



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

Consolidated Financial Statements and Supplementary
Information on Federal Awards Programs

June 30, 2000

(With Independent Auditors' Report Thereon and
Reports on Compliance and Internal Control)

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

Table of Contents

	Page
I. Financial	
Independent Auditors' Report on Basic Consolidated Financial Statements and Supplementary Schedule of Expenditures of Federal Awards	I-1
Consolidated Financial Statements:	
Consolidated Balance Sheets	I-2
Consolidated Statements of Changes in Unrestricted Net Assets	I-3
Consolidated Statements of Changes in Net Assets	I-4
Consolidated Statements of Cash Flows	I-5
Notes to Consolidated Financial Statements	I-6
Schedule of Expenditures of Federal Awards	I-17
Notes to Schedule of Expenditures of Federal Awards	I-18
II. Independent Auditors' Reports on Internal Control and Compliance	
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Consolidated Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>	II-1
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133	II-3
Schedule of Findings and Questioned Costs	II-5

345 Park Avenue
New York, NY 10154

**Independent Auditors' Report on Basic Consolidated Financial Statements and
Supplementary Schedule of Expenditures of Federal Awards**

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, 2000 and 1999, 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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. 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 as of June 30, 2000 and 1999, 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.

In accordance with Government Auditing Standards, we have also issued our report dated September 22, 2000 on our consideration of The Cooper Union's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying schedule of expenditures of federal awards for the year ended June 30, 2000 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the 2000 basic consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the 2000 basic consolidated financial statements taken as a whole.

KPMG LLP

September 22, 2000



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

Consolidated Balance Sheets

June 30, 2000 and 1999

	2000	1999
Assets		
Cash and cash equivalents	\$ 457,334	604,509
Investments (note 2)	140,656,832	122,112,237
Contributions receivable, net (note 3)	1,741,522	2,204,587
Other receivables	763,579	792,724
Prepaid expenses and other assets (note 5)	1,765,045	988,089
Loans to students, net of allowance for doubtful loans of \$32,570 in 2000 and 1999	350,419	335,566
Funds held by trustee (notes 2 and 5)	6,479,854	3,204,060
Plant assets, net (note 4)	48,697,031	41,919,079
Total assets	\$ 200,911,616	172,160,851
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 3,652,774	2,667,254
Deferred revenue	659,830	279,700
Accrued interest (note 5)	913,130	469,229
Other liabilities	479,222	505,177
Liability under lease agreement (note 8)	3,000,000	4,000,000
Liability under charitable trusts and annuity agreements	4,625,461	3,641,999
Obligations to Dormitory Authority of the State of New York (note 5)	28,728,166	17,524,759
Accrued postretirement benefit costs (note 7)	7,630,027	7,420,020
Total liabilities	49,688,610	36,508,138
Net assets:		
Unrestricted:		
Undesignated	35,348	35,348
Board designated for long-term investment	46,426,773	36,706,668
Net investment in plant assets	19,968,865	24,394,320
Total unrestricted	66,430,986	61,136,336
Temporarily restricted (note 6)	39,840,181	33,378,058
Permanently restricted (note 6)	44,951,839	41,138,319
Total net assets	151,223,006	135,652,713
Total liabilities and net assets	\$ 200,911,616	172,160,851

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, 2000 and 1999

	2000	1999
Operations:		
Revenues:		
Investment income:		
Income from real estate (note 8)	\$ 12,083,750	12,084,819
Investment return utilized for operations (note 2)	5,330,343	4,909,047
Student tuition and fees	8,230,814	8,419,984
Tuition discount	(6,925,444)	(7,104,237)
Net student tuition and fees	1,305,370	1,315,747
Contributions	4,581,817	3,140,302
Government grants and contracts	1,199,930	1,237,645
Appropriations - State of New York aid	117,845	98,354
Rental income (note 8)	1,210,253	1,125,124
Auxiliary enterprises	1,073,420	1,133,656
Other revenue	164,215	149,250
	27,066,943	25,193,944
Net assets released from restrictions (note 6)	5,113,119	1,827,687
Total revenues	32,180,062	27,021,631
Expenses:		
Program services:		
Instruction	12,231,775	11,624,169
Academic support	8,581,673	8,503,109
Public service	1,352,670	1,154,235
Research	170,928	101,584
Student services	2,207,436	2,041,571
Student aid	1,129,792	1,212,819
Auxiliary enterprises	2,191,483	1,861,069
	27,865,757	26,498,556
Supporting services:		
Management and general	7,430,045	6,830,452
Fund-raising	1,950,901	2,413,745
	9,380,946	9,244,197
Total expenses	37,246,703	35,742,753
Excess of expenses over revenues from operations before nonoperating revenue	(5,066,641)	(8,721,122)
Nonoperating revenue:		
Investment return in excess of amount utilized for operations (note 2)	10,361,291	1,924,293
Increase (decrease) in unrestricted net assets	\$ 5,294,650	(6,796,829)

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, 2000 and 1999

	<u>2000</u>	<u>1999</u>
Changes in unrestricted net assets:		
Operations:		
Total unrestricted revenues, before net assets released from restrictions	\$ 27,066,943	25,193,944
Net assets released from restrictions (note 6)	5,113,119	1,827,687
Total unrestricted expenses	<u>(37,246,703)</u>	<u>(35,742,753)</u>
Excess of unrestricted expenses over revenues from operations	(5,066,641)	(8,721,122)
Investment return in excess of amount appropriated for operations	<u>10,361,291</u>	<u>1,924,293</u>
Increase (decrease) in unrestricted net assets	<u>5,294,650</u>	<u>(6,796,829)</u>
Changes in temporarily restricted net assets:		
Contributions	1,994,529	981,701
Investment return (note 2)	9,580,713	3,432,508
Net assets released from restrictions (note 6)	<u>(5,113,119)</u>	<u>(1,827,687)</u>
Increase in temporarily restricted net assets	<u>6,462,123</u>	<u>2,586,522</u>
Changes in permanently restricted net assets:		
Contributions	<u>3,813,520</u>	<u>1,074,767</u>
Increase in permanently restricted net assets	<u>3,813,520</u>	<u>1,074,767</u>
Increase (decrease) in net assets	15,570,293	(3,135,540)
Net assets at beginning of year	<u>135,652,713</u>	<u>138,788,253</u>
Net assets at end of year	<u>\$ 151,223,006</u>	<u>135,652,713</u>

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, 2000 and 1999

	2000	1999
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 15,570,293	(3,135,540)
Adjustments to reconcile increase (decrease) in net assets to net cash used in operating activities:		
Depreciation and amortization expense	3,840,155	3,764,865
Net realized gains and unrealized gains and losses on investments	(22,346,745)	(7,911,116)
Permanently restricted contributions	(3,813,520)	(1,074,767)
Changes in assets and liabilities:		
Decrease (increase) in contributions receivable, net of permanently restricted portion	630,065	(277,349)
Decrease in other receivables	29,145	191,738
(Increase) decrease in prepaid expenses and other assets, net of payment of bond issuance costs	(295,813)	18,436
Increase in loans to students	(14,853)	(22,386)
Increase in accounts payable and accrued expenses	985,520	799,540
Increase in deferred revenue	380,130	131,856
Increase (decrease) in accrued interest	443,901	(9,123)
(Decrease) increase in other liabilities	(25,955)	191,718
Decrease in liability under lease agreement	(1,000,000)	(1,000,000)
Increase in accrued postretirement benefit costs	210,007	125,186
Net cash used in operating activities	(5,407,670)	(8,206,942)
Cash flows from investing activities:		
Purchases of investments	(138,099,774)	(211,208,252)
Proceeds from sales of investments	139,352,809	225,884,933
(Increase) decrease in funds held by trustee	(3,275,794)	39,877
Purchases of plant assets	(8,026,260)	(7,010,673)
Net cash (used in) provided by investing activities	(10,049,019)	7,705,885
Cash flows from financing activities:		
Permanently restricted contributions	3,813,520	1,074,767
(Increase) decrease in permanently restricted contributions receivable	(167,000)	236,531
Proceeds from Dormitory Authority of the State of New York Series 1999 Bonds	11,652,495	—
Payment of bond issuance costs	(507,963)	—
Payment of obligation to Dormitory Authority of the State of New York	(465,000)	(445,000)
Increase (decrease) in liability under charitable trusts and annuity agreements	983,462	(152,615)
Net cash provided by financing activities	15,309,514	713,683
Net (decrease) increase in cash and cash equivalents	(147,175)	212,626
Cash and cash equivalents at beginning of year	604,509	391,883
Cash and cash equivalents at end of year	\$ 457,334	604,509
Supplemental cash flow information:		
Cash paid during the year for interest	\$ 834,461	947,582
Supplemental disclosure of noncash investing and financing activity:		
Transfer of investment to plant assets	\$ 2,549,115	—

See accompanying notes to consolidated financial statements.

THE COOPER UNION FOR THE ADVANCEMENT
OF SCIENCE AND ART

Notes to Consolidated Financial Statements

June 30, 2000 and 1999

(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. and Astor Place Holding Corporation.

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 an \$8,300 tuition charge for full-time students to facilitate eligibility for outside tuition assistance programs. All new students are required to apply to such programs. The College is dedicated exclusively to preparing students for the professions of architecture, art, and engineering. The College was incorporated under a special act of the New York State Legislature in 1859 and is subject to the jurisdiction of the Regents of the University of the State of New York.

The Cooper Union Research Foundation, Inc. (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 Holding Corporation (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. Unrestricted net assets over \$35,348 are designated for long-term investment and net investment in plant assets.

(Continued)

THE COOPER UNION FOR THE ADVANCEMENT
OF SCIENCE AND ART

Notes to Consolidated Financial Statements

June 30, 2000 and 1999

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 taxes under Section 501(c)(3) of the Internal Revenue Code. Astor Place is exempt from Federal income tax under Section 501(c)(2) of the Internal Revenue Code.

Cash Equivalents

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

Depreciation and Amortization

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

Use of Estimates

The preparation of the consolidated financial statements in conformity with 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.

Fair Value of Financial Instruments

The fair value of investments other than real estate is based on quoted market prices at the reporting date. 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.

(Continued)

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

Notes to Consolidated Financial Statements

June 30, 2000 and 1999

Reclassification

Certain 1999 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. 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. The College's investments in real estate have been recorded at appraised value at the date of gift or at cost.

Investments, including debt service reserve and other funds held by trustee, consist of the following at June 30, 2000 and 1999:

	2000		1999	
	Cost	Fair value	Cost	Fair value
Cash and cash equivalents held by investment managers and trustees	\$ 13,856,647	13,856,647	24,120,993	24,120,993
Bonds and promissory note	32,884,196	31,658,689	44,800,935	45,821,489
Equity securities	72,222,806	97,322,941	41,090,561	52,213,826
Real estate and other	709,574	709,574	3,159,989	3,159,989
Limited partnerships	3,600,000	3,588,835	—	—
	<u>\$ 123,273,223</u>	<u>147,136,686</u>	<u>113,172,478</u>	<u>125,316,297</u>

Included in investments are charitable trusts and gift annuities amounting to \$4,296,985 and \$3,482,359 at June 30, 2000 and 1999, respectively.

The Cooper Union has committed to invest an additional \$5.4 million in limited partnerships.

(Continued)

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

Notes to Consolidated Financial Statements

June 30, 2000 and 1999

The Cooper Union utilizes a spending rate of 6% of the average of the previous three years' fair value of investments as the investment return to be utilized for operations. Amounts in excess of such amounts are reported as nonoperating revenue. The components of investment return for the years ended June 30, 2000 and 1999 are as follows:

	2000	1999
Interest and dividends	\$ 3,709,548	3,072,221
Net appreciation in fair value of investments	22,346,745	7,911,116
Investment expenses	(783,946)	(717,489)
	25,272,347	10,265,848
Temporarily restricted	9,580,713	3,432,508
Amount utilized for operations	5,330,343	4,909,047
	4,250,370	1,523,461
Nonoperating revenue	\$ 10,361,291	1,924,293

(3) Contributions Receivable

Contributions receivable at June 30, 2000 are scheduled to be collected as follows:

Year ending June 30	Amount
2001	\$ 1,231,275
2002 through 2006	653,090
Thereafter	20,000
	1,904,365
Adjustment to reflect contributions receivable at discount value of 7%	(62,843)
Less allowance for uncollectible contributions receivable	(100,000)
	\$ 1,741,522

(Continued)

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

Notes to Consolidated Financial Statements

June 30, 2000 and 1999

(4) Plant Assets

Plant assets consist of the following at June 30, 2000 and 1999:

	2000	1999
Land and land improvements	\$ 7,274,159	6,835,043
Buildings, building improvements, and equipment	69,173,816	65,149,755
Leasehold improvements	2,973,530	2,961,316
Construction in progress	10,233,114	4,133,130
	89,654,619	79,079,244
Accumulated depreciation and amortization	(40,957,588)	(37,160,165)
	\$ 48,697,031	41,919,079

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

The Cooper Union is in the process of completing a major renovation of the exterior of its Foundation Building, one of the College's main academic and administrative sites. In December 1999, the expected cost of the renovations was 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 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 \$507,963 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 as of June 30, 2000 was \$148,901.

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 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 United States 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. As a result, the Series 1990 Bonds are considered retired in the accompanying

(Continued)

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

Notes to Consolidated Financial Statements

June 30, 2000 and 1999

consolidated financial statements. The amount of defeased Series 1990 Bonds outstanding at June 30, 2000 and 1999 was \$16,000,000 and \$16,335,000, 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, 2000 and 1999 was \$405,734 and \$425,241, respectively.

Interest expense on the Series 1999 and 1996 bond issues in 2000 and 1999 was \$1,278,362 and \$938,459 (1996 Series only), respectively. The Series 1990 Bonds proceeds also provided funds for the defeasement of a previous bond issue (at June 30, 2000 and 1999, \$1,685,000 and \$1,995,000, respectively, of such defeased bonds are outstanding). The Cooper Union has pledged to DASNY the rental income derived from the facility and, to the extent such income is insufficient, unrestricted endowment income.

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

The Cooper Union is required to maintain, as on the last day of the second and fourth quarters of each fiscal year, expendable 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. A reserve for debt service and building and equipment was not required by DASNY on the Series 1999 bond issue. The unexpended portion of the construction fund of \$2,694,338 is included in funds held by trustee at June 30, 2000.

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 \$1,412,195 and the building and equipment reserve fund of \$785,408 are included in funds held by the trustee at June 30, 2000.

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

<u>Year ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2001	\$ 550,000	1,576,006	2,126,006
2002	675,000	1,546,263	2,221,263
2003	705,000	1,511,913	2,216,913
2004	740,000	1,475,838	2,215,838
2005	775,000	1,436,126	2,211,126

(Continued)

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

Notes to Consolidated Financial Statements

June 30, 2000 and 1999

(6) Net Assets

Temporarily restricted net assets at June 30, 2000 and 1999 are available for the following purposes or periods:

	2000	1999
Purpose restrictions:		
Academic support	\$ 5,500,068	4,249,120
Student aid	19,711,455	15,546,036
Instruction	8,673,999	7,082,662
Other	3,048,375	4,902,087
Time restrictions	2,906,284	1,598,153
	\$ 39,840,181	33,378,058

Permanently restricted net assets at June 30, 2000 and 1999 are restricted to investments in perpetuity, the income from which is expendable to support:

	2000	1999
Specific purposes of The Cooper Union, principally instructional and student financial aid	\$ 28,431,775	25,422,754
General activities of The Cooper Union	16,520,064	15,715,565
	\$ 44,951,839	41,138,319

During 2000 and 1999, 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:

	2000	1999
Purpose restrictions accomplished:		
Academic support	\$ 1,050,560	683,098
Student aid	859,105	500,339
Instruction	2,409,564	263,896
Other	793,890	380,354
Total restrictions released	\$ 5,113,119	1,827,687

(Continued)

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

Notes to Consolidated Financial Statements

June 30, 2000 and 1999

(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, 2000 and 1999 amounted to approximately \$1,200,000 and \$1,168,000, 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 consolidated balance sheets as of June 30, 2000 and 1999:

	2000	1999
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 4,870,891	6,815,791
Service cost	151,298	129,902
Interest cost	391,670	357,014
Actuarial loss (gain)	69,616	(2,311,093)
Benefits paid	(127,481)	(120,723)
Benefit obligation at end of year	\$ 5,355,994	4,870,891
	2000	1999
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ —	—
Employer contribution	127,481	120,723
Benefit paid	(127,481)	(120,723)
Fair value of plan assets at end of year	\$ —	—
Funded status	\$ (5,355,994)	(4,870,891)
Unrecognized net gain	(2,274,033)	(2,549,129)
Net amount recognized in the consolidated balance sheets	\$ (7,630,027)	(7,420,020)
Amount recognized in the consolidated balance sheets consists of:		
Prepaid benefits cost	\$ 7,420,020	7,294,834
Net periodic cost	337,488	245,909
Employer contribution	(127,481)	(120,723)
Net amount recognized	\$ 7,630,027	7,420,020

(Continued)

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

Notes to Consolidated Financial Statements

June 30, 2000 and 1999

	2000	1999
Weighted average discount rate assumptions as of June 30	8.00%	8.00%

For measurement purposes, a 7% and 8.5% annual rate of increase in the per capita cost of covered health care benefits was assumed for fiscal 2000 and 1999, respectively. The rate was assumed to decrease gradually to 5.5% for fiscal 2002 and remain at that level thereafter.

	2000	1999
Component of net periodic benefit cost:		
Service cost	\$ 151,298	129,902
Interest cost	391,670	357,014
Recognized actuarial gain	(205,480)	(241,007)
Net periodic benefit cost	\$ 337,488	245,909

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	\$ 88,473	(71,049)
Effect on postretirement benefit obligation	663,130	(546,011)

(8) Operating Leases

In February 1998, The Cooper Union entered into an operating lease agreement for the land under the Chrysler Building which expires on December 31, 2147. 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 years' anniversary thereafter, the basic rent shall be adjusted based on fair value of the property.

(Continued)

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

Notes to Consolidated Financial Statements

June 30, 2000 and 1999

- 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, 2000, \$4,118,764 has been credited to the tenant.

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 \$893,696 and \$891,511 in 2000 and 1999, respectively. Sublease income for this lease was \$516,727 and \$493,234 in 2000 and 1999, respectively. The following is a schedule by year of future minimum rental payments and sublease income, including future rent escalations, as of June 30, 2000, for the Third Avenue site:

<u>Year ending June 30</u>	<u>Minimum rental payments</u>	<u>Sublease income</u>
2001	\$ 665,000	512,000
2002	680,000	535,000
2003	695,000	559,000
2004	710,000	584,000
2005	725,000	610,000
2006 and thereafter	<u>32,238,000</u>	<u>15,615,000</u>

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 \$589,730 and \$536,927 in 2000 and 1999, respectively. The following is a schedule of future minimum rentals on these noncancelable operating leases:

<u>Year ending June 30</u>	<u>Minimum rental payments</u>
2001	\$ 301,000
2002	315,000
2003	323,000
2004	349,000
2005	363,000
2006 and thereafter	<u>1,430,000</u>

(Continued)

THE COOPER UNION FOR THE ADVANCEMENT
OF SCIENCE AND ART

Notes to Consolidated Financial Statements

June 30, 2000 and 1999

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 July 1, 1992 and expires in 2007. Space at 30 Cooper Square is subleased to a tenant under an operating lease which expires on August 31, 2007. Rent expense for this lease was \$445,440 and \$389,760 in 2000 and 1999, respectively. Sublease income for this lease was \$32,250 and \$30,000 in 2000 and 1999, respectively. The following is a schedule by year of future minimum rental payments and sublease income, excluding future rent escalations, at June 30, 2000:

<u>Year ending June 30</u>	<u>Minimum rental payments</u>	<u>Sublease income</u>
2001	\$ 473,000	34,000
2002	501,000	36,000
2003	529,000	39,000
2004	529,000	42,000
2005	529,000	45,000
2006-2008	<u>1,058,000</u>	<u>110,000</u>

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

Schedule of Expenditures of Federal Awards

Year ended June 30, 2000

Grantor/Program	Federal CFDA number	Federal expenditures
Student Financial Assistance - Cluster:		
U.S. Department of Education:		
Federal Pell Grant Program	84.063	\$ 352,019
Federal Perkins Loan Program (see note 2)	84.038	24,770
Federal Family Education Loan Program (see note 2)	84.033	678,534
Federal Supplemental Educational Opportunity Grant Program	84.007	47,550
Federal Work-Study Program	84.003	<u>32,025</u>
Total U.S. Department of Education		<u>1,134,898</u>
Other programs:		
National Science Foundation:		
National Science Foundation Equipment Grants	47.041	118,707
Pass-through programs from:		
Drexel University - Internship and Gateway Programs	47.076	<u>259,806</u>
Total National Science Foundation		<u>378,513</u>
U.S. Department of Education:		
Interest Subsidy Grant	84.001	96,747
Fund for the Improvement of Post Secondary Education	84.116	<u>115,760</u>
Total U.S. Department of Education		<u>212,507</u>
National Security Agency Grant:		
Cryptologic Research on Continued Fractions, Chaos Theory and Fiber Optics	12.901	<u>93,576</u>
Total other programs		<u>684,596</u>
Total expenditures of federal awards		<u>\$ 1,819,494</u>

See accompanying notes to schedule of expenditures of federal awards.

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

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2000

(1) Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of The Cooper Union for the Advancement of Science and Art (The Cooper Union) and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic consolidated financial statements.

(2) Federal Loan Programs

The Cooper Union administers and accounts for certain aspects of the Federal Perkins Loan Program. Therefore, The Cooper Union's basic consolidated financial statements include the program's net assets and transactions. At June 30, 2000, The Cooper Union had the following loan balance outstanding:

Federal Perkins Loan Program	\$ <u>173,758</u>
------------------------------	-------------------

For the Federal Family Education Loan Program, The Cooper Union is responsible only for the performance of certain administrative duties; therefore, the net assets and transactions for the program are not included in The Cooper Union's basic consolidated financial statements. It is not practical to estimate the amount of loans outstanding under this program.

345 Park Avenue
New York, NY 10154

**Report on Compliance and on Internal Control Over Financial Reporting
Based on an Audit of Consolidated Financial Statements Performed
in Accordance with Government Auditing Standards**

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

We have audited the consolidated financial statements of The Cooper Union for the Advancement of Science and Art (The Cooper Union) as of and for the year ended June 30, 2000, and have issued our report thereon dated September 22, 2000. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether The Cooper Union's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered The Cooper Union's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.



This report is intended solely for the information and use of the Board of Trustees and management of The Cooper Union, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

September 22, 2000

345 Park Avenue
New York, NY 10154

**Report on Compliance with Requirements Applicable to
Each Major Program and Internal Control Over Compliance
in Accordance with OMB Circular A-133**

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

Compliance

We have audited the compliance of The Cooper Union for the Advancement of Science and Art (The Cooper Union) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement (Compliance Supplement) that are applicable to its major federal program for the year ended June 30, 2000, except those requirements discussed in the third following paragraph. The Cooper Union's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of The Cooper Union's management. Our responsibility is to express an opinion on The Cooper Union's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about The Cooper Union's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on The Cooper Union's compliance with those requirements.

In our opinion, The Cooper Union complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2000, other than these requirements discussed in the following paragraph.

We did not audit The Cooper Union's compliance with requirements governing student loan repayments and due diligence functions. Those requirements govern functions that are performed by AFSA Data Corporation (AFSA). Since we did not apply auditing procedures to satisfy ourselves as to compliance with those requirements, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on compliance with those requirements.



AFSA's compliance with the requirements governing the functions that it performs for The Cooper Union was examined by other accountants whose report has been furnished to us. The report of the other accountants indicates that compliance with those requirements was examined in accordance with the Department of Education's Audit Guide, Compliance Audits (Attestation Engagements) of Federal Student Financial Assistance Programs at Participating Institutions and Institution Servicers. Based on our review of the service organization accountants' report, we have determined that all of the compliance requirements included in the Compliance Supplement that are applicable to the major program in which The Cooper Union participates are addressed in either our report or the report of the service organization accountants. Further, based on our review of the service organization accountants' report, we have determined that it does not contain any findings of noncompliance that would have a direct and material effect on The Cooper Union's major program.

Internal Control Over Compliance

The management of The Cooper Union is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered The Cooper Union's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Requirements governing student loan repayments and due diligence functions are performed by AFSA. Internal control over compliance relating to such functions was reported on by accountants for the servicer in accordance with the Department of Education's Audit Guide, Compliance Audits (Attestation Engagements) of Federal Student Financial Assistance Programs at Participating Institutions and Institution Servicers. A copy of the service organization accountants' report has been furnished to us. However, the scope of our work did not extend to internal control maintained at AFSA.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Trustees and management of The Cooper Union, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

September 22, 2000

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

Schedule of Findings and Questioned Costs

Year ended June 30, 2000

(I) Summary of Auditors' Results:

- (a) An unqualified opinion was issued on the consolidated financial statements of The Cooper Union for the Advancement of Science and Art (The Cooper Union) as of and for the year ended June 30, 2000.
- (b) Reportable conditions in internal control disclosed by the audit of the consolidated financial statements of The Cooper Union as of and for the year ended June 30, 2000: None reported. Material weaknesses: No.
- (c) The audit disclosed no instances of noncompliance that are material to the consolidated financial statements of The Cooper Union as of and for the year ended June 30, 2000.
- (d) Reportable conditions in internal control over the major federal program of The Cooper Union for the year ended June 30, 2000: None reported. Material weaknesses: No.
- (e) An unqualified opinion was issued on The Cooper Union's compliance with its major federal program for the year ended June 30, 2000.
- (f) There were no audit findings that are required to be reported under Section 510(a) of OMB Circular A-133 for the year ended June 30, 2000.
- (g) The major federal program of The Cooper Union for the year ended June 30, 2000 was as follows:
 - Student Financial Assistance - Cluster:
 - Federal Pell Grant (CFDA No. 84.063)
 - Federal Perkins Loan (CFDA No. 84.038)
 - Federal Family Education Loan (CFDA No. 84.033)
 - Federal Supplemental Educational Opportunity Grant (CFDA No. 84.007)
 - Federal Work-Study Program (CFDA No. 84.003)
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The Cooper Union qualified as a low-risk auditee under Section 530 of OMB Circular A-133 for the year ended June 30, 2000.

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

Schedule of Findings and Questioned Costs

Year ended June 30, 2000

(2) Findings Relating to the Consolidated Financial Statements Reported in Accordance with Government Auditing Standards:

None.

(3) Findings and Questioned Costs Relating to Federal Awards:

None.