

THE COOPER UNION ALUMNI & PIONEER

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by Barry Drogin, EE '83

Abstract

Commentary on the Board of Trustees December 15, 2011 Statement and spreadsheet, and the FY 2011 Consolidated Financial Statement, including the mother of all reclassifications, the nail in the coffin of the “decades of deficit spending” narrative, issues related to the fair value of the Chrysler Building, the spending policy, the hedge funds, the New Transparency, and a discussion of board member’s duty of loyalty, duty of care, and duty of obedience to the mission statement.

In the mother of all reclassifications, TC Westcott has produced a consolidated financial statement for fiscal year 2011 that is simultaneously more honest and more opaque than any previous consolidated financial statement. The huge change occurs in the operating expenses portion of the statement, a section fraught for years with incomprehensible reclassifications between the three major categories, instruction, academic support, and management and general, 75% of the Cooper budget. In the FY 2011 statements, operating expenses, which a new note calls “functional expenses,” change from the columns on the left to the columns on the right:

| | 2011 | 2010 | | Total | 2010 |
|------------------------|---------------|------------|---|------------|------------|
| Program services: | | | | | |
| Instruction | \$ 24,652,403 | 24,333,054 | | 25,452,191 | 23,764,424 |
| Academic support | 18,863,629 | 18,112,721 | | 10,064,387 | 11,618,814 |
| Public service | 3,887,505 | 3,611,031 | | 10,272,500 | 10,380,027 |
| Research | 279,761 | 224,503 | Expenses (note 9): | 8,731,206 | 6,680,793 |
| Student services | 3,592,528 | 3,953,499 | Salaries | 7,398,281 | 6,627,197 |
| Student aid | 2,121,612 | 1,965,840 | Employee benefits | 5,376,255 | 5,020,857 |
| Auxiliary enterprises | 2,196,578 | 2,157,260 | Interest | 3,006,166 | 2,737,538 |
| | 55,594,016 | 54,357,908 | Depreciation and amortization | 70,300,986 | 66,829,650 |
| | | | Occupancy and other related expenses | | |
| Supporting services: | | | Supplies, services, and other office expenses | | |
| Management and general | 10,474,385 | 8,082,111 | Other operating expenses | | |
| Fund-raising | 4,232,585 | 4,389,631 | | | |
| | 14,706,970 | 12,471,742 | | | |
| Total expenses | \$ 70,300,986 | 66,829,650 | | | |

The new columns reveal how President George Campbell was able to declare a balanced budget in FY 2008 although the consolidated financial statements showed an \$8 million deficit – a paper deficit caused by “non-cash” items such as depreciation and actuarial accruals to cover potential future retiree benefits (the author hasn’t suddenly become an accounting genius – the last eight words are a direct quote from a January 16, 2012 e-mail from Dr. Campbell).

The “non-cash” terminology appears as well at the bottom of page 5 of the spreadsheets provided along with the Board of Trustees December 15, 2011 Statement, as “Increase (decrease) in net assets exclusive of non-cash items.” In dark green, the row is a little hard to read, so here it is with the color removed:

| 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|---------------|-----------------|-----------------|-----------------|--------------|---------------|--------------|
| \$ 19,410,448 | \$ (29,489,144) | \$ (15,803,371) | \$ (16,674,166) | \$ 2,706,757 | \$ 16,573,934 | \$ 5,355,441 |

| 2007 | 2008 | 2009 | 2010 | 2011 | 2000 - 2011 12 Year Total |
|--------------|--------------|-----------------|--------------|---------------|------------------------------|
| \$ 7,459,007 | \$ (989,897) | \$ (30,762,810) | \$ (397,405) | \$ 10,207,398 | \$ (32,403,808) |

What the Board's own numbers show is what *The Alumni Pioneer* published in "Do You Want Deficit With That?" – the "decades of deficit spending" story, accompanied by incorrect graphs that twice were sent to the entire Cooper Union Community, including depreciation and excluding profits that exceeded the "spending policy," was a complete fabrication. In the twelve years represented above, Cooper's revenues exceed its expenditures for six, or half, of the years. The total the Board creates at the bottom right is almost equal to the loss in FY 2009, the year of the crash. The Board also calculates a \$1 million loss for FY 2008 – a year they gave a large performance bonus to Dr. Campbell. And the Board claims that depreciation and amortization in FY 2008 are only \$3.6 million – not enough to cover the gap between the cash expenses and revenues that follow the "spending policy." Both the Board and *The Alumni Pioneer* agree that FY 2008 wasn't such a great year – except that that is the year the hedge fund reaches its maximum value, and the fair value of the Chrysler Building – which further analysis shows has no relation to the property value assessed by the City of New York Department of Finance – reaches its peak.

When the 6% spending policy was in effect, the Cooper Union averaged the fair value of its endowment – meaning the fair value of its non-real estate investments **and the fair value of the Chrysler Building** – over three years and imputed 6% to operating expenses. What's interesting about this is that the consolidated financial statements only go back one year, and the fair value of the Chrysler Building is never published – instead, it has depreciated out to zero from its original purchase price of \$600,000. With the change in accounting principle in FY 2003, the fair value of the Chrysler Building – as determined by The Cooper Union, not New York City – is included in the endowment, which allows *The New York Times*, the newspaper of record, to print four times that Cooper's endowment went from under \$100 million in FY 2002 (down to \$80 million) to over \$600 million in FY 2008. *The Times* has repeated this fantasy so many times that its own education reporter, Richard Perez-Pena, has written that the \$600 million doesn't include real estate! In reality, the non-real estate endowment hit a peak of \$180 million in FY 2008; or, conversely, the value of the endowment in FY 2002, including the fair value of the Chrysler Building, hit a low of about \$225 million.

If the fair value of the Chrysler Building had really increased by as much as The Cooper Union claimed it had, then you'd think that the payments in lieu of taxes (PILOT) would have skyrocketed as well, but that is not the case. There's plenty of room for argument, because Cooper claims that they negotiated a "sweet deal" with Tishman Speyer for the Chrysler Building, and Tishman Speyer isn't complaining because they talked the folks in Abu Dhabi into giving them \$900 million for 90% of their lease. So is the Chrysler Building really worth \$250 million, \$500 million, or \$1 billion? Like an art auction or a bankruptcy proceeding, until someone dies or sells, no one knows what the selling price really is. And as to the cost to build a new Art Deco landmark of the same square footage – well that varies with construction prices, which is why The Cooper Union lost so much of its endowment – both its paper endowment (the fair value of the Chrysler Building) and its cash endowment (the hedge funds) – in the crash of 2008.

As to the "spending policy" that disappeared for five years between FY 2003 and FY 2009, *The Alumni Pioneer* estimates that it rose to 7.4% in FY 2006, and worked its way down to 5% in FY 2011. Not much of a "policy" if you can make it whatever you want.

Getting back to the Board's calculation of "the deficit" (and now you know why the Publisher of *The Alumni Pioneer* cringes every time such a term is used, given that Cooper had a surplus instead of a deficit for half of the last decade), they do some weird things in the December 15 spreadsheets. They lump the annual fund contributions in with some of the capital campaign contributions. They acknowledge this reclassification by putting the row in orange. On page 7 they repeat the exercise, creating a new category, "total spendable

revenue.” They play similar tricks on the expenditure side, creating something called “total cash expenditures.” From this they create a third new category, “excess (deficiency) of spendable revenue over cash expenditures.” They come up with the exact same numbers at the bottom of page 7 as the did at the bottom of page 5, where they called it “increase (decrease) in net assets exclusive of non-cash items” – remember? But now, in addition to the total 12-year column, they add another column: “Average Year.” This is hilarious, because it makes it look like we lost \$3 million every year for 12 years instead of losing \$30 million (by their own accounting) in one year – FY 2009. In other words, someone still wants to hold on desperately to the “years of deficit spending” story.

But they’re not done. On page 9, they create two new categories, “real estate portfolio performance” and “liquid investment portfolio performance.” Again, they’re forced to be more honest. In note (d), they admit that the “change in accounting” from the depreciated cost of the Chrysler Building to the fair value of the Chrysler Building, a less than minor matter of some \$146 million, is going to be unfair, so they push it back to 1999. Even with this, the performance of the investment portfolio doubles in twelve years.

Then they bemoan the fact that the “liquid” portion of the investment portfolio only rose by 35% in twelve years, or an average of 3% per year. That would rise to about 3.5% per year if they didn’t have to spend the \$5 million in investment expenses to the brokerage houses and hedge fund managers they use.

Finally, on page 10, comes the *pièce de résistance*. Out of their ass, they create a totally new set of numbers, “projected” revenues and expenditures. These appear no where in the audited consolidated financial statements. Then they compare these projected revenues and expenses against the actual revenues and expenses, and create this nice little story about how the losses in FY 2009 offset the gains in FY 2006, 2007, and 2008. And **this** is the story they put into the Statement letter.

But how much money did they lose in FY 2009? Is it the \$31 million shown on page 10? Or is it the \$87 million in green on page 9? Or the \$58 million listed four lines above?

One thing you’re guaranteed in 10 pages of 11” x 17” PDF – the word hedge fund never appears. Restricted, unrestricted, cash, liquid – but that’s a part of note 2 they’d rather not mention. **At all.**

Despite the claims of the New Transparency, there are several things the administration never wants you to know, or at least doesn’t want you to pay attention to.

- One is how they rushed to build the NAB when construction costs were rising in order to have an opening in time for the 150th anniversary of Cooper Union’s founding. They rushed to mortgage the Chrysler building so they could lock in a “Guaranteed Maximum Price” of \$115 million, and proceeded to go over budget to \$166 million anyway. (Could you imagine the wonderful state we’d be in if they had waited until they raised enough in the capital campaign, built when construction costs were low, never mortgaged the Chrysler Building, and never taken out that huge loan?)
- Another thing they don’t want you to notice is how they let \$100 million sit in a hedge fund in FY 2008, rather than rebalance their portfolio to stick some of that away in less risky equities. TC Westcott’s official position is that she will not name the hedge fund, so we can’t just look up that fund and see what its performance was during the crash to determine how much money Cooper actually lost.
- Another thing they rather you not pay attention to isn’t the debt service, but the exorbitant fees they paid to cash in DASNY bonds, take out \$175 million loans, make real estate deals, and the like. These millions of dollars they’re amortizing over the durations of loans and leases, which looks good on the books, but doesn’t explain why you’re so cash poor.
- And, as printed in “Don’t Worry, Be HEPI,” they don’t want you to look at the way they’ve spent money since 2006 well above both the consumer price index and their own beloved higher education

price index as well. The Middle States Association likes the fact that The Cooper Union doesn't charge tuition – it considers it to be a true sign of diversity in higher education. The Middle States Association is not going to be pleased with how we didn't follow our own Master Plan, and the lame attempts to change our mission statement. It could be a race to the bottom; which comes first, bankruptcy or loss of accreditation?

The Board, over a cold weekend a year ago, ignored the entire president selection process and hired Dr. Jamshed Bharucha, a decision they could rescind. But there is something the Board cannot avoid, whether they know it or not. Under both the Charities Bureau of the Attorney General of the State of New York, as well as under the State Education Department, trustees have a duty of obedience, a duty of loyalty, and a duty of care. The last requires all trustees to “read, review, and **inquire about** materials” such as annual reports, and to “exercise due diligence, care and caution” in their “fiduciary responsibility for the assets, finances, and investments of the institution ... **as if handling one's own personal finances.**” The State Education Department, in a Statement on the Governance Role of a Trustee or Board Member revised in May 2010, clarifies the principles established by the Charities Bureau. “Trustees/board members should be cautious about relying completely on the guidance and judgment of the institution's CEO and management.... Trustees should also ask questions about the institutional year end financial statements. Inquire as to what they mean; what is the financial condition of the entity?”

It is incredible to this author that any board member could have actually looked at any of the various reclassifications, year after year, the incredible real estate deals, loans, hedge fund investments, and hiring sprees, and merely said, “In George We Trust.”

The duty of loyalty pertains to allegiance to the institution and avoidance of conflicts of interest. It is one thing to have Sandra Rose sit on the Board of Trustees, declare the conflict on the Form 990, and award management of the building of the NAB to Ms. Rose's son. It is even worse to have a long-term trustee, William Sandholm, who never worked for any company but Rose Associates, be in charge of the Astor Place Holding Corporation and the real estate deals.

The duty of obedience is that “a trustee/board member has a responsibility to insure that the institution's resources are dedicated to the fulfillment of its mission,” not to change its mission in order to cover up the board's own failure to fulfill its duty of care. The mission statement of The Cooper Union, adopted by the Board of Trustees in 2000, is:

Through outstanding academic programs in architecture, art and engineering, The Cooper Union for the Advancement of Science and Art prepares talented students to make enlightened contributions to society.

The College admits undergraduates solely on merit and awards full scholarships to all enrolled students. The institution provides close contact with a distinguished, creative faculty and fosters rigorous, humanistic learning that is enhanced by the process of design and augmented by the urban setting. Founded in 1859 by Peter Cooper, industrialist and philanthropist, The Cooper Union offers public programs for the civic, cultural and practicable enrichment of New York City.

The Board is not allowed to discuss charging tuition for years, as Chair Mark Epstein has claimed. Charging tuition is not “on the table” as a “last resort” – without the assent of all of its stakeholders, changing the mission statement would make The Cooper Union lose its accreditation. The Cooper Union Community may not have standing to remove board members and replace them with those properly devoted to the mission of the college – only the Attorney General (and other board members) have that standing – but the Cooper Union Community does have the standing to oppose any and all changes to the mission statement of the college. Without

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accreditation, Dr. Bharucha will return The Cooper Union to Peter Cooper's original vision – The Union will become a vocational school for poor people trying to learn a practical trade. No thanks.

The current version of this document can be found at <<http://www.notnicemusic.com/salami.pdf>>. Corrections to this document are appreciated and, if based on substantiated facts from legitimate sources, will be implemented by the author. The original version was completed on December 26, 2011, with a new version created after the release of the FY 2011 Consolidated Financial Statements, on January 27, 2012.

The Alumni Pioneer, <<http://www.notnicemusic.com/Cassandra/cooper.html>>, is a virtual newspaper with breaking news stories and links to analyses, sources and the media. It is written and formatted in an inverted-pyramid newspaper style to facilitate quick access to what is deemed the most important information. The abstract was added on January 28, 2012.