



**THE RESEARCH FOUNDATION OF  
THE CITY UNIVERSITY OF NEW YORK**

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 Directors  
Research Foundation of  
The City University of New York:

We have audited the accompanying consolidated balance sheets of the Research Foundation of The City University of New York (the Foundation) as of June 30, 2009 and 2008, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Foundation'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 Foundation'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 Research Foundation of The City University of New York 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 U.S. generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The 2009 consolidating information is presented for purposes of additional analysis of the 2009 consolidated financial statements rather than to present the financial position, changes in net assets, and cash flows of the individual entities. The 2009 consolidating information has been subjected to the auditing procedures applied in the audit of the 2009 consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the 2009 consolidated financial statements taken as a whole.

**KPMG LLP**

October 29, 2009

**THE RESEARCH FOUNDATION OF  
THE CITY UNIVERSITY OF NEW YORK**

Consolidated Balance Sheets

June 30, 2009 and 2008

(with consolidating information as of June 30, 2009)

	2009					2008
	Foundation	230 West 41st Street LLC Consolidating Information	Grants Plus	Eliminations	Total	
<b>Assets</b>						
Cash and cash equivalents	\$ 73,403,123	1,490,504	117,411	—	75,011,038	72,359,972
Restricted cash (notes 20), 10, 11, and 14)	—	3,391,924	—	—	3,391,924	4,158,508
Contracts, and accounts receivable (net of allowance of \$4,500,000 in 2009 and \$4,300,000 in 2008)	50,401,746	—	12,704	(55,000)	50,359,450	48,412,618
Loans receivable (note 13)	2,014,066	—	—	—	2,014,066	2,042,557
Rent receivable (net of allowance of \$37,306 in 2008)	—	86,684	—	—	86,684	784,848
Prepaid expenses and other assets	418,137	220,667	—	—	638,804	428,398
Investments, at fair value (note 3)	64,148,719	—	—	—	64,148,719	53,891,774
Investment in Grants Plus	21,935	—	—	(21,935)	—	—
Investment in 230 West 41st Street LLC (LLC)	7,772,976	—	—	(7,772,976)	—	—
Due from Sole Member	—	96,760	—	(96,760)	—	—
Deferred rent receivable	—	4,517,922	—	(995,415)	3,522,507	3,306,489
Value of in-place leases (net of accumulated amortization of \$4,990,303 in 2009 and \$4,549,535 in 2008) (note 9)	—	1,961,952	—	—	1,961,952	2,402,720
Above-market leases (net of accumulated amortization of \$2,257,754 in 2009 and \$1,964,838 in 2008) (note 9)	—	1,320,978	—	—	1,320,978	1,613,894
Deferred financing costs (net of accumulated amortization of \$1,299,260 in 2009 and \$967,888 in 2008)	—	1,435,347	—	—	1,435,347	1,623,514
Fixed assets:						
Rental property, net (note 9)	—	54,869,191	—	—	54,869,191	56,290,861
Furniture, fixtures, and equipment (net of accumulated depreciation of \$2,523,519 in 2009 and \$2,123,353 in 2008)	874,648	—	—	—	874,648	1,196,362
Leasehold improvements (net of accumulated amortization of \$145,827 in 2009 and \$109,927 in 2008)	320,871	—	—	—	320,871	356,771
Total assets	\$ 199,376,221	69,391,929	130,115	(8,942,086)	259,956,179	248,869,286
<b>Liabilities and Net Assets (Deficit)</b>						
Accounts payable and accrued expenses	\$ 44,332,826	518,923	104,655	(55,000)	44,901,404	36,115,209
Deferred revenue (note 5)	57,833,089	—	3,525	—	57,836,614	60,218,568
Grants payable to CUNY (note 8)	1,485,651	—	—	—	1,485,651	1,187,556
Revolving credit loan payable (note 13)	1,698,218	—	—	—	1,698,218	1,874,948
Loan from LLC	96,760	—	—	(96,760)	—	—
Deferred rent payable	995,415	—	—	(995,415)	—	—
Security deposits payable	—	590,915	—	—	590,915	624,210
Deposits held in custody for CUNY colleges	69,770,779	—	—	—	69,770,779	66,474,693
Below-market leases (net of accumulated amortization of \$233,152 in 2009 and \$210,266 in 2008) (note 9)	—	102,586	—	—	102,586	125,472
Deposits held in custody for tenant (note 11)	—	439,898	—	—	439,898	625,652
Postretirement benefits payable (note 4)	49,920,311	—	—	—	49,920,311	39,325,856
Mortgage loan payable (note 10)	—	59,966,631	—	—	59,966,631	60,725,953
Total liabilities	226,133,049	61,618,953	108,180	(1,147,175)	286,713,007	267,298,117
Net assets (deficit):						
Unrestricted:						
Postretirement benefits	(49,920,311)	—	—	—	(49,920,311)	(39,325,856)
230 West 41st Street LLC	7,772,976	7,772,976	—	(7,772,976)	7,772,976	9,139,154
Grants Plus	21,935	—	21,935	(21,935)	21,935	16,540
Other	15,368,572	—	—	—	15,368,572	11,741,331
Total net assets (deficit)	(26,756,828)	7,772,976	21,935	(7,794,911)	(26,756,828)	(18,428,831)
Total liabilities and net assets (deficit)	\$ 199,376,221	69,391,929	130,115	(8,942,086)	259,956,179	248,869,286

See accompanying notes to consolidated financial statements.

**THE RESEARCH FOUNDATION OF  
THE CITY UNIVERSITY OF NEW YORK**

Consolidated Statements of Activities

Years ended June 30, 2009 and 2008

(with consolidating information for the year ended June 30, 2009)

	2009				2008
	Foundation	230 West 41st Street LLC Consolidating Information	Grants Plus Consolidating Information	Eliminations	
Grants and contracts administered for others:					
Revenue:					
Governmental	\$ 244,965,972	—	—	—	244,965,972
Private	93,652,066	—	—	—	93,652,066
Total grants and contracts revenue	338,618,038	—	—	—	338,618,038
Expenses:					
Research	(104,936,360)	—	—	—	(104,936,360)
Training	(97,581,267)	—	—	—	(97,581,267)
Academic development	(91,532,401)	—	—	—	(91,532,401)
Student services	(35,149,989)	—	—	—	(35,149,989)
Other	(9,418,021)	—	—	—	(9,418,021)
Total grants and contracts expenses	(338,618,038)	—	—	—	(338,618,038)
Administrative services:					
Revenue:					
Administrative fees	23,844,741	—	78,348	(55,000)	23,868,089
Investment return (note 3)	2,306,237	—	—	—	2,306,237
Rental income (note 6)	—	12,133,154	—	(2,535,373)	9,597,781
Donated services	—	—	431,926	(431,926)	—
Other	182,846	—	—	—	182,846
Total administrative revenue	26,333,824	12,133,154	510,274	(3,022,299)	35,954,953
Expenses:					
Management and general	(20,325,792)	—	—	2,535,373	(17,790,419)
Postretirement credit (note 4)	(105,838)	—	—	—	(105,838)
Grants to CUNY for central research initiatives (note 8)	(2,300,000)	—	—	—	(2,300,000)
Investment return allocated to individual colleges	(1,110,535)	—	—	—	(1,110,535)
Operating expenses of LLC (note 12)	—	(4,362,815)	—	—	(4,362,815)
Interest expense	—	(3,986,202)	—	—	(3,986,202)
Real estate taxes (note 14)	—	(557,263)	—	—	(557,263)
Depreciation and amortization	(436,066)	(2,714,788)	—	—	(3,150,854)
Donated expenses (note 11)	(34,190)	(378,264)	(431,926)	—	(844,380)
Other (note 11)	(24,312,421)	(11,999,332)	(504,879)	55,000	(33,794,333)
Total administrative expenses	2,021,403	133,822	5,395	—	2,160,620
Excess of revenue over expenses before other changes					
Other changes:					
Change in Foundation investment in 230 West 41st Street LLC	(1,366,178)	—	—	1,366,178	—
Change in Foundation investment in Grants Plus	5,395	—	—	(5,395)	—
230 West 41st Street LLC distribution to Sole Member	1,500,000	(1,500,000)	—	—	—
Loss not yet recognized as component of net periodic postretirement benefit cost	(10,488,617)	—	—	—	(10,488,617)
(Decrease) increase in net assets	(8,327,997)	(1,366,178)	5,395	1,360,783	(8,327,997)
Net assets (deficit) at beginning of year	(18,428,831)	9,139,154	16,540	(9,155,694)	(18,428,831)
Net assets (deficit) at end of year	(26,756,828)	7,772,976	21,935	(7,794,911)	(26,756,828)

See accompanying notes to consolidated financial statements.

**THE RESEARCH FOUNDATION OF  
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Consolidated Statements of Cash Flows

Years ended June 30, 2009 and 2008

	<b>2009</b>	<b>2008</b>
Cash flows from operating activities:		
Decrease in net assets	\$ (8,327,997)	(6,144,394)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:		
Depreciation and amortization	2,568,179	2,562,014
Disposal of fixed assets	—	—
Amortization of deferred financing costs	331,372	295,953
Amortization of in-place leases	440,768	576,954
Amortization of above- and below-market leases	270,030	362,994
Loss not yet recognized as component of net periodic postretirement benefit cost	10,488,617	8,942,107
Net (appreciation) depreciation in fair value of investments	(863,450)	1,039,009
Changes in assets and liabilities:		
Restricted cash	(767,146)	(866,616)
Grants, contracts, accounts, and rents receivable	(1,248,668)	(11,373,995)
Prepaid expenses and other assets	(210,406)	300,058
Deferred rent receivable	(216,018)	(443,030)
Accounts payable and accrued expenses, prepaid rent, and security deposits payable	8,752,900	8,269,383
Deferred revenue	(2,381,954)	4,066,792
Grants payable to CUNY	298,095	(929,816)
Postretirement benefits payable	105,838	(322,322)
Deposits held in custody for CUNY colleges	3,296,086	5,097,433
Net cash provided by operating activities	12,536,246	11,432,524
Cash flows from investing activities:		
Decrease (increase) in loan receivables	28,491	(6,175)
Purchases of fixed assets	(78,452)	(121,943)
Expenditures for rental property improvements	(710,443)	(339,212)
Disposal of rental property improvements	—	444,969
Restricted cash	1,533,730	3,218,282
Deposits held in custody for tenant	(185,754)	(2,294,809)
Deposits held for LLC	—	(468,910)
Payment of deferred leasing costs	(143,205)	(128,968)
Purchases of investments	(175,569,070)	(152,780,228)
Sales and maturity of investments	166,175,575	143,793,149
Net cash used in investing activities	(8,949,128)	(8,683,845)
Cash flows from financing activities:		
Payments under revolving credit loan	(176,730)	(125,052)
Payments under mortgage loan	(759,322)	(708,587)
Net cash used in financing activities	(936,052)	(833,639)
Net increase in cash and cash equivalents	2,651,066	1,915,040
Cash and cash equivalents at beginning of year	72,359,972	70,444,932
Cash and cash equivalents at end of year	\$ 75,011,038	72,359,972
Supplemental cash flow disclosure:		
Cash paid for interest	\$ 3,792,620	3,834,194

See accompanying notes to consolidated financial statements.

**THE RESEARCH FOUNDATION OF  
THE CITY UNIVERSITY OF NEW YORK**

Notes to Consolidated Financial Statements

June 30, 2009 and 2008

**(1) Organization and Purpose**

The Research Foundation of The City University of New York (the Foundation) was chartered in 1963 to further the purposes of The City University of New York (the University or CUNY) and other not-for-profit organizations, through the pursuit, acquisition, and administration of grants and gifts. The Foundation is a separate legal entity and is exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code (the Code).

230 West 41st Street LLC (the LLC) was established on May 7, 2004 as a Delaware limited liability company and organized pursuant to the Limited Liability Operating Agreement (the Agreement) dated July 14, 2004 between the Foundation (the Sole Member with a 100% interest in the LLC) and the LLC. The LLC was formed to acquire, own, and operate an approximately 300,000 square-foot office building located at 230 West 41st Street in New York, New York (the Property).

Single-member limited liability companies organized as provided under the Agreement are generally treated as disregarded entities for federal, state, and local income tax purposes, and accordingly, income taxes have not been provided for in the accompanying consolidated financial statements.

Grants Plus Inc. (Grants Plus) was created by the Foundation and incorporated in May 2004 to provide postaward administration of sponsored programs for not-for-profit organizations other than the Foundation or CUNY. Grants Plus is a separate legal entity exempt from federal income taxes under the provisions of Section 501(c)(3) of the Code.

**(2) Summary of Significant Accounting Policies**

**(a) Basis of Presentation**

The accompanying consolidated financial statements, which consolidate the Foundation, the LLC, and Grants Plus (collectively, the Organization), are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles in the United States for external financial reporting by not-for-profit organizations. All intercompany accounts and transactions have been eliminated in consolidation. The consolidated financial statements present balances and transactions according to the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

*Unrestricted net assets* – Net assets that are not subject to donor-imposed restrictions. In addition, grants and contracts for the performance of certain services or functions are reported in the unrestricted net asset category.

*Temporarily restricted net assets* – Net assets subject to donor-imposed restrictions that will be met either by actions of the Organization or the passage of time. The Organization had no temporarily restricted net assets at June 30, 2009 and 2008.

*Permanently restricted net assets* – Net assets subject to donor-imposed restrictions stipulating that funds be maintained permanently by the Organization, but permit the Organization to expend part or all of the income derived therefrom. The Organization had no permanently restricted net assets at June 30, 2009 and 2008.

**THE RESEARCH FOUNDATION OF  
THE CITY UNIVERSITY OF NEW YORK**

Notes to Consolidated Financial Statements

June 30, 2009 and 2008

Revenues and gains and losses on investments and other assets are reported as changes in unrestricted net assets unless limited by explicit donor-imposed restrictions or by law. Expenses are reported as decreases in unrestricted net assets.

**(b) *Grants and Contracts***

Revenue from grants and contracts, awarded to and accepted by the Foundation, Grants Plus, and various units of the University, as joint grantees, primarily for research, training, and academic development programs, is recognized as earned, that is, as the related costs are incurred under the grant or contract agreements.

Facilities and administrative costs recovered on grants and contracts are recorded at rates established by the Foundation with its federal cognizant agency, or predetermined by the nonfederal sponsor. Facilities and administrative cost rates for government grants and contracts are subject to audit, and subsequent final settlements, if any, are recorded as current period adjustments. Management believes the impact of any future settlements to be immaterial to the consolidated financial statements.

**(c) *Use of Estimates***

The preparation of 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 disclosures of contingencies at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. These estimates and assumptions are based on management's best estimates and judgment. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment. The current economic environment has increased the degree of uncertainty inherent in these estimates and assumptions. Management adjusts such estimates when facts and circumstances dictate. As future events and their effects cannot be determined with precision, actual results could differ from those estimates.

**(d) *Cash Equivalents***

Highly liquid debt instruments with maturities at date of purchase of three months or less are classified as cash equivalents, except for those short-term investments that are managed by an external investment manager for long-term investment purposes.

**(e) *Investments***

Investments are reported at fair value based upon quoted market prices. Realized and unrealized gains and losses on investments are reflected in the accompanying consolidated statements of activities.

**THE RESEARCH FOUNDATION OF  
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Notes to Consolidated Financial Statements

June 30, 2009 and 2008

**(f) Revenue Recognition**

In accordance with Statement of Financial Accounting Standards (SFAS) No. 13, *Accounting for Leases*, base rent income relating to the LLC is recognized on a straight-line basis, rather than in accordance with lease payment schedules, for purposes of recognizing a constant annual rental income. Scheduled base rent increases and the effects of rent abatements are spread evenly over the terms of the respective leases. Differences between the straight-line rents recorded and the amounts actually received are included in deferred rent receivable. Allowances are provided for uncollectible amounts.

**(g) Rental Property**

Building and building improvements of the LLC are carried at cost and are depreciated, using the straight-line method, over their estimated useful lives of 39 years or the life of the improvements, whichever is shorter. Significant renovations or improvements, which extend the economic life of the Property, are capitalized. Expenditures for maintenance and repairs are expensed as incurred.

The LLC follows the provisions of SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, which updates and clarifies the accounting and reporting for impairment of assets held in use and to be disposed of.

The LLC reviews the carrying amount of the Property for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. No impairment adjustments have been made as a result of this review process during 2009 or 2008.

**(h) Fixed Assets**

Furniture, fixtures, and equipment and leasehold improvements are stated at cost. Depreciation of furniture, fixtures, and equipment is computed on a straight-line basis, over the estimated useful lives of the assets, ranging from five to seven years. Amortization of leasehold improvements is computed on a straight-line basis, over the estimated useful lives of the assets, not to exceed the remaining life of the lease.

Equipment purchased by the Foundation on behalf of various units of the University from grant and contract funds is to be used in the project for which it was purchased and is not included in the Foundation's fixed assets on the accompanying consolidated balance sheets.

**(i) Purchase Accounting for Acquisition of Real Estate**

The fair value of the LLC's acquired rental property was allocated to the acquired tangible assets, consisting of land and building; and identified intangible assets and liabilities, consisting of the value of above-market and below-market leases, other value of in-place leases, and value of tenant relationships, based in each case on their fair values.

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Above-market and below-market leases were recorded as assets and liabilities, respectively, and amortized as direct charges against rental revenues over the noncancelable periods of the respective leases. The value of in-place leases is amortized to expense over the remaining noncancelable periods of the respective leases.

The weighted average amortization period for value of above-market leases, below-market leases, and in-place leases is approximately five years.

**(j) *Deferred Leasing Costs***

Deferred leasing costs, included in deferred costs, represent costs incurred in the successful negotiation of leases, including legal and brokerage fees. These costs are amortized on a straight-line basis over the terms of the related tenant lease.

**(k) *Deferred Financing Costs***

Deferred financing costs, included in deferred costs, were incurred in obtaining long-term financing for the LLC. Such costs are being amortized on a straight-line basis over the term of the related debt and are recorded as a component of interest expense.

**(l) *Restricted Cash***

Restricted cash of the LLC includes amounts to be funded for tenant improvements, replacements and repairs, and leasing commissions as required by the LLC's loan agreement. Restricted cash also includes tenant security deposits held in accordance with tenant leases and other tenant deposits held for improvements to leased space. Restricted cash relating to the LLC's loan agreement and tenant security deposits was \$2,952,026 and \$3,532,856 at June 30, 2009 and 2008, respectively. Also, included in restricted cash of the LLC were advances from CUNY of \$439,898 and \$625,652 at June 30, 2009 and 2008, respectively.

**(m) *Deposits Held in Custody for CUNY Colleges***

Deposits held in custody for CUNY colleges reflect those resources held on behalf of the individual colleges of the University. These deposits are credited with facilities and administrative cost, released time, summer salary recoveries, and interest income for the respective colleges.

Released time recoveries represent personal service costs for individuals on the various colleges' payrolls who report effort under grants or contracts. When colleges replace an individual providing time and effort to sponsored projects, the Foundation processes payroll for these individuals or the school will process the payroll and the Foundation will reimburse the school. The reimbursement of personal service costs are reflected as deductions of deposits held in custody for CUNY.

Facilities and administrative costs are considered recoveries of the specific colleges and, accordingly, are credited to deposits held in custody for CUNY colleges.

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**(n) Fair Value Measurements**

Effective July 1, 2008, the Organization adopted SFAS No. 157, *Fair Value Measurement*. SFAS No. 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 measurement date. Fair value is determined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as 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).

**(o) Recently Issued Accounting Standard**

In June 2006, the Financial Accounting Standards Board (FASB) issued Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes*. FIN No. 48 clarifies the accounting for uncertainty in income tax recognized in an entity's financial statements. FIN No. 48 also 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. The Organization has elected to defer adoption of FIN No. 48 in accordance with FASB Staff Position No. 48-3, *Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises*, which defers the effective date of FIN No. 48 for nonpublic entities included within its scope to annual financial statements for years beginning after December 15, 2008. The Organization is currently evaluating the impact that FIN No. 48 will have on its 2010 financial statements upon adoption; however, the effects are not expected to have a material impact.

**(3) Investments**

Investments held by the Foundation consist of the following at June 30, 2009 and 2008:

	<b>2009</b>		<b>2008</b>	
	<b>Fair value</b>	<b>Cost</b>	<b>Fair value</b>	<b>Cost</b>
U.S. money market	\$ 10,348,588	10,348,588	10,737,798	10,737,798
U.S. Treasury bills	28,043,900	28,029,137	19,174,269	19,141,194
U.S. government agency obligations	25,727,744	25,712,284	20,846,317	20,800,322
U.S. equity securities	28,487	25,980	23,790	25,980
Auction rate securities	—	—	3,109,600	4,000,000
Total	<u>\$ 64,148,719</u>	<u>64,115,989</u>	<u>53,891,774</u>	<u>54,705,294</u>

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SFAS No. 157 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. 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 the Foundation has the ability to access at measurement date.
- **Level 2 inputs** are inputs other than quoted prices included in Level 1 that are either directly or indirectly observable for the assets or liabilities.
- **Level 3 inputs** are unobservable inputs for the assets or liabilities.

At June 30, 2009, the Foundation's investments that are reported at fair value are categorized as Level 1.

At the beginning of fiscal year 2009, the Foundation held Level 3 assets (auction rate securities) at fair market value of \$3,109,600. During fiscal year 2009, the Foundation sold all of these instruments and realized gains on the sale of approximately \$890,000, after recognizing interest income of \$72,000. At June 30, 2009, there are no Level 3 investments held by the Foundation.

Components of investment return, including interest on cash and cash equivalents, are as follows for the years ended June 30, 2009 and 2008:

	<b>2009</b>	<b>2008</b>
Interest income	\$ 1,442,787	4,461,921
Net appreciation (depreciation) in fair value of investments	863,450	(1,039,009)
Total	\$ 2,306,237	3,422,912

**(4) Pension and Other Retirement Benefits**

Eligible employees of the Foundation and certain project personnel are covered under a defined contribution pension plan established with Teachers Insurance and Annuity Association (TIAA). The Foundation's contribution to the pension plan is based on specified percentages, ranging from 8% to 14%, of each employee's annual salary. Total pension expense for the years ended June 30, 2009 and 2008 was approximately \$8,685,000 and \$8,249,000, respectively. There are no unfunded past service costs.

In addition to providing pension benefits, the Foundation also provides postemployment benefits, including salary continuance, to certain employees. The cost of these benefits is accrued over the employees' years of service. Postemployment benefits liability included in accounts payable and accrued expenses was approximately \$1,211,701 and \$1,273,000 in 2009 and 2008, respectively.

The Foundation also provides certain healthcare benefits to retired employees (including eligible dependents) who have a combination of age and years of service equal to 70 with a minimum age of 55 and at least 10 years of continuous service.

The Foundation accounts for postretirement medical and other nonpension benefits provided to retirees on an accrual basis during the period of their employment.

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The Foundation charges grants and contracts, as well as the administrative services department for postretirement benefit costs through the application of a fringe benefit rate, an element of which is based upon the estimated amount of such costs. In addition, a charge or credit is recognized in administrative services expenses for the difference between the actuarially determined net periodic postretirement benefit cost and the amount funded (claims paid and contributions to the trust).

Information with respect to the postretirement plan is as follows:

	<u>2009</u>	<u>2008</u>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 79,134,142	68,740,288
Service cost	4,941,128	4,905,697
Interest cost	5,088,799	4,834,181
Actuarial (gain) loss	(769,313)	2,771,961
Benefits paid and administrative expenses	<u>(2,362,373)</u>	<u>(2,117,985)</u>
Benefit obligation at end of year	<u>86,032,383</u>	<u>79,134,142</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	39,808,286	38,034,217
Actual return on plan assets	(9,696,214)	(4,925,931)
Employer contributions	8,362,373	8,817,985
Benefits paid and administrative expenses	<u>(2,362,373)</u>	<u>(2,117,985)</u>
Fair value of plan assets at end of year	<u>36,112,072</u>	<u>39,808,286</u>
Funded status, recorded as a liability in the accompanying balance sheets	<u>\$ (49,920,311)</u>	<u>(39,325,856)</u>
	<u>2009</u>	<u>2008</u>
Weighted average assumptions as of June 30:		
Discount rate	6.25%	6.85%
Expected return on plan assets	5.50	5.50

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	<b>2009</b>	<b>2008</b>
Components of net periodic cost:		
Service cost	\$ 4,941,128	4,905,697
Interest cost	5,088,799	4,834,181
Expected return on plan assets	(2,354,598)	(2,276,132)
Amortization of transition obligation	757,413	757,413
Recognized prior service credit	(779,041)	(779,041)
Recognized net loss	814,510	1,053,544
Net periodic benefit cost	\$ 8,468,211	8,495,662
Weighted average assumptions for the year ended June 30:		
Discount rate	6.85%	6.35%
Expected return on plan assets	5.50	5.50

For measurement purposes, healthcare costs, other than Medicare Part B, were assumed to increase by 9.0% for the year ended June 30, 2009, to decrease by 0.5% in 2010 and then decrease by 1.0% in years 2011 through 2014 to an ultimate rate of 5.0%. Medicare Part B costs were assumed to increase by 4.0% annually.

Assumed healthcare trend rates have a significant effect on the amounts reported for postretirement plans. A one-percentage-point change in assumed healthcare cost trend rates would have the following effects for 2009:

	<b>1% Increase</b>	<b>1% Decrease</b>
Effect on total of service and interest cost components	\$ 1,775,242	(1,487,838)
Effect on postretirement benefit obligation	13,301,305	(11,369,096)

For the years ended June 30, 2009 and 2008, the Organization made contributions to the postretirement plan of \$6,000,000 and \$6,700,000, respectively. In addition, for the years ended June 30, 2009 and 2008, the Organization paid claims and expenses of \$2,362,373 and \$2,117,985, respectively. The Organization expects to contribute or pay claims and expenses aggregating approximately \$8,700,000 in 2010.

The benefits expected to be paid in each fiscal year from 2010 through 2014 and the five subsequent years are:

Year:	
2010	\$ 2,700,149
2011	3,137,761
2012	3,561,000
2013	3,975,220
2014	4,546,995
2015 – 2019	28,308,578

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At June 30, 2009 and 2008, the items not yet recognized as a component of net periodic benefit cost are as follows:

	<u>2009</u>	<u>2008</u>
Transition obligation	\$ 6,665,224	7,422,637
Prior service credit	(4,148,684)	(4,927,725)
Net loss	<u>30,694,407</u>	<u>20,227,418</u>
Total unamortized items	<u>\$ 33,210,947</u>	<u>22,722,330</u>

The transition obligation, prior service credit, and actuarial loss that are expected to be amortized into net periodic cost in fiscal 2010 are as follows:

Transition obligation	\$ 757,413
Prior service credit	(779,041)
Actuarial loss	2,322,241

The postretirement plan's weighted average asset allocations at June 30, 2009 and 2008 by asset category are as follows:

	<u>Target allocation</u>		<u>2009</u>	<u>2008</u>
	<u>2009</u>	<u>2008</u>		
Equity securities	30% – 66%	30% – 66%	60.0%	56.0%
Debt securities	30% – 60%	30% – 60%	23.0	36.0
Real estate	0% – 5%	0% – 5%	—	—
International equity	10% – 20%	10% – 20%	—	—
Cash equivalents	0% – 5%	0% – 5%	<u>17.0</u>	<u>8.0</u>
			<u>100.0%</u>	<u>100.0%</u>

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The following table presents the Foundation's fair value hierarchy for postretirement assets, which are measured at fair value on a recurring basis, as of June 30, 2009:

	<u>Fair value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Equity securities	\$ 21,474,207	21,474,207	—	—
Fixed income	8,344,399	2,245,921	5,976,508	121,970
Cash and cash equivalents	6,293,466	6,293,466	—	—
	<u>\$ 36,112,072</u>	<u>30,013,594</u>	<u>5,976,508</u>	<u>121,970</u>

**(5) Deferred Revenue**

At June 30, 2009 and 2008, cash advances for grants and contracts are for the following projects:

	<u>2009</u>	<u>2008</u>
Research	\$ 10,971,043	11,604,691
Training	13,686,070	13,777,202
Academic Development	23,072,478	22,840,742
Student Services	6,811,528	9,469,472
Other	3,295,495	2,526,461
	<u>\$ 57,836,614</u>	<u>60,218,568</u>

**(6) Commitments**

**(a) Rental Expenses under Operating Leases**

During 2005, the Foundation relocated its headquarters from 555 West 57th Street to 230 West 41st Street. However, the Foundation is obligated under noncancelable operating leases at 555 West 57th Street as follows:

Year ending June 30:	
2010	\$ 996,571
2011	1,023,977
2012	258,299
	<u>\$ 2,278,847</u>

The Foundation also sublets, at a lower rate than its contractual lease rate, the leased space at 555 West 57th Street to CUNY. Net rent expense for the years ended June 30, 2009 and 2008 was \$190,871 and \$183,916, respectively.

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**(b) Rental Income under Operating Leases**

Future minimum rental income under the LLC's operating lease is as follows:

2010	\$	8,006,934
2011		7,750,173
2012		7,313,629
2013		7,336,746
2014		6,875,867
Thereafter		23,260,279

Pursuant to the individual tenant leases, the tenants pay their allocable share of the costs of operating the Property, including real estate taxes, certain insurance premiums, and other expenses that are not included above.

**(c) Letter of Credit**

In fiscal year 2008, the Foundation entered into an agreement with one of its health insurance carriers whereby the Foundation is required to pay the carrier, in advance, for claims incurred but not reported in the event of plan termination. The carrier has allowed the Foundation to retain this payment, which totals \$2,669,025 and is included as a component of accounts payable and accrued expenses on the accompanying consolidated balance sheet as of June 30, 2009, provided that the funds are secured by an irrevocable letter of credit. The Foundation issued a letter of credit for \$2,528,741 to the carrier, which expires on December 30, 2009.

**(7) Fair Value of Financial Instruments**

The carrying amounts of cash equivalents, grants, contracts and accounts receivable, accounts payable and accrued expenses, and deposits held in custody for CUNY colleges approximate fair value due to the short maturity of these financial instruments.

The carrying amount of the mortgage loan payable and revolving credit loan payable approximates fair value because these loans bear interest at a rate that is not significantly different than current market rates for loans with similar maturities and credit quality.

**(8) Grants to CUNY for Central Research Initiatives**

In fiscal years 2009 and 2008, the Foundation approved grants to CUNY for central research initiatives of \$2,300,000 annually.

**(9) Purchase of Rental Property**

On July 14, 2004, the LLC purchased the Property from a third party for \$60,850,000, including closing costs. The purchase price was paid with equity from the Foundation of \$16,800,000 and a portion of the proceeds from a mortgage loan (note 10). The Property consists of approximately 300,000 square feet of rentable retail and office space and, as of June 30, 2009, was approximately 93% occupied.

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Rental property consists of the following at June 30, 2009 and 2008:

	<b>2009</b>	<b>2008</b>
Land	\$ 9,037,040	9,037,040
Building	36,149,160	36,149,160
Building improvements	5,262,412	4,691,782
Tenant improvements	12,580,842	12,441,029
Total	63,029,454	62,319,011
Accumulated depreciation	(8,160,263)	(6,028,150)
Rental property, net	\$ 54,869,191	56,290,861

In addition to the above acquired tangible assets, the purchase price also included identified intangible assets and liabilities, consisting of the value of above- and below-market (\$458,000) leases, and other value of in-place leases, based in each case on their fair values.

**(10) Mortgage Loan Payable**

On July 11, 2004, the LLC entered into a mortgage loan (the Loan) with a principal amount of \$62 million, which matures on August 11, 2014. The Loan bears interest at a rate of 6.19% and is payable in monthly installments of interest only through August 2006; thereafter, principal and interest payments are due in equal monthly installments of \$379,328. A balloon payment is due at maturity consisting of unpaid principal of \$55,184,007 and any accrued and unpaid interest.

Under the terms of the Loan, the LLC is required to deposit monthly payments of \$24,500 into escrow accounts maintained by the LLC consisting of escrow accounts for building capital expenditures and tenant improvements, leasing commissions, lease cancellation fees, and other leasing costs. The LLC had balances in escrow accounts, including interest earned, of approximately \$2,516,000 as of June 30, 2009. In addition, under the terms of the mortgage, the LLC is required to deposit monthly payments to escrow accounts maintained by the LLC for real estate taxes and insurance.

At June 30, 2009, future minimum principal payments are approximately as follows:

2010	\$	811,000
2011		864,000
2012		909,000
2013		978,000
2014		1,041,000
Thereafter		55,364,000
	\$	59,967,000

The Loan is secured by the Property (230 West 41st Street) and assignment of rents and other payments from the tenants.

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The Loan is subject to certain restrictive financial covenants, including limitations on the incurrence of additional indebtedness. Management believes the LLC is in compliance with all covenants at June 30, 2009. The Loan is subject to certain prepayment penalties if it is repaid prior to its maturity date.

Also included in restricted cash are amounts to be funded for replacements and repairs, and leasing commissions as required by the loan agreement.

**(11) Related-Party Transactions**

The Foundation entered into an agreement with CUNY, an affiliate and a tenant in the building, to sublease 66,867 of CUNY's 170,081 square feet of space. The CUNY lease agreement, which expires in June 2017, is at a rate of \$33 per square foot with 2.5% increases effective annually. The Foundation's sublease agreement has the same rate and terms. For the years ended June 30, 2009 and 2008, annual rental revenues earned from CUNY were \$3,921,135, net of sublease expense of \$2,535,373.

At June 30, 2009 and 2008, deposits held in custody for tenant (CUNY) of \$439,898 and \$625,652, respectively, are noninterest bearing and consist of amounts funded by CUNY to be used for their leasehold improvements.

Grants Plus provides administrative services with respect to grants and contracts received by several not-for-profit organizations. Those grants and contracts administered by Grants Plus, as agent for the not-for-profit organizations, in fiscal years 2009 and 2008 approximated \$1,263,000 and \$3,105,000, respectively.

The Foundation paid the operating costs of Grants Plus, which totaled \$431,926 in 2009 and \$405,619 in 2008. These costs are reflected as donated services and expenses in the consolidated statements of activities and they consist of the following:

	<u>2009</u>	<u>2008</u>
Personnel services	\$ 352,980	325,197
Supplies, telephones, and communications	12,912	14,194
Rent	56,034	56,228
Other	10,000	10,000
	<u>\$ 431,926</u>	<u>405,619</u>

In 2009 and 2008, Grants Plus accrued a management fee of \$55,000 and \$70,000, respectively, payable to the Foundation for services rendered.

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**(12) Property Management Fees**

In July 2004, the LLC entered into a management agreement with GVA Williams to manage and provide leasing services to the Property for one year, at which time it was automatically renewed on a month-to-month basis until terminated by either party giving prior written notice of termination. The agreement provides that the LLC will pay a management fee of \$70,800 per year for years one through three and \$73,200 per year for years four through six. Such expenses are included in operating expenses in the consolidated statements of activities. Additionally, the LLC will pay the property manager a commission in accordance with the terms of the management agreement if the property manager procures a new lease or an extension, renewal, or expansion of an existing lease for space in the Property during the term of this agreement.

**(13) Loan Receivable**

In March 2006, the Foundation established a revolving credit loan facility of \$12 million, which bears interest at LIBOR plus 1.75% and which converted to a 10-year term loan in September 2006. The loan was obtained for CUNY's benefit to finance the construction of certain leasehold improvements for leased space at 230 West 41st Street. CUNY entered into a guaranty with the bank to facilitate the loan. Hence, the loan agreement between the Foundation and CUNY specifies that all loan proceeds and related expenses incurred by the Foundation shall be paid by CUNY. During fiscal years 2009 and 2008, the Foundation received from CUNY \$90,371 and \$98,740, respectively, for payment of interest expense. The remaining balance on the loan due from CUNY is \$1,985,248 and \$2,000,000 in principal, and \$28,818 and \$42,557 in interest, as of June 30, 2009 and 2008, respectively.

Grants Plus made loans to one of its clients for working capital purposes. These loans were supported by the client's grants and contracts with federal, state, and city agencies. As of June 30, 2008, outstanding loans totaling \$23,635 were written off. As of June 30, 2009, no outstanding loans were written off.

**(14) Real Estate Tax Exemption**

During fiscal years 2009 and 2008, the LLC obtained a real estate tax reduction amounting to approximately \$924,600 and \$830,000 relating to an exemption for the portion of the Property used by CUNY as a not-for-profit, tax-exempt organization.

**(15) Subsequent Events**

Effective June 30, 2009, the Organization adopted SFAS No. 165, *Subsequent Events*. SFAS No. 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 Organization evaluated events subsequent to June 30, 2009 and through October 29, 2009, the date on which the financial statements were approved for issuance. The adoption of SFAS No. 165 had no impact on the Organization's consolidated financial statements.