The Cooper Union evaluated events subsequent to June 30, 2009 and through November 20, 2009, the date on which the financial statements were approved for issuance. The adoption of Statement 165 had no impact on The Cooper Union's consolidated financial statements.

Effective July 1, 2008, The Cooper Union adopted FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – An Interpretation of FASB Statement No. 109* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income tax recognized in an entity's financial statements. FIN 48 requires entities to determine whether it is more likely than not that a tax position will be sustained upon examination by the appropriate taxing authorities before any part of the benefit can be recorded in the financial statements. It also provides guidance on the recognition, measurement, and classification of income tax uncertainties, along with any related interest or penalties. A tax position is measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon settlement. The adoption of FIN 48 had no impact on The Cooper Union's consolidated financial statements.

(2) Investments

Investments in debt and equity securities are reported at fair value based on quoted market values. Alternative investments such as hedge funds, funds of funds, and limited partnerships are reported by the investment managers or general partners, at net asset value, as a practical expedient to fair value. Net asset value may differ significantly from the values that would have been reported had a ready market for these investments existed. 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), which is scheduled to expire in 2147, rests with the College. The fair value of the Chrysler Building was determined based on the net present value of future cash flows related to net rental income. Because alternative investments are not readily marketable, their estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for such investments existed. Such differences could be material.

Investments at fair value consist of the following at June 30, 2009 and 2008:

		2009	2008
Cash, cash equivalents, and short-term investments held by investment managers and trustees	$	8,134,617	11,378,328
Bonds		11,327,069	5,506,344
Equity securities		42,766,817	14,467,876
Hedge funds		18,837,952	102,920,853
Mutual funds		6,317,281	3,016,642
Real estate and other		473,205,895	533,544,763
Limited partnerships		52,928,499	39,623,140
	$	613,518,130	710,457,946

Included in investments is one real estate investment amounting to $470 million and $530 million at June 30, 2009 and 2008, respectively. Also included in investments are charitable trusts and gift annuities amounting to $6,027,226 and $7,148,416 at June 30, 2009 and 2008, respectively.

At June 30, 2009, the College is committed to investing an additional $4.6 million in a limited partnership.

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 risk 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 sheet.

The components of investment return for the years ended June 30, 2009 and 2008 are as follows:

		2009	2008
Real estate rental income	$	24,189,575	20,928,998
Interest and dividends		1,021,166	1,856,624
Unrealized (losses) gains on investments		(75,409,191)	5,897,919
Realized (losses) gains on investments		(7,030,985)	2,837,356
Investment expenses		(596,694)	(274,454)
Investment (loss) return		(57,826,129)	31,246,443
Less amounts classified as:			
Temporarily restricted		(4,348,071)	1,512,249
Amount utilized for operations		33,982,575	30,964,998
Deficiency of investment return over amount utilized for operations and classified as unrestricted	$	(87,460,633)	(1,230,804)

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. Statement 157 also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that are used to measure fair value:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the asset or liabilities.

The following table presents The Cooper Union's fair value hierarchy for investments measured at fair value on a recurring basis as of June 30, 2009.

		Fair value measurements at June 30, 2009 using		
	Fair value	**Level 1**	**Level 2**	**Level 3**
Financial assets:				
Cash, cash equivalents, and short-term investments held by investment managers and trustees	$ 8,134,617	8,134,617	—	—
Bonds	11,327,069	11,327,069	—	—
Equity securities	42,766,817	12,449,012	1,711,854	28,605,951
Hedge funds	18,837,952	—	—	18,837,952
Mutual funds	6,317,281	2,619,968	3,697,313	—
Real estate and other	473,205,895	—	—	473,205,895
Limited partnerships	52,928,499	—	9,392,208	43,536,291
Total	$ 613,518,130	34,530,666	14,801,375	564,186,089

T-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.

The table below summarizes the change in fair values associated with Level 3 investments for the year ended June 30, 2009.

		Investments
Beginning balance at July 1, 2008	$	662,901,412
Purchases and sales, net		(24,045,402)
Investment loss		(74,669,921)
Ending balance at June 30, 2009	$	564,186,089

(3) Contributions Receivable

Contributions receivable at June 30, 2009 and 2008 are scheduled to be collected as follows:

		2009	2008
Year ended June 30:			
Less than one year	$	5,789,855	6,576,177
One year to five years		3,572,332	4,756,890
		9,362,187	11,333,067
Less allowance for uncollectible contributions receivable		(72,937)	(142,707)
Adjustment to reflect contributions receivable at discount value (4.00% – 8.25%)		(581,948)	(434,659)
	$	8,707,302	10,755,701

(4) Plant Assets

Plant assets consist of the following at June 30, 2009 and 2008:

		2009	2008
Land and land improvements	$	1,593,725	1,593,725
Buildings and building improvements		65,629,417	65,442,075
Equipment		28,500,808	27,556,964
Leasehold improvements		3,021,629	3,001,629
Construction in progress		160,634,288	78,003,407
Other plant assets		1,067,672	1,067,672
		260,447,539	176,665,472
Accumulated depreciation and amortization		(70,344,491)	(66,992,999)
	$	190,103,048	109,672,473

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

(Continued)

The Cooper Union is in the midst of a major facilities renewal program, which includes the construction of a new academic building on the site of the former Hewitt Building in New York. The cost incurred to date of approximately $161 million is included in construction in progress. The expected cost of the facilities renewal program is approximately $173.5 million and is being financed by gifts raised during The Cooper Union's $90 million capital campaign currently in progress as well as new debt (note 5).

(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 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.

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

	Principal	Interest	Total
Year ending June 30:			
2010	$ —	10,272,500	10,272,500
2011	—	10,272,500	10,272,500
2012	—	10,272,500	10,272,500
2013	—	10,272,500	10,272,500
2014	—	10,272,500	10,272,500
2015 and thereafter (in aggregate)	175,000,000	160,641,185	335,641,185

On October 26, 2007, the College, owner of 51 Astor Place, entered into a 99-year ground lease with a developer. The College is permitted to continue to occupy the facility 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 interest rate of 5.53% and a term of 25 years. No principal payments are due during the term of the sublease agreement. The arrangement requires the developer to make all debt service payments in lieu of rental payments to the College and 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 was released from its obligation to repay the debt. In connection with this event, the debt will be reclassified in fiscal year 2010 to deferred rent and 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. Further, interest expense on this debt approximated $4 million and $1.7 million for the years ended June 30, 2009 and 2008, respectively, and is included in management and general expense in the accompanying consolidated statements of changes in unrestricted net assets.

Interest expense on all long-term debt approximated $7,522,000 (net of capitalized interest expense of $6,750,000 less capitalized interest income of $308,000) and $5,251,000 (net of capitalized interest expense of $6,749,000 less capitalized interest income of $3,338,000) in 2009 and 2008, respectively.

(6) Net Assets

Temporarily restricted net assets at June 30, 2009 and 2008 are available for the following purposes or periods:

		2009	2008
Purpose restrictions:			
Academic support	$	4,534,869	5,705,701
Student aid		4,189,629	3,735,084
Instruction		585,943	952,573
New academic building		52,506,452	42,937,718
Other		2,140,088	3,537,557
Time restrictions		4,975,078	7,650,898
Total temporarily restricted net assets	$	68,932,059	64,519,531

Permanently restricted net assets at June 30, 2009 and 2008 are restricted to investments in perpetuity, the income from which is expendable to support:

		2009	2008
Specific purposes of The Cooper Union, principally instructional and student financial aid	$	44,028,111	43,455,198
General activities of The Cooper Union		17,715,350	17,636,919
Total permanently restricted net assets	$	61,743,461	61,092,117

The Cooper Union’s endowment consist of approximately 380 individual funds established for a variety of purposes which are donor-restricted endowment funds. There were no board-designated funds. At June 30, 2009, the fair values of 190 endowment accounts were less than their original value (underwater) by a total of approximately $8 million.

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 has interpreted the Uniform Management of Institutional Funds Act (UMIFA) and New York State Trust Laws as requiring the preservation of the original gift of the donor restricted endowment fund absent explicit donor stipulations to the contrary. As a result of this interpretation, The Cooper Union classifies permanently restricted net assets as the original value of gifts donated to the permanent endowment.

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, 2009 and 2008 were as follows:

	2009			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Net assets June 30, 2008	$ 535,847,113	7,844,867	61,092,117	604,784,097
Net investment loss	(46,198,452)	(4,140,324)	—	(50,338,776)
Contributions	—	—	651,344	651,344
Distributions	(23,554,109)	(559,690)	—	(24,113,799)
Net assets June 30, 2009	$ 466,094,552	3,144,853	61,743,461	530,982,866

	2008			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Net assets June 30, 2007	$ 529,130,740	6,948,333	58,944,313	595,023,386
Net investment return	26,908,500	1,258,285	—	28,166,785
Contributions	749,448	375,120	2,147,804	3,272,372
Distributions	(20,941,575)	(736,871)	—	(21,678,446)
Net assets June 30, 2008	$ 535,847,113	7,844,867	61,092,117	604,784,097

(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, 2009 and 2008 amounted to approximately $1,550,516 and $1,738,814, respectively.

The Cooper Union provides medical insurance benefits for its retired employees. Effective June 30, 2008, The Cooper Union adopted FASB No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* (SFAS No. 158), which requires that the funded status of such plans be fully reflected on the consolidated balance sheet. 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, 2009 and 2008:

		2009	2008
Change in benefit obligation:			
Benefit obligation at beginning of year	$	20,392,580	13,601,335
Service cost		678,586	548,160
Interest cost		1,306,320	935,264
Actuarial loss		(825,416)	1,704,190
Actuarial assumptions		1,228,873	4,190,867
Benefits paid		(518,033)	(587,236)
Benefit obligation at end of year		22,262,910	20,392,580
Change in plan assets:			
Employer contribution		518,033	587,236
Benefit paid		(518,033)	(587,236)
Fair value of plan assets at end of year		—	—
Funded status	$	(22,262,910)	(20,392,580)
Amount recognized in the consolidated balance sheets consists of:			
Accrued benefits cost – beginning of year	$	20,392,580	13,601,335
Loss not yet recognized as a component of net periodic cost		(161,089)	5,659,931
Net periodic benefit cost		2,549,452	1,718,550
Employer contribution		(518,033)	(587,236)
Net amount recognized	$	22,262,910	20,392,580
Weighted average discount rate assumptions as of June 30		6.25%	6.75%

For measurement purposes, a 15% annual rate of increase in the per capita cost of covered healthcare benefits was assumed for fiscal year 2009. The rate was assumed to decrease by 1.5% per year to an ultimate rate of 3% and remain at that level thereafter.

		2009	2008
Components of net periodic benefit cost:			
Service cost	$	678,586	548,160
Interest cost		1,306,320	935,264
Recognized actuarial loss		564,546	235,126
Net periodic benefit cost	$	2,549,452	1,718,550
Benefit cost weighted average discount rate assumptions for the years ended June 30		6.75%	6.25%

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	$	280,386	(231,758)
Effect on postretirement benefit obligation		2,309,616	(1,947,441)

The projected premium payments in each fiscal year from 2010 through 2019 are:

Year ending June 30:		
2010	$	799,012
2011		941,311
2012		1,100,331
2013		1,256,004
2014		1,374,450
2015 through 2019 (in aggregate)		8,468,663
	$	13,939,771

At June 30, 2009, the net loss of $7,506,699 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 2010 includes amortization of actuarial losses of $668,680.

(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 $5,500,000 through December 31, 2007, $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 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, The Cooper Union entered into a modification agreement for the lease above. The amended terms include that the basic annual rent schedule be adjusted 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 by agreement between the landlord 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.

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, annual rental income from the real property includes:

- Combined first year rent of $11,000,000 received by The Cooper Union at June 30, 2004 was recorded as deferred revenue and is being recognized into income over the lives of the leases. The remaining balance of $10,326,531 and $10,438,776 are included in the accompanying consolidated balance sheets at June 30, 2009 and 2008, 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 may be reduced by 50% beginning in fiscal 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 $1,001,322 and $1,048,592 in 2009 and 2008, respectively. Sublease income for this lease was $869,761 and $806,208 in 2009 and 2008, respectively. The following is a schedule by year of future minimum rental payments and sublease income, including future rent escalations, as of June 30, 2009, for the Third Avenue site:

		Minimum rental payments	Sublease income
Year ending June 30:			
2010	$	800,000	813,890
2011		815,000	854,473
2012		830,000	899,024
2013		845,000	947,059
2014		860,000	998,768
2015 and thereafter (in aggregate)		25,038,333	10,611,957

Other properties owned by The Cooper Union are leased under various operating leases. Under the terms of the leases, the lessees pay The Cooper Union basic annual rents, as well as additional rents based on certain real estate taxes assessed each year. Income from these leases was approximately $90,000 and $151,115 in 2009 and 2008, respectively.

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 2012. Rent expense for this lease was $668,160 in 2009 and 2008, respectively. Sublease income from this lease was $0 and $185,061 in 2009 and 2008, respectively. The following is a schedule by year of future minimum rental payments excluding future rent escalations, at June 30, 2009:

		Minimum rental payments
Year ending June 30:		
2010	$	668,160
2011		668,160
2012		668,160