KPMG

RESEARCH FOUNDATION OF THE CITY UNIVERSITY OF NEW YORK AND RELATED ENTITIES

Consolidated Financial Statements

June 30, 2018 and 2017

(With Independent Auditors' Report Thereon)

KPMG LLP
345 Park Avenue
New York, NY 10154-0102

Independent Auditors' Report

The Board of Directors
Research Foundation of
The City University of New York:

We have audited the accompanying consolidated financial statements of the Research Foundation of The City University of New York and its related entities, which comprise the consolidated balance sheets as of June 30, 2018 and 2017, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated 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 Research Foundation of The City University of New York and its related entities as of June 30, 2018 and 2017, 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.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The 2018 consolidating information is presented for purposes of additional analysis of the 2018 consolidated financial statements rather than to present the financial position, changes in net assets, and cash flows of the individual entities and is not a required part of the 2018 consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2018 consolidated financial statements. The 2018 consolidating information has been subjected to the auditing procedures applied in the audit of the 2018 consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 2018 consolidated financial statements or to the 2018 consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 2018 consolidating information is fairly stated in all material respects in relation to the 2018 consolidated financial statements as a whole.

KPMG LLP

October 24, 2018

RESEARCH FOUNDATION OF
THE CITY UNIVERSITY OF NEW YORK AND
RELATED ENTITIES

Consolidated Balance Sheets

June 30, 2018 and 2017
(with consolidating information as of June 30, 2018)

	2018					
	Consolidating information					
Assets	**Foundation**	**230 West 41st Street LLC**	**GrantsPlus**	**Eliminations**	**Total**	**2017**
Cash and cash equivalents	$ 153,023,460	9,700,093	245,143	—	162,968,696	150,989,867
Restricted cash (note 8)	—	2,661,901	—	—	2,661,901	2,196,847
Grants, contracts, and accounts receivable (net of allowance of $5,600,000 in 2018 and $3,300,000 in 2017)	102,348,000	—	—	—	102,348,000	88,191,841
Rent receivable, net	—	713,744	—	—	713,744	398,315
Prepaid expenses and other assets	2,743,267	824,147	9,723	—	3,577,137	3,346,059
Prepaid postretirement benefits asset (note 4)	7,156,165	—	—	—	7,156,165	—
Investments at fair value (note 3)	48,428,469	—	—	—	48,428,469	47,876,503
Investment in GrantsPlus	68,668	—	—	(68,668)	—	—
Investment in 230 West 41st Street LLC	12,127,515	—	—	(12,127,515)	—	—
Deferred rent receivable	—	16,569,445	—	(98,916)	16,470,529	13,748,013
Value of in-place leases (net of accumulated amortization of $2,584,775 in 2018 and $2,452,809 in 2017)	—	368,406	—	—	368,406	500,372
Above-market leases (net of accumulated amortization of $1,730,575 in 2018 and $1,631,203 in 2017)	—	276,972	—	—	276,972	376,344
Deferred costs (net of accumulated amortization of $4,440,402 in 2018 and $4,161,705 in 2017)	—	2,450,940	—	—	2,450,940	2,336,564
Fixed assets:						
Rental property, net (note 7)	—	44,345,516	—	—	44,345,516	44,421,718
Furniture, fixtures, and equipment (net of accumulated depreciation of $3,412,526 in 2018 and $3,338,892 in 2017)	137,801	—	—	—	137,801	156,042
Leasehold improvements (net of accumulated amortization of $872,019 in 2018 and $836,612 in 2017)	—	—	—	—	—	35,407
Total assets	$ 326,033,345	77,911,164	254,866	(12,295,099)	391,904,276	354,573,892
Liabilities and Net Assets						
Liabilities:						
Accounts payable and accrued expenses (notes 4 and 6)	$ 90,738,812	1,094,653	88,756	—	91,922,221	80,446,918
Deferred revenue (note 5)	89,280,362	51,496	97,442	—	89,429,300	87,438,163
Grants payable to CUNY (note 9)	1,821,540	—	—	—	1,821,540	1,942,158
Deferred rent payable	98,916	—	—	(98,916)	—	—
Tenant security deposits payable	—	409,915	—	—	409,915	209,915
Deposits held in custody for CUNY colleges	93,008,080	—	—	—	93,008,080	82,957,808
Postretirement benefits payable (note 4)	—	—	—	—	—	1,371,872
Mortgage loan payable, net (note 8)	—	64,227,585	—	—	64,227,585	65,429,245
Total liabilities	274,947,710	65,783,649	186,198	(98,916)	340,818,641	319,796,079
Commitments and contingencies (notes 6 and 10)						
Net assets:						
Unrestricted:						
Postretirement benefits	7,156,165	—	—	—	7,156,165	(1,371,872)
230 West 41st Street LLC	12,127,515	12,127,515	—	(12,127,515)	12,127,515	8,391,366
GrantsPlus	68,668	—	68,668	(68,668)	68,668	77,185
Other	31,733,287	—	—	—	31,733,287	27,681,134
Total net assets	51,085,635	12,127,515	68,668	(12,196,183)	51,085,635	34,777,813
Total liabilities and net assets	$ 326,033,345	77,911,164	254,866	(12,295,099)	391,904,276	354,573,892

See accompanying notes to consolidated financial statements.

**RESEARCH FOUNDATION OF
THE CITY UNIVERSITY OF NEW YORK AND
RELATED ENTITIES**

Consolidated Statements of Activities

Years ended June 30, 2018 and 2017
(with consolidating information as of June 30, 2018)

	2018					
	Consolidating information					
	Foundation	230 West 41st Street LLC	GrantsPlus	Eliminations	Total	2017
Grants and contracts administered for others:						
Revenue:						
Governmental	$ 361,858,222	—	—	—	361,858,222	311,057,818
Private	137,676,146	—	—	—	137,676,146	146,505,547
Total grants and contracts revenue	499,534,368	—	—	—	499,534,368	457,563,365
Expenses:						
Research	(146,924,274)	—	—	—	(146,924,274)	(133,388,440)
Training	(165,533,055)	—	—	—	(165,533,055)	(145,157,474)
Other sponsored activity	(134,058,147)	—	—	—	(134,058,147)	(135,733,473)
Other institutional activity	(53,018,892)	—	—	—	(53,018,892)	(43,283,978)
Total grants and contracts expenses	(499,534,368)	—	—	—	(499,534,368)	(457,563,365)
Administrative services:						
Revenue:						
Administrative fees	33,813,491	—	159,524	—	33,973,015	30,961,659
Investment return (note 3)	850,923	30,677	—	—	881,600	353,927
Rental income (notes 6 and 9)	—	17,566,527	—	(2,772,055)	14,794,472	14,651,870
Donated services	—	—	79,700	(79,700)	—	—
Other	10,488	145,726	—	—	156,214	144,564
Total administrative revenue	34,674,902	17,742,930	239,224	(2,851,755)	49,805,301	46,112,020
Expenses:						
Management and general	(30,865,711)	—	(16,041)	2,772,055	(28,109,697)	(26,747,921)
Postretirement credit (note 4)	474,060	—	—	—	474,060	1,503,836
Grants to CUNY for central research initiatives (note 9)	(2,300,000)	—	—	—	(2,300,000)	(2,300,000)
Operating expenses of 230 West 41st Street LLC (note 10)	—	(4,916,001)	—	—	(4,916,001)	(5,689,348)
Interest expense	—	(3,175,249)	—	—	(3,175,249)	(3,233,131)
Real estate taxes (note 11)	—	(1,277,961)	—	—	(1,277,961)	(1,243,515)
Depreciation and amortization	(109,039)	(2,137,570)	—	—	(2,246,609)	(3,234,999)
Donated expenses (note 9)	—	—	(79,700)	79,700	—	—
Total administrative expenses	(32,800,690)	(11,506,781)	(95,741)	2,851,755	(41,551,457)	(40,945,078)
Excess of revenue over expenses before other changes	1,874,212	6,236,149	143,483	—	8,253,844	5,166,942
Other changes:						
Change in Foundation investment in 230 West 41st Street LLC	3,736,149	—	—	(3,736,149)	—	—
Change in Foundation investment in GrantsPlus	(8,517)	—	—	8,517	—	—
230 West 41st Street LLC distribution to Foundation	2,500,000	(2,500,000)	—	—	—	—
GrantsPlus management fee to Foundation (note 9)	152,000	—	(152,000)	—	—	—
Postretirement benefits changes other than net periodic benefit cost (note 4)	8,053,978	—	—	—	8,053,978	(2,152,442)
Increase (decrease) in net assets	16,307,822	3,736,149	(8,517)	(3,727,632)	16,307,822	3,014,500
Net assets at beginning of year	34,777,813	8,391,366	77,185	(8,468,551)	34,777,813	31,763,313
Net assets at end of year	$ 51,085,635	12,127,515	68,668	(12,196,183)	51,085,635	34,777,813

See accompanying notes to consolidated financial statements.

RESEARCH FOUNDATION OF
THE CITY UNIVERSITY OF NEW YORK AND
RELATED ENTITIES

Consolidated Statements of Cash Flows

Years ended June 30, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Increase in net assets	$ 16,307,822	3,014,500
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	2,389,551	3,382,618
Provision for bad debts	2,300,000	300,000
Postretirement benefits changes other than net periodic benefit cost	(8,053,978)	2,152,442
Net (appreciation) depreciation in fair value of investments	(29,406)	47,658
Loss on construction contract	—	459,870
Changes in assets and liabilities:		
Restricted cash	(465,054)	(516,722)
Grants, contracts, accounts, and rents receivable	(16,771,588)	(13,762,021)
Prepaid expenses and other assets	(231,078)	(743,735)
Deferred rent receivable	(2,722,516)	(2,444,677)
Accounts payable and accrued expenses and security deposit payable	11,675,303	18,287,841
Deferred revenue	1,991,137	(6,704,617)
Grants payable to CUNY	(120,618)	228,502
Postretirement benefits payable	(474,059)	(1,503,836)
Deposits held in custody for CUNY colleges	10,050,272	6,138,497
Net cash provided by operating activities	15,845,788	8,336,320
Cash flows from investing activities:		
Purchases of fixed assets	(55,391)	(24,652)
Expenditures for rental property improvements	(1,650,705)	(2,945,250)
Restricted cash	—	(94,977)
Deposits held in custody for tenant	—	(42,935)
Payment of deferred leasing costs	(393,073)	(209,636)
Purchases of investments	(100,834,056)	(86,938,483)
Sales and maturity of investments	100,311,496	86,839,855
Net cash used in investing activities	(2,621,729)	(3,416,078)
Cash flows from financing activity:		
Principal payments on mortgage loan	(1,245,230)	(1,187,576)
Net cash used in financing activity	(1,245,230)	(1,187,576)
Net increase in cash and cash equivalents	11,978,829	3,732,666
Cash and cash equivalents at beginning of year	150,989,867	147,257,201
Cash and cash equivalents at end of year	$ 162,968,696	150,989,867
Supplemental cash flow disclosure:		
Cash paid for interest	$ 3,136,607	3,194,261

See accompanying notes to consolidated financial statements.

(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) 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). The LLC is a single-member limited liability company organized and, accordingly, is treated as a disregarded entity for federal, state, and local income tax purposes.

GrantsPlus Inc. (GrantsPlus) 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. GrantsPlus 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 GrantsPlus (collectively, the Organization), are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles in the United States of America 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. At June 30, 2018 and 2017, none of the Organization’s net assets or changes therein were subject to donor-imposed restrictions and, accordingly, are classified and reported as unrestricted net assets, and which includes grants and contracts for the performance of certain services or functions.

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, GrantsPlus, 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. Included in private grants and contracts revenue are grants sponsored by CUNY, totaling approximately $42,741,000 and $50,596,000 at June 30, 2018 and 2017, respectively.

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 and adjusts such estimates when facts and circumstances dictate. In the preparation of the Organization’s consolidated financial statements, management uses significant accounting estimates with respect to the valuation of accounts receivable and postretirement benefit obligation.

(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. As of June 30, 2018 and 2017, the LLC has approximately $1,000,000 and $1,200,000, respectively, of cash and cash equivalents designated for future capital expenditures.

(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.

(f) Rental Revenue Recognition

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.

(Continued)

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 2018 or 2017.

(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.

(j) Deferred Costs

Deferred financing 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.

(k) Restricted Cash

Restricted cash of the LLC includes amounts to be funded for tenant improvements, repairs, real estate taxes, and insurance 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.

(l) 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 CUNY Charitable Gift Trust Annuity for the respective colleges.

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

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(m) Fair Value Measurements

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 of the measurement date. The Organization measures the fair value of its financial assets using a three-level hierarchy for fair value measurements based on the observable inputs to the valuation of an asset or liability at 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).

(n) Income Taxes

The effects of uncertain tax positions are recognized only if those positions are more likely than not of being sustained. No such positions have been recorded in the consolidated financial statements as of June 30, 2018 or 2017.

(o) New Authoritative Accounting Pronouncements

The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, which among other things, changes how not-for-profit entities report net asset classes, expenses, and liquidity in their financial statements. The significant requirements of the ASU include the reduction of the number of net asset classes from three to two: with donor restrictions and without donor restrictions; the presentation of expenses by their function and their natural classification in one location; and quantitative and qualitative information about the management of liquid resources and availability of financial assets to meet cash needs within one year of the date of the balance sheet. The ASU is effective for annual financial statements issued for fiscal years beginning after December 15, 2017. Early adoption is permitted. The Organization is in the process of evaluating the impact of the ASU on its consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows – Restricted Cash*, which requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The provisions of the ASU are effective for the Organization for annual periods beginning after December 15, 2018 and interim periods thereafter. Early adoption is permitted. The Organization is in the process of evaluating the impact of the ASU on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which requires lessees and lessors to recognize leases on-balance sheet and disclose key information about leasing arrangements. ASC Topic 842 (ASC 842) establishes a right of use (ROU) model that requires lessees and lessors to recognize an ROU asset and lease liability on the balance sheet for all leases with a term longer than 12 months. Leases will be classified as finance or operating, with classification

(Continued)

affecting the pattern and classification of expense recognition in the income statement. The ASU is effective for the Organization for annual periods beginning after December 15, 2019 and interim periods thereafter. Early adoption is permitted. The Organization is in the process of evaluating the impact of the ASU.

(p) Reclassifications

Certain reclassifications have been made to the 2017 amounts to conform to the current year presentation.

(3) Investments

Investments held by the Foundation consist of the following at June 30, 2018 and 2017:

	Fair value	
	2018	2017
U.S. money market	$ 107,334	109,364
U.S. Treasury bills	30,172,283	30,253,795
U.S. government agency obligations	625,906	396,013
U.S. equity securities	679,984	520,504
U.S. corporate bonds	16,842,962	16,596,827
Total	$ 48,428,469	47,876,503

The Foundation categorizes its financial and nonfinancial assets and liabilities into a three-tiered hierarchy using the following guidelines:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Foundation has the ability to access at the 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, 2018 and 2017, the Foundation's investments are categorized as Level 1, except for U.S. corporate bonds, which are categorized as Level 2.

Components of investment return, including interest on cash and cash equivalents, are as follows for the years ended June 30, 2018 and 2017:

		2018	2017
Interest income	$	852,194	401,585
Net appreciation (depreciation) in fair value of investments		29,406	(47,658)
Total	$	881,600	353,927

(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. 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, 2018 and 2017 was approximately $11,641,000 and $9,545,000, 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 $2,977,624 and $2,795,515 in 2018 and 2017, 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 62 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.

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:

		2018	2017
Change in benefit obligation:			
Benefit obligation at beginning of year	$	150,477,353	136,823,057
Service cost		4,237,055	3,930,293
Interest cost		5,773,845	4,710,262
Actuarial (gain) loss		(901,116)	9,383,565
Benefits paid and administrative expenses		(5,083,008)	(4,369,824)
Benefit obligation at end of year		154,504,129	150,477,353
Change in plan assets:			
Fair value of plan assets at beginning of year		149,105,481	136,099,791
Actual return on plan assets		12,554,813	12,005,690
Employer contributions		5,083,008	5,369,824
Benefits paid and administrative expenses		(5,083,008)	(4,369,824)
Fair value of plan assets at end of year		161,660,294	149,105,481
Funded status, recorded as an (asset) liability in the accompanying consolidated balance sheets	$	(7,156,165)	1,371,872

		2018	2017
Components of net periodic cost:			
Service cost	$	4,237,055	3,930,293
Interest cost		5,773,845	4,710,262
Expected return on plan assets		(7,455,274)	(6,804,990)
Amortization of transition obligation		605,920	757,413
Recognized prior service credit		1,447,403	1,273,011
Net periodic benefit cost	$	4,608,949	3,865,989
Weighted average assumptions for the year ended June 30:			
Discount rate used to determine benefit obligation		4.10 %	3.95 %
Discount rate used to determine net periodic benefit cost		3.95	3.50
Expected return on plan assets		5.00	5.00

For measurement purposes, increases in healthcare costs (6.0% in 2018) were assumed to decrease by 0.5% per year in years 2019 through 2023 to an ultimate rate of 3.5% in 2024 and after.

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 2018:

		1% Increase	1% Decrease
Effect on total of service and interest cost components	$	1,922,216	(1,563,915)
Effect on postretirement benefit obligation		22,662,776	(21,383,046)

The Foundation made no contributions to the postretirement plan in 2018. For the year ended June 30, 2017, the Foundation made contributions to the postretirement plan of $1,000,000. In addition, for the years ended June 30, 2018 and 2017, the Foundation paid claims and expenses of $5,083,008 and $4,369,824, respectively. The Foundation expects to contribute or pay claims and expenses aggregating to approximately $5,500,000 in 2019.

The benefits expected to be paid in each fiscal year from 2019 through 2023 and the five subsequent years are:

Year(s):		
2019	$	5,314,063
2020		5,853,969
2021		6,493,963
2022		7,008,275
2023		7,501,470
2024–2028		43,089,499

At June 30, 2018 and 2017, the items not yet recognized as a component of net periodic benefit cost are as follows:

		2018	2017
Transition obligation	$	—	605,920
Net loss		21,225,961	28,674,019
Total unamortized items	$	21,225,961	29,279,939

The actuarial loss that are expected to be amortized into net periodic cost in fiscal year 2019 are as follows:

Net loss	$	537,413

Investment allocation and strategy decisions are generally made by management and the Foundation’s board of directors. The postretirement plan’s weighted average asset allocations at June 30, 2018 by asset category are as follows:

	Target allocation 2018	Actual allocation 2018
Growth portfolio:		
Domestic equity securities	24%–70%	60 %
Debt securities	13%–42%	26
Commodities	0%–7%	—
International equity securities	9%–34%	12
Cash equivalents	0%–5%	2
		100 %

	Target allocation 2018	Actual allocation 2018
Immunized fixed income:		
Debt securities	100 %	99 %
Cash equivalents	—	1
		100 %

The Foundation’s plan assets are measured at fair value. Investments in equity securities and mutual funds with readily determinable fair values and all investments in debt securities are reported at fair value based upon quoted market prices.

The following tables present the Foundation's fair value hierarchy for postretirement assets, which are measured at fair value on a recurring basis, as of June 30, 2018 and 2017, respectively:

	2018			
	Fair value	**Level 1**	**Level 2**	**Level 3**
Debt securities:				
Fixed income mutual fund	$ 6,429,179	6,429,179	—	—
Corporate bonds	60,968,081	—	60,968,081	—
U.S. government obligations	12,017,719	—	12,017,719	—
Foreign bonds	6,410,086	—	6,410,086	—
Other	731,303	—	731,303	—
Total debt securities	86,556,368	6,429,179	80,127,189	—
Equity securities:				
Equity mutual funds	32,447,124	32,447,124	—	—
U.S. common stock	26,446,353	26,446,353	—	—
American depositary receipts	8,712,612	8,712,612	—	—
Foreign stock	2,739,826	2,739,826	—	—
Real estate investment trusts	266,674	266,674	—	—
Total equity securities	70,612,589	70,612,589	—	—
Short-term investments	4,491,337	4,491,337	—	—
	$ 161,660,294	81,533,105	80,127,189	—

	2017			
	Fair value	**Level 1**	**Level 2**	**Level 3**
Debt securities:				
Fixed income mutual fund	$ 3,011,805	3,011,805	—	—
Corporate bonds	54,137,301	—	54,137,301	—
U.S. government obligations	14,899,474	—	14,899,474	—
Foreign bonds	5,860,624	—	5,860,624	—
Other	904,282	—	904,282	—
Total debt securities	78,813,486	3,011,805	75,801,681	—
Equity securities:				
Equity mutual funds	34,543,473	34,543,473	—	—
U.S. common stock	20,663,685	20,663,685	—	—
American depositary receipts	5,624,989	5,624,989	—	—
Foreign stock	3,832,046	3,832,046	—	—
Real estate investment trusts	1,756,477	1,756,477	—	—
Total equity securities	66,420,670	66,420,670	—	—
Short-term investments	3,871,325	3,871,325		
	$ 149,105,481	73,303,800	75,801,681	—

(5) Deferred Revenue

At June 30, 2018 and 2017, cash advances for grants and contracts are for the following projects:

	2018	2017
Research	$ 10,839,177	14,486,669
Training	23,769,644	12,818,958
Other sponsored activity	34,659,033	35,937,351
Other institutional activity	20,161,446	24,195,185
	$ 89,429,300	87,438,163

(6) Commitments

(a) Rental Income under Operating Leases

Future minimum rental receipts under the LLC's operating leases are as follows:

2019	$	13,944,795
2020		14,521,597
2021		14,513,286
2022		13,049,965
2023		11,914,051
Thereafter		145,854,155
Total minimum rental payments	$	213,797,849

Pursuant to the individual tenant leases, the tenants pay their proportionate share of operating the Property, including real estate taxes, certain insurance premiums, and other expenses that are not included above. CUNY's portion of the above future minimum rental receipts is approximately $183,000,000.

(b) 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 $3,254,491 and is included as a component of accounts payable and accrued expenses on the accompanying consolidated balance sheets as of June 30, 2018 and 2017 and is secured by an irrevocable letter of credit to the carrier for the same amount, which expires on December 31, 2018.

(c) Construction-Related Purchase Commitments

The LLC has entered into construction-related purchase commitments of approximately $1,000,000 as of June 30, 2018.

(7) Rental Property

Rental property (97.2% occupied as of June 30, 2018) consists of the following at June 30, 2018 and 2017:

		2018	2017
Land	$	9,037,040	9,037,040
Building		36,149,160	36,149,160
Building improvements		11,916,998	7,720,950
Tenant improvements		15,395,177	15,030,693
Construction-in-progress		35,424	2,945,251
Total		72,533,799	70,883,094
Accumulated depreciation		(28,188,283)	(26,461,376)
Rental property, net	$	44,345,516	44,421,718

(8) Mortgage Loan Payable, Net

Outstanding mortgage loan payable as of June 30, 2018 and 2017 consisted of the following:

		2018	2017
Mortgage loan payable	$	65,354,450	66,599,680
Less unamortized costs of issuance		(1,126,865)	(1,170,435)
Mortgage loan payable, net	$	64,227,585	65,429,245

The LLC entered into a mortgage loan payable (the loan) on May 12, 2014 with an original principal amount of $70 million, which matures on June 1, 2044. The loan bears interest at a rate of 4.75%. The monthly principal and interest payments of $365,153 began on July 1, 2014. The mortgage is amortized over 30 years with options to be called by the bank in 10 years and then every 5 years thereafter until the mortgage matures. The loan is collateralized by the Property and assignment of rents and other payments from the tenants and is guaranteed by the Foundation. The LLC incurred $1,307,121 of financing costs in connection with obtaining the loan, which are being amortized over the life of the loan.

At June 30, 2018, future minimum principal payments are as follows:

2019	$	1,305,684
2020		1,369,072
2021		1,435,538
2022		1,505,230
2023		1,578,306
Thereafter		58,160,620
	$	65,354,450

Included in restricted cash in the accompanying consolidated balance sheets are balances in escrow accounts, including interest earned, of approximately $2,250,000 and $1,780,000 as of June 30, 2018 and 2017, respectively. Under the terms of the loan, the LLC is required to deposit annual payments of $500,000 beginning on May 15, 2015 through May 15, 2019 and an additional payment of $198,515 on May 15, 2020 into an escrow account maintained by the mortgage bank for future tenant improvements related to CUNY's extended lease.

(9) Related-Party Transactions

The Foundation entered into an agreement with CUNY, a tenant in the building, to sublease 66,867 of CUNY's 179,901 square feet of space. The CUNY lease agreement was extended in 2014 and was scheduled to expire in June 2034. In July 2017, the Foundation assumed the rental payments from CUNY for their space to lease directly from the LLC and CUNY's lease was amended to remove aforementioned space. The new lease with the Foundation is subject to all terms and conditions of the CUNY lease agreement. For the years ended June 30, 2018 and 2017, rental revenue from CUNY was $5,425,367 and $5,163,789, respectively. Approximately $461,000 was receivable from CUNY as of June 30, 2018.

In fiscal years 2018 and 2017, the Foundation approved grants to CUNY for central research initiatives of $2,300,000 annually.

GrantsPlus provides administrative services with respect to grants and contracts received by several not-for-profit organizations. Those grants and contracts administered by GrantsPlus, as agent for not-for-profit organizations, in fiscal years 2018 and 2017 approximated $3,375,000 and $3,457,000, respectively.

The Foundation paid the operating costs of GrantsPlus, which totaled $79,700 and $78,000 as of June 30, 2018 and 2017, respectively. These costs are reflected as donated services and expenses in the consolidated statements of activities, before elimination. As of June 30, 2018, these costs consist of the following:

Personal services	$	78,500
Supplies, telephones, and communications		1,200
	$	79,700

As of June 30, 2018 and 2017, GrantsPlus management fee to the Foundation for services rendered was $152,000 and $105,000, respectively, which is eliminated in consolidation.

(10) Property Management Fees

The LLC has a management agreement with a third party to manage and provide leasing services to the Property through December 31, 2016. Such expenses are included in operating expenses in the consolidated statements of activities. Additionally, the LLC pays 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; such costs are included in deferred costs on the accompanying consolidated balance sheets.

(11) Real Estate Tax Exemption

During fiscal years 2018 and 2017, the LLC obtained a real estate tax reduction amounting to $1,632,569 and $1,586,424, respectively, relating to an exemption for the portion of the Property used by CUNY as a not-for-profit, tax-exempt organization.

(12) Subsequent Events

The Organization evaluated events subsequent to June 30, 2017 and through October 24, 2018, the date on which the consolidated financial statements were issued, the result of which had no impact on the Organization’s consolidated financial statement.