

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

**Minutes of Special Board of Trustees Meeting**

January 31, 2017

2:30 PM

**PARTICIPANTS**

- Trustees: Rachel Warren (Chair), Nils Folke Anderson, Kevin Burke, Thomas Driscoll, Joseph Dobronyi, Jeffrey Hersch (phone), Eric Hirschhorn, Adrian Jovanovic, Peter Katz, Malcolm King, Scott Lerman, Richard Lincer, Jessica Marshall, Kevin Slavin (phone), Brian Steinwurtzel, Robert Tan, Johnny Taylor (phone), Jeremy Wertheimer (phone)
- Officers: President Laura Sparks, Vice President William Mea, Secretary Lawrence Cacciatore
- Representatives: Professor Toby Cumberbatch, Professor Atina Grossmann, Adjunct Professor Yuri Masnyj, Amy Westpfahl
- Financial Monitor: Joseph Spinelli, Ronald Salluzzo, Richard Faughnan
- Guests: Dennis Morrone and Chris Atkinson (Grant Thornton)

**ABSENCES:**

- Trustees: Elizabeth Diller

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This special meeting was called by the Secretary at the request of the Chair of the Board.

The special meeting was called to order at 2:30pm.

The Board meeting began with an executive session of the Board. After an initial discussion in executive session, President Laura Sparks joined the Board in executive session.

Following the executive session, Vice President Mea, Secretary Cacciatore and the Representatives to the Board joined the meeting.

Ms. Warren reported that the purpose of the Special meeting was to (a) review and discuss Cooper's financial history and current financial position; (b) review and approve the release of the FY 16 Audited Financial Statements; (c) review and discuss the FEC Report and the Board's Response; and (d) discuss the Board's Strategic Planning process.

## **Financial Metrics**

At its December 7, 2016 meeting, the Board of Trustees directed the administration to research and propose a set of metrics to assess the near-term financial impact of initiatives proposed by the FEC in furtherance of a plan to return to a full tuition scholarship model. (At that meeting, the Board had also adopted the Composite Financial Index (CFI) as one of the metrics to assess proposed initiatives and the long-term financial health and sustainability of the school.) President Sparks reported on the administrations findings, which are summarized as follows.

The two most significant measures of institutional financial health are liquidity and operating results. Liquidity supports day-to-day operations by enabling an institution to cover operating expenses and debt service even when revenues are inconsistent, and, as a reserve, provides financial resilience in the event of unexpected costs or an unexpected decrease in revenues. Liquidity is provided by an institution's net assets that can be accessed quickly and spent to meet its operating and capital (including debt) needs; these are referred to as "expendable net assets."

The two metrics proposed by the administration to determine whether the institution has sufficient liquidity are the Primary Reserve Ratio (expendable net assets/total expenses) and the Viability Ratio (expendable net assets/total plant debt).

Operating results reflect the extent to which revenues and expense are aligned. Consistent operating deficits deplete the institution's net asset base over time. Over the past five years, Cooper's operating deficits have grown from \$17.9 million in FY 12 to \$21.3 million in FY 16. This has resulted in our unrestricted net asset base further declining from negative (\$83.9) million to negative (\$160.8 million).

The two metrics proposed by the administration to measure operating results are the Net Operating Revenues Ratio (operating surplus (deficit)/total operating revenues) and the Return on Net Assets Ratio (change in net assets/total net assets at beginning of year).

The administration further recommended the following goals, to be achieved over time, for each of the proposed metrics:

Metric	Healthy Institution	Cooper Union Current	Cooper Union Goal
Net Operating Revenues Ratio	2% - 4%	(36%)	2% - 4%
Return on Net Assets Ratio	3% - 4%	1%	3% - 4%
Primary Reserve Ratio	5 months reserve	Negative 13 months	3 -5 months
Viability Ratio	1.25 – 1.50	(.50)	1.10 – 1.25

The administration provided and will continue to provide the Board with a Financial Dashboard which reflects these metrics as well as other relevant financial data so that the Board can track, over time, the school's progress towards financial health.

### **FY 16 Audited Financial Statements**

Grant Thornton was retained in 2016 to perform an audit of Cooper Union's FY 16 financial statements.

Messrs. Morrone and Atkinson reported their findings to the Board and stated that, based on the Board's prior conversation regarding financial metrics as well as discussions at the Audit Committee level, the auditors are comfortable that the Board understands, acknowledges and appreciates the seriousness of the school's financial condition.

Mr. Morrone walked the Board through the Consolidated Financial Statements and confirmed their opinion that the financial statements present fairly, in all material respects, the financial position of Cooper Union as of June 30, 2016 and the results of its operations and cash flows for the year then ended. He further reviewed, in detail, the school's history of operating losses, debt load, unfunded postretirement benefits liability, deferred revenues, etc., and the importance of implementing measures to control costs during this period.

### **FEC Report & Board's Response**

The chair expressed appreciation to the FEC for its efforts over the past year and, particularly, for its efforts in producing a well-reasoned and thoughtful report which acknowledged the schools' financial challenges, determined that, according to current financial projections, Cooper Union could return to a full tuition model in 2039 and that its work in 2017 would be focused on accelerating that timeline in a manner that was consistent with the Consent Decree and would not jeopardize the long-term financial sustainability of the school.

An objection was raised as to whether it was proper for the administration to have assisted the FEC with drafting its report and researching potential initiatives. Robert Tan, chair of the FEC, and other members of the committee confirmed that the FEC Report fairly and accurately reflected the views of the committee and was not a "product" of the administration.

Ms. Warren further explained that the Cooper Union Board is a governing board and not an operating board and, therefore, it is entirely appropriate for the Board to direct management to provide administrative, financial analysis and other support as necessary. In this same way, the administration supports each of the Board committees.

Ms. Warren requested that trustees provide input to her on or before February 7<sup>th</sup> to be considered in connection with the Board's Response which is due 30 days after the FEC Report is presented to the Board. Based on the input received, Ms. Warren would draft the Response and then circulate to the Board for comment. She noted that a special meeting would be convened to discuss the Response if that appeared to be necessary.

### **Strategic Planning Process**

The chair recapped the importance of a comprehensive Strategic Planning process which integrates all of the efforts of the FEC, the Middle States accreditation work and the Board's obligations to affirm our vision, mission and core values and to develop a corresponding plan of action that will guide the school's next chapter.

The Board has tasked President Sparks with coordinating the efforts of the various groups, including board committees, faculty, staff, students and others, and to spearhead the planning process. Ms. Sparks then led the Board through her presentation which laid out the (a) Key Strategic Planning Questions; (b) Strategic Planning Goals & Timeline; and (c) manner in which the Board's committees would participate in various facets of the work.

The Board will plan a retreat in late spring and will also coordinate with the administration to create opportunities for soliciting community input.

### **Input by the Representatives to the Board**

The Representatives requested an opportunity to provide input after each separate agenda item instead of waiting until the end of the meeting when time has been specifically reserved for them.

There being no further business the meeting was adjourned at 5:45 PM

**APPROVED**

MARCH 22, 2017

A handwritten signature in blue ink that reads "Mindy Lang". The signature is written in a cursive style with a long, sweeping tail on the letter "g".

MINDY LANG

SECRETARY TO THE BOARD OF TRUSTEES