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

Consolidated Financial Statements

June 30, 2017 and 2016

(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 related entities, which comprise the consolidated balance sheets as of June 30, 2017 and 2016, 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 related entities as of June 30, 2017 and 2016, 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 2017 consolidating information is presented for purposes of additional analysis of the 2017 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 2017 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 2017 consolidated financial statements. The 2017 consolidating information has been subjected to the auditing procedures applied in the audit of the 2017 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 2017 consolidated financial statements or to the 2017 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 2017 consolidating information is fairly stated in all material respects in relation to the 2017 consolidated financial statements as a whole.

KPMG LLP

October 23, 2017

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

Consolidated Balance Sheets

June 30, 2017 and 2016
(with consolidating information as of June 30, 2017)

	2017					
	Consolidating information					
Assets	**Foundation**	**230 West 41st Street LLC**	**GrantsPlus**	**Eliminations**	**Total**	**2016**
Cash and cash equivalents	$ 140,466,084	10,240,071	283,712	—	150,989,867	147,257,201
Restricted cash (note 8)	—	2,196,847	—	—	2,196,847	1,585,148
Grants, contracts, and accounts receivable (net of allowance of $3,300,000 in 2017 and $3,000,000 in 2016)	88,190,664	—	1,177	—	88,191,841	74,784,825
Rent receivable	—	398,315	—	—	398,315	343,310
Prepaid expenses and other assets	2,505,812	830,650	9,597	—	3,346,059	2,567,643
Investments, at fair value (note 3)	47,876,503	—	—	—	47,876,503	47,825,533
Investment in GrantsPlus	77,185	—	—	(77,185)	—	—
Investment in 230 West 41st Street LLC	8,391,366	—	—	(8,391,366)	—	—
Deferred rent receivable	—	13,846,929	—	(98,916)	13,748,013	11,303,336
Value of in-place leases (net of accumulated amortization of $2,452,809 in 2017 and $2,320,843 in 2016)	—	500,372	—	—	500,372	632,338
Above-market leases (net of accumulated amortization of $1,631,203 in 2017 and $1,531,832 in 2016)	—	376,344	—	—	376,344	475,714
Deferred costs (net of accumulated amortization of $4,161,705 in 2017 and $3,677,638 in 2016)	—	2,336,564	—	—	2,336,564	2,610,995
Fixed assets:						
Rental property, net (note 7)	—	44,421,718	—	—	44,421,718	44,370,383
Furniture, fixtures, and equipment (net of accumulated depreciation of $3,338,892 in 2017 and $3,263,891 in 2016)	156,042	—	—	—	156,042	206,391
Leasehold improvements (net of accumulated amortization of $836,612 in 2017 and $722,014 in 2016)	35,407	—	—	—	35,407	150,005
Total assets	$ 287,699,063	75,147,810	294,486	(8,567,467)	354,573,892	334,112,822
Liabilities and Net Assets						
Liabilities:						
Accounts payable and accrued expenses (notes 4 and 6)	$ 79,540,321	835,364	71,233	—	80,446,918	62,062,307
Deferred revenue (note 5)	87,010,175	281,920	146,068	—	87,438,163	94,142,780
Grants payable to CUNY (note 9)	1,942,158	—	—	—	1,942,158	1,713,656
Deferred rent payable	98,916	—	—	(98,916)	—	—
Tenant security deposits payable	—	209,915	—	—	209,915	314,939
Deposits held in custody for CUNY colleges	82,957,808	—	—	—	82,957,808	76,819,311
Postretirement benefits payable (note 4)	1,371,872	—	—	—	1,371,872	723,266
Mortgage loan payable, net (note 8)	—	65,429,245	—	—	65,429,245	66,573,250
Total liabilities	252,921,250	66,756,444	217,301	(98,916)	319,796,079	302,349,509
Commitments and contingencies (notes 6 and 10)						
Net assets:						
Unrestricted:						
Postretirement benefits	(1,371,872)	—	—	—	(1,371,872)	(723,266)
230 West 41st Street LLC	8,391,366	8,391,366	—	(8,391,366)	8,391,366	5,972,114
GrantsPlus	77,185	—	77,185	(77,185)	77,185	33,303
Other	27,681,134	—	—	—	27,681,134	26,481,162
Total net assets	34,777,813	8,391,366	77,185	(8,468,551)	34,777,813	31,763,313
Total liabilities and net assets	$ 287,699,063	75,147,810	294,486	(8,567,467)	354,573,892	334,112,822

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, 2017 and 2016
(with consolidating information as of June 30, 2017)

	2017					
	Consolidating information					
	Foundation	**230 West 41st Street LLC**	**GrantsPlus**	**Eliminations**	**Total**	**2016**
Grants and contracts administered for others:						
Revenue:						
Governmental	$ 311,057,818	—	—	—	311,057,818	280,865,708
Private	146,505,547	—	—	—	146,505,547	131,264,411
Total grants and contracts revenue	457,563,365	—	—	—	457,563,365	412,130,119
Expenses:						
Research	(130,673,518)	—	—	—	(130,673,518)	(129,236,303)
Training	(138,043,770)	—	—	—	(138,043,770)	(114,766,282)
Academic development	(114,408,248)	—	—	—	(114,408,248)	(104,104,204)
Student services	(52,901,569)	—	—	—	(52,901,569)	(52,610,449)
Other	(21,536,260)	—	—	—	(21,536,260)	(11,412,881)
Total grants and contracts expenses	(457,563,365)	—	—	—	(457,563,365)	(412,130,119)
Administrative services:						
Revenue:						
Administrative fees	30,793,907	—	167,752	—	30,961,659	28,679,685
Investment return (note 3)	346,251	7,676	—	—	353,927	303,791
Rental income (notes 6 and 9)	—	17,485,750	—	(2,833,880)	14,651,870	14,622,000
Donated services	—	—	78,000	(78,000)	—	—
Other	7,344	137,220	—	—	144,564	193,144
Total administrative revenue	31,147,502	17,630,646	245,752	(2,911,880)	46,112,020	43,798,620
Expenses:						
Management and general	(29,562,931)	—	(18,870)	2,833,880	(26,747,921)	(25,446,794)
Postretirement credit (note 4)	1,503,836	—	—	—	1,503,836	10,830,433
Grants to CUNY for central research initiatives (note 9)	(2,300,000)	—	—	—	(2,300,000)	(2,300,000)
Investment return allocated to individual colleges	—	—	—	—	—	(199,128)
Operating expenses of 230 West 41st Street LLC (note 10)	—	(5,689,348)	—	—	(5,689,348)	(6,652,166)
Interest expense	—	(3,233,131)	—	—	(3,233,131)	(3,288,334)
Real estate taxes (note 11)	—	(1,243,515)	—	—	(1,243,515)	(1,182,387)
Depreciation and amortization	(189,599)	(3,045,400)	—	—	(3,234,999)	(3,030,253)
Donated expenses (note 9)	—	—	(78,000)	78,000	—	—
Total administrative expenses	(30,548,694)	(13,211,394)	(96,870)	2,911,880	(40,945,078)	(31,268,629)
Excess of revenue over expenses before other changes	598,808	4,419,252	148,882	—	5,166,942	12,529,991
Other changes:						
Change in Foundation investment in 230 West 41st Street LLC	2,419,252	—	—	(2,419,252)	—	—
Change in Foundation investment in GrantsPlus	43,882	—	—	(43,882)	—	—
230 West 41st Street LLC distribution to Foundation	2,000,000	(2,000,000)	—	—	—	—
GrantsPlus distribution to Foundation (note 9)	105,000	—	(105,000)	—	—	—
Postretirement benefits changes other than net periodic benefit cost (note 4)	(2,152,442)	—	—	—	(2,152,442)	(10,927,846)
Increase in net assets	3,014,500	2,419,252	43,882	(2,463,134)	3,014,500	1,602,145
Net assets at beginning of year	31,763,313	5,972,114	33,303	(6,005,417)	31,763,313	30,161,168
Net assets at end of year	$ 34,777,813	8,391,366	77,185	(8,468,551)	34,777,813	31,763,313

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, 2017 and 2016

		2017	2016
Cash flows from operating activities:			
Increase in net assets	$	3,014,500	1,602,145
Adjustments to reconcile increase in net assets to net cash provided by operating activities:			
Depreciation and amortization		3,382,618	3,173,193
Provision for bad debts		300,000	(800,000)
Postretirement benefits changes other than net periodic benefit cost		2,152,442	10,927,846
Net depreciation (appreciation) in fair value of investments		47,658	(85,248)
Loss on construction contract		459,870	—
Changes in assets and liabilities:			
Restricted cash		(516,722)	(762,046)
Grants, contracts, accounts, and rents receivable		(13,762,021)	(7,211,682)
Prepaid expenses and other assets		(743,735)	295,191
Deferred rent receivable		(2,444,677)	(3,285,881)
Accounts payable and accrued expenses, and security deposit payable		18,287,841	5,062,701
Deferred revenue		(6,704,617)	9,289,879
Grants payable to CUNY		228,502	(402,179)
Postretirement benefits payable		(1,503,836)	(10,830,433)
Deposits held in custody for CUNY colleges		6,138,497	5,857,113
Net cash provided by operating activities		8,336,320	12,830,599
Cash flows from investing activities:			
Purchases of fixed assets		(24,652)	(98,992)
Expenditures for rental property improvements		(2,945,250)	(1,626,915)
Restricted cash		(94,977)	26,104
Deposits held in custody for tenant		(42,935)	45,552
Payment of deferred leasing costs		(209,636)	(50,839)
Purchases of investments		(86,938,483)	(63,971,553)
Sales and maturity of investments		86,839,855	63,725,539
Net cash used in investing activities		(3,416,078)	(1,951,104)
Cash flows from financing activity:			
Principal payments on mortgage loan		(1,187,576)	(1,132,592)
Net cash used in financing activity		(1,187,576)	(1,132,592)
Net increase in cash and cash equivalents		3,732,666	9,746,903
Cash and cash equivalents at beginning of year		147,257,201	137,510,298
Cash and cash equivalents at end of year	$	150,989,867	147,257,201
Supplemental cash flow disclosure:			
Cash paid for interest	$	3,194,261	3,249,246

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 post award 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, 2017 and 2016, 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 $50,596,000 and $46,500,000 at June 30, 2017 and 2016, 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, 2017 and 2016, the LLC has approximately $1,200,000 and $3,972,000, 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 2017 or 2016.

(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, CUNY Charitable Gift Trust Annuity, and interest income 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.

(Continued)

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

(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, 2017 or 2016.

(3) Investments

Investments held by the Foundation consist of the following at June 30, 2017 and 2016:

	Fair value	
	2017	**2016**
U.S. money market	$ 109,364	1,727,736
U.S. Treasury bills	30,253,795	30,350,961
U.S. government agency obligations	396,013	495,100
U.S. equity securities	520,504	396,757
U.S. government bonds	—	1,000,100
U.S. corporate bonds	16,596,827	12,697,022
U.S. municipal bonds	—	1,157,857
Total	$ 47,876,503	47,825,533

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.

(Continued)

At June 30, 2017 and 2016, 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, 2017 and 2016:

		2017	2016
Interest income	$	401,585	218,543
Net (depreciation) appreciation in fair value of investments		(47,658)	85,248
Total	$	353,927	303,791

(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, 2017 and 2016 was approximately $9,545,000 and $8,700,000, 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 $2,795,515 and $2,652,774 in 2017 and 2016, 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:

		2017	2016
Change in benefit obligation:			
Benefit obligation at beginning of year	$	136,823,057	128,313,421
Service cost		3,930,293	4,422,423
Interest cost		4,710,262	5,491,728
Actuarial loss		9,383,565	2,745,648
Benefits paid and administrative expenses		(4,369,824)	(4,150,163)
Benefit obligation at end of year		150,477,353	136,823,057
Change in plan assets:			
Fair value of plan assets at beginning of year		136,099,791	127,687,568
Actual return (loss) on plan assets		12,005,690	(2,684,777)
Employer contributions		5,369,824	15,247,163
Benefits paid and administrative expenses		(4,369,824)	(4,150,163)
Fair value of plan assets at end of year		149,105,481	136,099,791
Funded status, recorded as a liability in the accompanying consolidated balance sheets	$	1,371,872	723,266

		2017	2016
Components of net periodic cost:			
Service cost	$	3,930,293	4,422,423
Interest cost		4,710,262	5,491,728
Expected return on plan assets		(6,804,990)	(6,384,377)
Amortization of transition obligation		757,413	757,413
Recognized prior service credit		1,273,011	129,543
Net periodic benefit cost	$	3,865,989	4,416,730
Weighted average assumptions for the year ended June 30:			
Discount rate used to determine benefit obligation		3.95 %	3.50 %
Discount rate used to determine net periodic benefit cost		3.50	4.35
Expected return on plan assets		5.00	5.00

For measurement purposes, increases in healthcare costs (6.5% in 2017) were assumed to decrease by 0.5% per year in years 2018 through 2022 to an ultimate rate of 3.5% in 2023 and after.

(Continued)

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 2017:

		1% Increase	1% Decrease
Effect on total of service and interest cost components	$	1,591,792	(1,428,879)
Effect on postretirement benefit obligation		21,896,636	(20,669,383)

For the years ended June 30, 2017 and 2016, the Foundation made contributions to the postretirement plan of $1,000,000 and $11,097,000, respectively. In addition, for the years ended June 30, 2017 and 2016, the Foundation paid claims and expenses of $4,369,824 and $4,150,163, respectively. The Foundation expects to contribute or pay claims and expenses aggregating to approximately $5,000,000 in 2018.

The benefits expected to be paid in each fiscal year from 2018 through 2022 and the five subsequent years are:

Year(s):		
2018	$	4,860,106
2019		5,351,262
2020		5,926,891
2021		6,539,736
2022		7,037,823
2023–2027		41,585,526

At June 30, 2017 and 2016, the items not yet recognized as a component of net periodic benefit cost are as follows:

		2017	2016
Transition obligation	$	605,920	1,363,333
Net loss		28,674,019	25,764,164
Total unamortized items	$	29,279,939	27,127,497

The transition obligation and actuarial loss that are expected to be amortized into net periodic cost in fiscal year 2018 are as follows:

Transition obligation	$	605,920
Net loss		1,447,403

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, 2017 by asset category are as follows:

	Target allocation 2017	Actual allocation 2017
Growth portfolio:		
Domestic equity securities	24%–70%	58.10 %
Debt securities	13%–42%	27.90
Commodities	0%–7%	1.80
International equity securities	9%–34%	10.00
Cash equivalents	0%–5%	2.20
		100 %

	Target allocation 2017	Actual allocation 2017
Immunized fixed income:		
Debt securities	100 %	97.89 %
Cash equivalents	—	2.11
		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, 2017 and 2016, respectively:

	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	74,897,399	904,282
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	74,897,399	904,282

	2016			
	Fair value	**Level 1**	**Level 2**	**Level 3**
Debt securities:				
Fixed income mutual fund	$ 4,491,011	4,491,011	—	—
Corporate bonds	36,085,655	—	36,085,655	—
U.S. government obligations	10,132,129	—	10,132,129	—
Foreign bonds	4,646,732	—	4,646,732	—
Other	466,693	—	—	466,693
Total debt securities	55,822,220	4,491,011	50,864,516	466,693
Equity securities:				
Equity mutual funds	33,278,982	33,278,982	—	—
U.S. common stock	20,299,534	20,299,534	—	—
American depositary receipts	7,337,407	7,337,407	—	—
Foreign stock	3,786,264	3,786,264	—	—
Real estate investment trusts	3,489,911	3,489,911	—	—
Total equity securities	68,192,098	68,192,098	—	—
Short-term investments	12,085,473	12,085,473	—	—
	$ 136,099,791	84,768,582	50,864,516	466,693

Activities with respect to Level 3 plan assets for the years ended June 30, 2017 and 2016 were as follows:

	2017	**2016**
Balance at beginning of year	$ 466,693	273,401
Purchases	618,238	710,874
Sales	(185,886)	(531,019)
Unrealized gain	5,237	13,437
Balance at end of year	$ 904,282	466,693

(5) Deferred Revenue

At June 30, 2017 and 2016, cash advances for grants and contracts are for the following projects:

		2017	2016
Research	$	16,715,324	16,950,409
Training		21,065,396	18,381,937
Academic development		36,028,752	38,750,204
Student services		3,652,710	9,847,511
Other		9,975,981	10,212,719
	$	87,438,163	94,142,780

(6) Commitments

(a) Rental Income under Operating Leases

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

2018	$	13,105,432
2019		13,131,763
2020		13,660,748
2021		13,681,265
2022		12,411,775
Thereafter		149,615,559
Total minimum rental payments	$	215,606,542

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 $191,000,000.

(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, 2017 and 2016, and is secured by an irrevocable letter of credit to the carrier for the same amount, which expires on December 31, 2017.

(c) Construction-Related Purchase Commitments

The LLC has entered into construction-related purchase commitments of approximately $1,200,000 as of June 30, 2017.

(7) Rental Property

Rental property (95% occupied as of June 30, 2017) consists of the following at June 30, 2017 and 2016:

		2017	2016
Land	$	9,037,040	9,037,040
Building		36,149,160	36,149,160
Building improvements		7,720,950	8,185,498
Tenant improvements		15,030,693	15,030,693
Construction-in-progress		2,945,251	—
Total		70,883,094	68,402,391
Accumulated depreciation		(26,461,376)	(24,032,008)
Rental property, net	$	44,421,718	44,370,383

(8) Mortgage Loan Payable, Net

Outstanding mortgage loan payable as of June 30, 2017 and 2016 consisted of the following:

		2017	2016
Mortgage loan payable	$	66,599,680	67,787,256
Less unamortized costs of issuance		(1,170,435)	(1,214,006)
Mortgage loan payable, net	$	65,429,245	66,573,250

The LLC entered into a mortgage loan payable (the loan) on June 1, 2014 with an original principal amount of $70 million, which matures on May 12, 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, 2017, future minimum principal payments are as follows:

2018	$	1,245,230
2019		1,305,684
2020		1,369,072
2021		1,435,538
2022		1,505,230
Thereafter		59,738,926
	$	66,599,680

Included in restricted cash in the accompanying consolidated balance sheets are balances in escrow accounts, including interest earned, of approximately $1,780,000 and $1,270,000 as of June 30, 2017 and 2016, 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 expires in June 2034. The Sole Member's sublease is subject to all terms and conditions of the CUNY lease agreement. For the years ended June 30, 2017 and 2016, rental revenue from CUNY was $5,163,789 and $4,794,972, respectively, net of sublease expense of $2,833,880 and $2,764,761, respectively.

In fiscal years 2017 and 2016, the Foundation approved grants to CUNY for central research initiatives of $2,300,000 annually.

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 not-for-profit organizations, in fiscal years 2017 and 2016 approximated $3,456,734 and $2,793,524, respectively.

The Foundation paid the operating costs of Grants Plus, which totaled $78,000 and $29,000 as of June 30, 2017 and 2016, respectively. These costs are reflected as donated services and expenses in the consolidated statements of activities, before elimination. As of June 30, 2017, there costs consist of the following:

Personal services	$	76,800
Supplies, telephones, and communications		1,200
	$	78,000

As of June 30, 2017 and 2016, Grants Plus management fee to the Foundation for services rendered was $105,000 and $99,500, 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 2017 and 2016, the LLC obtained a real estate tax reduction amounting to $1,586,424 and $1,505,964, 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, 2016 and through October 23, 2017, the date on which the consolidated financial statements were available to be issued, the result of which had no impact on the Organization's consolidated financial statements.