KPMG

THE COOPER UNION FOR THE ADVANCEMENT OF SCIENCE AND ART

Consolidated Financial Statements

June 30, 2003 and 2002

(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, 2003 and 2002, 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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.

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, 2003 and 2002, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 2 to the consolidated financial statements, The Cooper Union changed its accounting policy for recording the value of investments in real estate from cost to fair value in 2003.

KPMG LLP

September 12, 2003

THE COOPER UNION FOR THE ADVANCEMENT OF SCIENCE AND ART

Consolidated Balance Sheets

June 30, 2003 and 2002

Assets	2003	2002
Cash and cash equivalents	$ 627,212	6,612,312
Investments (notes 2 and 4)	222,556,986	77,267,794
Contributions receivable, net (note 3)	5,825,634	6,084,664
Other receivables	698,695	707,365
Prepaid expenses and other assets (note 5)	1,777,381	1,538,197
Loans to students, net of allowance for doubtful loans of $42,570 and $32,570 in 2003 and 2002, respectively	462,678	448,161
Funds held by trustee (notes 2 and 5)	3,835,760	3,760,290
Plant assets, net (notes 2 and 4)	41,776,144	49,900,310
Total assets	$ 277,560,490	146,319,093
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	$ 4,476,652	5,220,335
Deferred revenue	1,749,603	704,400
Accrued interest (note 5)	755,956	773,130
Other liabilities	560,661	393,269
Liability under lease agreement (note 8)	—	1,000,000
Liability under charitable trusts and annuity agreements	4,391,179	4,427,170
Obligations to Dormitory Authority of the State of New York (note 5)	26,841,282	27,531,911
Accrued postretirement benefit costs (note 7)	8,094,434	7,734,414
Total liabilities	46,869,767	47,784,629
Net assets:		
Unrestricted	154,384,750	22,609,376
Temporarily restricted (note 6)	24,792,836	26,093,545
Permanently restricted (note 6)	51,513,137	49,831,543
Total net assets	230,690,723	98,534,464
Total liabilities and net assets	$ 277,560,490	146,319,093

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, 2003 and 2002

	2003	2002
Operations:		
Revenues and other support:		
Investment income:		
Income from real estate (note 8)	$ 14,100,977	12,544,634
Investment return utilized for operations (note 2)	1,026,780	2,642,070
Student tuition and fees	24,868,206	24,216,121
Tuition discount	(22,983,353)	(22,588,558)
Net student tuition and fees	1,884,853	1,627,563
Contributions	2,978,887	6,040,366
Government grants and contracts	923,539	1,030,284
Appropriations -- State of New York aid	93,110	89,086
Rental income (note 8)	1,511,378	1,395,346
Auxiliary enterprises	1,330,733	1,315,415
Other revenue (note 4)	24,656	2,297,915
	23,874,913	28,982,679
Net assets released from restrictions (note 6)	5,163,579	13,771,312
Total revenues and other support	29,038,492	42,753,991
Expenses:		
Program services:		
Instruction	13,237,736	15,056,492
Academic support	9,870,226	9,719,470
Public service	2,512,615	2,423,668
Research	401,540	232,986
Student services	2,393,769	2,409,275
Student aid	1,292,787	1,320,345
Auxiliary enterprises	1,754,006	1,894,567
	31,462,679	33,056,803
Supporting services:		
Management and general	7,145,988	7,539,911
Fund-raising	2,297,472	2,219,413
	9,443,460	9,759,324
Total expenses	40,906,139	42,816,127
Excess of expenses over revenues from operations before nonoperating activity and cumulative effect of change in accounting	(11,867,647)	(62,136)
Nonoperating activity:		
Deficiency of investment return over amount utilized for operations (note 2)	(2,409,114)	(13,418,123)
Excess of expenses over revenues from operations before cumulative effect of change in accounting	(14,276,761)	(13,480,259)
Cumulative effect of change in accounting (note 2)	146,052,135	—
Increase (decrease) in unrestricted net assets	$ 131,775,374	(13,480,259)

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, 2003 and 2002

	2003	2002
Changes in unrestricted net assets:		
Operations:		
Total unrestricted revenues, before net assets released from restrictions	$ 23,874,913	28,982,679
Net assets released from restrictions (note 6)	5,163,579	13,771,312
Total unrestricted expenses	(40,906,139)	(42,816,127)
Excess expenses over unrestricted revenues from operations	(11,867,647)	(62,136)
Deficiency of investment return over amount utilized for operations (note 2)	(2,409,114)	(13,418,123)
Cumulative effect of change in accounting (note 2)	146,052,135	—
Increase (decrease) in unrestricted net assets	131,775,374	(13,480,259)
Changes in temporarily restricted net assets:		
Contributions	4,487,437	11,514,153
Investment losses (note 2)	(624,567)	(6,622,643)
Net assets released from restrictions (note 6)	(5,163,579)	(13,771,312)
Decrease in temporarily restricted net assets	(1,300,709)	(8,879,802)
Changes in permanently restricted net assets:		
Contributions	1,681,594	2,858,684
Increase in permanently restricted net assets	1,681,594	2,858,684
Increase (decrease) in net assets	132,156,259	(19,501,377)
Net assets at beginning of year	98,534,464	118,035,841
Net assets at end of year	$ 230,690,723	98,534,464

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, 2003 and 2002

	2003	2002
Cash flows from operating activities:		
Increase (decrease) in net assets	$ 132,156,259	(19,501,377)
Adjustments to reconcile increase (decrease) in net assets to net cash used in operating activities:		
Gain on sale of building	—	(2,242,472)
Loss on disposal of equipment	2,935	—
Depreciation and amortization expense	3,158,836	3,698,006
Net realized and unrealized losses on investments	3,915,788	18,726,455
Permanently restricted contributions	(1,681,594)	(2,858,684)
Cumulative effect of change in accounting	(146,052,135)	—
Changes in assets and liabilities:		
Decrease in contributions receivable, net of permanently restricted portion	1,684,099	1,203,242
Decrease in other receivables	8,670	17,175
(Increase) decrease in prepaid expenses and other assets, net of amortization of bond issuance costs	(272,387)	71,557
Increase in loans to students	(14,517)	(35,501)
(Decrease) increase in accounts payable and accrued expenses	(743,683)	917,274
Increase in deferred revenue	1,045,203	159,444
Decrease in accrued interest	(17,174)	(14,873)
Increase in other liabilities	167,392	35,460
Decrease in liability under lease agreement	(1,000,000)	(1,000,000)
Increase in accrued postretirement benefit costs	360,020	78,394
Net cash used in operating activities	(7,282,288)	(745,900)
Cash flows from investing activities:		
Proceeds from sale of building	—	2,600,500
Purchases of investments	(64,855,504)	(88,830,591)
Proceeds from sales of investments	67,639,650	93,793,196
(Increase) decrease in funds held by trustee	(75,470)	26,294
Purchases of plant assets	(927,022)	(2,916,986)
Net cash provided by investing activities	1,781,654	4,672,413
Cash flows from financing activities:		
Permanently restricted contributions	1,681,594	2,858,684
(Increase) decrease in permanently restricted contributions receivable	(1,425,069)	250,000
Payment of obligation to Dormitory Authority of the State of New York	(705,000)	(675,000)
Decrease in liability under charitable trusts and annuity agreements	(35,991)	(226,160)
Net cash (used in) provided by financing activities	(484,466)	2,207,524
Net (decrease) increase in cash and cash equivalents	(5,985,100)	6,134,037

(Continued)

THE COOPER UNION FOR THE ADVANCEMENT OF SCIENCE AND ART

Consolidated Statements of Cash Flows

Years ended June 30, 2003 and 2002

		2003	2002
Cash and cash equivalents at beginning of year	$	6,612,312	478,275
Cash and cash equivalents at end of year	$	627,212	6,612,312
Supplemental cash flow information:			
Cash paid during the year for interest	$	1,529,087	1,561,136

See accompanying notes to consolidated financial statements.

(1) Organization and Summary of Significant Accounting Policies

Organization

The accompanying consolidated financial statements include the financial position, 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. The College has designated a $26,000 tuition charge for full-time students to facilitate eligibility for outside tuition assistance programs. All new students are required to apply to such programs. The College is dedicated exclusively to preparing students for the professions of architecture, art, and engineering. 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

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.

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.

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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.

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.

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.

Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America 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.

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.

Reclassifications

Certain 2002 amounts have been reclassified to conform to the current year presentation.

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 were purchased on June 30, 2003 and will be reflected at fair value. Limited partnerships are reported at fair value as determined by the general partner. 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 run until the year 2147, rests with the College.

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In 2003, The Cooper Union changed its accounting policy for recording the value of investments in real estate to fair value based on current appraised values of the property. Prior to this change in accounting policy, The Cooper Union recorded investments in real estate at cost. The cumulative effect of the change in recording investments in real estate is reported separately in The Cooper Union's consolidated statement of changes in unrestricted net assets for the year ended June 30, 2003.

Investments at fair value, including debt service reserve and other funds held by the trustee, consist of the following at June 30, 2003 and 2002:

	2003	2002
Cash, cash equivalents, and short-term investments held by investment managers and trustees	$ 18,396,940	9,285,805
Bonds, long-term U.S. Treasury note, and certificates of deposit	43,154,818	22,844,621
Equity securities	3,328,923	42,728,147
Hedge funds	3,000,000	—
Real estate and other	152,743,700	754,574
Limited partnerships	1,932,605	1,654,647
	222,556,986	77,267,794
Funds held by trustee invested in U.S. Treasuries	3,835,760	3,760,290
	$ 226,392,746	81,028,084

Included in investments are charitable trusts and gift annuities amounting to $ 3,999,032 and $3,783,965 at June 30, 2003 and 2002, respectively. In addition, included in plant assets is a building of $2,549,115, which is also subject to a gift annuity agreement.

The Cooper Union has committed to invest an additional $3.5 million in limited partnerships.

The Cooper Union utilizes a spending rate of 6% of the average of the previous three years' fair value of investments as the investment return to be utilized for operations. Amounts in excess of such amounts are reported as nonoperating (expense) revenue. The spending rate was not utilized for the year ended June 30, 2003. The amount utilized for operations includes unrestricted interest and dividends. The components of investment return for the years ended June 30, 2003 and 2002 are as follows:

	2003	2002
Interest and dividends	$ 2,132,501	1,898,883
Unrealized gains (losses) in investments	5,814,589	(2,070,675)
Realized losses in investments	(9,730,377)	(16,655,780)
Investment expenses	(223,614)	(571,124)
	(2,006,901)	(17,398,696)
Temporarily restricted	(624,567)	(6,622,643)
Amount utilized for operations	1,026,780	2,642,070
Deficiency of investment return over amount utilized for operations and classified as unrestricted	$ (2,409,114)	(13,418,123)

(3) Contributions Receivable

Contributions receivable at June 30, 2003 are scheduled to be collected as follows:

	Amount
Year ending June 30:	
2004	$ 3,538,694
2005 through 2008	2,585,575
	6,124,269
Adjustment to reflect contributions receivable at discount value of 4%	(198,635)
Less allowance for uncollectible contributions receivable	(100,000)
	$ 5,825,634

(Continued)

(4) Plant Assets

Plant assets consist of the following at June 30, 2003 and 2002:

	2003	2002
Land and land improvements	$ 1,593,725	7,094,159
Buildings, building improvements, and equipment	86,906,457	86,986,169
Leasehold improvements	3,001,629	3,001,629
Construction in progress	112,182	—
Other plant assets	1,007,917	781,618
	92,621,910	97,863,575
Accumulated depreciation and amortization	(50,845,766)	(47,963,265)
	$ 41,776,144	49,900,310

During 2002, The Cooper Union sold a building and received proceeds of $2,600,500 and realized a gain of $2,242,472, which is included in other revenue in the accompanying consolidated statements of changes in unrestricted net assets.

Certain investment property in land and land improvements reported at $5,936,991 in 2002 were reclassified as investments in 2003 and reported at fair value.

(5) Obligations to Dormitory Authority of the State of New York

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 4.5% to 6.25%, payable semiannually.

As a result of issuing the Series 1999 Bonds, The Cooper Union incurred bond issuance costs of $544,274 and a net bond premium of $152,495. These amounts have been deferred and are being amortized over the life of the related debt. The unamortized net bond premium was $133,497 and $138,632 as of June 30, 2003 and 2002, 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 3.6% 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.

As a result of issuing the Series 1996 Bonds, The Cooper Union incurred bond issuance costs of $360,650 and a bond discount of $473,606. These amounts have been deferred and are being amortized over the life of the related debt. The unamortized bond discount at June 30, 2003 and 2002 was $347,215 and $366,721, respectively.

Interest expense on the Series 1999 and 1996 bond issues in 2003 and 2002 was $1,511,913 and $1,546,263, respectively. The Series 1990 Bonds proceeds also provided funds for the defeasement of a previous bond issue. (At June 30, 2003 and 2002, $690,000 and $1,040,000, respectively, of such defeased bonds are outstanding.) The Cooper Union has pledged to DASNY the rental income derived from the facility and, to the extent such income is insufficient, unrestricted endowment income.

The Cooper Union has received a grant from the Department of Health and Human Services which provides $96,747 annually to meet interest charges applicable to the Series 1996 Bonds.

The Cooper Union is required to maintain, on the last day of the second and fourth quarters of each fiscal year, expendable unrestricted net assets of not less than 100% of the sum of the principal amount of all outstanding Series 1999 Bonds, plus any outstanding long-term indebtedness incurred subsequent to the issuance of the 1999 Bonds. The College is subject to certain restrictions regarding the issuance of any additional long-term debt.

The Cooper Union is required to maintain a minimum debt service reserve fund on the Series 1996 Bonds equal to the lesser of (1) the principal and interest on the bonds coming due within the next year, or (2) 10% of the net proceeds on the sale of the bonds. DASNY also requires The Cooper Union to maintain a building and equipment reserve fund with a funding requirement of $728,500. The debt service reserve fund of $1,428,750 and the building and equipment reserve fund of $869,781 are included in funds held by trustee at June 30, 2003.

The projected debt service for the next five years is as follows:

		Principal	Interest	Total
Year ending June 30:				
2004	$	740,000	1,475,838	2,215,838
2005		775,000	1,436,126	2,211,126
2006		815,000	1,394,363	2,209,363
2007		860,000	1,349,750	2,209,750
2008		905,000	1,302,800	2,207,800

(Continued)

(6) Net Assets

Temporarily restricted net assets at June 30, 2003 and 2002 are available for the following purposes or periods:

	2003	2002
Purpose restrictions:		
Academic support	$ 4,189,832	4,683,039
Student aid	3,933,856	4,462,324
Instruction	85,050	134,296
New academic building	8,362,894	7,001,040
Other	3,767,843	2,666,099
Time restrictions	4,453,361	7,146,747
Total temporarily restricted net assets	$ 24,792,836	26,093,545

Permanently restricted net assets at June 30, 2003 and 2002 are restricted to investments in perpetuity, the income from which is expendable to support:

	2003	2002
Specific purposes of The Cooper Union, principally instructional and student financial aid	$ 35,039,333	33,145,319
General activities of The Cooper Union	16,473,804	16,686,224
Total permanently restricted net assets	$ 51,513,137	49,831,543

During 2003 and 2002, 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:

	2003	2002
Purpose restrictions accomplished:		
Academic support	$ 377,324	646,762
Student aid	—	6,614,035
Instruction	57,386	3,290,383
Other	4,728,869	3,220,132
Total restrictions released	$ 5,163,579	13,771,312

In the past, The Cooper Union has received donor-restricted contributions for scholarships. Prior to 2002, the direct cash assistance provided to students was released from restrictions for these funds. Legal counsel has advised The Cooper Union that these funds could be used to fund the tuition discounts provided to students. Accordingly, the amounts available for scholarships have been released in 2002 to provide for tuition discounts. The effect of the change in interpretation is to increase net assets released from restrictions by approximately $5.4 million in 2002.

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(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, 2003 and 2002 amounted to approximately $1,347,000 and $1,354,000, respectively.

The Cooper Union provides medical insurance benefits for its retired employees. 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, 2003 and 2002:

		2003	2002
Change in benefit obligation:			
Benefit obligation at beginning of year	$	5,564,506	4,851,854
Service cost		227,237	160,003
Interest cost		440,740	356,652
Actuarial loss		484,863	20,596
Actuarial assumptions		711,239	365,091
Benefits paid		(232,846)	(189,690)
Benefit obligation at end of year	$	7,195,739	5,564,506
Change in plan assets:			
Fair value of plan assets at beginning of year	$	—	—
Employer contribution		232,846	189,690
Benefit paid		(232,846)	(189,690)
Fair value of plan assets at end of year	$	—	—
Funded status	$	(7,195,739)	(5,564,506)
Unrecognized net gain		(898,695)	(2,169,908)
Net amount recognized in the consolidated balance sheets	$	(8,094,434)	(7,734,414)
Amount recognized in the consolidated balance sheets consists of:			
Prepaid benefits cost	$	7,734,414	7,656,020
Net periodic benefit cost		592,866	268,084
Employer contribution		(232,846)	(189,690)
Net amount recognized	$	8,094,434	7,734,414
Weighted average discount rate assumptions as of June 30		5.75%	7.00%

For measurement purposes, a 12% and 5.5% annual rate of increase in the per capita cost of covered health care benefits was assumed for fiscal years 2003 and 2002, respectively. The rate was assumed to decrease to an ultimate rate of 3.75% for 2008 and remain at that level thereafter.

		2003	2002
Component of net periodic benefit cost:			
Service cost	$	227,237	160,003
Interest cost		440,740	356,652
Recognized actuarial gain		(75,111)	(248,571)
Net periodic benefit cost	$	592,866	268,084

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plan. A one-percentage-point change in assumed health care 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	$	109,415	(87,791)
Effect on postretirement benefit obligation		843,051	(694,960)

(8) Operating Leases

In February 1998, The Cooper Union entered into an operating lease agreement, which expires 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 includes:

- 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's anniversary thereafter, the basic rent shall be adjusted based on fair value of the property and the assumption that a building of 1,200,000 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.

Under the lease agreement, The Cooper Union has agreed to reimburse the tenant for overpayments of previous years' tax equivalency portions of the rent of $7,118,764. As of June 30, 2003, the amount was paid in full.

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 $974,363 and $940,908 in 2003 and 2002, respectively. Sublease income for this lease was $635,975 and $594,195 in 2003 and 2002, respectively. The following is a schedule by year of future minimum rental payments and sublease income, including future rent escalations, as of June 30, 2003, for the Third Avenue site:

	Minimum rental payments	Sublease income
Year ending June 30:		
2004	$ 710,000	584,000
2005	725,000	610,000
2006	740,000	638,000
2007	755,000	667,000
2008	770,000	606,000
2009 and thereafter	29,973,000	13,705,000

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 for these leases was $608,000 and $593,700 in 2003 and 2002, respectively. The following is a schedule of future minimum rentals on these noncancelable operating leases:

	Minimum rental payments
Year ending June 30:	
2004	$ 349,000
2005	363,000
2006	372,000
2007	379,000
2008	306,000
2009 and thereafter	373,000

(Continued)

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 2007. Space at 30 Cooper Square is subleased to a tenant under an operating lease which expires in 2007. Rent expense for this lease was $528,960 and $501,120 in 2003 and 2002, respectively. Sublease income for this lease was $37,285 and $35,174 in 2003 and 2002, respectively. The following is a schedule by year of future minimum rental payments and sublease income, excluding future rent escalations, at June 30, 2003:

	Minimum rental payments	Sublease income
Year ending June 30:		
2004	$ 529,000	40,000
2005	529,000	42,000
2006	529,000	44,000
2007	529,000	47,000