



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

Consolidated Financial Statements

June 30, 2008 and 2007

(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 and its affiliates (collectively referred to as the Cooper Union) as of June 30, 2008 and 2007, 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.

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, 2008 and 2007, 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.

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

KPMG LLP

December 5, 2008

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

Consolidated Balance Sheets

June 30, 2008 and 2007

Assets	2008	2007
Cash and cash equivalents	\$ 108,137,102	88,673,579
Contributions receivable, net (note 3)	10,755,701	9,754,809
Other receivables	921,246	743,813
Investments (note 2)	710,457,946	671,005,039
Prepaid expenses and other assets (note 5)	12,167,143	7,234,974
Loans to students, net of allowance for doubtful loans of \$39,884 and \$39,884 in 2008 and 2007, respectively	450,101	476,650
Plant assets, net (notes 2 and 4)	109,672,473	63,777,789
Total assets	\$ 952,561,712	841,666,653
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 17,970,275	7,073,175
Deferred revenue (note 8)	10,723,055	10,792,229
Accrued interest (note 5)	856,041	856,041
Other liabilities	156,102	58,839
Liability under charitable trusts and annuity agreements	5,563,552	4,231,736
Accrued postretirement benefit costs (note 7)	20,392,580	13,601,335
Asset retirement obligation	1,385,000	1,550,328
Long-term loans (note 5)	271,970,000	175,000,000
Total liabilities	329,016,605	213,163,683
Net assets:		
Unrestricted	497,933,459	512,879,307
Temporarily restricted (note 6)	64,519,531	56,679,350
Permanently restricted (note 6)	61,092,117	58,944,313
Total net assets	623,545,107	628,502,970
Total liabilities and net assets	\$ 952,561,712	841,666,653

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, 2008 and 2007

	2008	2007
Operations:		
Revenues and other support:		
Investment return utilized for operations (note 2)	\$ 30,964,998	23,518,045
Student tuition and fees	32,641,199	30,971,099
Tuition discount	(29,747,457)	(28,013,043)
Net student tuition and fees	2,893,742	2,958,056
Contributions	2,620,973	4,401,750
Government grants and contracts	750,643	780,705
Appropriations – State of New York aid	91,121	95,278
Rental income (notes 5 and 8)	4,729,474	1,706,168
Auxiliary enterprises	1,796,033	1,710,412
Other revenue	605,401	208,231
	44,452,385	35,378,645
Net assets released from restrictions (note 6)	1,505,414	4,001,501
Total revenues and other support	45,957,799	39,380,146
Expenses:		
Program services:		
Instruction	18,920,421	17,948,674
Academic support	13,073,228	12,515,675
Public service	2,833,673	2,722,288
Research	82,516	79,027
Student services	3,359,099	3,157,904
Student aid	1,743,615	1,470,117
Auxiliary enterprises	2,132,828	2,192,260
	42,145,380	40,085,945
Supporting services:		
Management and general (note 5)	8,569,052	6,780,973
Fund-raising	3,298,480	3,190,561
	11,867,532	9,971,534
Total expenses	54,012,912	50,057,479
Excess of operating expenses over operating revenues and other support	(8,055,113)	(10,677,333)
Nonoperating activity:		
Loss on extinguishment of debt (note 5)	—	(1,995,397)
(Deficiency) excess of investment return over amount utilized for operations (note 2)	(1,230,804)	118,720,695
(Decrease) increase in unrestricted net assets before effect of adoption of SFAS No. 158 and loss not yet recognized as a component of net periodic cost	(9,285,917)	106,047,965
Effect of adoption of SFAS No. 158 (note 7)	—	(2,007,857)
Loss not yet recognized as a component of net periodic cost (note 7)	(5,659,931)	—
(Decrease) increase in unrestricted net assets	\$ (14,945,848)	104,040,108

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, 2008 and 2007

	2008	2007
Changes in unrestricted net assets:		
Total unrestricted revenues and other support, before net assets released from restrictions	\$ 44,452,385	35,378,645
Operations:		
Net assets released from restrictions (note 6)	1,505,414	4,001,501
Total unrestricted expenses	(54,012,912)	(50,057,479)
Excess of operating expenses over unrestricted operating revenues and other support before nonoperating activity and other changes	(8,055,113)	(10,677,333)
Loss from extinguishment of debt	—	(1,995,397)
(Deficiency) excess of investment return over amount utilized for operations (note 2)	(1,230,804)	118,720,695
Effect of adoption of SFAS No. 158 (note 7)	—	(2,007,857)
Loss not yet recognized as a component of net periodic benefit cost	(5,659,931)	—
(Decrease) increase in unrestricted net assets	(14,945,848)	104,040,108
Changes in temporarily restricted net assets:		
Contributions	7,833,346	6,466,083
Investment gains (note 2)	1,512,249	5,452,250
Net assets released from restrictions (note 6)	(1,505,414)	(4,001,501)
Increase in temporarily restricted net assets	7,840,181	7,916,832
Changes in permanently restricted net assets:		
Contributions	2,147,804	803,393
Increase in permanently restricted net assets	2,147,804	803,393
(Decrease) increase in net assets	(4,957,863)	112,760,333
Net assets at beginning of year	628,502,970	515,742,637
Net assets at end of year	\$ 623,545,107	628,502,970

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, 2008 and 2007

	2008	2007
Cash flows from operating activities:		
(Decrease) increase in net assets	\$ (4,957,863)	112,760,333
Adjustments to reconcile (decrease) increase in net assets to net cash used in operating activities:		
Effect of adoption of SFAS No. 158	—	2,007,857
Loss not yet recognized as a component of net periodic cost	5,659,931	—
Loss on extinguishment of debt	—	1,995,397
Depreciation and amortization expense	3,663,604	3,643,036
Net unrealized and realized gains on investments	(8,735,275)	(124,324,928)
Change in value of split-interest agreements	1,822,354	480,355
Permanently restricted contributions	(2,147,804)	(803,393)
Contributions restricted for capital purposes	(6,518,308)	(3,213,597)
Changes in assets and liabilities:		
Contributions receivable, net of amounts classified as financing activities	4,697,122	370,926
Other receivables	(177,433)	99,671
Prepaid expenses and other assets, net of amortization of debt issuance costs	(476,118)	566,319
Accounts payable and accrued expenses	1,537,359	33,938
Deferred revenue	(69,174)	(42,615)
Accrued interest	—	149,122
Other liabilities	97,263	(113,300)
Asset retirement obligation	(165,328)	(1,029,472)
Accrued postretirement benefit costs	1,131,314	838,200
Net cash used in operating activities	(4,638,356)	(6,582,151)
Cash flows from investing activities:		
Purchases of investments	(57,134,242)	(91,851,194)
Proceeds from sales of investments	26,416,610	36,395,579
Decrease in loans to students	26,549	9,860
Increase in accounts payable for capital expenditures	9,359,741	1,151,984
Purchases of plant assets	(49,558,288)	(18,025,139)
Net cash used in investing activities	(70,889,630)	(72,318,910)
Cash flows from financing activities:		
Permanently restricted contributions	2,147,804	803,393
Contributions restricted for capital purposes	6,518,308	3,213,597
(Increase) decrease in contributions receivable related to financing activities	(5,698,014)	9,396,537
Debt issuance costs	(4,456,051)	(6,114,222)
Decrease in funds held by trustee	—	9,625,473
Refunding of obligation to Dormitory Authority of the State of New York	—	(26,549,795)
Proceeds of new charitable gift annuities in excess of contributions recognized	150,275	329,846
Proceeds from loan	96,970,000	175,000,000
Payments to beneficiaries under charitable annuities	(640,813)	(630,662)
Net cash provided by financing activities	94,991,509	165,074,167
Net increase in cash and cash equivalents	19,463,523	86,173,106
Cash and cash equivalents at beginning of year	88,673,579	2,500,473
Cash and cash equivalents at end of year	\$ 108,137,102	88,673,579
Supplemental cash flow information:		
Cash paid during the year for interest	\$ 11,999,919	6,692,396

See accompanying notes to consolidated financial statements.

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

Notes to Consolidated Financial Statements

June 30, 2008 and 2007

(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 \$31,500 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 restrictions.

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.

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

Notes to Consolidated Financial Statements

June 30, 2008 and 2007

(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 that 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 3 to 40 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 consolidated 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.

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

Notes to Consolidated Financial Statements

June 30, 2008 and 2007

(i) Other Significant Accounting Policies

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

(j) Recent Accounting Standards

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109* (FIN 48). FIN 48 addresses the accounting for uncertainties in income taxes recognized in an organization's financial statements and prescribes a threshold of more-likely-than-not for recognition and de-recognition of tax positions taken or expected to be taken in a tax return. FIN 48 also provides related guidance on measurement, classification, interest and penalties, and disclosures. FIN 48 is effective for The Cooper Union's year ending June 30, 2009.

In September 2006, Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements* (SFAS 157), was issued. SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS 157 does not require any new fair value measurements in financial statements, but standardizes its definition and guidance. Thus, for some entities, the application of this statement may change current practice. SFAS 157 is effective for the College beginning on July 1, 2008, except as revised by FASB Staff Position (FSP) No. 157-2, *Effective Date of FASB Statement No. 157*, issued in February 2008. This FSP delays the effective date of SFAS 157 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a periodic basis (at least annually).

On August 6, 2008, FASB issued FASB Staff Position (FSP) FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*. This FSP provides guidance on classifying the net assets associated with donor-restricted endowment funds held by organizations that are subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), which serves as a model act for states to modernize their laws governing donor-restricted endowment funds. This FSP also requires additional disclosures about endowments (both donor-restricted funds and board-designated funds) for all organizations, including those that are not subject to an enacted version of UPMIFA. The disclosure provisions of this FSP are effective for The Cooper Union's year ending June 30, 2009.

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

Notes to Consolidated Financial Statements

June 30, 2008 and 2007

(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 (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 consist of the following at June 30, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Cash, cash equivalents, and short-term investments held by investment managers and trustees	\$ 11,378,328	18,171,800
Bonds	5,506,344	5,103,478
Equity securities	14,467,876	16,235,897
Hedge funds	102,920,853	75,637,601
Mutual funds	3,016,642	3,261,818
Real estate and other	530,391,100	530,695,462
Limited partnerships	42,776,803	21,898,983
	<u>\$ 710,457,946</u>	<u>671,005,039</u>

Included in investments are charitable trusts and gift annuities amounting to \$7,148,416 and \$5,296,945 at June 30, 2008 and 2007, respectively. In addition, included in plant assets is a building of \$2,549,115, which is also subject to a gift annuity agreement.

The College invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the consolidated balance sheet.

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

Notes to Consolidated Financial Statements

June 30, 2008 and 2007

The components of investment return for the years ended June 30, 2008 and 2007 are as follows:

	<u>2008</u>	<u>2007</u>
Real estate rental income	\$ 20,928,998	20,717,058
Interest and dividends	1,856,624	2,793,531
Unrealized gains on investments	5,897,919	120,061,199
Realized gains on investments	2,837,356	4,263,729
Investment expenses	<u>(274,454)</u>	<u>(144,527)</u>
Investment return	31,246,443	147,690,990
Less amounts classified as:		
Temporarily restricted	1,512,249	5,452,250
Amount utilized for operations	<u>30,964,998</u>	<u>23,518,045</u>
(Deficiency) excess of investment return over amount utilized for operations and classified as unrestricted	<u>\$ (1,230,804)</u>	<u>118,720,695</u>

(3) Contributions Receivable

Contributions receivable at June 30, 2008 and 2007 are scheduled to be collected as follows:

	<u>2008</u>	<u>2007</u>
Year ended June 30:		
Less than one year	\$ 6,576,177	2,620,475
One year to five years	<u>4,756,890</u>	<u>8,125,235</u>
	11,333,067	10,745,710
Adjustment to reflect contributions receivable at discount value (4.00% – 8.25%)	(434,659)	(762,110)
Less allowance for uncollectible contributions receivable	<u>(142,707)</u>	<u>(228,791)</u>
	<u>\$ 10,755,701</u>	<u>9,754,809</u>

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*.

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

Notes to Consolidated Financial Statements

June 30, 2008 and 2007

(4) Plant Assets

Plant assets consist of the following at June 30, 2008 and 2007:

	2008	2007
Land and land improvements	\$ 1,593,725	2,664,525
Buildings and building improvements	65,442,075	64,909,317
Equipment	27,556,964	26,569,681
Leasehold improvements	3,001,629	3,001,629
Construction in progress	78,003,407	28,810,830
Other plant assets	1,067,672	1,067,672
	176,665,472	127,023,654
Accumulated depreciation and amortization	(66,992,999)	(63,245,865)
	\$ 109,672,473	63,777,789

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 existing Hewitt Building in New York. The cost incurred to date of approximately \$78 million is included in construction in progress. The expected cost of the facilities renewal program is approximately \$160 million and will be financed by gifts raised during The Cooper Union's capital campaign currently in progress as well as new debt (note 5).

(5) Long-Term Loans

On October 6, 2006, the College 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 College's fee interest in the Chrysler property and an assignment of all of the College's rights to the payment of basic rent, tax equivalency payments, and other sums due under the terms of the operating lease. The College 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.

As part of the closing of the MetLife loan above, a portion of the loan proceeds was used to retire two series of bonds outstanding with the Dormitory Authority of the State of New York. There was a loss of \$1,995,961 resulting from the retirement of the bonds, which was recorded as loss on extinguishment of debt in the 2007 consolidated statement of changes in unrestricted net assets.

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

Notes to Consolidated Financial Statements

June 30, 2008 and 2007

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
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	—	10,272,500	10,272,500
2014 and thereafter (in aggregate)	175,000,000	170,913,685	345,913,685

On October 26, 2007, the College, owner of 51 Astor Place, entered into a 99-year ground lease with a developer. The College is permitted to continue to occupy the facility under a sublease agreement through July 31, 2011. In connection with this transaction, the College borrowed \$96,970,000 from an affiliate of the developer at a stated interest rate of 5.53% and a term of 25 years. No principal payments are due during the term of the sublease agreement. The arrangement requires the developer to make all debt service payments in lieu of rental payments to the College and the loan is wholly nonrecourse to the College, which is held harmless if the developer defaults on the debt service payments. Upon surrender of the facility to the developer, the College will be released from its obligation to repay the debt.

The College incurred approximately \$4.4 million in costs associated with entering into the loan. These costs have been deferred and are being amortized over the life of the debt. Further, interest expense on this debt approximated \$1.7 million and is included in management and general expense in the accompanying 2008 consolidated statement of changes in unrestricted net assets.

Interest expense on all long-term debt approximated \$5,251,000 (net of capitalized interest expense of \$6,749,000 less capitalized interest income of \$3,338,000) and \$2,770,000 (net of capitalized interest expense of \$5,063,000 less capitalized interest income of \$4,247,000) in 2008 and 2007, respectively.

(6) Net Assets

Temporarily restricted net assets at June 30, 2008 and 2007 are available for the following purposes or periods:

	<u>2008</u>	<u>2007</u>
Purpose restrictions:		
Academic support	\$ 5,705,701	6,026,027
Student aid	3,735,084	3,506,119
Instruction	952,573	1,253,435
New academic building	42,937,718	36,224,910
Other	3,537,557	3,195,105
Time restrictions	7,650,898	6,473,754
Total temporarily restricted net assets	<u>\$ 64,519,531</u>	<u>56,679,350</u>

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

Notes to Consolidated Financial Statements

June 30, 2008 and 2007

Permanently restricted net assets at June 30, 2008 and 2007 are restricted to investments in perpetuity, the income from which is expendable to support:

	2008	2007
Specific purposes of The Cooper Union, principally instructional and student financial aid	\$ 43,455,198	42,269,918
General activities of The Cooper Union	17,636,919	16,674,395
Total permanently restricted net assets	\$ 61,092,117	58,944,313

During 2008 and 2007, 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:

	2008	2007
Purpose restrictions accomplished:		
Academic support	\$ 702,608	470,747
Student aid	315,249	1,770,017
Instruction	16,156	424,904
Public service	469,764	559,962
Time restrictions	1,637	775,871
	\$ 1,505,414	4,001,501

(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, 2008 and 2007 amounted to approximately \$1,738,814 and \$1,488,956, respectively.

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

Notes to Consolidated Financial Statements

June 30, 2008 and 2007

The Cooper Union provides medical insurance benefits for its retired employees. Effective June 30, 2007, The Cooper Union adopted Statement of Financial Accounting Standards 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 consolidated 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, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 13,601,335	12,809,997
Service cost	548,160	455,921
Interest cost	935,264	784,913
Actuarial loss	1,704,190	32,620
Actuarial assumptions	4,190,867	—
Benefits paid	<u>(587,236)</u>	<u>(482,116)</u>
Benefit obligation at end of year	<u>20,392,580</u>	<u>13,601,335</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	—	—
Employer contribution	587,236	482,116
Benefit paid	<u>(587,236)</u>	<u>(482,116)</u>
Fair value of plan assets at end of year	<u>—</u>	<u>—</u>
Funded status	<u>\$ (20,392,580)</u>	<u>(13,601,335)</u>
Amount recognized in the consolidated balance sheets consists of:		
Accrued benefits cost – beginning of year	\$ 11,593,478	10,755,278
Effect of adoption of SFAS No. 158	2,007,857	2,007,857
Loss not yet recognized as a component of net periodic cost	5,659,931	—
Net periodic benefit cost	1,718,550	1,320,316
Employer contribution	<u>(587,236)</u>	<u>(482,116)</u>
Net amount recognized	<u>\$ 20,392,580</u>	<u>13,601,335</u>
Weighted average discount rate assumptions as of June 30	6.75%	6.25%

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

Notes to Consolidated Financial Statements

June 30, 2008 and 2007

For measurement purposes, a 15% annual rate of increase in the per capita cost of covered healthcare benefits was assumed for fiscal year 2008. The rate was assumed to decrease by 1.5% per year to an ultimate rate of 3% and remain at that level thereafter.

	2008	2007
Components of net periodic benefit cost:		
Service cost	\$ 548,160	455,921
Interest cost	935,264	784,913
Recognized actuarial loss	235,126	79,482
Net periodic benefit cost	\$ 1,718,550	1,320,316
Benefit cost weighted average discount rate assumptions for the years ended June 30	6.25%	6.25%

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	\$ 234,676	(189,954)
Effect on postretirement benefit obligation	1,977,323	(1,635,732)

The projected premium payments in each fiscal year from 2009 through 2018 are:

Year ending June 30:	
2009	\$ 651,056
2010	697,293
2011	774,993
2012	838,818
2013	919,305
2014 through 2018 (in aggregate)	5,466,970
	\$ 9,348,435

At June 30, 2008, the net loss of \$7,667,788 was not yet recognized as a component of net periodic benefit cost. In addition to service and interest costs, the projected net periodic postretirement benefit cost for fiscal year 2009 includes amortization of actuarial losses of \$702,426.

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

Notes to Consolidated Financial Statements

June 30, 2008 and 2007

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 10-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; and January 1, 2038 to December 31, 2047, \$55,000,000. As of January 1, 2048 and each 10-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 \$10,438,776 and \$10,549,863 is included in deferred revenue in the accompanying consolidated balance sheets at June 30, 2008 and 2007, respectively.

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

Notes to Consolidated Financial Statements

June 30, 2008 and 2007

- 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 \$1,048,592 and \$1,090,927 in 2008 and 2007, respectively. Sublease income for this lease was \$806,208 and \$768,339 in 2008 and 2007, respectively. The following is a schedule by year of future minimum rental payments and sublease income, including future rent escalations, as of June 30, 2008, for the Third Avenue site:

	<u>Minimum rental payments</u>	<u>Sublease income</u>
Year ending June 30:		
2009	\$ 785,000	775,075
2010	800,000	813,500
2011	815,000	854,070
2012	830,000	898,606
2013	845,000	946,627
2014 and thereafter (in aggregate)	25,898,333	11,606,586

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 \$151,115 and \$319,822 in 2008 and 2007, respectively. The future minimum rental payments on these noncancelable operating leases scheduled to expire by June 30, 2009 are \$108,000.

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

Notes to Consolidated Financial Statements

June 30, 2008 and 2007

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. Rent expense for this lease was \$668,160 and \$634,752 in 2008 and 2007, respectively. Sublease income from this lease was \$185,061 and \$177,564 in 2008 and 2007, respectively. The following is a schedule by year of future minimum rental payments excluding future rent escalations, at June 30, 2008:

	Minimum rental payments
Year ending June 30:	
2009	\$ 668,160
2010	668,160
2011	668,160
2012	668,160
2013	668,160