KPMG

THE COOPER UNION FOR THE ADVANCEMENT OF SCIENCE AND ART

Consolidated Financial Statements

June 30, 2010 and 2009

(With Independent Auditors' Report Thereon)

KPMG

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, 2010 and 2009, 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 and its affiliates as of June 30, 2010 and 2009, 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.

KPMG LLP

December 17, 2010

THE COOPER UNION FOR THE ADVANCEMENT OF SCIENCE AND ART

Consolidated Balance Sheets

June 30, 2010 and 2009

Assets		**2010**	**2009**
Cash and cash equivalents	$	19,628,002	36,422,626
Contributions receivable, net (note 3)		5,568,941	8,707,302
Other receivables		1,690,933	1,193,112
Investments (note 2)		640,524,965	613,518,130
Prepaid expenses and other assets (note 5)		10,580,174	11,473,584
Loans to students, net of allowance for doubtful loans of $24,599 and $34,238 in 2010 and 2009, respectively		476,359	436,204
Plant assets, net (note 4)		199,245,592	190,103,048
Total assets	$	877,714,966	861,854,006
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses	$	6,553,953	18,614,457
Accrued interest (note 5)		856,041	856,041
Other liabilities		33,388	52,194
Liability under charitable trusts and annuity agreements		5,169,173	5,815,242
Accrued postretirement benefit costs (note 7)		24,552,437	22,262,910
Asset retirement obligation		330,000	1,385,000
Deferred revenue (notes 5 and 8)		106,528,467	11,518,457
Long-term loans (note 5)		175,000,000	271,970,000
Total liabilities		319,023,459	332,474,301
Net assets:			
Unrestricted		472,157,050	398,704,185
Temporarily restricted (note 6)		23,465,037	68,932,059
Permanently restricted (note 6)		63,069,420	61,743,461
Total net assets		558,691,507	529,379,705
Total liabilities and net assets	$	877,714,966	861,854,006

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, 2010 and 2009

	2010	2009
Operations:		
Revenues and other support:		
Investment return utilized for operations (note 2)	$ 31,997,365	33,982,575
Student tuition and fees	36,152,577	33,749,689
Tuition discount	(33,172,546)	(30,799,677)
Net student tuition and fees	2,980,031	2,950,012
Contributions	2,846,868	2,937,569
Government grants and contracts	885,367	784,041
Appropriations – State of New York aid	77,304	89,628
Rental income (note 8)	3,072,146	2,802,477
Auxiliary enterprises	1,499,949	1,670,114
Other revenue	89,660	474,592
	43,448,690	45,691,008
Net assets released from restrictions for operations	1,955,207	1,792,236
Total revenues and other support	45,403,897	47,483,244
Expenses:		
Program services:		
Instruction	24,333,054	18,246,104
Academic support	18,486,118	14,870,919
Public service	3,611,031	3,186,949
Research	224,503	205,001
Student services	3,953,499	3,539,511
Student aid	1,965,840	1,792,305
Auxiliary enterprises	1,783,863	2,129,233
	54,357,908	43,970,022
Supporting services:		
Management and general (note 5)	8,082,111	11,846,833
Fund-raising	4,389,631	3,596,119
	12,471,742	15,442,952
Total expenses	66,829,650	59,412,974
Deficiency of operating expenses over operating revenues and other support	(21,425,753)	(11,929,730)
Nonoperating activity:		
Excess (deficiency) of investment return over amount utilized for operations (note 2)	37,943,552	(87,460,633)
Net assets released from restrictions for capital (note 4)	57,237,498	—
(Loss) gain not yet recognized as a component of net periodic cost (note 7)	(302,432)	161,089
Increase (decrease) in unrestricted net assets	$ 73,452,865	(99,229,274)

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, 2010 and 2009

	2010	2009
Changes in unrestricted net assets:		
Total unrestricted revenues and other support, before net assets released from restrictions	$ 43,448,690	45,691,008
Operations:		
Net assets released from restrictions for operations	1,955,207	1,792,236
Total unrestricted expenses	(66,829,650)	(59,412,974)
Excess of operating expenses over operating revenues and other support before nonoperating activity	(21,425,753)	(11,929,730)
Excess (deficiency) of investment return over amount utilized for operations (note 2)	37,943,552	(87,460,633)
(Loss) gain not yet recognized as a component of net periodic cost	(302,432)	161,089
Net assets released from restrictions for capital	57,237,498	—
Increase (decrease) in unrestricted net assets	73,452,865	(99,229,274)
Changes in temporarily restricted net assets:		
Contributions	7,373,129	10,552,835
Investment gains (losses) (note 2)	6,352,554	(4,348,071)
Net assets released from restrictions for operations and capital	(59,192,705)	(1,792,236)
(Decrease) increase in temporarily restricted net assets	(45,467,022)	4,412,528
Changes in permanently restricted net assets:		
Contributions	1,325,959	651,344
Increase in permanently restricted net assets	1,325,959	651,344
Increase (decrease) in net assets	29,311,802	(94,165,402)
Net assets at beginning of year	529,379,705	623,545,107
Net assets at end of year	$ 558,691,507	529,379,705

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, 2010 and 2009

		2010	2009
Cash flows from operating activities:			
Increase (decrease) in net assets	$	29,311,802	(94,165,402)
Adjustments to reconcile increase in net assets to net cash used in operating activities:			
Loss (gain) not yet recognized as a component of net periodic cost		302,432	(161,089)
Depreciation and amortization expense		6,680,793	3,351,492
Net unrealized and realized (gains) losses on investments		(47,679,403)	82,440,176
Change in value of split-interest agreements		(160,093)	833,565
Permanently restricted contributions		(1,325,959)	(651,344)
Contributions restricted for capital purposes		(6,168,646)	(9,656,298)
Changes in assets and liabilities:			
Contributions receivable, net of amounts classified as financing activities		4,575,960	4,731,649
Other receivables		(497,821)	(271,866)
Prepaid expenses and other assets, net of amortization of debt issuance costs		893,410	693,559
Accounts payable and accrued expenses		(550,564)	(1,133,803)
Deferred revenue		(1,959,990)	795,402
Other liabilities		(18,806)	(103,908)
Accrued postretirement benefit costs		1,987,095	2,031,419
Net cash used in operating activities		(14,609,790)	(11,266,448)
Cash flows from investing activities:			
Purchases of investments		(54,369,163)	(74,979,605)
Proceeds from sales of investments		73,986,731	89,479,245
Change in loans to students, net		(40,155)	13,897
Change in accounts payable for capital expenditures		(11,509,940)	1,777,985
Purchases of plant assets		(15,823,337)	(83,782,067)
Net cash used in investing activities		(7,755,864)	(67,490,545)
Cash flows from financing activities:			
Permanently restricted contributions		1,325,959	651,344
Contributions restricted for capital purposes		6,168,646	9,656,298
Change in contributions receivable related to financing activities		(1,437,599)	(2,683,250)
Proceeds of new charitable gift annuities in excess of contributions recognized		80,858	85,415
Payments to beneficiaries under charitable annuities		(566,834)	(667,290)
Net cash provided by financing activities		5,571,030	7,042,517
Net decrease in cash and cash equivalents		(16,794,624)	(71,714,476)
Cash and cash equivalents at beginning of year		36,422,626	108,137,102
Cash and cash equivalents at end of year	$	19,628,002	36,422,626
Supplemental cash flow information:			
Cash paid during the year for interest	$	10,380,000	14,272,500
Noncash financing activity:			
Reclassification of loan payable to deferred revenue	$	96,970,000	—

See accompanying notes to consolidated financial statements.

(1) Organization and Summary of Significant Accounting Policies

Organization

The accompanying consolidated financial statements include the balance sheets, 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 $35,000 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 there from, 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 inter-organizational 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. 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, 2010 and 2009, 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 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. Significant items subject to such estimates and assumptions include fair value of alternative investments, the useful lives of fixed assets, and accrued postretirement benefit costs. 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 is based on The Cooper Union's ability to redeem its interest at or near the date of the consolidated balance sheet, and if the interest can be redeemed in the near term, the investment is classified in Level 2.

(j) Prior Year Financial Information

Certain reclassifications have been made to the 2009 consolidated financial statements to conform to the 2010 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 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.

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.

The following tables present The Cooper Union's fair value hierarchy for investments as of June 30, 2010 and 2009:

		2010				
	Fair value	Level 1	Level 2	Level 3	Redemption or liquidation	Days' notice
Financial assets:						
Cash, cash equivalents, and short-term investments held by investment managers and trustees	$ 2,674,023	2,674,023	—	—	Daily	1
Bonds	8,860,887	8,860,887	—	—	Daily	1
Equity securities:						
U.S. equity	15,604,705	15,604,705	—	—	Daily	1
International equity	3,575,596	1,725,420	1,850,176	—	Daily	1
Mutual funds	4,175,040	4,175,040	—	—	Daily	1
Hedge funds:						
Long/short equity	10,653,632	—	7,747,969	2,905,663	Quarterly, subject to lockup	14-90
Absolute return	19,091,732	—	19,091,732	—	Quarterly	14-90
Fund of funds:						
Long/short equity	3,078,031	—	—	3,078,031	Subject to lockup	14-90
Absolute return	3,053,669	—	3,053,669	—	Quarterly	N/A
Limited partnerships:						
Global equity	10,274,083	—	10,274,083	—	Monthly	14-90
Long/short equity	17,889,662	—	12,629,158	5,260,504	Quarterly, subject to lockup	14-90
Absolute return	16,157,960	—	11,888,267	4,269,693	Quarterly, annually	14-90
Fund of funds	9,766,620	—	9,766,620	—	Quarterly	14-90
Nonmarketable assets	6,302,313	—	—	6,302,313	Illiquid	N/A
Real estate and other:						
Other	2,637,012	—	—	2,637,012	Illiquid	N/A
Real estate	506,730,000	—	—	506,730,000	Illiquid	N/A
Total	$ 640,524,965	33,040,075	76,301,674	531,183,216		

The Cooper Union has $5,260,504 and $5,983,694 of Level 3 investments that are subject to lock up until March 31, 2011 and September 30, 2011, respectively.

		2009		
	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:				
U.S. Equity	12,449,012	12,449,012	—	—
International Equity	30,317,805	—	1,711,854	28,605,951
Mutual funds:				
Real assets	3,805,083	107,770	3,697,313	—
High yield	2,512,198	2,512,198	—	—
Hedge funds:				
Long/short equity	7,695,416	—	—	7,695,416
Fund of funds	11,142,536	—	—	11,142,536
Limited partnerships:				
Global equity	9,392,208	—	9,392,208	—
Long/short equity	11,558,568	—	—	11,558,568
Absolute return	10,326,257	—	—	10,326,257
Fund of funds	16,527,390	—	—	16,527,390
Nonmarketable assets	5,124,076	—	—	5,124,076
Real estate and other:				
Other	2,865,895	—	—	2,865,895
Real estate	470,340,000	—	—	470,340,000
Total	$ 613,518,130	34,530,666	14,801,375	564,186,089

The following tables present The Cooper Unions activity for the fiscal years ended June 30, 2010 and 2009 for investments measured at fair value on a recurring basis using unobservable inputs (Level 3):

	2010	**2009**
Beginning balance	$ 564,186,089	662,901,412
Acquisitions	10,445,599	37,620,234
Dispositions	(26,485,223)	(61,665,636)
Investment return (loss)	1,010,652	(5,145,208)
Unrealized gains (losses)	36,445,351	(69,524,713)
Transfers from Level 3 to Level 2	(54,419,252)	—
Ending balance	$ 531,183,216	564,186,089

The components of investment return for the years ended June 30, 2010 and 2009 are as follows:

		2010	2009
Real estate rental income	$	26,582,105	24,189,575
Interest and dividends		2,482,223	1,021,166
Unrealized gains (losses) on investments		47,701,298	(75,409,191)
Realized losses on investments		(21,895)	(7,030,985)
Investment expenses		(450,260)	(596,694)
Investment gain (loss) return		76,293,471	(57,826,129)
Less amounts classified as:			
Temporarily restricted		6,352,554	(4,348,071)
Amount utilized for operations		31,997,365	33,982,575
Excess (deficiency) of investment return over amount utilized for operations and classified as unrestricted	$	37,943,552	(87,460,633)

Included in investments is one real estate investment amounting to $505 million and $470 million at June 30, 2010 and 2009, respectively. Also included in investments are charitable trusts and gift annuities amounting to $6,401,784 and $6,027,226 at June 30, 2010 and 2009, respectively.

At June 30, 2010, the College is committed to investing an additional $4.1 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.

(3) Contributions Receivable

Contributions receivable at June 30, 2010 and 2009 are scheduled to be collected as follows:

		2010	2009
Year ended June 30:			
Less than one year	$	3,498,286	5,789,855
One year to five years		2,562,149	3,572,332
		6,060,435	9,362,187
Less allowance for uncollectible contributions receivable		(112,351)	(72,937)
Adjustment to reflect contributions receivable at discount value (4.00% – 8.25%)		(379,143)	(581,948)
	$	5,568,941	8,707,302

(4) Plant Assets

Plant assets consist of the following at June 30, 2010 and 2009:

		2010	2009
Land and land improvements	$	150,000	1,593,725
Buildings and building improvements		219,363,348	65,629,417
Equipment		28,597,691	28,500,808
Leasehold improvements		3,003,889	3,021,629
Construction in progress		10,931,458	160,634,288
Other plant assets		—	1,067,672
		262,046,386	260,447,539
Accumulated depreciation and amortization		(62,800,794)	(70,344,491)
	$	199,245,592	190,103,048

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

In 2010, The Cooper Union substantially completed its major facilities renewal program, which included the construction of a new academic building on the site of the former Hewitt Building and renovations to the historic Foundation Building. The new academic building was placed in service in 2010 and in connection therewith, all temporarily restricted net assets relating to this portion of the capital program were released from restriction. The cost of the academic building is included in building and building improvements and is being depreciated over 30 years.

(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:				
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		—	10,272,500	10,272,500
2016 and thereafter (in aggregate)		175,000,000	150,368,685	325,368,685

On October 26, 2007, the College, owner of 51 Astor Place, entered into a 99-year ground lease with a developer. The College was 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 were due during the term of the sublease agreement. The arrangement required the developer to make all debt service payments in lieu of rental payments to the College and the loan was wholly nonrecourse to the College, which was held harmless if the developer defaulted 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 has been reclassified in fiscal year 2010 to deferred revenue and 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. Further, interest expense on this debt approximated $4 million for the year ended June 30, 2009 and is included in management and general expense in the accompanying 2009 consolidated statement of changes in unrestricted net assets.

Interest expense on all long-term debt approximated $10,380,000 and $7,522,000 (net of capitalized interest expense of $6,750,000 less capitalized interest income of $308,000) in 2010 and 2009, respectively.

(6) Net Assets

Temporarily restricted net assets at June 30, 2010 and 2009 are available for the following purposes or periods:

	2010	2009
Purpose restrictions:		
Academic support	$ 8,181,916	4,534,869
Student aid	5,423,009	4,189,629
Instruction	1,747,612	585,943
New academic building	—	52,506,452
Other	3,351,915	2,140,088
Time restrictions	4,760,585	4,975,078
Total temporarily restricted net assets	$ 23,465,037	68,932,059

Permanently restricted net assets at June 30, 2010 and 2009 are restricted to investments in perpetuity, the income from which is expendable to support:

	2010	2009
Specific purposes of The Cooper Union, principally instructional and student financial aid	$ 49,550,614	44,028,111
General activities of The Cooper Union	13,518,806	17,715,350
Total permanently restricted net assets	$ 63,069,420	61,743,461

The Cooper Union's endowment consists 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, 2010, the fair values of 180 endowment accounts were less than their original value (underwater) by a total of approximately $4 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.

On September 17, 2010, the New York Prudent Management of Institutional Funds Act (NYPMIFA) was signed into law by New York Governor David Paterson. NYPMIFA requires the portion of a donor-restricted endowment fund that is not permanently restricted to be classified as temporarily restricted until appropriated for expenditure. As a result, The Cooper Union will be required to reclassify approximately $500 million of appreciation on donor restricted endowment funds from unrestricted net assets to temporary restricted net assets in fiscal year 2011.

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, 2010 and 2009 were as follows:

	2010			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Net assets, June 30, 2009	$ 466,094,551	3,144,853	61,743,461	530,982,865
Net investment return	61,747,030	6,140,077	—	67,887,107
Contributions	4,802,986	1,000	1,325,959	6,129,945
Distributions	(21,044,813)	(4,802,986)	—	(25,847,799)
Net assets, June 30, 2010	$ 511,599,754	4,482,944	63,069,420	579,152,118

	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

(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, 2010 and 2009 amounted to approximately $1,781,587 and $1,550,516, respectively.

(Continued)

The Cooper Union provides medical insurance benefits for its retired employees. 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, 2010 and 2009:

		2010	2009
Change in benefit obligation:			
Benefit obligation at beginning of year	$	22,262,910	20,392,580
Service cost		689,044	678,586
Interest cost		1,260,223	1,306,320
Actuarial loss		(2,017,450)	(825,416)
Actuarial assumptions		2,744,352	1,228,873
Benefits paid		(386,642)	(518,033)
Benefit obligation at end of year		24,552,437	22,262,910
Change in plan assets:			
Employer contribution		386,642	518,033
Benefit paid		(386,642)	(518,033)
Fair value of plan assets at end of year		—	—
Funded status	$	(24,552,437)	(22,262,910)
Amount recognized in the consolidated balance sheets consists of:			
Accrued benefits cost – beginning of year	$	22,262,910	20,392,580
Loss (gain) not yet recognized as a component of net periodic cost		302,432	(161,089)
Net periodic benefit cost		2,373,737	2,549,452
Employer contribution		(386,642)	(518,033)
Net amount recognized	$	24,552,437	22,262,910
Weighted average discount rate assumptions as of June 30		5.25%	6.25%

(Continued)

For measurement purposes, a 13.5% annual rate of increase in the per capita cost of covered healthcare benefits was assumed for fiscal year 2010. The rate was assumed to decrease by 1.5% per year to an ultimate rate of 3.0% and remain at that level thereafter.

		2010	2009
Components of net periodic benefit cost:			
Service cost	$	689,044	678,586
Interest cost		1,260,223	1,306,320
Recognized actuarial loss		424,470	564,546
Net periodic benefit cost	$	2,373,737	2,549,452
Benefit cost weighted average discount rate assumptions for the years ended June 30		6.25%	6.75%

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	$	289,837	280,386
Effect on postretirement benefit obligation		2,497,148	2,309,616

The projected premium payments in each fiscal year from 2010 through 2020 are:

Year ending June 30:		
2011	$	852,124
2012		1,000,354
2013		1,147,581
2014		1,258,212
2015		1,367,508
2016 through 2020 (in aggregate)		8,215,452
	$	13,841,231

At June 30, 2010, the net loss of $7,809,131 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 2011 includes amortization of actuarial losses of $692,168.

(Continued)

(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 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 $10,214,286 and $10,326,531 are included in the accompanying consolidated balance sheets at June 30, 2010 and 2009, 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 $1,028,171 and $1,001,322 in 2010 and 2009, respectively. Sublease income for this lease was $929,486 and $869,761 in 2010 and 2009, respectively. The following is a schedule by year of future minimum rental payments and sublease income, including future rent escalations, as of June 30, 2011, for the Third Avenue site:

		Minimum rental payments	Sublease income
Year ending June 30:			
2011	$	815,000	854,473
2012		830,000	899,024
2013		845,000	947,059
2014		860,000	998,768
2015		875,000	1,059,113
2016 and thereafter (in aggregate)		24,163,333	9,572,496

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 2010 and 2009. The following is a schedule by year of future minimum rental payments excluding future rent escalations, at June 30, 2010:

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

(9) Subsequent Events

In connection with the preparation of the consolidated financial statements, the College evaluated events subsequent to June 30, 2010 and through December 17, 2010, which was the date the consolidated financial statements were approved for issuance, and concluded that no additional disclosures are required.