



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

Consolidated Financial Statements

June 30, 2005 and 2004

(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, 2005 and 2004, 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 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, 2005 and 2004, 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.

KPMG LLP

November 18, 2005

**THE COOPER UNION FOR THE ADVANCEMENT
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Consolidated Balance Sheets

June 30, 2005 and 2004

Assets	2005	2004
Cash and cash equivalents	\$ 88,788	619,295
Contributions receivable, net (note 3)	15,491,604	6,320,519
Other receivables	690,939	575,089
Investments (notes 2 and 4)	298,545,993	257,439,740
Prepaid expenses and other assets (note 5)	1,813,205	1,718,123
Loans to students, net of allowance for doubtful loans of \$42,570 in both 2005 and 2004	491,492	454,944
Funds held by trustee (notes 2 and 5)	9,306,288	3,827,885
Plant assets, net (notes 2 and 4)	44,008,172	41,378,612
Total assets	\$ 370,436,481	312,334,207
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 4,278,976	3,672,961
Deferred revenue (note 8)	10,995,390	11,173,818
Accrued interest (note 5)	718,063	737,919
Other liabilities (note 2)	236,352	1,507,926
Liability under charitable trusts and annuity agreements	3,313,076	4,000,807
Obligations to Dormitory Authority of the State of New York (note 5)	25,355,026	26,115,654
Accrued postretirement benefit costs (note 7)	9,590,163	8,649,195
Total liabilities	54,487,046	55,858,280
Net assets:		
Unrestricted	222,230,120	176,921,902
Temporarily restricted (note 6)	40,949,331	26,858,890
Permanently restricted (note 6)	52,769,984	52,695,135
Total net assets	315,949,435	256,475,927
Total liabilities and net assets	\$ 370,436,481	312,334,207

See accompanying notes to consolidated financial statements.

**THE COOPER UNION FOR THE ADVANCEMENT
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Consolidated Statements of Changes in Unrestricted Net Assets

Years ended June 30, 2005 and 2004

	2005	2004
Operations:		
Revenues and other support:		
Investment return utilized for operations (note 2)	\$ 18,907,578	18,059,203
Student tuition and fees	28,789,103	26,647,130
Tuition discount	(26,095,360)	(24,137,532)
Net student tuition and fees	2,693,743	2,509,598
Contributions	3,813,290	3,642,644
Government grants and contracts	785,650	615,520
Appropriations – State of New York aid	84,815	87,652
Rental income (note 8)	1,787,964	1,768,531
Auxiliary enterprises	1,536,243	1,579,081
Other revenue	321,250	220,526
	29,930,533	28,482,755
Net assets released from restrictions (note 6)	3,706,896	2,334,404
Total revenues and other support	33,637,429	30,817,159
Expenses:		
Program services:		
Instruction	13,996,583	12,885,031
Academic support	9,444,183	8,709,590
Public service	2,555,145	2,434,726
Research	89,162	55,490
Student services	2,475,076	2,446,287
Student aid	1,410,598	1,349,711
Auxiliary enterprises	1,834,332	1,731,131
	31,805,079	29,611,966
Supporting services:		
Management and general	7,323,354	6,948,878
Fund-raising	2,405,878	2,254,002
	9,729,232	9,202,880
Total expenses	41,534,311	38,814,846
Excess of expenses over revenues and other support from operations before nonoperating activity	(7,896,882)	(7,997,687)
Nonoperating activity:		
Excess of investment return over amount utilized for operations (note 2)	53,205,100	28,694,602
Net assets released from restrictions for capital purposes (note 6)	—	1,840,237
Increase in unrestricted net assets	\$ 45,308,218	22,537,152

See accompanying notes to consolidated financial statements.

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Consolidated Statements of Changes in Net Assets

Years ended June 30, 2005 and 2004

	2005	2004
Changes in unrestricted net assets:		
Total unrestricted revenues and other support, before net assets released from restrictions	\$ 29,930,533	28,482,755
Operations:		
Net assets released from restrictions (note 6)	3,706,896	2,334,404
Total unrestricted expenses	(41,534,311)	(38,814,846)
Excess of expenses over unrestricted revenues and other support from operations before nonoperating activity	(7,896,882)	(7,997,687)
Excess of investment return over amount utilized for operations (note 2)	53,205,100	28,694,602
Net assets released from restrictions for capital purposes (note 6)	—	1,840,237
Increase in unrestricted net assets	45,308,218	22,537,152
Changes in temporarily restricted net assets:		
Contributions	16,213,145	4,781,002
Investment gains (note 2)	1,584,192	1,459,693
Net assets released from restrictions (note 6)	(3,706,896)	(4,174,641)
Increase in temporarily restricted net assets	14,090,441	2,066,054
Changes in permanently restricted net assets:		
Contributions	74,849	1,181,998
Increase in permanently restricted net assets	74,849	1,181,998
Increase in net assets	59,473,508	25,785,204
Net assets at beginning of year	256,475,927	230,690,723
Net assets at end of year	\$ 315,949,435	256,475,927

See accompanying notes to consolidated financial statements.

**THE COOPER UNION FOR THE ADVANCEMENT
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Consolidated Statements of Cash Flows

Years ended June 30, 2005 and 2004

	2005	2004
Cash flows from operating activities:		
Increase in net assets	\$ 59,473,508	25,785,204
Adjustments to reconcile increase in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization expense	3,004,826	2,724,553
Net unrealized and realized gains on investments	(53,977,860)	(29,473,349)
Change in value of split-interest agreements	(230,824)	101,185
Permanently restricted contributions	(74,849)	(1,181,998)
Contributions restricted for capital purposes	(2,632,267)	(2,077,155)
Contributions of securities	—	(210,989)
Changes in assets and liabilities:		
Increase in contributions receivable, net of amounts classified as financing activities	(9,501,085)	(954,954)
(Increase) decrease in other receivables	(115,850)	123,606
(Increase) decrease in prepaid expenses and other assets, net of amortization of bond issuance costs	(95,082)	26,055
Decrease in accounts payable and accrued expenses	(264,520)	(993,094)
(Decrease) increase in deferred revenue	(178,428)	9,424,215
Decrease in accrued interest	(19,856)	(18,037)
(Decrease) increase in other liabilities	(1,271,574)	947,265
Increase in accrued postretirement benefit costs	940,968	554,761
Net cash (used in) provided by operating activities	(4,942,893)	4,777,268
Cash flows from investing activities:		
Proceeds from sale of artwork	—	207,920
Purchases of investments	(55,300,865)	(35,981,008)
Proceeds from sales of investments	68,172,472	30,581,085
(Increase) decrease in funds held by trustee	(5,478,403)	7,875
(Increase) decrease in loans to students	(36,548)	7,734
Increase in accounts payable for capital expenditures	870,535	189,403
Purchases of plant assets	(5,620,014)	(2,285,859)
Net cash provided by (used in) investing activities	2,607,177	(7,272,850)
Cash flows from financing activities:		
Permanently restricted contributions	74,849	1,181,998
Contributions restricted for capital purposes	2,632,267	2,077,155
Decrease in contributions receivable related to financing activities	330,000	460,069
Payment of obligation to Dormitory Authority of the State of New York	(775,000)	(740,000)
Proceeds of new charitable gift annuities in excess of contributions recognized	111,351	96,796
Payments to beneficiaries under charitable annuities	(568,258)	(588,353)
Net cash provided by financing activities	1,805,209	2,487,665

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Consolidated Statements of Cash Flows

Years ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Net decrease in cash and cash equivalents	\$ (530,507)	(7,917)
Cash and cash equivalents at beginning of year	<u>619,295</u>	<u>627,212</u>
Cash and cash equivalents at end of year	<u>\$ 88,788</u>	<u>619,295</u>
Supplemental cash flow information:		
Cash paid during the year for interest	\$ 1,455,982	1,493,875

See accompanying notes to consolidated financial statements.

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Notes to Consolidated Financial Statements

June 30, 2005 and 2004

(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 \$27,500 tuition charge for full-time students to facilitate eligibility for outside tuition assistance programs. All students are required to apply to such programs. 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.

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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(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.

(e) *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.

(f) *Use of Estimates*

The preparation of the 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.

(g) *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.

(h) *Reclassifications*

Certain 2004 amounts have been reclassified to conform to the current year presentation.

(i) *Other Significant Accounting Policies*

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

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Notes to Consolidated Financial Statements

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(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 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.

Investments at fair value, including debt service reserve and other funds held by the trustee, consist of the following at June 30, 2005 and 2004:

	2005	2004
Cash, cash equivalents, and short-term investments held by investment managers and trustees	\$ 22,595,055	21,209,444
Bonds	16,762,002	29,755,232
Equity securities	24,771,457	19,994,054
Hedge funds	5,642,013	4,318,245
Real estate and other	224,451,100	178,546,700
Limited partnerships	4,324,366	3,616,065
	298,545,993	257,439,740
Funds held by trustee invested in U.S. Treasuries	9,306,288	3,827,885
	\$ 307,852,281	261,267,625

During 2005, The Cooper Union sold land, which was stated at the appraised value of \$5,500,000, and received proceeds of \$5,334,837, net of expenses of \$165,163. Included in other liabilities at June 30, 2004 was a \$1,100,000 deposit received on the sale. The property was one of several parcels used as collateral for the Series 1999 Bonds. Under a new escrow agreement among The Cooper Union, The Dormitory Authority of the State of New York, and the trustee of the bonds, the proceeds were placed in a special escrow account. Upon the defeasance of all the outstanding Series 1999 Bonds, the escrow will be discharged and any amounts remaining will be transferred to The Cooper Union.

During 2004, The Cooper Union sold land, which was stated at the appraised value of \$1,800,000, and received proceeds of \$1,720,096, net of expenses of \$79,904.

Included in investments are charitable trusts and gift annuities amounting to \$3,560,956 and \$3,713,928 at June 30, 2005 and 2004, respectively. In addition, included in plant assets is a building of \$2,549,115, which is also subject to a gift annuity agreement.

At June 30, 2005, The College is committed to investing an additional \$1,100,000 in limited partnerships.

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Notes to Consolidated Financial Statements

June 30, 2005 and 2004

The components of investment return for the years ended June 30, 2005 and 2004 are as follows:

	2005	2004
Real estate rental income	\$ 18,016,348	17,060,282
Interest and dividends	2,062,270	1,948,982
Unrealized gains in investments	50,470,625	29,175,262
Realized gains in investments	3,507,235	298,087
Investment expenses	(359,608)	(269,115)
Investment return	73,696,870	48,213,498
Less amounts classified as:		
Temporarily restricted	1,584,192	1,459,693
Amount utilized for operations	18,907,578	18,059,203
Excess of investment return over amount utilized for operations and classified as unrestricted	\$ 53,205,100	28,694,602

(3) Contributions Receivable

Contributions receivable at June 30, 2005 are scheduled to be collected as follows:

	2005	2004
Year ending June 30:		
Less than one year	\$ 6,886,530	3,747,001
One year to five years	9,377,900	2,891,536
	16,264,430	6,638,537
Adjustment to reflect contributions receivable at discount value of 4% (7%, prior to 2003)	(672,826)	(218,018)
Less allowance for uncollectible contributions receivable	(100,000)	(100,000)
	\$ 15,491,604	6,320,519

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During 2004, The Council of the City of New York (the Council) appropriated \$6 million to The Cooper Union. During 2005, the Council appropriated an additional \$2 million to The Cooper Union. The appropriation includes \$1,500,000, \$4,500,000, and \$2,000,000 for the years 2006, 2007, and 2008, respectively. The funds will assist The Cooper Union in a proposed facilities renewal program, including the construction of a new academic building. The appropriation is not reflected in the consolidated financial statements as of June 30, 2005 and 2004 since the appropriation does not meet the contribution recognition criteria under Statement of Financial Accounting Standards (SFAS) No. 116, *Accounting for Contributions Received and Contributions Made*.

(4) Plant Assets

Plant assets consist of the following at June 30, 2005 and 2004:

	2005	2004
Land and land improvements	\$ 1,593,725	1,593,725
Buildings and building improvements	63,050,202	62,944,114
Equipment	25,001,583	24,452,992
Leasehold improvements	3,001,630	3,001,629
Construction in progress	6,805,571	1,840,237
Other plant assets	1,067,672	1,067,672
	100,520,383	94,900,369
Accumulated depreciation and amortization	(56,512,211)	(53,521,757)
	\$ 44,008,172	41,378,612

The Cooper Union is in the early phase of a major facilities renewal program, which includes the construction of a new academic building on the site of the existing Hewitt Building in New York. The cost incurred to date of approximately \$6.8 million is included in construction in progress. The expected cost of the facilities renewal program is approximately \$120 million and will be financed largely by gifts raised during The Cooper Union's Capital Campaign currently in progress.

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(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. At June 30, 2005 and 2004, the principal balance outstanding on the Series 1999 Bonds was \$10,705,000 and \$10,900,000, respectively.

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 \$123,228 and \$128,362 as of June 30, 2005 and 2004, 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. At June 30, 2005 and 2004, the principal balance outstanding on the Series 1996 Bonds was \$14,835,000 and \$15,415,000, respectively.

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, 2005 and 2004 was \$308,202 and \$327,708, respectively.

Interest expense on the Series 1999 and 1996 bond issues in 2005 and 2004 was \$1,436,126 and \$1,475,838, respectively. The Series 1990 Bonds proceeds also provided funds for the defeasement of a previous bond issue. At June 30, 2004, \$400,000 of such defeased bonds was 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.

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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. As of June 30, 2005, The Cooper Union was in compliance with this requirement.

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 \$2,451,840 and the building and equipment reserve fund of \$893,248 are included in funds held by trustee on the Series 1996 Bonds at June 30, 2005. The debt service reserve fund of \$532,674 is included in the funds held by trustee on the Series 1999 Bonds at June 30, 2005.

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
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
2009	950,000	1,254,406	2,204,406
2010	1,000,000	1,202,281	2,202,281

(6) Net Assets

Temporarily restricted net assets at June 30, 2005 and 2004 are available for the following purposes or periods:

	<u>2005</u>	<u>2004</u>
Purpose restrictions:		
Academic support	\$ 4,140,937	4,187,056
Student aid	4,735,276	4,075,087
Instruction	438,115	322,548
New academic building	23,457,953	10,996,518
Other	2,929,220	1,806,852
Time restrictions	5,247,830	5,470,829
Total temporarily restricted net assets	<u>\$ 40,949,331</u>	<u>26,858,890</u>

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June 30, 2005 and 2004

Permanently restricted net assets at June 30, 2005 and 2004 are restricted to investments in perpetuity, the income from which is expendable to support:

	2005	2004
Specific purposes of The Cooper Union, principally instructional and student financial aid	\$ 36,262,622	36,187,773
General activities of The Cooper Union	16,507,362	16,507,362
Total permanently restricted net assets	\$ 52,769,984	52,695,135

During 2005 and 2004, 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:

	2005	2004
Purpose restrictions accomplished:		
Academic support	\$ 764,659	536,999
Student aid	390,520	486,702
Instruction	138,187	58,174
New academic building	—	1,840,237
Public service	316,718	590,021
Time restrictions	2,096,812	662,508
	\$ 3,706,896	4,174,641

(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, 2005 and 2004 amounted to approximately \$1,322,000 and \$1,295,000, respectively.

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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, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 9,040,160	7,195,739
Service cost	430,151	346,164
Interest cost	682,429	486,745
Actuarial loss	(96,650)	1,427,906
Actuarial assumptions	3,891,699	(138,246)
Benefits paid	(306,165)	(278,148)
Benefit obligation at end of year	<u>\$ 13,641,624</u>	<u>9,040,160</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ —	—
Employer contribution	306,165	278,148
Benefit paid	(306,165)	(278,148)
Fair value of plan assets at end of year	<u>\$ —</u>	<u>—</u>
Funded status	\$ (13,641,624)	(9,040,160)
Unrecognized net loss	<u>4,051,461</u>	<u>390,965</u>
Net amount recognized in the consolidated balance sheets	<u>\$ (9,590,163)</u>	<u>(8,649,195)</u>
Amount recognized in the consolidated balance sheets consists of:		
Accrued benefits cost	\$ 8,649,195	8,094,434
Net periodic benefit cost	1,247,133	832,909
Employer contribution	(306,165)	(278,148)
Net amount recognized	<u>\$ 9,590,163</u>	<u>8,649,195</u>
Weighted average discount rate assumptions as of June 30	5.25%	6.25%

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For measurement purposes, a 13% annual rate of increase in the per capita cost of covered health care benefits was assumed for fiscal years 2005. The rate was assumed to decrease by 1.5% per year to an ultimate rate of 4.25% for 2011 and remain at that level thereafter.

	2005	2004
Component of net periodic benefit cost:		
Service cost	\$ 430,151	346,164
Interest cost	682,429	486,745
Recognized actuarial gain	134,553	—
Net periodic benefit cost	\$ 1,247,133	832,909
 Benefit cost weighted average discount rate assumptions for the years ended June 30	6.25%	5.75%

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	\$ 190,055	(152,903)
Effect on postretirement benefit obligation	1,542,935	(1,268,755)

The projected premium payments in each fiscal year from 2006 through 2015 are:

Year ending June 30:	
2006	\$ 374,003
2007	427,684
2008	486,769
2009	536,032
2010	607,913
2011 through 2015	3,822,703
	\$ 6,255,104

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The Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) was signed into law in December 2003. The accumulated postretirement benefit obligation and costs disclosed above do not include the economic impact, if any, associated with the Federal subsidy provided by the Act. The Cooper Union is still in the process of reviewing the impact of the Act in order to conclude whether the benefits provided by the postretirement medical benefits are actuarially equivalent to Medicare Part D under the Act.

(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.

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 \$10,775,510 and \$11,000,000 is included in deferred revenue in the accompanying consolidated balance sheets at June 30, 2005 and 2004, 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 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.

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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 \$1,043,445 and \$1,011,042 in 2005 and 2004, respectively. Sublease income for this lease was \$704,986 and \$673,339 in 2005 and 2004, respectively. The following is a schedule by year of future minimum rental payments and sublease income, including future rent escalations, as of June 30, 2005, for the Third Avenue site:

	<u>Minimum rental payments</u>	<u>Sublease income</u>
Year ending June 30:		
2006	\$ 740,000	638,000
2007	755,000	667,000
2008	770,000	606,000
2009	785,000	573,000
2010	800,000	608,000
2011 and thereafter	28,388,333	12,523,470

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 approximately \$311,000 and \$523,000 in 2005 and 2004, respectively. The following is a schedule of future minimum rentals on these noncancelable operating leases:

	<u>Minimum rental payments</u>
Year ending June 30:	
2006	\$ 275,000
2007	278,000
2008	282,000
2009	285,000
2010	194,000
2011 and thereafter	662,000

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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 \$533,052 in 2005 and 2004, respectively. Sublease income for this lease was \$46,277 and \$43,000 in 2005 and 2004, respectively. The following is a schedule by year of future minimum rental payments and sublease income, excluding future rent escalations, at June 30, 2005:

	<u>Minimum rental payments</u>	<u>Sublease income</u>
Year ending June 30:		
2006	\$ 529,000	44,000
2007	529,000	47,000

