KPMG

THE COOPER UNION FOR THE ADVANCEMENT OF SCIENCE AND ART

Consolidated Financial Statements

June 30, 2006 and 2005

(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, 2006 and 2005, 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.

As discussed in note 9 to the financial statements, The Cooper Union adopted the Financial Accounting Standards Board Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations*, in 2006.

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, 2006 and 2005, 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.

KPMG LLP

December 14, 2006

THE COOPER UNION FOR THE ADVANCEMENT OF SCIENCE AND ART

Consolidated Balance Sheets

June 30, 2006 and 2005

Assets		**2006**	**2005**
Cash and cash equivalents	$	2,500,473	88,788
Contributions receivable, net (note 3)		19,522,272	15,491,604
Other receivables		843,484	690,939
Investments (note 2)		491,224,496	298,545,993
Prepaid expenses and other assets (note 5)		1,687,071	1,813,205
Loans to students, net of allowance for doubtful loans of $39,284 and 42,570 in 2006 and 2005, respectively		486,510	491,492
Funds held by trustee (notes 2 and 5)		9,625,473	9,306,288
Plant assets, net (notes 2 and 4)		49,395,686	44,008,172
Total assets	$	575,285,465	370,436,481
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses	$	5,887,253	4,278,976
Deferred revenue (note 8)		10,834,844	10,995,390
Accrued interest (note 5)		706,919	718,063
Other liabilities		172,139	236,352
Liability under charitable trusts and annuity agreements		4,052,197	3,313,076
Obligations to Dormitory Authority of the State of New York (note 5)		24,554,398	25,355,026
Accrued postretirement benefit costs (note 7)		10,755,278	9,590,163
Asset retirement obligation (note 9)		2,579,800	—
Total liabilities		59,542,828	54,487,046
Net assets:			
Unrestricted		408,839,199	222,230,120
Temporarily restricted (note 6)		48,762,518	40,949,331
Permanently restricted (note 6)		58,140,920	52,769,984
Total net assets		515,742,637	315,949,435
Total liabilities and net assets	$	575,285,465	370,436,481

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, 2006 and 2005

	2006	2005
Operations:		
Revenues and other support:		
Investment return utilized for operations (note 2)	$ 19,257,287	18,907,578
Student tuition and fees	28,995,395	28,789,103
Tuition discount	(26,144,798)	(26,095,360)
Net student tuition and fees	2,850,597	2,693,743
Contributions	4,319,316	3,813,290
Government grants and contracts	568,776	785,650
Appropriations – State of New York aid	94,032	84,815
Rental income (notes 5 and 8)	2,034,079	1,787,964
Auxiliary enterprises	1,709,709	1,536,243
Other revenue	94,442	321,250
	30,928,238	29,930,533
Net assets released from restrictions (note 6)	1,937,557	3,706,896
Total revenues and other support	32,865,795	33,637,429
Expenses:		
Program services:		
Instruction	15,502,705	14,421,078
Academic support	10,863,344	10,878,757
Public service	2,592,139	2,394,372
Research	43,132	89,162
Student services	2,881,618	2,515,581
Student aid	1,363,521	1,410,598
Auxiliary enterprises	1,586,477	1,642,495
	34,832,936	33,352,043
Supporting services:		
Management and general	5,701,651	5,209,319
Fund-raising	3,177,635	2,972,949
	8,879,286	8,182,268
Total expenses	43,712,222	41,534,311
Excess of expenses over revenues and other support from operations before nonoperating activity and cumulative effect of change in accounting principle	(10,846,427)	(7,896,882)
Nonoperating activity:		
Excess of investment return over amount utilized for operations (note 2)	200,035,306	53,205,100
Increase in unrestricted net assets before cumulative effect of change in accounting principle	189,188,879	45,308,218
Cumulative effect of change in accounting principle (note 9)	(2,579,800)	—
Increase in unrestricted net assets	$ 186,609,079	45,308,218

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, 2006 and 2005

	2006	2005
Changes in unrestricted net assets:		
Total unrestricted revenues and other support, before net assets released from restrictions	$ 30,928,238	29,930,533
Operations:		
Net assets released from restrictions (note 6)	1,937,557	3,706,896
Total unrestricted expenses	(43,712,222)	(41,534,311)
Excess of expenses over unrestricted revenues and other support from operations before nonoperating activity and cumulative effect of change in accounting principle	(10,846,427)	(7,896,882)
Excess of investment return over amount utilized for operations (note 2)	200,035,306	53,205,100
Cumulative effect of change in accounting principle (note 9)	(2,579,800)	—
Increase in unrestricted net assets	186,609,079	45,308,218
Changes in temporarily restricted net assets:		
Contributions	8,395,238	16,213,145
Investment gains (note 2)	1,355,506	1,584,192
Net assets released from restrictions (note 6)	(1,937,557)	(3,706,896)
Increase in temporarily restricted net assets	7,813,187	14,090,441
Changes in permanently restricted net assets:		
Contributions	5,370,936	74,849
Increase in permanently restricted net assets	5,370,936	74,849
Increase in net assets	199,793,202	59,473,508
Net assets at beginning of year	315,949,435	256,475,927
Net assets at end of year	$ 515,742,637	315,949,435

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, 2006 and 2005

	2006	2005
Cash flows from operating activities:		
Increase in net assets	$ 199,793,202	59,473,508
Adjustments to reconcile increase in net assets to net cash used in operating activities:		
Cumulative effect of change in accounting principle	2,579,800	—
Depreciation and amortization expense	2,862,239	3,004,826
Net unrealized and realized gains on investments	(200,697,143)	(53,977,860)
Change in value of split-interest agreements	442,662	(230,824)
Permanently restricted contributions	(5,370,936)	(74,849)
Contributions restricted for capital purposes	(7,999,428)	(2,632,267)
Changes in assets and liabilities:		
Decrease (increase) in contributions receivable, net of amounts classified as financing activities	1,438,746	(9,501,085)
Increase in other receivables	(152,545)	(115,850)
Decrease (increase) in prepaid expenses and other assets, net of amortization of bond issuance costs	126,134	(95,082)
Increase (decrease) in accounts payable and accrued expenses	1,334,859	(264,520)
Decrease in deferred revenue	(160,546)	(178,428)
Decrease in accrued interest	(11,144)	(19,856)
Decrease in other liabilities	(64,213)	(1,271,574)
Increase in accrued postretirement benefit costs	1,165,115	940,968
Net cash used in operating activities	(4,713,198)	(4,942,893)
Cash flows from investing activities:		
Purchases of investments	(36,700,127)	(55,300,865)
Proceeds from sales of investments	44,718,767	68,172,472
Increase in funds held by trustee	(319,185)	(5,478,403)
Decrease (increase) in loans to students	4,982	(36,548)
Increase in accounts payable for capital expenditures	273,418	870,535
Purchases of plant assets	(8,235,381)	(5,620,014)
Net cash (used in) provided by investing activities	(257,526)	2,607,177
Cash flows from financing activities:		
Permanently restricted contributions	5,370,936	74,849
Contributions restricted for capital purposes	7,999,428	2,632,267
(Increase) decrease in contributions receivable related to financing activities	(5,469,414)	330,000
Payment of obligation to Dormitory Authority of the State of New York	(815,000)	(775,000)
Proceeds of new charitable gift annuities in excess of contributions recognized	877,938	111,351
Payments to beneficiaries under charitable annuities	(581,479)	(568,258)
Net cash provided by financing activities	7,382,409	1,805,209
Net increase (decrease) in cash and cash equivalents	2,411,685	(530,507)
Cash and cash equivalents at beginning of year	88,788	619,295
Cash and cash equivalents at end of year	$ 2,500,473	88,788
Supplemental cash flow information:		
Cash paid during the year for interest	$ 1,405,507	1,455,982

See accompanying notes to consolidated financial statements.

(1) Organization and Summary of Significant Accounting Policies

Organization

The accompanying consolidated financial statements include the balance sheet, changes in net assets, and cash flows of The Cooper Union for the Advancement of Science and Art (the College) and its affiliates, The Cooper Union Research Foundation, Inc. (CURF), and Astor Place Holding Corporation (Astor Place).

The College was founded in 1859 through the bequest of Peter Cooper, a noted industrialist and philanthropist. Consistent with Peter Cooper's wishes, the College remains one of the few private, full-tuition scholarship colleges in the United States. It offers degree programs in architecture, art, and engineering. The College has designated a $27,500 tuition charge for full-time students. 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 restriction.

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.

(b) Income Tax Status

The College and CURF are exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code. Astor Place is exempt from Federal income tax under Section 501(c)(2) of the Internal Revenue Code.

(c) Cash Equivalents

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

(d) Contributions

Contributions, including unconditional promises to give, are reported as revenues in the period received. Contributions received are discounted to reflect the present value of future cash flows at a risk-free rate. 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 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.

(g) Use of Estimates

The preparation of the 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.

(Continued)

(i) Reclassifications

Certain 2005 amounts have been reclassified to conform to the current year presentation.

(j) 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 notes 8 and 10), 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.

Investments at fair value, including debt service reserve and other funds held by the trustee, consist of the following at June 30, 2006 and 2005:

	2006	2005
Cash, cash equivalents, and short-term investments held by investment managers and trustees	$ 13,176,684	22,595,055
Bonds	13,940,344	16,762,002
Equity securities	12,525,623	24,771,457
Hedge funds	19,406,118	5,642,013
Real estate and other	421,751,100	224,451,100
Limited partnerships	10,424,627	4,324,366
	491,224,496	298,545,993
Funds held by trustee invested in U.S. Treasuries	9,625,473	9,306,288
	$ 500,849,969	307,852,281

During 2005, The Cooper Union sold land, which was stated at the appraised value of $5,500,000, and received proceeds of $5,334,837, net of expenses of $165,163. 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. At June 30, 2006, the escrow account balance was $5,632,764. 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 (see note 10).

Included in investments are charitable trusts and gift annuities amounting to $4,787,094 and $3,560,956 at June 30, 2006 and 2005, respectively. In addition, included in plant assets is a building of $2,549,115, which is also subject to a gift annuity agreement.

The components of investment return for the years ended June 30, 2006 and 2005 are as follows:

		2006	2005
Real estate rental income	$	18,511,300	18,016,348
Interest and dividends		1,795,071	2,062,270
Unrealized gains on investments		196,993,629	50,470,625
Realized gains on investments		3,703,514	3,507,235
Investment expenses		(355,415)	(359,608)
Investment return		220,648,099	73,696,870
Less amounts classified as:			
Temporarily restricted		1,355,506	1,584,192
Amount utilized for operations		19,257,287	18,907,578
Excess of investment return over amount utilized for operations and classified as unrestricted	$	200,035,306	53,205,100

(3) Contributions Receivable

Contributions receivable at June 30, 2006 are scheduled to be collected as follows:

		2006	2005
Year ending June 30:			
Less than one year	$	14,350,172	6,886,530
One year to five years		6,085,241	9,377,900
		20,435,413	16,264,430
Adjustment to reflect contributions receivable at discount value (4% – 8.25%)		(713,141)	(672,826)
Less allowance for uncollectible contributions receivable		(200,000)	(100,000)
	$	19,522,272	15,491,604

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, to The Cooper Union for fiscal year 2007. 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.*

(Continued)

(4) Plant Assets

Plant assets consist of the following at June 30, 2006 and 2005:

		2006	2005
Land and land improvements	$	2,655,626	1,593,725
Buildings and building improvements		65,840,145	63,050,202
Equipment		25,844,291	25,001,583
Leasehold improvements		3,001,630	3,001,630
Construction in progress		12,920,917	6,805,571
Other plant assets		1,067,672	1,067,672
		111,330,281	100,520,383
Accumulated depreciation and amortization		(61,934,595)	(56,512,211)
	$	49,395,686	44,008,172

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 $12.9 million is included in construction in progress. The expected cost of the facilities renewal program is approximately $156 million and will be financed by gifts raised during The Cooper Union's Capital Campaign currently in progress as well as new debt (see note 10).

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

The Cooper Union completed a major renovation of the exterior of its Foundation Building, one of the College's main academic and administrative sites. The cost of the renovations was substantially financed by a bond issue of the Dormitory Authority of the State of New York (DASNY) Insured Revenue Bonds, Series 1999 (Series 1999 Bonds) maturing serially to July 1, 2029. The original principal amount of the bonds was $11,500,000 and they bear interest rates ranging from 4.5% to 6.25%, payable semiannually. At June 30, 2006 and 2005, the principal balance outstanding on the Series 1999 Bonds was $10,500,000 and $10,705,000, respectively.

As a result of issuing the Series 1999 Bonds, The Cooper Union incurred bond issuance costs of $544,274 and a net bond premium of $152,495. These amounts have been deferred and are being amortized over the life of the related debt. The unamortized net bond premium was $118,094 and $123,228 as of June 30, 2006 and 2005, respectively.

During 1993, The Cooper Union completed construction of a facility, 84.5% of which provides student residence space, with the remainder (15.5%) intended for retail use. Construction of the student residence portion of the building was financed by a bond issue of DASNY (Series 1990 Bonds) maturing serially to July 1, 2020. The original principal amount of the bonds was $17,975,000 and they bore interest at rates ranging from 5.7% to 7.2%, payable semiannually. On November 1, 1996, The Cooper Union replaced these bonds with $18,825,000 of DASNY Insured Revenue Bonds, Series 1996 (Series 1996 Bonds) which mature in 2020 and bear interest at rates ranging from 3.6% to 5.375%. The proceeds from the issuance of the Series 1996 Bonds were deposited with the trustee of the Series Bonds and were used to acquire direct obligations of the U.S. Government; the principal of and the interest on such obligations will be sufficient to (a) pay the interest on and the redemption price of the Series 1990 Bonds when they are due; (b) make required deposits to the debt service fund, debt service reserve fund, and buildings and equipment reserve fund; and (c) pay the cost of issuing the Series 1996 Bonds. The Series 1990 Bonds were paid off as of July 1, 2001. At June 30, 2006 and 2005, the principal balance outstanding on the Series 1996 Bonds was $14,225,000 and $14,835,000, 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, 2006 and 2005 was $288,696 and $308,202, respectively.

Interest expense on the Series 1999 and 1996 bond issues in 2006 and 2005 was $1,394,363 and $1,436,126, respectively. 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 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 Series 1999 Bonds. The College is subject to certain restrictions regarding the issuance of any additional long-term debt. As of June 30, 2006, The Cooper Union was in compliance with this requirement.

The Cooper Union is required to maintain a minimum debt service reserve fund on the Series 1996 Bonds equal to the lesser of (1) the principal and interest on the bonds coming due within the next year, or (2) 10% of the net proceeds on the sale of the bonds. DASNY also requires The Cooper Union to maintain a building and equipment reserve fund with a funding requirement of $728,500. The debt service reserve fund of $2,521,782 and the building and equipment reserve fund of $927,679 are included in funds held by trustee on the Series 1996 Bonds at June 30, 2006. The debt service reserve fund of $543,248 is included in the funds held by trustee on the Series 1999 Bonds at June 30, 2006.

The projected debt service for the next five years is as follows (see note 10).

		Principal	Interest	Total
Year ending June 30:				
2007	$	860,000	1,349,750	2,209,750
2008		905,000	1,302,800	2,207,800
2009		950,000	1,254,406	2,204,406
2010		1,000,000	1,202,281	2,202,281
2011		1,050,000	1,146,494	2,196,494

(6) Net Assets

Temporarily restricted net assets at June 30, 2006 and 2005 are available for the following purposes or periods:

	2006	2005
Purpose restrictions:		
Academic support	$ 4,356,283	4,140,937
Student aid	4,248,232	4,735,276
Instruction	598,774	438,115
New academic building	32,103,931	23,457,953
Other	2,896,081	2,929,220
Time restrictions	4,559,217	5,247,830
Total temporarily restricted net assets	$ 48,762,518	40,949,331

Permanently restricted net assets at June 30, 2006 and 2005 are restricted to investments in perpetuity, the income from which is expendable to support:

	2006	2005
Specific purposes of The Cooper Union, principally instructional and student financial aid	$ 41,617,883	36,262,622
General activities of The Cooper Union	16,523,037	16,507,362
Total permanently restricted net assets	$ 58,140,920	52,769,984

During 2006 and 2005, 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:

	2006	2005
Purpose restrictions accomplished:		
Academic support	$ 391,445	764,659
Student aid	338,124	390,520
Instruction	29,695	138,187
Public service	466,235	316,718
Time restrictions	712,058	2,096,812
	$ 1,937,557	3,706,896

(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, 2006 and 2005 amounted to approximately $1,419,650 and $1,322,000, 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, 2006 and 2005:

		2006	2005
Change in benefit obligation:			
Benefit obligation at beginning of year	$	13,641,624	9,040,160
Service cost		509,711	430,151
Interest cost		714,509	682,429
Actuarial loss (gain)		155,813	(96,650)
Actuarial assumptions		(1,849,466)	3,891,699
Benefits paid		(362,194)	(306,165)
Benefit obligation at end of year	$	12,809,997	13,641,624
Change in plan assets:			
Fair value of plan assets at beginning of year	$	—	—
Employer contribution		362,194	306,165
Benefit paid		(362,194)	(306,165)
Fair value of plan assets at end of year	$	—	—
Funded status	$	(12,809,997)	(13,641,624)
Unrecognized net loss		2,054,719	4,051,461
Net amount recognized in the consolidated balance sheets	$	(10,755,278)	(9,590,163)
Amount recognized in the consolidated balance sheets consists of:			
Accrued benefits cost	$	9,590,163	8,649,195
Net periodic benefit cost		1,527,309	1,247,133
Employer contribution		(362,194)	(306,165)
Net amount recognized	$	10,755,278	9,590,163
Weighted average discount rate assumptions as of June 30		6.25%	5.25%

(Continued)

For measurement purposes, an 11.5% annual rate of increase in the per capita cost of covered health care benefits was assumed for fiscal year 2006. The rate was assumed to decrease by 1.5% per year to an ultimate rate of 4.25% for 2011 and remain at that level thereafter.

		2006	2005
Components of net periodic benefit cost:			
Service cost	$	509,711	430,151
Interest cost		714,509	682,429
Recognized actuarial gain		303,089	134,553
Net periodic benefit cost	$	1,527,309	1,247,133
Benefit cost weighted average discount rate assumptions for the years ended June 30		5.25%	6.25%

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	$	218,725	(174,656)
Effect on postretirement benefit obligation		2,034,989	(1,660,192)

The projected premium payments in each fiscal year from 2007 through 2016 are:

Year ending June 30:		
2007	$	437,208
2008		489,868
2009		564,422
2010		605,607
2011		672,643
2012 through 2016		4,214,731
	$	6,984,479

(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 (see note 10). 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 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 (see note 10).
- An amount equivalent to the taxes payable on the real property were it subject to taxation. Such amount is based on New York City's assessment of the value of the land and building subject to the existing tax rate.

In December 2002, The Cooper Union entered into two related operating lease agreements, which expire on December 2101, for the land located at 26 Astor Place in New York City. Under the terms of both leases, the tenant will finance construction of a new building, ownership to be held by The Cooper Union. Under the terms of the lease agreements, annual rental income from the real property includes:

- Combined first year rent of $11,000,000 received by The Cooper Union at June 30, 2004. The balance of $10,663,265 and $10,775,510 is included in deferred revenue in the accompanying consolidated balance sheets at June 30, 2006 and 2005, respectively.
- An amount of basic annual rent of $1 for the term of the lease.
- An amount equivalent to the taxes payable on the real property were it subject to taxation. Such amount is based on New York City's assessment of the value of the land and building subject to the existing tax rate.
- An amount equivalent to 50% of the sales and compensation use taxes payable for the tenant'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 $1,064,816 and $1,043,445 in 2006 and 2005, respectively. Sublease income for this lease was $735,474 and $704,986 in 2006 and 2005, respectively. The following is a schedule by year of future minimum rental payments and sublease income, including future rent escalations, as of June 30, 2006, for the Third Avenue site:

		Minimum rental payments	Sublease income
Year ending June 30:			
2007	$	755,000	617,000
2008		770,000	644,000
2009		785,000	573,000
2010		800,000	608,000
2011		815,000	644,000
2012 and thereafter		27,573,333	13,339,000

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 from these leases was approximately $306,000 and $311,000 in 2006 and 2005, respectively. The following is a schedule of future minimum rentals on these noncancelable operating leases:

		Minimum rental payments
Year ending June 30:		
2007	$	278,000
2008		282,000
2009		285,000
2010		194,000
2011		184,000
2012 and thereafter		477,000

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 2012. Space at 30 Cooper Square is subleased to a tenant under an operating lease which expires in 2012. Rent expense for this lease was $594,213 and $528,960 in 2006 and 2005, respectively. Sublease income from this lease was $169,063 and $46,277 in 2006 and 2005, respectively. The following is a schedule by year of future minimum rental payments and sublease income, excluding future rent escalations, at June 30, 2006:

	Minimum rental payments	Sublease income
Year ending June 30:		
2007	$ 529,000	171,000
2008	668,160	128,000
2009	668,160	119,000
2010	668,160	119,000
2011	668,160	119,000
2012	668,160	119,000

(9) Asset Retirement Obligations

In March 2005, the Financial Accounting Standards Board issued Interpretation No. 47 (FIN 47), *Accounting for Conditional Asset Retirement Obligations*. Under FIN 47, organizations must accrue for costs related to legal obligations to perform certain activities in connection with the retirement, disposal, or abandonment of assets. In addition, the estimate must be recorded as a liability and as an increase to the asset. The capitalized portion is depreciated over the remaining useful life of the asset.

Management has identified asbestos abatement as a conditional asset retirement obligation and estimated that the cost of remediation is $2,579,800 at present value. Management believes the most reasonable remaining useful life should be consistent with its depreciation policy. Accordingly, the entire amount of $2,579,800 was reflected as a cumulative effect of change in accounting principle in the consolidated statements of changes in unrestricted net assets.

(10) Subsequent Events

Metropolitan Life Insurance Company (MetLife) Loan

On October 6, 2006, The Cooper Union entered into a $175,000,000 non-recourse 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 Cooper Union's fee interest in the Chrysler property and an assignment of all of The Cooper Union's rights to the payment of basic rent, tax equivalency payments, and other sums due under the terms of the operating lease.

Obligations to Dormitory Authority of the State of New York

As part of the closing of the MetLife loan above, a portion of the loan proceeds was used to retire the Series 1996 and 1999 Bonds outstanding with DASNY in the amount of $24,554,398.

Modification of the Chrysler Operating Lease

Contemporaneous with the execution of the MetLife loan, The Cooper Union entered into a modification agreement for the lease disclosed in note 8. 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; January 1, 2038 to December 31, 2047, $55,000,000. As of January 1, 2048 and each ten–year anniversary thereafter, the basic rent shall be adjusted by agreement between the landlord and 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.