KPMG

THE COOPER UNION FOR THE ADVANCEMENT OF SCIENCE AND ART

Consolidated Financial Statements

June 30, 2004 and 2003

(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, 2004 and 2003, 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, 2004 and 2003, 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 17, 2004

THE COOPER UNION FOR THE ADVANCEMENT OF SCIENCE AND ART

Consolidated Balance Sheets

June 30, 2004 and 2003

Assets		**2004**	**2003**
Cash and cash equivalents	$	619,295	627,212
Investments (notes 2 and 4)		257,439,740	222,556,986
Contributions receivable, net (note 3)		6,320,519	5,825,634
Other receivables		575,089	698,695
Prepaid expenses and other assets (note 5)		1,718,123	1,777,381
Loans to students, net of allowance for doubtful loans of $42,570 in both 2004 and 2003		454,944	462,678
Funds held by trustee (notes 2 and 5)		3,827,885	3,835,760
Plant assets, net (notes 2 and 4)		41,378,612	41,776,144
Total assets	$	312,334,207	277,560,490
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses	$	3,672,961	4,476,652
Deferred revenue (note 8)		11,173,818	1,749,603
Accrued interest (note 5)		737,919	755,956
Other liabilities (note 9)		1,507,926	560,661
Liability under charitable trusts and annuity agreements		4,000,807	4,391,179
Obligations to Dormitory Authority of the State of New York (note 5)		26,115,654	26,841,282
Accrued postretirement benefit costs (note 7)		8,649,195	8,094,434
Total liabilities		55,858,280	46,869,767
Net assets:			
Unrestricted		176,921,902	154,384,750
Temporarily restricted (note 6)		26,858,890	24,792,836
Permanently restricted (note 6)		52,695,135	51,513,137
Total net assets		256,475,927	230,690,723
Total liabilities and net assets	$	312,334,207	277,560,490

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, 2004 and 2003

	2004	2003
Operations:		
Revenues and other support:		
Investment return utilized for operations (note 2)	$ 18,059,203	15,127,757
Student tuition and fees	26,647,130	24,868,206
Tuition discount	(24,137,532)	(22,983,353)
Net student tuition and fees	2,509,598	1,884,853
Contributions	3,642,644	2,978,887
Government grants and contracts	615,520	923,539
Appropriations – State of New York aid	87,652	93,110
Rental income (note 8)	1,768,531	1,511,378
Auxiliary enterprises	1,579,081	1,330,733
Other revenue	220,526	24,656
	28,482,755	23,874,913
Net assets released from restrictions (note 6)	2,334,404	5,163,579
Total revenues and other support	30,817,159	29,038,492
Expenses:		
Program services:		
Instruction	12,885,031	13,237,736
Academic support	8,709,590	9,870,226
Public service	2,434,726	2,512,615
Research	55,490	401,540
Student services	2,446,287	2,393,769
Student aid	1,349,711	1,292,787
Auxiliary enterprises	1,731,131	1,754,006
	29,611,966	31,462,679
Supporting services:		
Management and general	6,948,878	7,145,988
Fund-raising	2,254,002	2,297,472
	9,202,880	9,443,460
Total expenses	38,814,846	40,906,139
Excess of expenses over revenues from operations before nonoperating activity and cumulative effect of change in accounting	(7,997,687)	(11,867,647)
Nonoperating activity:		
Excess (deficiency) of investment return over amount utilized for operations (note 2)	28,694,602	(2,409,114)
Net assets released from restrictions for capital purposes (note 6)	1,840,237	—
Excess (deficiency) of revenues over expenses from operations before cumulative effect of change in accounting	22,537,152	(14,276,761)
Cumulative effect of change in accounting (note 2)	—	146,052,135
Increase in unrestricted net assets	$ 22,537,152	131,775,374

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, 2004 and 2003

		2004	2003
Changes in unrestricted net assets:			
Operations:			
Total unrestricted revenues, before net assets released from restrictions	$	28,482,755	23,874,913
Net assets released from restrictions (note 6)		2,334,404	5,163,579
Total unrestricted expenses		(38,814,846)	(40,906,139)
Excess of expenses over unrestricted revenues from operations		(7,997,687)	(11,867,647)
Excess (deficiency) of investment return over amount utilized for operations (note 2)		28,694,602	(2,409,114)
Net assets released from restrictions for capital purposes (note 6)		1,840,237	—
Cumulative effect of change in accounting (note 2)		—	146,052,135
Increase in unrestricted net assets		22,537,152	131,775,374
Changes in temporarily restricted net assets:			
Contributions		4,781,002	4,487,437
Investment gains (losses) (note 2)		1,459,693	(624,567)
Net assets released from restrictions (note 6)		(4,174,641)	(5,163,579)
Increase (decrease) in temporarily restricted net assets		2,066,054	(1,300,709)
Changes in permanently restricted net assets:			
Contributions		1,181,998	1,681,594
Increase in permanently restricted net assets		1,181,998	1,681,594
Increase in net assets		25,785,204	132,156,259
Net assets at beginning of year		230,690,723	98,534,464
Net assets at end of year	$	256,475,927	230,690,723

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, 2004 and 2003

		2004	2003
Cash flows from operating activities:			
Increase in net assets	$	25,785,204	132,156,259
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities:			
(Gain) loss on sale of assets		(31,016)	2,935
Depreciation and amortization expense		2,724,553	3,158,836
Net unrealized and realized (gains) losses on investments		(29,442,333)	3,915,788
Change in value of split-interest agreements		101,185	394,739
Permanently restricted contributions		(1,181,998)	(1,681,594)
Contributions restricted for capital purposes		(2,077,155)	(1,250,000)
Contributions of securities		(210,989)	(452,272)
Cumulative effect of change in accounting		—	(146,052,135)
Changes in assets and liabilities:			
(Increase) decrease in contributions receivable, net of amounts classified as financing activities		(954,954)	1,684,099
Decrease in other receivables		123,606	8,670
Decrease (increase) in prepaid expenses and other assets, net of amortization of bond issuance costs		26,055	(272,387)
Decrease in accounts payable and accrued expenses		(803,691)	(743,683)
Increase in deferred revenue		9,424,215	1,045,203
Decrease in accrued interest		(18,037)	(17,174)
Increase in other liabilities		947,265	167,392
Decrease in liability under lease agreement		—	(1,000,000)
Increase in accrued postretirement benefit costs		554,761	360,020
Net cash provided by (used in) operating activities		4,966,671	(8,575,304)
Cash flows from investing activities:			
Proceeds from sale of investment land		1,720,096	—
Proceeds from sale of artwork		207,920	—
Purchases of investments		(35,981,008)	(64,403,232)
Proceeds from sales of investments		28,860,989	67,639,650
Decrease (increase) in funds held by trustee		7,875	(75,470)
Decrease (increase) in loans to students		7,734	(14,517)
Purchases of plant assets		(2,285,859)	(927,022)
Net cash (used in) provided by investing activities		(7,462,253)	2,219,409
Cash flows from financing activities:			
Permanently restricted contributions		1,181,998	1,681,594
Contributions restricted for capital purposes		2,077,155	1,250,000
Decrease (increase) in contributions receivable related to financing activities		460,069	(1,425,069)
Payment of obligation to Dormitory Authority of the State of New York		(740,000)	(705,000)
Proceeds of new charitable gift annuities in excess of contributions recognized		96,796	229,131
Payments to beneficiaries under charitable annuities		(588,353)	(659,861)
Net cash provided by financing activities		2,487,665	370,795

(Continued)

THE COOPER UNION FOR THE ADVANCEMENT OF SCIENCE AND ART

Consolidated Statements of Cash Flows

Years ended June 30, 2004 and 2003

		2004	2003
Net decrease in cash and cash equivalents	$	(7,917)	(5,985,100)
Cash and cash equivalents at beginning of year		627,212	6,612,312
Cash and cash equivalents at end of year	$	619,295	627,212
Supplemental cash flow information:			
Cash paid during the year for interest	$	1,493,875	1,529,087

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 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.

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.

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.

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 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 2003 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 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 run until the year 2147, rests with the College.

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, 2004 and 2003:

	2004	2003
Cash, cash equivalents, and short-term investments held by investment managers and trustees	$ 21,209,444	18,396,940
Bonds	29,755,232	43,154,818
Equity securities	19,994,054	3,328,923
Hedge funds	4,318,245	3,000,000
Real estate and other	178,546,700	152,743,700
Limited partnerships	3,616,065	1,932,605
	257,439,740	222,556,986
Funds held by trustee invested in U.S. Treasuries	3,827,885	3,835,760
	$ 261,267,625	226,392,746

Included in investments are charitable trusts and gift annuities amounting to $3,713,928 and $3,999,032 at June 30, 2004 and 2003, 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, 2004, The College is committed to investing an additional $1.9 million in limited partnerships.

The components of investment return for the years ended June 30, 2004 and 2003 are as follows:

		2004	2003
Real estate rental income	$	17,060,282	14,100,977
Interest and dividends		1,979,998	2,132,501
Unrealized gains in investments		29,175,262	5,814,589
Realized gains (losses) in investments		267,071	(9,730,377)
Investment expenses		(269,115)	(223,614)
Investment return		48,213,498	12,094,076
Less amounts classified as:			
Temporarily restricted		1,459,693	(624,567)
Amount utilized for operations		18,059,203	15,127,757
Excess (deficiency) of investment return over amount utilized for operations and classified as unrestricted	$	28,694,602	(2,409,114)

(3) Contributions Receivable

Contributions receivable at June 30, 2004 are scheduled to be collected as follows:

		Amount
Year ending June 30:		
2005	$	3,747,001
2006 through 2009		2,891,536
		6,638,537
Adjustment to reflect contributions receivable at discount value of 4% (7%, prior to 2003)		(218,018)
Less allowance for uncollectible contributions receivable		(100,000)
	$	6,320,519

During 2004, The Council of the City of New York appropriated $6 million to The Cooper Union. The appropriation includes $500,000, $2,500,000, and $3,000,000 for the years 2005, 2006, and 2007, 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, 2004 since the appropriation does not meet the contribution recognition criteria under SFAS No. 116, *Accounting for Contributions Received and Contributions Made.*

(4) Plant Assets

Plant assets consist of the following at June 30, 2004 and 2003:

	2004	2003
Land and land improvements	$ 1,593,725	1,593,725
Buildings, building improvements, and equipment	87,397,106	86,906,457
Leasehold improvements	3,001,629	3,001,629
Construction in progress	1,840,237	112,182
Other plant assets	1,067,672	1,007,917
	94,900,369	92,621,910
Accumulated depreciation and amortization	(53,521,757)	(50,845,766)
	$ 41,378,612	41,776,144

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.

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 $1.8 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.

Certain investment property in land and land improvements reported at $6,413 in 2003 and $5,936,991 in 2002 were reclassified to investments in 2004 and 2003, respectively, 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 $128,362 and $133,497 as of June 30, 2004 and 2003, 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, 2004 and 2003 was $327,708 and $347,215, respectively.

Interest expense on the Series 1999 and 1996 bond issues in 2004 and 2003 was $1,475,838 and $1,511,913, respectively. The Series 1990 Bonds proceeds also provided funds for the defeasement of a previous bond issue. (At June 30, 2004 and 2003, $400,000 and $690,000, 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 had received a grant from the Department of Health and Human Services which provided $96,747 annually to meet interest charges applicable to the Series 1996 Bonds. The grant expired at the year ended June 30, 2003.

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, 2004, 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 $1,406,122 and the building and equipment reserve fund of $875,899 are included in funds held by trustee at June 30, 2004.

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

		Principal	Interest	Total
Year ending June 30:				
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
2009		950,000	1,254,406	2,204,406

(6) Net Assets

Temporarily restricted net assets at June 30, 2004 and 2003 are available for the following purposes or periods:

		2004	2003
Purpose restrictions:			
Academic support	$	4,187,056	4,189,832
Student aid		4,075,087	3,933,856
Instruction		322,548	85,050
New academic building		10,996,518	9,831,625
Other		1,806,852	2,299,112
Time restrictions		5,470,829	4,453,361
Total temporarily restricted net assets	$	26,858,890	24,792,836

Permanently restricted net assets at June 30, 2004 and 2003 are restricted to investments in perpetuity, the income from which is expendable to support:

		2004	2003
Specific purposes of The Cooper Union, principally instructional and student financial aid	$	36,187,773	35,039,333
General activities of The Cooper Union		16,507,362	16,473,804
Total permanently restricted net assets	$	52,695,135	51,513,137

During 2004 and 2003, 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:

		2004	2003
Purpose restrictions accomplished:			
Academic support	$	536,999	377,324
Student aid		486,702	—
Instruction		58,174	57,386
New academic building		1,840,237	—
Other		1,252,529	4,728,869
Total restrictions released	$	4,174,641	5,163,579

(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, 2004 and 2003 amounted to approximately $1,295,000 and $1,347,000, 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, 2004 and 2003:

		2004	2003
Change in benefit obligation:			
Benefit obligation at beginning of year	$	7,195,739	5,564,506
Service cost		346,164	227,237
Interest cost		486,745	440,740
Actuarial loss		1,427,906	484,863
Actuarial assumptions		(138,246)	711,239
Benefits paid		(278,148)	(232,846)
Benefit obligation at end of year	$	9,040,160	7,195,739
Change in plan assets:			
Fair value of plan assets at beginning of year	$	—	—
Employer contribution		278,148	232,846
Benefit paid		(278,148)	(232,846)
Fair value of plan assets at end of year	$	—	—
Funded status	$	(9,040,160)	(7,195,739)
Unrecognized net loss (gain)		390,965	(898,695)
Net amount recognized in the consolidated balance sheets	$	(8,649,195)	(8,094,434)
Amount recognized in the consolidated balance sheets consists of:			
Accrued benefits cost	$	8,094,434	7,734,414
Net periodic benefit cost		832,909	592,866
Employer contribution		(278,148)	(232,846)
Net amount recognized	$	8,649,195	8,094,434
Weighted average discount rate assumptions as of June 30		6.25%	5.75%

For measurement purposes, a 10% and 12% annual rate of increase in the per capita cost of covered health care benefits was assumed for fiscal years 2004 and 2003, respectively. The rate was assumed to decrease to an ultimate rate of 4.25% for 2007 and remain at that level thereafter.

		2004	2003
Component of net periodic benefit cost:			
Service cost	$	346,164	227,237
Interest cost		486,745	440,740
Recognized actuarial gain		—	(75,111)
Net periodic benefit cost	$	832,909	592,866
Benefit cost weighted average assumptions for the years ended June 30		5.75%	7.00%

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	$	141,481	(113,517)
Effect on postretirement benefit obligation		1,171,241	(962,463)

The projected premium payments in each fiscal year from 2005 through 2014 are:

Year ending June 30:		
2005	$	312,801
2006		352,840
2007		388,807
2008		416,669
2009		468,022
2010 through 2014		2,913,707

(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 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 as at June 30, 2004.
- 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.

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 $1,011,042 and $974,363 in 2004 and 2003, respectively. Sublease income for this lease was $673,339 and $635,975 in 2004 and 2003, respectively. The following is a schedule by year of future minimum rental payments and sublease income, including future rent escalations, as of June 30, 2004, for the Third Avenue site:

		Minimum rental payments	Sublease income
Year ending June 30:			
2005	$	725,000	610,000
2006		740,000	638,000
2007		755,000	667,000
2008		770,000	606,000
2009		785,000	573,000
2010 and thereafter		29,188,000	13,131,000

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 $523,000 and $608,000 in 2004 and 2003, respectively. The following is a schedule of future minimum rentals on these noncancelable operating leases:

		Minimum rental payments
Year ending June 30:		
2005	$	242,000
2006		275,000
2007		278,000
2008		282,000
2009		285,000
2010 and thereafter		856,000

In addition, The Cooper Union leases, under an operating lease agreement, office space at 30 Cooper Square in New York City. This operating lease commenced on July 1, 1992 and expires in 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 $533,052 and $528,960 in 2004 and 2003, respectively. Sublease income for this lease was $43,000 and $37,285 in 2004 and 2003, respectively. The following is a schedule by year of future minimum rental payments and sublease income, excluding future rent escalations, at June 30, 2004:

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

(9) Subsequent Event

In July 2004, The Cooper Union sold property for $5,500,000. Included in other liabilities at June 30, 2004 is 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.