THE COOPER UNION FOR THE ADVANCEMENT OF SCIENCE AND ART

Consolidated Financial Statements

June 30, 2007 and 2006

(With Independent Auditors' Report Thereon)

KPMG LLP
345 Park Avenue
New York, NY 10154

Independent Auditors' Report

The Board of Trustees
The Cooper Union for the Advancement
of Science and Art:

We have audited the accompanying consolidated balance sheets of The Cooper Union for the Advancement of Science and Art (The Cooper Union) as of June 30, 2007 and 2006, and the related consolidated statements of changes in unrestricted net assets, changes in net assets, and cash flows for the years then ended. These consolidated financial statements are the responsibility of The Cooper Union's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of The Cooper Union's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in note 7 to the financial statements, The Cooper Union adopted the provisions of Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans,* as of June 30, 2007.

As discussed in note 9 to the financial statements, The Cooper Union adopted the Financial Accounting Standards Board Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations,* in 2006.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Cooper Union for the Advancement of Science and Art as of June 30, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

November 28, 2007

THE COOPER UNION FOR THE ADVANCEMENT OF SCIENCE AND ART

Consolidated Balance Sheets

June 30, 2007 and 2006

Assets		**2007**	**2006**
Cash and cash equivalents	$	88,673,579	2,500,473
Contributions receivable, net (note 3)		9,754,809	19,522,272
Other receivables		743,813	843,484
Investments (note 2)		671,005,039	491,224,496
Prepaid expenses and other assets (note 5)		7,234,974	1,687,071
Loans to students, net of allowance for doubtful loans of $39,884 and $39,284 in 2007 and 2006, respectively		476,650	486,510
Funds held by trustee (notes 2 and 5)		—	9,625,473
Plant assets, net (notes 2 and 4)		63,777,789	49,395,686
Total assets	$	841,666,653	575,285,465
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses	$	7,073,175	5,887,253
Deferred revenue (note 8)		10,792,229	10,834,844
Accrued interest (note 5)		856,041	706,919
Other liabilities		58,839	172,139
Liability under charitable trusts and annuity agreements		4,231,736	4,052,197
Obligations to Dormitory Authority of the State of New York (note 5)		—	24,554,398
Accrued postretirement benefit costs (note 7)		13,601,335	10,755,278
Asset retirement obligation (note 9)		1,550,328	2,579,800
MetLife loan (note 5)		175,000,000	—
Total liabilities		213,163,683	59,542,828
Net assets:			
Unrestricted		512,879,307	408,839,199
Temporarily restricted (note 6)		56,679,350	48,762,518
Permanently restricted (note 6)		58,944,313	58,140,920
Total net assets		628,502,970	515,742,637
Total liabilities and net assets	$	841,666,653	575,285,465

See accompanying notes to consolidated financial statements.

THE COOPER UNION FOR THE ADVANCEMENT OF SCIENCE AND ART

Consolidated Statements of Changes in Unrestricted Net Assets

Years ended June 30, 2007 and 2006

	2007	2006
Operations:		
Revenues and other support:		
Investment return utilized for operations (note 2)	$ 23,518,045	19,257,287
Student tuition and fees	30,971,099	28,995,395
Tuition discount	(28,013,043)	(26,144,798)
Net student tuition and fees	2,958,056	2,850,597
Contributions	4,401,750	4,319,316
Government grants and contracts	780,705	568,776
Appropriations – State of New York aid	95,278	94,032
Rental income (notes 5 and 8)	1,706,168	2,034,079
Auxiliary enterprises	1,710,412	1,709,709
Other revenue	208,231	94,442
	35,378,645	30,928,238
Net assets released from restrictions (note 6)	4,001,501	1,937,557
Total revenues and other support	39,380,146	32,865,795
Expenses:		
Program services:		
Instruction	17,948,674	15,356,027
Academic support	12,515,675	11,103,162
Public service	2,722,288	2,604,840
Research	79,027	43,132
Student services	3,157,904	2,884,709
Student aid	1,470,117	1,363,521
Auxiliary enterprises	2,192,260	1,759,420
	40,085,945	35,114,811
Supporting services:		
Management and general	6,780,973	5,391,236
Fund-raising	3,190,561	3,206,175
	9,971,534	8,597,411
Total expenses	50,057,479	43,712,222
Excess of operating expenses over operating revenues and other support	(10,677,333)	(10,846,427)
Nonoperating activity:		
Loss on extinguishment of debt (note 5)	(1,995,397)	—
Excess of investment return over amount utilized for operations (note 2)	118,720,695	200,035,306
Increase in unrestricted net assets before effect of adoption of SFAS No. 158 and cumulative effect of change in accounting principle	106,047,965	189,188,879
Effect of adoption of SFAS No. 158 (note 7)	(2,007,857)	—
Cumulative effect of change in accounting principle (note 9)	—	(2,579,800)
Increase in unrestricted net assets	$ 104,040,108	186,609,079

See accompanying notes to consolidated financial statements.

THE COOPER UNION FOR THE ADVANCEMENT OF SCIENCE AND ART

Consolidated Statements of Changes in Net Assets

Years ended June 30, 2007 and 2006

	2007	2006
Changes in unrestricted net assets:		
Total unrestricted revenues and other support, before net assets released from restrictions	$ 35,378,645	30,928,238
Operations:		
Net assets released from restrictions (note 6)	4,001,501	1,937,557
Total unrestricted expenses	(50,057,479)	(43,712,222)
Excess of operating expenses over unrestricted operating revenues and other support before nonoperating activity and other changes	(10,677,333)	(10,846,427)
Loss on extinguishment of debt (note 5)	(1,995,397)	—
Excess of investment return over amount utilized for operations (note 2)	118,720,695	200,035,306
Effect of adoption of SFAS No. 158 (note 7)	(2,007,857)	—
Cumulative effect of change in accounting principle (note 9)	—	(2,579,800)
Increase in unrestricted net assets	104,040,108	186,609,079
Changes in temporarily restricted net assets:		
Contributions	6,466,083	8,395,238
Investment gains (note 2)	5,452,250	1,355,506
Net assets released from restrictions (note 6)	(4,001,501)	(1,937,557)
Increase in temporarily restricted net assets	7,916,832	7,813,187
Changes in permanently restricted net assets:		
Contributions	803,393	5,370,936
Increase in permanently restricted net assets	803,393	5,370,936
Increase in net assets	112,760,333	199,793,202
Net assets at beginning of year	515,742,637	315,949,435
Net assets at end of year	$ 628,502,970	515,742,637

See accompanying notes to consolidated financial statements.

THE COOPER UNION FOR THE ADVANCEMENT OF SCIENCE AND ART

Consolidated Statements of Cash Flows

Years ended June 30, 2007 and 2006

		2007	2006
Cash flows from operating activities:			
Increase in net assets	$	112,760,333	199,793,202
Adjustments to reconcile increase in net assets to net cash used in operating activities:			
Cumulative effect of change in accounting principle		—	2,579,800
Effect of adoption of SFAS No. 158		2,007,857	—
Loss on extinguishment of debt		1,995,397	—
Depreciation and amortization expense		3,643,036	2,862,239
Net unrealized and realized gains on investments		(124,324,928)	(200,697,143)
Change in value of split-interest agreements		480,355	442,662
Permanently restricted contributions		(803,393)	(5,370,936)
Contributions restricted for capital purposes		(3,213,597)	(7,999,428)
Changes in assets and liabilities:			
Contributions receivable, net of amounts classified as financing activities		370,926	1,438,746
Other receivables		99,671	(152,545)
Prepaid expenses and other assets		566,319	126,134
Accounts payable and accrued expenses		33,938	1,334,859
Deferred revenue		(42,615)	(160,546)
Accrued interest		149,122	(11,144)
Other liabilities		(113,300)	(64,213)
Asset retirement obligation		(1,029,472)	—
Accrued postretirement benefit costs		838,200	1,165,115
Net cash used in operating activities		(6,582,151)	(4,713,198)
Cash flows from investing activities:			
Purchases of investments		(91,851,194)	(36,700,127)
Proceeds from sales of investments		36,395,579	44,718,767
Decrease in loans to students		9,860	4,982
Increase in accounts payable for capital expenditures		1,151,984	273,418
Purchases of plant assets		(18,025,139)	(8,235,381)
Net cash (used in) provided by investing activities		(72,318,910)	61,659
Cash flows from financing activities:			
Permanently restricted contributions		803,393	5,370,936
Contributions restricted for capital purposes		3,213,597	7,999,428
Decrease (increase) in contributions receivable related to financing activities		9,396,537	(5,469,414)
Debt issuance costs		(6,114,222)	—
Decrease (increase) in funds held by trustee		9,625,473	(319,185)
Refunding of obligation to Dormitory Authority of the State of New York		(26,549,795)	(815,000)
Proceeds of new charitable gift annuities in excess of contributions recognized		329,846	877,938
Proceeds from MetLife loan		175,000,000	—
Payments to beneficiaries under charitable annuities		(630,662)	(581,479)
Net cash provided by financing activities		165,074,167	7,063,224
Net increase in cash and cash equivalents		86,173,106	2,411,685
Cash and cash equivalents at beginning of year		2,500,473	88,788
Cash and cash equivalents at end of year	$	88,673,579	2,500,473
Supplemental cash flow information:			
Cash paid during the year for interest	$	6,692,396	1,405,507

See accompanying notes to consolidated financial statements.

(1) Organization and Summary of Significant Accounting Policies

Organization

The accompanying consolidated financial statements include the balance sheet, changes in net assets, and cash flows of The Cooper Union for the Advancement of Science and Art (the College) and its affiliates, The Cooper Union Research Foundation, Inc. (CURF), and Astor Place Holding Corporation (Astor Place).

The College was founded in 1859 through the bequest of Peter Cooper, a noted industrialist and philanthropist. Consistent with Peter Cooper's wishes, the College remains one of the few private, full-tuition scholarship colleges in the United States. It offers degree programs in architecture, art, and engineering. The College has designated a $30,000 tuition charge for full-time students. All students are required to apply for certain outside tuition assistance programs for which they are eligible. The College was incorporated under a special act of the New York State Legislature in 1859 and is subject to the jurisdiction of the Regents of the University of the State of New York.

CURF is an affiliated, not-for-profit corporation which was founded in February 1976 for the purpose of enhancing the quality of education at the College by promoting, encouraging, and supporting scientific investigation and research by faculty and students.

The College is the sole stockholder of Astor Place, a corporation organized for the exclusive purpose of holding title to property, collecting income therefrom, and turning over the entire amount thereof less expenses to the College.

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting and include the accounts of the College, CURF, and Astor Place (collectively referred to as The Cooper Union). All significant interorganizational balances and transactions have been eliminated in consolidation.

Summary of Significant Accounting Policies

(a) Basis of Presentation

Net assets and revenues, expenses, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets not subject to donor-imposed stipulations.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that will be met either by actions of The Cooper Union or the passage of time. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted. Expirations of temporary restrictions on prior year net asset balances are reported as net assets released from restriction.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by The Cooper Union. Generally, the donors of these assets permit The Cooper Union to use all or part of the income earned on related investments for general or specific purposes.

(b) Income Tax Status

The College and CURF are exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. Astor Place is exempt from federal income tax under Section 501(c)(2) of the Internal Revenue Code.

(c) Cash Equivalents

Cash equivalents consist of short-term investments with original maturities of three months or less, except for those short-term investments which are managed by The Cooper Union's investment managers and trustees and are included in investments.

(d) Contributions

Contributions, including unconditional promises to give, are reported as revenues in the period received. Contributions received are discounted to reflect the present value of future cash flows at a risk-free rate. In addition, an allowance for contributions receivable estimated to be uncollectible is provided.

(e) Release of Restrictions on Net Assets Held for Acquisition of Property, Plant, and Equipment

Contributions of property, plant, and equipment without donor stipulations concerning the use of such long-lived assets are reported as revenues of the unrestricted net assets class. Contributions of cash or other assets to be used to acquire property, plant, and equipment with such donor stipulations are reported as revenues of the temporarily restricted net assets class; the restrictions are considered to be released at the time such long-lived assets are placed into service.

(f) Depreciation and Amortization

Buildings and equipment are depreciated on a straight-line basis over their estimated useful lives ranging from three to forty years. Leasehold improvements are amortized on a straight-line basis over their estimated useful lives or the life of the lease, whichever is shorter.

(g) Use of Estimates

The preparation of the 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 disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(h) Fair Value of Financial Instruments

The fair value of investments is determined as indicated in note 2. The carrying amount of bonds payable approximates fair value because they carry an interest rate similar to the market rate offered by similar instruments. The carrying amounts of all other financial instruments approximate fair value because of the short maturity of those instruments.

(i) Reclassifications

Certain 2006 amounts have been reclassified to conform to the current year presentation.

(j) Other Significant Accounting Policies

Other significant accounting policies are set forth in the consolidated financial statements and the following notes.

(2) Investments

Investments in debt and equity securities are reported at fair value based on quoted market values. Hedge funds are reported at fair value based on information provided by the fund manager. Limited partnerships are reported at fair value as determined by the general partner. The fair value of hedge funds and limited partnerships is reviewed by management for reasonableness and the College believes the carrying amount of these financial instruments is a reasonable estimate of fair value. The College owns the Chrysler Building. Legal title to both the land and building, subject to a lease (see note 8), which is scheduled to expire in 2147, rests with the College. The fair value of the Chrysler Building was determined based on the net present value of future cash flows related to net rental income. Because alternative investments are not readily marketable, their estimated value is subject to uncertainty and therefore may differ from the value that would have been used had a ready market for such investments existed. Such differences could be material.

Investments at fair value, including debt service reserve and other funds held by the trustee, consist of the following at June 30, 2007 and 2006:

	2007	2006
Cash, cash equivalents, and short-term investments held by investment managers and trustees	$ 18,171,800	13,176,684
Bonds	5,103,478	13,940,344
Equity securities	19,497,715	12,525,623
Hedge funds	75,637,601	19,406,118
Real estate and other	530,695,462	421,751,100
Limited partnerships	21,898,983	10,424,627
	671,005,039	491,224,496
Funds held by trustee invested in U.S. treasuries	—	9,625,473
	$ 671,005,039	500,849,969

Included in investments are charitable trusts and gift annuities amounting to $5,296,945 and $4,787,094 at June 30, 2007 and 2006, respectively. In addition, included in plant assets is a building of $2,549,115, which is also subject to a gift annuity agreement.

The components of investment return for the years ended June 30, 2007 and 2006 are as follows:

	2007	2006
Real estate rental income	$ 20,717,058	18,511,300
Interest and dividends	2,793,531	1,795,071
Unrealized gains on investments	120,061,199	196,993,629
Realized gains on investments	4,263,729	3,703,514
Investment expenses	(144,527)	(355,415)
Investment return	147,690,990	220,648,099
Less amounts classified as:		
Temporarily restricted	5,452,250	1,355,506
Amount utilized for operations	23,518,045	19,257,287
Excess of investment return over amount utilized for operations and classified as unrestricted	$ 118,720,695	200,035,306

(3) Contributions Receivable

Contributions receivable at June 30, 2007 and 2006 are scheduled to be collected as follows:

	2007	2006
Year ending June 30:		
Less than one year	$ 2,620,475	14,350,172
One year to five years	8,125,235	6,085,241
	10,745,710	20,435,413
Adjustment to reflect contributions receivable at discount value (4.00% – 8.25%)	(762,110)	(713,141)
Less allowance for uncollectible contributions receivable	(228,791)	(200,000)
	$ 9,754,809	19,522,272

During 2006, the Council of the City of New York (the Council) and the Manhattan Borough President's Office appropriated $3 million and $500,000, respectively. The funds will assist The Cooper Union in a proposed facilities renewal program, including the construction of a new academic building. These appropriations are not reflected in the consolidated financial statements since they do not meet the contribution recognition criteria under Statement of Financial Accounting Standards (SFAS) No. 116, *Accounting for Contributions Received and Contributions Made.*

(Continued)

(4) Plant Assets

Plant assets consist of the following at June 30, 2007 and 2006:

		2007	2006
Land and land improvements	$	2,664,525	2,655,626
Buildings and building improvements		64,909,317	65,840,145
Equipment		26,569,681	25,844,291
Leasehold improvements		3,001,629	3,001,630
Construction in progress		28,810,830	12,920,917
Other plant assets		1,067,672	1,067,672
		127,023,654	111,330,281
Accumulated depreciation and amortization		(63,245,865)	(61,934,595)
	$	63,777,789	49,395,686

The Cooper Union is in the midst of a major facilities renewal program, which includes the construction of a new academic building on the site of the former Hewitt Building. The cost incurred to date of approximately $28.8 million is included in construction in progress. The expected cost of the facilities renewal program is approximately $156 million and will be financed by gifts raised during The Cooper Union's capital campaign currently in progress as well as new debt (see note 5).

(5) Metropolitan Life Insurance Company (MetLife) Loan and Obligations to Dormitory Authority of the State of New York

On October 6, 2006, The Cooper Union entered into a $175,000,000 nonrecourse loan with Metropolitan Life Insurance Company (MetLife) to build a new academic building, retire existing debt and fund future operations. The term of the loan is 30 years with an interest rate of 5.87%. The amortization period is based on 18 years with interest only for the first 12 years. The loan is secured by a first priority mortgage on The Cooper Union's fee interest in the Chrysler property and an assignment of all of The Cooper Union's rights to the payment of basic rent, tax equivalency payments, and other sums due under the terms of the operating lease. The Cooper Union incurred $6,325,057 in costs associated with entering into the loan. These costs have been deferred and are being amortized over the life of the debt and are included in prepaid expenses and other assets in the accompanying consolidated balance sheet.

As part of the closing of the MetLife loan above, a portion of the loan proceeds was used to retire the Series 1996 and 1999 Bonds described below outstanding with DASNY. There was a loss of $1,995,961 resulting from the retirement of the Bonds, which is recorded as loss on extinguishment of debt in the 2007 consolidated statement of changes in unrestricted net assets.

The Cooper Union completed a major renovation of the exterior of its foundation building, one of the College's main academic and administrative sites. The cost of the renovations was substantially financed by a bond issue of the Dormitory Authority of the State of New York (DASNY) Insured Revenue Bonds, Series 1999 (Series 1999 Bonds) maturing serially to July 1, 2029. The original principal amount of the bonds was $11,500,000 and they bear interest rates ranging from 4.50% to 6.25%, payable semiannually. At June 30, 2007 and 2006, the principal balance outstanding on the Series 1999 Bonds was $0 and $10,500,000, respectively.

During 1993, The Cooper Union completed construction of a facility, 84.5% of which provides student residence space, with the remainder (15.5%) intended for retail use. Construction of the student residence portion of the building was financed by a bond issue of DASNY (Series 1990 Bonds) maturing serially to July 1, 2020. The original principal amount of the bonds was $17,975,000 and they bore interest at rates ranging from 5.7% to 7.2%, payable semiannually. On November 1, 1996, The Cooper Union replaced these bonds with $18,825,000 of DASNY Insured Revenue Bonds, Series 1996 (Series 1996 Bonds), which mature in 2020 and bear interest at rates ranging from 3.600% to 5.375%. The proceeds from the issuance of the Series 1996 Bonds were deposited with the trustee of the Series Bonds and were used to acquire direct obligations of the U.S. government; the principal of and the interest on such obligations will be sufficient to (a) pay the interest on and the redemption price of the Series 1990 Bonds when they are due; (b) make required deposits to the debt service fund, debt service reserve fund, and buildings and equipment reserve fund; and (c) pay the cost of issuing the Series 1996 Bonds. The Series 1990 Bonds were paid off as of July 1, 2001. At June 30, 2007 and 2006, the principal balance outstanding on the Series 1996 Bonds was $0 and $14,225,000, respectively.

The projected debt service for the MetLife Loan for next five years and thereafter is as follows:

	Principal	Interest	Total
Year ending June 30:			
2008	$ —	10,272,500	10,272,500
2009	—	10,272,500	10,272,500
2010	—	10,272,500	10,272,500
2011	—	10,272,500	10,272,500
2012	—	10,272,500	10,272,500
2013 and thereafter	175,000,000	181,186,185	356,186,185

(6) Net Assets

Temporarily restricted net assets at June 30, 2007 and 2006 are available for the following purposes or periods:

		2007	2006
Purpose restrictions:			
Academic support	$	6,026,027	4,356,283
Student aid		3,506,119	4,248,232
Instruction		1,253,435	598,774
New academic building		36,224,910	32,103,931
Other		3,195,105	2,896,081
Time restrictions		6,473,754	4,559,217
Total temporarily restricted net assets	$	56,679,350	48,762,518

Permanently restricted net assets at June 30, 2007 and 2006 are restricted to investments in perpetuity, the income from which is expendable to support:

		2007	2006
Specific purposes of The Cooper Union, principally instructional and student financial aid	$	42,269,918	41,617,883
General activities of The Cooper Union		16,674,395	16,523,037
Total permanently restricted net assets	$	58,944,313	58,140,920

During 2007 and 2006, net assets were released from donor restrictions by incurring expenses satisfying the following restricted purposes or by the occurrence of other events specified by donors:

		2007	2006
Purpose restrictions accomplished:			
Academic support	$	470,747	391,445
Student aid		1,770,017	338,124
Instruction		424,904	29,695
Public service		559,962	466,235
Time restrictions		775,871	712,058
	$	4,001,501	1,937,557

(7) Pension Plan and Postretirement Benefits

A noncontributory, defined contribution and annuity pension plan is available to all eligible employees who have met stipulated length-of-service and age requirements. The expenses for the plan for the years ended June 30, 2007 and 2006 amounted to approximately $1,488,956 and $1,419,650, respectively.

The Cooper Union provides medical insurance benefits for its retired employees. Effective June 30, 2007, The Cooper Union adopted FASB Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans (SFAS No. 158)*, which requires that the funded status of such plans be fully reflected on the balance sheet. The following provides information about the plan's funded status reconciled with the amount reported in The Cooper Union's consolidated balance sheets as of June 30, 2007 and 2006:

		2007	2006
Change in benefit obligation:			
Benefit obligation at beginning of year	$	12,809,997	13,641,624
Service cost		455,921	509,711
Interest cost		784,913	714,509
Actuarial loss		32,620	155,813
Actuarial assumptions		—	(1,849,466)
Benefits paid		(482,116)	(362,194)
Benefit obligation at end of year		13,601,335	12,809,997
Change in plan assets:			
Fair value of plan assets at beginning of year		—	—
Employer contribution		482,116	362,194
Benefit paid		(482,116)	(362,194)
Fair value of plan assets at end of year		—	—
Funded status		(13,601,335)	(12,809,997)
Unrecognized net loss		—	2,054,719
Net amount recognized in the consolidated balance sheets	$	(13,601,335)	(10,755,278)
Amount recognized in the consolidated balance sheets consists of:			
Accrued benefits cost – beginning of year	$	10,755,278	9,590,163
Effect of adoption of SFAS No. 158		2,007,857	—
Net periodic benefit cost		1,320,316	1,527,309
Employer contribution		(482,116)	(362,194)
Net amount recognized	$	13,601,335	10,755,278
Weighted average discount rate assumptions as of June 30		6.25%	6.25%

For measurement purposes, an 11.50% annual rate of increase in the per capita cost of covered healthcare benefits was assumed for fiscal year 2007. The rate was assumed to decrease by 1.50% per year to an ultimate rate of 4.25% for 2011 and remain at that level thereafter.

		2007	2006
Components of net periodic benefit cost:			
Service cost	$	455,921	509,711
Interest cost		784,913	714,509
Recognized actuarial loss		79,482	303,089
Net periodic benefit cost	$	1,320,316	1,527,309
Benefit cost weighted average discount rate assumptions for the years ended June 30		6.25%	5.25%

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

		One-percentage-point increase	One-percentage-point decrease
Effect on total of service and interest cost components	$	218,725	(174,656)
Effect on postretirement benefit obligation		2,034,989	(1,660,192)

The projected premium payments from 2008 through 2017 are:

Year ending June 30:		
2008	$	501,734
2009		579,219
2010		619,363
2011		686,211
2012		740,686
2013 through 2017		4,573,724
	$	7,700,937

At June 30, 2007, the net loss of $2,007,857 was not yet recognized as a component of net periodic benefit cost. The $(2,007,857) appears on the fiscal year 2007 consolidated statement of activities as effect of adoption of SFAS No. 158, which decreases unrestricted net assets.

In addition to service and interest costs, the projected net periodic postretirement benefit cost for fiscal 2008 includes amortization of actuarial losses of $78,692.

The effect of applying SFAS No. 158 on The Cooper Union's financial position as of June 30, 2007 was as follows:

		Before Statement No. 158	After Statement No. 158
Accrued postretirement benefit obligation	$	11,593,478	13,601,335
Total liabilities		211,155,826	213,163,683
Total net assets		630,510,827	628,502,970

(8) Operating Leases

In February 1998, The Cooper Union entered into an operating lease agreement, which is scheduled to expire on December 31, 2147, for the land under the Chrysler Building. Under the terms of the lease agreement, annual rental income from the real property included:

- An amount of basic annual rent of $5,500,000 through December 31, 2007, $7,000,000 through December 31, 2012, and $7,750,000 through December 31, 2017. As of January 1, 2018 and each ten-year anniversary thereafter, the basic rent shall be adjusted based on fair value of the property and the assumption that a building of 1,194,000 square feet can be built.
- An amount equivalent to the taxes payable on the real property were it subject to taxation. Such amount is based on New York City's assessment of the value of the land and building subject to the existing tax rate.

Contemporaneous with the execution of the MetLife loan, The Cooper Union entered into a modification agreement for the lease above. The amended terms include that the basic annual rent schedule be adjusted as follows: from January 1, 2018 to December 31, 2027, $32,500,000; January 1, 2028 to December 31, 2037, $41,000,000; January 1, 2038 to December 31, 2047, $55,000,000. As of January 1, 2048 and each ten-year anniversary thereafter, the basic rent shall be adjusted by agreement between the landlord and the tenant based upon the fair market value of the land considered as vacant and unimproved, and the assumption that a building of 1,194,000 square feet can be built and utilized only for the then current use of the land irrespective of whether such then current use of the land represents its "highest and best use." In no event shall the new rent be less than the basic rent per annum payable on the last day of the preceding period.

In December 2002, The Cooper Union entered into two related operating lease agreements, which expire on December 2101, for the land located at 26 Astor Place in New York City. Under the terms of both leases, the tenant will finance construction of a new building, ownership to be held by The Cooper Union. Under the terms of the lease agreements, annual rental income from the real property includes:

- Combined first year rent of $11,000,000 received by The Cooper Union at June 30, 2004. The balance of $10,549,863 and $10,663,265 is included in deferred revenue in the accompanying consolidated balance sheets at June 30, 2007 and 2006, respectively.

- An amount of basic annual rent of $1 for the term of the lease.
- An amount equivalent to the taxes payable on the real property were it subject to taxation. Such amount is based on New York City's assessment of the value of the land and building subject to the existing tax rate.
- An amount equivalent to 50% of the sales and compensation use taxes payable for the tenant's construction of the new building, restoration and capital improvements, and other construction work were these costs subject to taxation. Such amount is based on New York City's existing tax rates.

In 1989, The Cooper Union entered into an operating lease agreement expiring in 2038, as the lessee of property on Third Avenue in New York City where the student residence building is located. Space at the Third Avenue site is subleased to tenants under operating leases that expire at various dates through 2024. Rent and related expenses for this lease were $1,090,927 and $1,064,816 in 2007 and 2006, respectively. Sublease income for this lease was $768,339 and $735,474 in 2007 and 2006, respectively. The following is a schedule of future minimum rental payments and sublease income, including future rent escalations, as of June 30, 2007, for the Third Avenue site:

	Minimum rental payments	Sublease income
Year ending June 30:		
2008	$ 770,000	719,400
2009	785,000	775,419
2010	800,000	813,866
2011	815,000	854,456
2012	830,000	899,018
2013 and thereafter	26,743,333	12,756,879

Other properties owned by The Cooper Union are leased under various operating leases. Under the terms of the leases, the lessees pay The Cooper Union basic annual rents, as well as additional rents based on certain real estate taxes assessed each year. Income from these leases was approximately $319,822 and $306,000 in 2007 and 2006, respectively. The future minimum rental payments on these noncancelable operating leases scheduled to expire by June 30, 2008 is $192,000.

In addition, The Cooper Union leases, under an operating lease agreement, office space at 30 Cooper Square in New York City. This operating lease commenced on July 1, 1992 and expires in 2012. Space at 30 Cooper Square is subleased to a tenant under an operating lease, which expires in 2012. Rent expense for this lease was $534,752 and $594,213 in 2007 and 2006, respectively. Sublease income from this lease was $177,564 and $169,063 in 2007 and 2006, respectively. The following is a schedule by year of future minimum rental payments and sublease income, excluding future rent escalations, at June 30, 2007:

	Minimum rental payments	Sublease income
Year ending June 30:		
2008	$ 668,160	135,316
2009	668,160	—
2010	668,160	—
2011	668,160	—
2012	668,160	—

(9) Asset Retirement Obligations

In March 2005, the Financial Accounting Standards Board issued Interpretation No. 47 (FIN 47), *Accounting for Conditional Asset Retirement Obligations*. Under FIN 47, organizations must accrue for costs related to legal obligations to perform certain activities in connection with the retirement, disposal, or abandonment of assets. In addition, the estimate must be recorded as a liability and as an increase to the asset. The capitalized portion is depreciated over the remaining useful life of the asset.

In 2006, management has identified asbestos abatement as a conditional asset retirement obligation and estimated that the cost of remediation is $2,579,800 at present value. Management believes the most reasonable remaining useful life should be consistent with its depreciation policy. Accordingly, the entire amount of $2,579,800 was reflected as a cumulative effect of change in accounting principle in the consolidated statements of changes in unrestricted net assets. In 2007, the remaining balance of the asset retirement obligation is $1,550,328.

(10) Subsequent Event

The College, owner of 51 Astor Place, entered into a 99-year ground lease with a developer on October 26, 2007. The transaction is contingent upon the College obtaining a certain deed modification and the extension of a special permit from The City of New York. Further, the College is permitted, if necessary, to occupy the facility through July 31, 2010 under a sublease agreement.

In connection with this transaction, the College borrowed $97 million from an affiliate of the developer at an interest rate of 5.5% and a term of 25 years. The arrangement requires the developer to make all debt service payments in lieu of rental payments to the College and the loan is wholly non-recourse to the College, which is held harmless if the developer defaults on debt service payments.