



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

Consolidated Financial Statements

June 30, 2013 and 2012

(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 financial statements of The Cooper Union for the Advancement of Science and Art and its affiliates (collectively referred to as The Cooper Union), which comprise the consolidated balance sheets as of June 30, 2013 and 2012, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Cooper Union for the Advancement of Science and Art and its affiliates as of June 30, 2013 and 2012, and the changes in their net assets and their cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

KPMG LLP

December 17, 2013

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

Consolidated Balance Sheets
June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Assets		
Cash and cash equivalents	\$ 17,130,331	\$ 25,214,975
Contributions receivable, net (note 3)	1,143,148	1,662,367
Other receivables	1,581,830	839,326
Investments (notes 2 and 5)	693,050,429	666,680,417
Prepaid expenses and other assets (note 5)	9,539,565	9,983,038
Loans to students, net of allowance for doubtful loans of \$34,238 in 2013 and 2012	489,810	508,428
Plant assets, net (note 4)	<u>182,531,195</u>	<u>190,477,844</u>
Total assets	<u><u>\$ 905,466,308</u></u>	<u><u>\$ 895,366,395</u></u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 5,100,397	\$ 5,937,588
Accrued interest	856,041	856,041
Liability under charitable trusts and annuity agreements	5,893,636	5,078,940
Accrued postretirement benefit costs (note 7)	25,352,356	27,882,606
Deferred revenue (notes 5 and 8)	104,133,298	105,364,580
Long-term loans (note 5)	<u>175,000,000</u>	<u>175,000,000</u>
Total liabilities	<u>316,335,728</u>	<u>320,119,755</u>
Net assets:		
Unrestricted	(95,457,288)	(83,914,752)
Temporarily restricted (note 6)	614,899,299	591,831,979
Permanently restricted (note 6)	<u>69,688,569</u>	<u>67,329,413</u>
Total net assets	<u>589,130,580</u>	<u>575,246,640</u>
Total liabilities and net assets	<u><u>\$ 905,466,308</u></u>	<u><u>\$ 895,366,395</u></u>

See accompanying notes to consolidated financial statements.

**THE COOPER UNION FOR THE ADVANCEMENT
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Consolidated Statement of Activities

Year ended June 30, 2013

(With comparative totals for the year ended June 30, 2012)

	Unrestricted	Temporarily restricted	Permanently restricted	Total 2013	2012
Operations:					
Revenues and other support:					
Investment return utilized for operations (note 2)	\$ 38,633,497	\$ -	\$ -	\$ 38,633,497	\$ 38,203,981
Student tuition and fees, net of tuition discount	3,421,111	-	-	3,421,111	3,141,881
Contributions	4,044,108	1,872,080	2,366,381	8,282,569	6,685,295
Government grants and contracts	639,672	-	-	639,672	691,612
Appropriations – State of New York aid	65,968	-	-	65,968	73,568
Rental income (note 8)	2,946,243	-	-	2,946,243	2,478,349
Auxiliary enterprises	1,867,650	-	-	1,867,650	1,793,554
Other revenue	514,932	-	-	514,932	88,765
Net assets released from restrictions	2,175,097	(2,175,097)	-	-	-
Total revenues and other support	54,308,278	(303,017)	2,366,381	56,371,642	53,157,005
Expenses (note 9):					
Salaries	23,949,642	-	-	23,949,642	25,472,469
Employee benefits	9,730,723	-	-	9,730,723	10,124,094
Interest (note 5)	10,272,500	-	-	10,272,500	10,272,500
Depreciation and amortization	8,525,385	-	-	8,525,385	8,652,021
Occupancy and other related expenses	6,296,580	-	-	6,296,580	6,340,642
Supplies, services, and other office expenses	7,213,083	-	-	7,213,083	6,254,376
Other operating expenses	2,194,504	-	-	2,194,504	2,497,037
Total expenses	68,182,417	-	-	68,182,417	69,613,139
(Deficiency) excess of operating revenues (under) over operating expenses before nonoperating activities and other changes	(13,874,139)	(303,017)	2,366,381	(11,810,775)	(16,456,134)
Nonoperating activities and other changes:					
(Deficiency) excess of investment return (under) over amounts utilized in operations (note 2)	(2,967,360)	24,473,785	-	21,506,425	20,183,749
Net assets released from restrictions for capital and other reclassifications	1,110,673	(1,103,448)	(7,225)	-	-
Amounts not yet recognized as a component of net periodic cost (note 7)	4,188,290	-	-	4,188,290	(3,658,674)
(Decrease) increase in net assets	(11,542,536)	23,067,320	2,359,156	13,883,940	68,941
Net assets at beginning of year	(83,914,752)	591,831,979	67,329,413	575,246,640	575,177,699
Net assets at end of year	\$ (95,457,288)	\$ 614,899,299	\$ 69,688,569	\$ 589,130,580	\$ 575,246,640

See accompanying notes to consolidated financial statements.

**THE COOPER UNION FOR THE ADVANCEMENT
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Consolidated Statement of Activities
Year ended June 30, 2012
(With comparative totals for the year ended June 30, 2011)

	Unrestricted	Temporarily restricted	Permanently restricted	Total	
				2012	2011
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	51,753,674	237,580	1,165,751	53,157,005	51,004,458
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	69,613,139	-	-	69,613,139	69,549,296
(Deficiency) excess of operating revenues (under) 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.

**THE COOPER UNION FOR THE ADVANCEMENT
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Consolidated Statements of Cash Flows
Years ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Increase in net assets	\$ 13,883,940	\$ 68,941
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	(4,188,290)	3,658,674
Depreciation and amortization expense	8,525,385	8,652,021
Net unrealized and realized gains on investments	(27,984,844)	(27,367,415)
Change in value of split-interest agreements	1,724,519	361,971
Permanently restricted contributions	(2,366,381)	(1,165,751)
Contributions restricted for capital purposes	(25,000)	(76,107)
Changes in assets and liabilities:		
Contributions receivable, net of amounts classified as financing activities	7,015	714,883
Other receivables	(742,504)	137,752
Prepaid expenses and other assets	443,473	294,952
Accounts payable and accrued expenses	(837,191)	302,329
Deferred revenue	(1,231,282)	(83,791)
Accrued postretirement benefit costs	1,658,040	1,315,769
Net cash used in operating activities	<u>(11,133,120)</u>	<u>(13,185,772)</u>
Cash flows from investing activities:		
Purchases of investments	(46,851,583)	(32,063,730)
Proceeds from sales of investments	48,466,415	57,660,432
Decrease (increase) in loans to students	18,618	(17,355)
Decrease in accounts payable for capital expenditures	-	(328,417)
Purchases of plant assets	(578,736)	(2,882,766)
Net cash provided by investing activities	<u>1,054,714</u>	<u>22,368,164</u>
Cash flows from financing activities:		
Permanently restricted contributions	2,366,381	1,165,751
Contributions restricted for capital purposes	25,000	76,107
Decrease in contributions receivable related to financing activities	512,204	1,624,405
Proceeds of new charitable gift annuities	335,898	150,000
Payments to beneficiaries under charitable annuities	(1,245,721)	(587,130)
Net cash provided by financing activities	<u>1,993,762</u>	<u>2,429,133</u>
Net (decrease) increase in cash and cash equivalents	(8,084,644)	11,611,525
Cash and cash equivalents at beginning of year	<u>25,214,975</u>	<u>13,603,450</u>
Cash and cash equivalents at end of year	<u><u>\$ 17,130,331</u></u>	<u><u>\$ 25,214,975</u></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.

THE COOPER UNION FOR THE ADVANCEMENT OF SCIENCE AND ART

Notes to Consolidated Financial Statements
June 30, 2013 and 2012

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. The College was incorporated under a special act of the New York State Legislature in 1859 and is subject to the jurisdiction of the Regents of the University of the State of New York. It offers degree programs in architecture, art, and engineering. The College provided full-tuition scholarships to all students through fiscal 2013. In April 2013, the board of trustees of The Cooper Union voted to reduce the baseline scholarship to a minimum of 50% for undergraduate students beginning with the class entering in fall 2014. The College designated tuition rates of \$38,550 and \$37,500 for full-time undergraduate students for fiscal 2013 and 2012, respectively. All students are required to apply for certain outside tuition assistance programs for which they are eligible.

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 inter-organizational balances and transactions have been eliminated in consolidation.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

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

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

Temporarily Restricted Net Assets – Net assets subject to donor-imposed stipulations that will be met either by actions of The Cooper Union or the passage of time. Donor-restricted contributions whose restrictions are met in the same reporting period 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 consolidated financial statements. As of June 30, 2013 and 2012, 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.

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Notes to Consolidated Financial Statements
June 30, 2013 and 2012

(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 the reporting period. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include the fair value of real estate and alternative investments, the useful lives of fixed assets, accrued postretirement benefit costs, the allowance for doubtful loans and contributions receivable, liabilities 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 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 Level 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.

(i) Fair Value of Financial Instruments

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

(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-interest agreements provide for payments to the donors or their beneficiaries based upon either the income earned on related investments or specified annuity amounts. Assets held under these arrangements are reported at fair value and included in investments in the accompanying consolidated balance sheets. Contribution revenue is recognized at the date the trust or annuity contract is established after recording liabilities for the present value of the estimated future payments expected to be made to the donors and/or other beneficiaries. The liabilities under charitable trusts and annuity agreements are adjusted annually for changes in the life expectancy of 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 restrictions 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 2012 consolidated financial statements to conform to the 2013 presentation.

**THE COOPER UNION FOR THE ADVANCEMENT
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Notes to Consolidated Financial Statements
June 30, 2013 and 2012

2. Investments

Investments in debt and equity securities with readily determinable fair values 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 in New York City. Legal title to both the land and building, subject to a lease that is scheduled to expire on December 31, 2147, rests with the College. (note 8). The Chrysler Building asset, which is included in investments at fair value, was valued at \$570,000,000 and \$555,000,000 as of June 30, 2013 and 2012, respectively. The fair value of the Chrysler Building is determined based on the net present value of future cash flows related to net rental income.

Also included in investments are charitable trusts and gift annuities amounting to \$7,825,649 and \$7,901,242 as of June 30, 2013 and 2012, respectively.

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 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.

The components of investment return for the years ended June 30, 2013 and 2012 were as follows:

	2013	2012
Real estate rental income (note 8)	\$ 31,427,497	\$ 30,392,051
Interest and dividends	1,038,285	980,454
Unrealized gains on real estate investments	15,160,000	35,210,000
Unrealized gains (losses) on other investments	7,448,342	(10,407,757)
Realized gains on investments	5,376,502	2,565,172
Investment expenses	(310,704)	(352,190)
Net investment return	60,139,922	58,387,730
Less amounts classified as:		
Temporarily restricted	24,473,785	31,109,485
Unrestricted amounts utilized for operations	38,633,497	38,203,981
Deficiency of investment return under amounts utilized for operations and amounts classified as temporarily restricted	\$ (2,967,360)	\$ (10,925,736)

**THE COOPER UNION FOR THE ADVANCEMENT
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Notes to Consolidated Financial Statements
June 30, 2013 and 2012

The following tables present The Cooper Union's fair value hierarchy for investments as of June 30, 2013 and 2012:

	----- 2013 Fair Value Measurements -----				Redemption or Liquidation	Days
	Fair Value	Level 1	Level 2	Level 3	Frequency	Notice
Cash, cash equivalents, and short-term investments held by investment managers and trustees	\$ 4,973,842	\$ 4,973,842	\$ -	\$ -	Daily	1
Corporate bonds	3,048,531	3,048,531	-	-	Daily	1
Equity securities:						
U.S. equity	17,032,327	17,032,327	-	-	Daily	1
International equity	4,146,242	4,146,242	-	-	Daily	1
Mutual funds	9,174,546	9,174,546	-	-	Daily	1
Hedge funds:						
Long/short equity	2,569,273	-	2,569,273	-	Monthly	15
Absolute return	24,745,345	-	24,745,345	-	Quarterly	15-65
Fund of funds:						
Long/short equity	3,424,108	-	3,424,108	-	Quarterly	60
Absolute return	6,901,340	-	6,901,340	-	Quarterly	30
Limited partnerships:						
Global equity	11,124,426	-	11,124,426	-	Monthly	6
Fixed Income	2,734,199	-	2,734,199	-	Monthly	30
Absolute return	19,758,195	-	7,526,796	12,231,399	Quarterly, Annually	45-65
Nonmarketable assets	11,031,029	-	-	11,031,029	Illiquid	N/A
Real estate	571,770,000	-	-	571,770,000	Illiquid	N/A
Other	617,026	-	-	617,026	Illiquid	N/A
Total investments	\$ 693,050,429	\$ 38,375,488	\$ 59,025,487	\$ 595,649,454		

As of June 30, 2013, The Cooper Union had \$11,031,029 of Level 3 nonmarketable assets that were subject to lockup. The remaining lockup of these assets range from 3 to 12 years. The Cooper Union's unfunded capital commitments approximated \$3.9 million as of June 30, 2013.

	----- 2012 Fair Value Measurements -----				Redemption or Liquidation	Days
	Fair Value	Level 1	Level 2	Level 3	Frequency	Notice
Cash, cash equivalents, and short-term investments held by investment managers and trustees	\$ 5,391,692	\$ 5,391,692	\$ -	\$ -	Daily	1
Corporate 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	12,443,214	12,443,214	-	-	Daily	1
Hedge funds:						
Long/short equity	5,373,140	-	5,373,140	-	Monthly, Quarterly	15-30
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	556,950,000	-	-	556,950,000	Illiquid	N/A
Other	617,026	-	-	617,026	Illiquid	N/A
Total investments	\$ 666,680,417	\$ 38,490,096	\$ 38,249,077	\$ 589,941,244		

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Notes to Consolidated Financial Statements
June 30, 2013 and 2012

The following tables present The Cooper Union's activity for the fiscal years ended June 30, 2013 and 2012 for investments measured at fair value on a recurring basis using unobservable inputs (Level 3):

2013							
	Balance at June 30, 2012	Transfers from Level 3 to Level 2	Transfers from Level 2 to Level 3	Net appreciation in fair value of investments	Sales/ redemptions	Purchases	Balance at June 30, 2013
Hedge funds	\$ 5,267,548	\$ (5,267,548)	\$ -	\$ -	\$ -	\$ -	\$ -
Fund of funds	5,775,652	(5,775,652)	-	-	-	-	-
Limited partnerships	21,331,018	(5,543,211)	6,212,945	2,021,091	(3,690,161)	2,930,746	23,262,428
Real estate and other	557,567,026	-	-	15,160,000	(340,000)	-	572,387,026
Total level 3 investments	\$ 589,941,244	\$ (16,586,411)	\$ 6,212,945	\$ 17,181,091	\$ (4,030,161)	\$ 2,930,746	\$ 595,649,454

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

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 fiscal 2013 and 2012.

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3. Contributions Receivable

Contributions receivable as of June 30, 2013 and 2012 were scheduled to be collected as follows:

	2013	2012
Year ended June 30:		
Less than one year	\$ 1,432,385	\$ 1,717,589
One year to five years	32,554	330,377
Contributions receivable, gross	1,464,939	2,047,966
Allowance for uncollectible contributions receivable	(40,456)	(64,283)
Adjustment to reflect contributions receivable at fair value (0.08%-8.25%)	(281,335)	(321,316)
Contributions receivable, net	\$ 1,143,148	\$ 1,662,367

4. Plant Assets

Plant assets as of June 30, 2013 and 2012 were as follows:

	2013	2012
Land and land improvements	\$ 150,000	\$ 150,000
Buildings and building improvements	235,594,233	235,594,233
Software and equipment	32,395,105	30,602,015
Leasehold improvements	3,001,629	3,001,629
Construction in progress	52,113	1,266,467
Plant assets, gross	271,193,080	270,614,344
Accumulated depreciation and amortization	(88,661,885)	(80,136,500)
Plant assets, net	\$ 182,531,195	\$ 190,477,844

Plant assets include a building (recorded at \$2,549,115 at June 30, 2013 and 2012), which is subject to a gift annuity agreement.

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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 of 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 5 years and thereafter follows:

	Principal	Interest	Total
Year ending June 30:			
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	-	10,272,500	10,272,500
2019 and thereafter (in aggregate)	175,000,000	119,551,185	294,551,185

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 in October 2009, July 2011, and January 2012. 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 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 \$8,369,154 and \$8,759,545 as of June 30, 2013 and 2012, respectively, net of amortization of \$2,422,138 and \$2,031,747 as of June 30, 2013 and 2012, respectively, are included in prepaid expenses and other assets in the accompanying consolidated balance sheets.

Interest expense on all long-term debt totaled \$10,272,500 in both fiscal 2013 and 2012.

6. Net Assets

Temporarily restricted net assets as of June 30, 2013 and 2012 were available for the following purposes or periods:

	2013	2012
Purpose restrictions:		
Academic support	\$ 11,900,709	\$ 7,492,717
Student aid	11,326,541	8,325,448
Instruction	3,657,237	1,932,154
Other	4,252,325	5,169,043
Time restrictions	3,772,679	4,340,556
Appreciation on real estate asset	570,000,000	555,000,000
Appreciation on endowment not yet appropriated	9,989,808	9,572,061
Total temporarily restricted net assets	\$ 614,899,299	\$ 591,831,979

Permanently restricted net assets are restricted to investments in perpetuity, the income from which was expendable to support purposes as of June 30, 2013 and 2012 as follows:

	2013	2012
Specific purposes of The Cooper Union, principally instructional and student financial aid	\$ 55,486,027	\$ 52,804,811
General activities of The Cooper Union	14,202,542	14,524,602
Total permanently restricted net assets	\$ 69,688,569	\$ 67,329,413

The Cooper Union's endowment consists of approximately 470 donor-restricted individual funds established for a variety of purposes. There are no board-designated funds. As of June 30, 2013 and 2012, the fair values of 9 and 240 endowment accounts were less than their original value (underwater) by a total of approximately \$136,000 and \$1,306,000, 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.

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

The Cooper Union follows the New York Prudent Management of Institutional Funds Act (NYPMIFA). In accordance with relevant accounting guidance and absent explicit donor stipulations to the contrary, management classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as

temporarily restricted net assets until 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 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*.

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, 2013 and 2012 were as follows:

2013	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, June 30, 2012	\$ (1,306,313)	\$ 574,512,444	\$ 67,329,413	\$ 640,535,544
Net investment return	28,022,142	25,054,695	-	53,076,837
Contributions, net	-	-	2,359,156	2,359,156
Distributions	(26,852,044)	(573,747)	-	(27,425,791)
Endowment net assets, June 30, 2013	\$ (136,215)	\$ 598,993,392	\$ 69,688,569	\$ 668,545,746

2012	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment 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, net	-	-	1,165,751	1,165,751
Distributions	(25,449,118)	(796,178)	-	(26,245,296)
Endowment net assets, June 30, 2012	\$ (1,306,313)	\$ 574,512,444	\$ 67,329,413	\$ 640,535,544

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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, 2013 and 2012 amounted to \$1,918,308 and \$1,909,538, respectively. The Cooper Union also provides medical insurance benefits for its retired employees through a defined benefit plan. The following provides information about the plan's funded status reconciled with the accrued postretirement benefit obligation reported in The Cooper Union's consolidated balance sheets as of June 30, 2013 and 2012:

	2013	2012
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 27,882,606	\$ 22,908,163
Service cost	743,403	670,828
Interest cost	1,030,084	1,185,792
Actuarial loss	(3,713,660)	(993,159)
Actuarial assumptions	(48,565)	4,795,454
Benefits paid	(541,512)	(684,472)
Benefit obligation at end of year	25,352,356	27,882,606
Change in plan assets:		
Employer contribution	541,512	684,472
Benefits paid	(541,512)	(684,472)
Fair value of plan assets at end of year	-	-
Funded status	\$ (25,352,356)	\$ (27,882,606)

	2013	2012
Accrued postretirement benefits costs obligation consists of:		
Accrued benefits cost liability at beginning of year	\$ 27,882,606	\$ 22,908,163
Amounts not yet recognized as a component of net periodic cost	(4,188,290)	3,658,674
Net periodic benefit cost	2,199,552	2,000,241
Employer contribution	(541,512)	(684,472)
Net obligation recognized	\$ 25,352,356	\$ 27,882,606
Weighted average discount rate assumptions as of June 30	4.50%	4.00%

	2013	2012
Components of net periodic benefit cost:		
Service cost	\$ 743,403	\$ 670,828
Interest cost	1,030,084	1,185,792
Recognized actuarial loss	426,065	143,621
Net periodic benefit cost	\$ 2,199,552	\$ 2,000,241
Benefit cost weighted average discount rate assumption for the years ended June 30	4.00%	5.50%

As of June 30, 2013, the cumulative net loss not yet recognized as a component of net periodic benefit cost totaled \$3,903,995. The projected net periodic benefit cost for fiscal 2014 included the amortization of actuarial losses of \$175,248.

For measurement purposes, a 9.0% and 10.5% annual rate of increase in the per capita cost of covered healthcare benefits was assumed for fiscal 2013 and 2012, respectively. The rate was assumed to decrease by 1.5% per year to an ultimate rate of 3.0% in fiscal 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	\$ 333,992	\$ (259,396)
Effect on accrued postretirement benefit obligation	3,740,067	(3,022,344)

The projected premium payments in each fiscal year from 2014 through 2023 are as follows:

	Premiums
Year ending June 30:	
2014	\$ 962,127
2015	1,042,818
2016	1,121,805
2017	1,207,475
2018	1,261,482
2019 through 2023 (in aggregate)	7,179,008
Projected premium payments	\$ 12,774,715

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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, which is recognized as real estate rental income within net investment return (note 2), 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.

In December 2002, The Cooper Union entered into two related operating lease agreements, which expire in December 2101, for the land located at 26 Astor Place in New York City. Under the terms of both leases, the tenant financed construction of a new building, ownership to be held by The Cooper Union. Under the terms of the lease agreements, 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 as rental income over the lives of the leases. The remaining balances were \$9,877,551 and \$9,989,796 as of June 30, 2013 and 2012, respectively.
- An amount equivalent to the taxes payable on the real property were it subject to taxation. Such amount, which is recognized as real estate rental income within net investment return, is based on New York City's assessment of the value of the land and building subject to the existing tax rate. This amount will be reduced by 50% beginning in fiscal year 2014 based on an agreement with New York City.

The Cooper Union also recognizes annual rental income for the amortization of deferred revenue related to the ground lease of 51 Astor Place (note 5) and real estate rental income within net investment return for the tax equivalency payments received for that property.

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 \$1,155,828 and \$1,121,367 in fiscal 2013 and 2012, respectively. Sublease rental income for these leases totaled \$1,108,083 and \$1,025,199 in fiscal 2013 and 2012, respectively. The following is a schedule by year of future minimum rental payments and sublease rental income, including future rent escalations, for the Third Avenue site as of June 30, 2013:

	Minimum rental payments	Sublease rental income
Year ending June 30:		
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	920,000	1,276,516
2019 and thereafter (in aggregate)	21,448,334	6,889,431

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 on June 30, 2018, per a lease modification agreement in September 2013. Rent expense for this lease was \$745,789 and \$723,657 in fiscal 2013 and 2012, respectively. The following is a schedule by year of future minimum rental payments for the 30 Cooper Square property:

	Minimum rental payments
Year ending June 30:	
2014	\$ 767,298
2015	660,683
2016	678,851
2017	697,520
2018	716,701

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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 tables below. Accordingly, expenses have been charged to program and supporting services based on direct expenses and other specific allocation methods.

2013	Allocated Interest Expense	Allocated Depreciation and Amortization Expense	Direct Expenses	Total
Program services:				
Instruction	\$ 3,264,262	\$ 4,503,750	\$ 15,939,021	\$ 23,707,033
Academic support	2,656,089	2,747,432	13,226,194	18,629,715
Public service	527,194	179,765	2,485,849	3,192,808
Research	169,506	-	906,433	1,075,939
Student services	521,994	267,408	2,791,357	3,580,759
Student aid	145,900	-	780,198	926,098
Auxiliary enterprises	659,428	557,919	956,681	2,174,028
Program services expenses	7,944,373	8,256,274	37,085,733	53,286,380
Supporting services:				
Management and general	1,628,423	214,490	8,563,424	10,406,337
Fundraising	699,704	54,621	3,735,375	4,489,700
Supporting services expenses	2,328,127	269,111	12,298,799	14,896,037
Total expenses	\$ 10,272,500	\$ 8,525,385	\$ 49,384,532	\$ 68,182,417

2012	Allocated Interest Expense	Allocated Depreciation and Amortization Expense	Direct Expenses	Total
Program services:				
Instruction	\$ 3,382,360	\$ 4,581,537	\$ 17,046,549	\$ 25,010,446
Academic support	2,671,893	2,795,096	13,701,071	19,168,060
Public service	528,750	181,839	2,562,328	3,272,917
Research	105,155	-	580,175	685,330
Student services	532,960	268,010	2,940,529	3,741,499
Student aid	135,491	-	747,552	883,043
Auxiliary enterprises	702,313	561,439	964,205	2,227,957
Program services expenses	8,058,922	8,387,921	38,542,409	54,989,252
Supporting services:				
Management and general	1,552,791	212,842	8,507,099	10,272,732
Fundraising	660,787	51,258	3,639,110	4,351,155
Supporting services expenses	2,213,578	264,100	12,146,209	14,623,887
Total expenses	\$ 10,272,500	\$ 8,652,021	\$ 50,688,618	\$ 69,613,139

10. Subsequent Events

In connection with the preparation of the consolidated financial statements, The Cooper Union evaluated events subsequent to June 30, 2013, and through December 17, 2013, which was the date the consolidated financial statements were available for issuance, and concluded that no additional disclosures are required.