



**THE RESEARCH FOUNDATION OF
THE CITY UNIVERSITY OF NEW YORK**

Consolidated Financial Statements

June 30, 2007 and 2006

(With Independent Auditors' Report Thereon)



KPMG LLP
345 Park Avenue
New York, NY 10154

Independent Auditors' Report

The Board of Directors
Research Foundation of
The City University of New York:

We have audited the accompanying consolidated balance sheets of the Research Foundation of The City University of New York (the Foundation) as of June 30, 2007 and 2006, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of 230 West 41st Street LLC, a consolidated related entity, which statements reflect total assets constituting 33.4% and 33.2% of the consolidated totals as of June 30, 2007 and 2006, respectively, and total revenues constituting 2.4% for the years then ended. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for 230 West 41st Street LLC, is based solely on the report of the other auditors.

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 Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Research Foundation of The City University of New York as of June 30, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

As discussed in note 4 to the consolidated financial statements, the Foundation adopted the provisions of Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, as of June 30, 2007.

KPMG LLP

October 22, 2007

**THE RESEARCH FOUNDATION OF
THE CITY UNIVERSITY OF NEW YORK**

Consolidated Balance Sheets

June 30, 2007 and 2006

Assets	2007					2006
	Foundation	230 West 41st Street LLC	Grants Plus	Eliminations	Total	
Cash and cash equivalents	\$ 68,586,874	1,791,583	66,475	—	70,444,932	65,264,205
Restricted cash (notes 2(1), 10, 11, and 14)	457,663	6,052,511	—	—	6,510,174	7,634,609
Grants, contracts, and accounts receivable (net of allowance of \$3,100,000 in 2007 and \$2,500,000 in 2006)	37,934,044	—	17,551	(400,453)	37,551,142	42,380,923
Loans receivable (note 14)	2,011,247	—	25,135	—	2,036,382	5,330,242
Rent receivable (net of allowance of \$0 in 2007 and \$64,613 in 2006)	—	272,329	—	—	272,329	186,658
Prepaid expenses and other assets	197,582	530,874	—	—	728,456	823,535
Investments, at fair value (note 3)	45,943,704	—	—	—	45,943,704	45,015,446
Investment in Grants Plus	39,816	—	—	(39,816)	—	—
Investment in 230 West 41st Street LLC	11,006,974	—	—	(11,006,974)	—	—
Deferred rent receivable	—	3,600,509	—	(737,050)	2,863,459	2,377,235
Value of in-place leases (net of accumulated amortization of \$3,972,581 in 2007 and \$4,033,617 in 2006) (note 9)	—	2,979,674	—	—	2,979,674	3,923,692
Above market leases (net of accumulated amortization of \$1,578,959 in 2007 and \$1,417,821 in 2006) (note 9)	—	1,999,773	—	—	1,999,773	2,524,466
Deferred financing costs (net of accumulated amortization of \$671,935 in 2007 and \$418,672 in 2006)	—	1,790,499	—	—	1,790,499	1,841,951
Fixed assets:						
Rental property, net (note 9)	—	58,529,716	—	—	58,529,716	59,514,014
Furniture, fixtures, and equipment (net of accumulated depreciation of \$1,781,240 in 2007 and \$1,376,364 in 2006)	1,467,435	—	—	—	1,467,435	1,745,146
Leasehold improvements (net of accumulated amortization of \$74,208 in 2007 and \$38,128 in 2006)	392,671	—	—	—	392,671	385,603
Total assets	<u>\$ 168,038,010</u>	<u>77,547,468</u>	<u>109,161</u>	<u>(12,184,293)</u>	<u>233,510,346</u>	<u>238,947,725</u>
Liabilities and Net Assets (Deficit)						
Accounts payable and accrued expenses	\$ 26,764,008	966,656	69,345	(55,000)	27,745,009	32,924,460
Deferred revenue (note 5)	56,151,776	—	—	—	56,151,776	62,822,758
Grants payable to CUNY (note 8)	2,117,372	—	—	—	2,117,372	2,459,277
Revolving credit loan payable (note 14)	2,000,000	—	—	—	2,000,000	7,016,500
Deposits held for LLC	468,910	—	—	—	468,910	—
Prepaid rent	—	66,478	—	—	66,478	52,014
Deferred rent payable	737,050	—	—	(737,050)	—	—
Security deposits payable	—	658,549	—	—	658,549	595,380
Distribution payable	—	345,453	—	(345,453)	—	—
Deposits held in custody for CUNY colleges	61,377,260	—	—	—	61,377,260	51,666,970
Below market leases (net of accumulated amortization of \$187,381 in 2007 and \$276,795 in 2006) (note 9)	—	148,357	—	—	148,357	182,743
Deposits held in custody for tenant (note 11)	—	2,920,461	—	—	2,920,461	2,142,706
Postretirement benefits payable (note 4)	30,706,071	—	—	—	30,706,071	17,915,066
Mortgage loan payable (note 10)	—	61,434,540	—	—	61,434,540	62,000,000
Total liabilities	<u>180,322,447</u>	<u>66,540,494</u>	<u>69,345</u>	<u>(1,137,503)</u>	<u>245,794,783</u>	<u>239,777,874</u>
Net assets (deficit):						
Unrestricted:						
Postretirement benefits	(30,706,068)	—	—	—	(30,706,068)	(17,915,066)
230 West 41st Street LLC	11,006,974	11,006,974	—	(11,006,974)	11,006,974	11,245,432
Grants Plus	39,816	—	39,816	(39,816)	39,816	112,735
Other	7,374,841	—	—	—	7,374,841	5,726,750
Total net assets (deficit)	<u>(12,284,437)</u>	<u>11,006,974</u>	<u>39,816</u>	<u>(11,046,790)</u>	<u>(12,284,437)</u>	<u>(830,149)</u>
Total liabilities and net assets (deficit)	<u>\$ 168,038,010</u>	<u>77,547,468</u>	<u>109,161</u>	<u>(12,184,293)</u>	<u>233,510,346</u>	<u>238,947,725</u>

See accompanying notes to consolidated financial statements.

**THE RESEARCH FOUNDATION OF
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Consolidated Statements of Activities

Years ended June 30, 2007 and 2006

	2007					2006
	Foundation	230 West 41st Street LLC	Grants Plus	Eliminations	Total	
Grants and contracts administered for others:						
Revenue:						
Governmental	\$ 238,434,854	—	—	—	238,434,854	237,253,445
Private	81,872,287	—	247,561	—	82,119,848	78,683,839
Total grants and contracts revenue	<u>320,307,141</u>	<u>—</u>	<u>247,561</u>	<u>—</u>	<u>320,554,702</u>	<u>315,937,284</u>
Expenses:						
Research	(95,342,681)	—	—	—	(95,342,681)	(90,519,181)
Training	(119,269,200)	—	(224,897)	—	(119,494,097)	(127,729,942)
Academic development	(70,934,991)	—	—	—	(70,934,991)	(66,372,249)
Student services	(26,030,684)	—	—	—	(26,030,684)	(21,899,935)
Other	(8,729,585)	—	(22,664)	—	(8,752,249)	(9,415,977)
Total grants and contracts expenses	<u>(320,307,141)</u>	<u>—</u>	<u>(247,561)</u>	<u>—</u>	<u>(320,554,702)</u>	<u>(315,937,284)</u>
Administrative services:						
Revenue:						
Administrative fees	21,027,895	—	17,226	(400,453)	20,644,668	20,510,816
Investment return (note 3)	5,490,303	—	—	—	5,490,303	3,798,930
Rental income (note 6)	—	11,053,996	—	(2,534,954)	8,519,042	8,255,924
Donated services	—	—	398,754	(398,754)	—	—
Other	93,133	—	—	—	93,133	167,716
Total administrative revenue	<u>26,611,331</u>	<u>11,053,996</u>	<u>415,980</u>	<u>(3,334,161)</u>	<u>34,747,146</u>	<u>32,733,386</u>
Expenses:						
Management and general	(19,348,511)	—	—	2,534,954	(16,813,557)	(15,319,067)
Postretirement (cost) credit (note 4)	989,218	—	—	—	989,218	(22,287)
Grants to CUNY for central research initiatives (note 8)	(3,500,000)	—	—	—	(3,500,000)	(3,600,000)
Investment return allocated to individual colleges	(1,674,329)	—	—	—	(1,674,329)	(1,658,167)
Operating expenses of LLC	—	(3,177,554)	—	—	(3,177,554)	(3,343,094)
Interest expense	—	(4,065,575)	—	—	(4,065,575)	(4,080,636)
Real estate taxes (note 15)	—	(567,387)	—	—	(567,387)	(522,424)
Depreciation and amortization	(440,397)	(2,816,824)	—	—	(3,257,221)	(3,538,765)
Loss on lease termination of LLC above market leases (note 12)	—	(105,214)	—	—	(105,214)	(545,381)
Donated expenses (note 11)	—	—	(398,754)	398,754	—	—
Other	—	(214,447)	(90,145)	55,000	(249,592)	(416,528)
Total administrative expenses	<u>(23,974,019)</u>	<u>(10,947,001)</u>	<u>(488,899)</u>	<u>2,988,708</u>	<u>(32,421,211)</u>	<u>(33,046,349)</u>
Excess (deficiency) of revenue over expenses before other changes	2,637,312	106,995	(72,919)	(345,453)	2,325,935	(312,963)
Other changes:						
Change in Foundation investment in 230 West 41st Street LLC	(238,458)	—	—	238,458	—	—
Change in Foundation investment in Grants Plus	(72,919)	—	—	72,919	—	—
230 west 41st Street LLC distribution to Sole Member	—	(345,453)	—	345,453	—	—
Effect of adoption of SFAS No. 158 (note 4)	(13,780,223)	—	—	—	(13,780,223)	—
(Decrease) increase in net assets	<u>(11,454,288)</u>	<u>(238,458)</u>	<u>(72,919)</u>	<u>311,377</u>	<u>(11,454,288)</u>	<u>(312,963)</u>
Net assets (deficit) at beginning of year	<u>(830,149)</u>	<u>11,245,432</u>	<u>112,735</u>	<u>(11,358,167)</u>	<u>(830,149)</u>	<u>(517,186)</u>
Net assets (deficit) at end of year	<u>\$ (12,284,437)</u>	<u>11,006,974</u>	<u>39,816</u>	<u>(11,046,790)</u>	<u>(12,284,437)</u>	<u>(830,149)</u>

See accompanying notes to consolidated financial statements.

**THE RESEARCH FOUNDATION OF
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Consolidated Statements of Cash Flows

Years ended June 30, 2007 and 2006

	2007	2006
Cash flows from operating activities:		
Decrease in net assets	\$ (11,454,288)	(312,963)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:		
Depreciation and amortization	2,337,072	2,023,195
Disposal of fixed assets	376	—
Amortization of deferred financing costs	253,263	232,091
Amortization of in-place leases	856,352	1,472,946
Amortization of above and below market leases	472,759	554,794
Loss on early termination of tenant leases	105,214	545,381
Effect of adoption of SFAS No. 158	13,780,223	—
Net depreciation (appreciation) in fair value of investments	166,755	(149,681)
Changes in assets and liabilities:		
Grants, contracts, accounts, and rents receivable	4,744,110	(4,381,251)
Prepaid expenses and other assets	95,079	58,853
Deferred rent receivable	(486,224)	(679,574)
Accounts payable and accrued expenses, prepaid rent, and security deposits payable	(5,101,818)	4,148,596
Deferred revenue	(6,670,982)	(1,518,306)
Deposits held in custody for tenant	777,755	2,142,706
Grants payable to CUNY	(341,905)	(585,759)
Postretirement benefits payable	(989,218)	22,285
Deposits held in custody for CUNY colleges	9,710,290	1,752,943
Net cash provided by operating activities	8,254,813	5,326,256
Cash flows from investing activities:		
Decrease (increase) in loan receivables	3,293,860	(5,330,242)
Purchases of fixed assets	(170,131)	(539,196)
Expenditures for rental property improvements	(912,376)	(9,584,067)
Change in restricted cash	1,124,435	219,732
Deposits held for LLC	468,910	—
Payment of deferred leasing costs	(201,811)	(322,068)
Purchases of investments	(140,980,587)	(98,608,276)
Sales and maturity of investments	139,885,574	93,937,158
Net cash provided by (used in) investing activities	2,507,874	(20,226,959)
Cash flows from financing activities:		
(Payments) borrowings under revolving credit loan	(5,016,500)	7,016,500
Payments under mortgage loan	(565,460)	—
Net cash (used in) provided by financing activities	(5,581,960)	7,016,500
Net increase (decrease) in cash and cash equivalents	5,180,727	(7,884,203)
Cash and cash equivalents at beginning of year	65,264,205	73,148,408
Cash and cash equivalents at end of year	\$ 70,444,932	65,264,205
Supplemental cash flow disclosure:		
Cash paid for interest	\$ 3,878,120	3,891,103

See accompanying notes to consolidated financial statements.

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THE CITY UNIVERSITY OF NEW YORK**

Notes to Consolidated Financial Statements

June 30, 2007 and 2006

(1) Organization and Purpose

The Research Foundation of The City University of New York (the Foundation) was chartered in 1963 to further the purposes of The City University of New York (the University or CUNY) and other not-for-profit organizations, through the pursuit, acquisition, and administration of grants and gifts. The Foundation is a separate legal entity and is exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code.

230 West 41st Street LLC (the LLC) was established on May 7, 2004 as a Delaware limited liability company and organized pursuant to the Limited Liability Operating Agreement (the Agreement) dated July 14, 2004 between the Foundation (the Sole Member with a 100% interest in the LLC) and the LLC. The LLC was formed to acquire, own, and operate an approximately 300,000-square-foot office building located at 230 West 41st Street in New York, New York (the Property) (note 10).

Single-member limited liability companies organized as provided under the Agreement do not exist for federal, state, and local income tax purposes and, accordingly, income taxes have not been provided for in the accompanying consolidated financial statements.

Grants Plus Inc. (Grants Plus) was created by the Foundation and incorporated in May 2004 to provide post-award administration of sponsored programs for not-for-profit organizations other than the Foundation or CUNY. Grants Plus is a separate legal entity exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying financial statements, which consolidate the Foundation, the LLC, and Grants Plus (collectively, the Organization), are prepared on the accrual basis of accounting in accordance with standards established by the Financial Accounting Standards Board (FASB) for external financial reporting by not-for-profit organizations. All inter-company accounts and transactions have been eliminated in consolidation. The consolidated financial statements present balances and transactions according to the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed restrictions. In addition, grants and contracts for the performance of certain services or functions are reported in the unrestricted net asset category.

Temporarily restricted net assets – Net assets subject to donor-imposed restrictions that will be met either by actions of the Organization or the passage of time. The Organization had no temporarily restricted net assets at June 30, 2007 and 2006.

Permanently restricted net assets – Net assets subject to donor-imposed restrictions stipulating that funds be maintained permanently by the Organization, but permit the Organization to expend part or all of the income derived therefrom. The Organization had no permanently restricted net assets at June 30, 2007 and 2006.

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Revenues and gains and losses on investments and other assets are reported as changes in unrestricted net assets unless limited by explicit donor-imposed restrictions or by law. Expenses are reported as decreases in unrestricted net assets.

(b) *Grants and Contracts*

Revenue from grants and contracts, awarded to and accepted by the Foundation, Grants Plus, and various units of the University, as joint grantees, primarily for research, training, and academic development programs, is recognized as earned, that is, as the related costs are incurred under the grant or contract agreements.

Facilities and administrative costs recovered on grants and contracts are recorded at rates established by the Foundation with its federal cognizant agency, or predetermined by the non-Federal sponsor. Facilities and administrative cost rates for government grants and contracts are subject to audit, and subsequent final settlements, if any, are recorded as current period adjustments. Management believes the impact of any future settlements to be immaterial to the consolidated financial statements.

(c) *Use of Estimates*

The preparation of 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 disclosures of contingencies at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(d) *Cash Equivalents*

Highly liquid debt instruments with maturities at date of purchase of three months or less are classified as cash equivalents, except for those short-term investments that are managed by an external investment manager for long-term investment purposes.

(e) *Investments*

Investments are reported at fair value based upon quoted market prices. Realized and unrealized gains and losses on investments are reflected in the accompanying consolidated statements of activities.

(f) *Revenue Recognition*

In accordance with Statement of Financial Accounting Standards No. 13, *Accounting for Leases*, base rent income relating to the LLC is recognized on a straight-line basis, rather than in accordance with lease payment schedules, for purposes of recognizing a constant annual rental income. Scheduled base rent increases and the effects of rent abatements are spread evenly over the terms of the respective leases. Differences between the straight-line rents recorded and the amounts actually received are included in deferred rent receivable. Allowances are provided for uncollectible amounts. Escalation revenue, percentage rent, and other income are recorded as earned on the accrual basis of

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accounting. The impact of the straight-line adjustment increased rental income by \$485,580 in 2007 and \$679,574 in 2006.

(g) Rental Property

Building and building improvements of the LLC are carried at cost and are depreciated using the straight-line method, over their estimated useful lives of 39 years or the life of the improvement, whichever is shorter. Significant renovations or improvements, which extend the economic life of the property, are capitalized. Expenditures for maintenance and repairs are expensed as incurred.

The LLC follows the provisions of SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (the Statement), which updates and clarifies the accounting and reporting for impairment of assets held in use and to be disposed of. The Statement, among other things, will require the LLC to classify the operations and cash flows of properties to be disposed of as discontinued operations.

The LLC reviews the carrying amount of the Property for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If such review indicates that the asset is impaired, given that the carrying amount of an asset exceeds the sum of its expected future cash flows, on an undiscounted basis, the asset's carrying amount is written down to fair value. No impairment adjustments have been made as a result of this review process during 2007 or 2006.

(h) Fixed Assets

Furniture, fixtures, and equipment and leasehold improvements are stated at cost. Depreciation of furniture, fixtures, and equipment is computed on a straight-line basis, over the estimated useful lives of the assets, ranging from five to seven years. Amortization of leasehold improvements is computed on a straight-line basis, half-year convention, over the estimated useful lives of the assets, not to exceed the remaining life of the lease.

Equipment purchased by the Foundation on behalf of various units of the University from grant and contract funds is to be used in the project for which it was purchased and is not included in the Foundation's fixed assets on the accompanying consolidated balance sheets.

(i) Purchase Accounting for Acquisition of Real Estate

The fair value of the LLC's acquired rental property is allocated to the acquired tangible assets, consisting of land, building, and identified intangible assets and liabilities, consisting of the value of above-market and below-market leases, other value of in-place leases, and value of tenant relationships, based in each case on their fair values.

The fair value of the tangible assets of an acquired property (which includes land and building) is determined by valuing the property as if it were vacant, and the "as-if-vacant" value is then allocated to land and building based on the LLC's determination of relative fair values of these assets. Factors considered by the LLC in performing these analyses include an estimate of carrying costs during the expected lease-up periods considering current market conditions and costs to execute similar leases.

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In estimating carrying costs, the LLC includes real estate taxes, insurance, and other operating expenses and estimates of lost rental revenue during the expected lease-up periods based on current market demand. The LLC also estimates costs to execute similar leases including leasing commissions.

In allocating the fair value of the identified intangible assets and liabilities of an acquired property, above-market and below-market in-place lease values are recorded based on the difference between the current in-place lease rent and the LLC's estimate of current market rents. Below-market lease intangibles are recorded as part of liabilities, and amortized into rental revenues over the noncancelable period of the respective leases. Above-market lease intangibles are recorded as part of assets and are amortized as a direct charge against rental revenues over the noncancelable periods of the respective leases.

The aggregate value of other acquired intangible assets, consisting of in-place leases and tenant relationships, is measured by the excess of (i) the purchase price paid for the property over (ii) the estimated fair value of the property as if vacant, determined as set forth above. This aggregate value is allocated between in-place lease values and tenant relationships based on management's evaluation of the specific characteristics of each tenant's lease. The value of in-place leases is amortized to expense over the remaining noncancelable periods of the respective leases.

The weighted average amortization period for value of in-place leases, above market leases and below market leases is approximately five years.

(j) *Deferred Leasing Costs*

Deferred leasing costs, included in deferred costs, represent costs incurred in the successful negotiation of leases, including legal and brokerage fees paid to outside brokers. These costs are amortized on a straight-line basis over the terms of the related tenant lease.

(k) *Deferred Financing Costs*

Deferred financing costs, included in deferred costs, were incurred in obtaining long-term financing for the LLC. Such costs are being amortized on a straight-line basis over the term of the related debt and are recorded as a component of interest expense.

(l) *Restricted Cash*

Restricted cash of the LLC includes amounts to be funded for tenant improvements, replacements and repairs, and leasing commissions as required by the LLC's loan agreement. Restricted cash also includes tenant security deposits held in accordance with tenant leases and other tenant deposits held for improvements to leased space. Restricted cash relating to the LLC's loan agreement and tenant security deposits was \$3,132,050 and \$3,760,509 at June 30, 2007 and 2006, respectively. Also, included in restricted cash of the LLC were advances from CUNY of \$2,920,461 and \$2,142,706 at June 30, 2007 and 2006, respectively.

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(m) Deposits Held in Custody for CUNY Colleges

Deposits held in custody for CUNY Colleges reflect those resources held on behalf of the individual colleges of the University. These deposits are credited with facilities and administrative cost, released time, summer salary recoveries and interest income for the respective colleges.

Released time recoveries represent personal service costs for individuals on the various colleges' payrolls who report effort under grants or contracts. When colleges replace an individual providing time and effort to sponsored projects, the Foundation processes payroll for these individuals or the school will process the payroll and the Foundation will reimburse the school. The reimbursement of personal service costs are reflected as deductions of deposits held in custody for CUNY.

Facilities and administrative costs are considered recoveries of the specific colleges and, accordingly, are credited to deposits held in custody for CUNY Colleges.

(3) Investments

Investments held by the Foundation consist of the following at June 30, 2007 and 2006:

	2007		2006	
	Fair value	Cost	Fair value	Cost
U.S. Money market	\$ 5,916,149	5,916,149	2,579,758	2,579,758
U.S. Treasury bills	24,156,730	23,973,695	17,691,688	17,577,888
U.S. Government agency obligations	15,870,825	15,826,183	24,744,000	24,463,368
Total	<u>\$ 45,943,704</u>	<u>45,716,027</u>	<u>45,015,446</u>	<u>44,621,014</u>

Components of investment return, including interest on cash and cash equivalents, are as follows for the years ended June 30, 2007 and 2006:

	2007	2006
Interest income	\$ 5,657,058	3,649,249
Net (depreciation) appreciation in fair value of investments	(166,755)	149,681
Total	<u>\$ 5,490,303</u>	<u>3,798,930</u>

(4) Pension and Other Retirement Benefits

Eligible employees of the Foundation and certain project personnel are covered under a defined contribution pension plan established with Teachers Insurance and Annuity Association (TIAA). The Foundation's contribution to the pension plan is based on specified percentages, ranging from 8% to 14%, of each employee's annual salary. Total pension expense for the years ended June 30, 2007 and 2006 was approximately \$7,915,000 and \$7,683,000, respectively. There are no unfunded past service costs.

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In addition to providing pension benefits, the Foundation also provides postemployment benefits, including salary continuance, to certain employees. The cost of these benefits is accrued over the employees' years of service. Postemployment benefits liability included in accounts payable and accrued expenses was approximately \$1,095,900 and \$875,000 in 2007 and 2006, respectively.

The Foundation also provides certain healthcare benefits to retired employees (including eligible dependents) who have a combination of age and years of service equal to 70 with a minimum age of 55 and at least ten years of continuous service.

The Foundation accounts for postretirement medical and other nonpension benefits provided to retirees on an accrual basis during the period of their employment.

The Foundation charges grants and contracts, as well as the administrative services department for postretirement benefit costs through the application of a fringe benefit rate, an element of which is based upon the estimated amount of such costs. In addition, a charge or credit is recognized in administrative services expenses for the difference between the actuarially determined net periodic postretirement benefit cost and the amount funded (claims paid and contributions to the trust).

Effective June 30, 2007, the Foundation adopted Statement of Financial Accounting Standards (SFAS) No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* (Statement 158). Information with respect to the plan is as follows:

	<u>2007</u>	<u>2006</u>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 60,182,740	55,714,067
Service cost	4,329,858	4,629,685
Interest cost	3,735,984	3,195,106
Plan participants' contributions	—	—
Actuarial loss (gain)	2,423,391	(1,357,564)
Benefits paid and administrative expenses	(1,931,685)	(1,998,554)
Benefit obligation at end of year	<u>\$ 68,740,288</u>	<u>60,182,740</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ 28,047,036	22,481,662
Actual return on plan assets	3,987,181	365,374
Employer contributions	7,931,685	7,198,554
Benefits paid and administrative expenses	(1,931,685)	(1,998,554)
Fair value of plan assets at end of year	<u>38,034,217</u>	<u>28,047,036</u>
Funded status	(30,706,071)	(32,135,704)
Unrecognized transition obligation	—	8,937,463
Unrecognized prior service credit	—	(6,485,807)
Unrecognized loss	—	11,768,982
Postretirement benefits payable	<u>\$ (30,706,071)</u>	<u>(17,915,066)</u>

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	2007	2006
Weighted average assumptions as of June 30:		
Discount rate	6.35%	6.15%
Expected return on plan assets	5.50	5.50
	2007	2006
Components of net periodic cost:		
Service cost	\$ 4,329,858	4,629,688
Interest cost	3,735,984	3,195,106
Expected return on plan assets	(1,707,587)	(1,379,491)
Amortization of transition obligation	757,413	757,413
Recognized prior service cost	(779,041)	(779,041)
Recognized net loss	605,837	797,167
Net periodic benefit cost	\$ 6,942,464	7,220,842
Weighted average assumptions as of June 30:		
Discount rate	6.15%	5.25%
Expected return on plan assets	5.50	5.50

For measurement purposes, a healthcare costs, other than Medicare Part B, were assumed to increase 6.5% and 7% for the years ended 2007 and 2006, respectively, and to decrease 0.5% per year until 2010 and remain at 5% thereafter. Medicare Part B costs were assumed to increase 4% annually.

Assumed health care trend rates have a significant effect on the amounts reported for postretirement plans. A one-percentage-point change in assumed healthcare cost trend rates would have the following effects:

	One-percentage- point increase		One-percentage- point decrease	
	2007	2006	2007	2006
Effect on total of service and interest cost components	\$ 1,528,079	1,583,730	(1,240,028)	(1,272,792)
Effect on postretirement benefit obligation	11,077,127	9,103,034	(9,161,724)	(8,436,682)

For the years ended June 30, 2007 and 2006, the Foundation made contributions to the plan of \$6,000,000 and \$5,200,000, respectively. In addition, for the years ended June 30, 2007 and 2006, the Foundation paid claims of approximately \$1,932,000 and \$1,999,000, respectively. The Foundation expects to contribute or pay claims aggregating \$7,200,000 in 2007.

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The benefits expected to be paid in each fiscal year from 2008 through 2012 and the five subsequent years are:

	<u>Expected payments</u>
Year:	
2008	\$ 2,157,297
2009	2,404,933
2010	2,689,148
2011	3,027,311
2012	3,393,759
2013-2017	21,900,976

At June 30, 2007, the items not yet recognized as a component of net periodic benefit cost are as follows:

Transition obligation	\$ 8,180,050
Prior service credit	(5,706,766)
Net loss	<u>11,306,939</u>
Total unamortized items	<u>\$ 13,780,223</u>

The \$13,780,223 appears on the fiscal year 2007 consolidated statement of activities as effect of adoption of SFAS No. 158, which decreases unrestricted net assets.

The effect of applying Statement 158 on the Foundation's consolidated balance sheet as of June 30, 2007 was as follows:

	<u>Before Statement 158</u>	<u>After Statement 158</u>
Postretirement benefits payable	\$ 16,925,848	30,706,071
Unrestricted net assets	1,495,786	(12,284,437)

The transition obligation, prior service credit, and actuarial loss that are expected to be amortized into net periodic cost in fiscal 2008 are as follows:

Transition obligation	\$ 757,413
Prior service credit	(799,041)
Actuarial loss	400,000

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The postretirement plan's weighted average asset allocations at June 30, 2007 and 2006 by asset category are as follows:

	Target allocation		2007	2006
	2007	2006		
Equity securities	30-66%	12-66%	54.0%	57.0%
Debt securities	30-60	30-60	40.0	43.0
Real estate	0-5	0-5	—	—
International equity	10-20	10-20	—	—
Other, including cash	0-5	0-5	6.0	—
			<u>100.0%</u>	<u>100.0%</u>

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (the Act), established a prescription drug benefit known as "Medicare Part D." In addition, this Act established a federal subsidy to sponsors of retiree healthcare benefit plans that provide a drug benefit that is at least actuarially equivalent to Medicare Part D. As a sponsor, the Foundation is eligible for the subsidy. This subsidy reduced the accumulated postretirement benefit obligation (APBO) as of June 30, 2006 by approximately \$5.1 million and reduced the annual expense beginning in 2006. The subsidy for the 2007 year is estimated to be \$653 for each eligible retiree.

Eligible employees of Grants Plus are covered under a defined contribution pension plan established with Teachers Insurance and Annuity Association (TIAA). Grants Plus' contribution to the pension plan is based on specific percentages, ranging from 7% to 10% of each employee's annual salary. There was no pension expense for the year ended June 30, 2007 or 2006.

(5) Deferred Revenue

At June 30, 2007 and 2006, cash advances for grants and contracts are for the following projects:

	2007	2006
Research	\$ 11,051,770	10,697,466
Training	13,296,459	18,822,239
Academic development	21,942,094	21,693,996
Student services	7,807,658	9,240,894
Other	2,053,795	2,368,163
	<u>\$ 56,151,776</u>	<u>62,822,758</u>

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(6) Commitments

(a) *Rental Expenses Under Operating Leases*

During 2005, the Foundation re-located its headquarters from 555 West 57th Street to 230 West 41st Street. However, the Foundation is obligated under noncancelable operating leases at 555 West 57th Street as follows:

Year ending June 30:		
2008	\$	943,941
2009		969,899
2010		996,571
2011		1,023,977
2012		258,299
	\$	<u>4,192,687</u>

In 2006, the Foundation entered into an agreement to sublet, at a lower rate, the leased space at 555 West 57th Street to CUNY. Net rent expense for the years ended June 30, 2007 and 2006 was \$177,541 and \$215,218, respectively.

(b) *Rental Income Under Operating Leases*

Future minimum rental income under the LLC's operating lease is as follows:

2008	\$	7,764,722
2009		7,688,315
2010		7,319,423
2011		7,018,009
2012		6,433,034
Thereafter		<u>34,637,150</u>
	\$	<u>70,860,653</u>

Pursuant to the individual tenant leases, the tenants pay their allocable share of the costs of operating the Property, including real estate taxes, certain insurance premiums, and other expenses which are not included above.

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(7) Fair Value of Financial Instruments

The carrying amounts of cash equivalents, grants, contracts and accounts receivable, accounts payable and accrued expenses, and deposits held in custody for CUNY Colleges approximate fair value due to the short maturity of these financial instruments.

The carrying amount of the mortgage loan payable and revolving credit loan payable approximate fair value because these loans bear interest at a rate which are not significantly different than current market rates for loans with similar maturities and credit quality.

(8) Grants to CUNY for Central Research Initiatives

In fiscal years 2007 and 2006, the Foundation approved grants to CUNY for central research initiatives of \$3,500,000 and \$3,600,000, respectively.

(9) Purchase of Rental Property

On July 14, 2004, the LLC purchased 230 West 41st Street (the property) from a third party for approximately \$60,850,000, including closing costs. The purchase price was paid with equity from the Foundation of approximately \$16,800,000 and borrowings from a mortgage loan (note 10). The property consists of approximately 300,000 square feet of rentable retail and office space and, as of June 30, 2007, was approximately 93.5% occupied.

Rental property consists of the following at June 30, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Land	\$ 9,037,040	9,037,040
Building	36,149,160	36,149,160
Building improvements	4,526,823	2,988,302
Tenant improvements	12,711,743	13,337,888
Total	<u>62,424,766</u>	<u>61,512,390</u>
Accumulated depreciation	<u>(3,895,050)</u>	<u>(1,998,376)</u>
Rental property, net	<u>\$ 58,529,716</u>	<u>59,514,014</u>

In addition to the above acquired tangible assets, the purchase price also included identified intangible assets and liabilities, consisting of the value of above-market (\$5,771,000), below-market (\$458,000) leases and other value of in-place leases (\$10,351,000), based in each case on their fair values.

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(10) Mortgage Loan Payable

On July 11, 2004, the LLC entered into a mortgage loan (the Loan) with a principal amount of \$62 million, which matures on August 11, 2014. The Loan bears interest at a rate of 6.19% and is payable in monthly installments of interest only through August 2006; thereafter, principal and interest payments are due in equal monthly installments of \$379,328. A balloon payment is due at maturity consisting of unpaid principal of \$55,184,007 and any accrued and unpaid interest.

Under the terms of the Loan, the LLC is required to deposit monthly payments of \$24,500 to escrow accounts maintained by the LLC consisting of escrow accounts for building capital expenditures and tenant improvements, leasing commissions, lease cancellation fees, and other leasing costs. The LLC had balances in escrow accounts, including interest earned, of approximately \$2,473,000 as of June 30, 2007. In addition, under the terms of the mortgage, the LLC is required to deposit monthly payments to escrow accounts maintained by the LLC for real estate taxes and insurance.

At June 30, 2007, future minimum principal payments are as follows:

2008	\$	706,000
2009		762,000
2010		811,000
2011		864,000
2012		909,000
Thereafter		<u>57,382,540</u>
	\$	<u><u>61,434,540</u></u>

The Loan is secured by the property (230 West 41st Street) and assignment of rents and other payments from the tenants.

The Loan is subject to certain restrictive financial covenants, including limitations on the incurrence of additional indebtedness. Management believes the LLC is in compliance with all covenants at June 30, 2007. The Loan is subject to certain prepayment penalties if it is repaid prior to its maturity date.

Also included in restricted cash are amounts to be funded for replacements and repairs, and leasing commissions as required by the loan agreement.

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(11) Related-Party Transactions

The Foundation entered into an agreement with CUNY, an affiliate and a tenant in the building, to sublease 66,867 of CUNY's 170,081 square feet of space. The CUNY lease agreement, which expires in June 2017, is at a rate of \$33 per square foot with 2.5% increases effective annually. The Foundation sublease agreement has the same rate and terms. For the years ended June 30, 2007 and 2006, rental revenues earned from CUNY were \$6,447,837 and \$6,282,018, respectively.

At June 30, 2007, deposits held in custody for tenant (CUNY) of \$2,920,461, are non-interest bearing and consist of amounts funded by CUNY to be used for their leasehold improvements.

In 2007, Grants Plus entered into agreements with several not-for-profit organizations to administer their grants and contracts with federal, state and city agencies. Total funds administered by Grants Plus in fiscal year 2007 approximated \$123,144. These funds were agency in nature and, accordingly, were excluded from the consolidated statement of activities.

The Foundation made no capital contributions to Grants Plus in 2007, but paid the operating costs of the Organization, which totaled \$398,754. These costs are reflected as donated services and expenses in the consolidated statement of activities and they consist of the following:

Personnel services	\$	300,219
Supplies, telephones, and communications		31,919
Rent		56,616
Other		<u>10,000</u>
	\$	<u><u>398,754</u></u>

In 2007, Grants Plus accrued a management fee of \$55,000, payable to the Foundation for services rendered.

(12) Lease Terminations

Two of the LLC's tenants terminated their leases in 2007 and three of the LLC's tenants terminated their leases in 2006. The LLC wrote-off intangible and other lease related assets relating to these tenants totaling \$105,214 in 2007 and \$545,381 in 2006. The loss on lease terminations is presented net of the cancellation fee received in the accompanying consolidated statement of activities.

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(13) Property Management Fees

In July 2004, the LLC entered into a management agreement with GVA Williams to manage and provide leasing services to the property for one year, at which time it will be automatically renewed on a month-to-month basis until terminated by either party giving prior written notice of termination. The agreement provides that the LLC will pay a management fee of \$70,800 per year for years one through three and \$73,200 per year for years four through six. Such expenses are included in operating expenses in the consolidated statement of activities. Additionally, the LLC will pay the property manager a commission in accordance with the terms of the management agreement if the property manager procures a new lease or an extension, renewal or expansion of an existing lease for space in the property during the term of this agreement.

(14) Loan Receivable

In March 2006, the Foundation established a revolving credit loan facility of \$12 million, which bears interest at LIBOR plus 1.75% and which converted to a 10 year term loan in September 2006. The loan was obtained for CUNY's benefit to finance the construction of certain leasehold improvements for leased space at 230 West 41st street. CUNY entered into a guaranty with the bank to facilitate the loan. Hence, the loan agreement between the Foundation and CUNY specifies that all loan proceeds and related expenses incurred by the Foundation shall be paid by CUNY. As of June 30, 2007, the Foundation received \$12,000,000 in loan proceeds, of which \$11,542,337 were used to pay for tenant improvements and interest expense. The remaining loan proceeds of \$457,663 are recorded as restricted cash on the consolidated 2007 balance sheet. During the fiscal year, the Foundation received \$10 million from CUNY for payment of the principal and \$641,235 for payment of interest expenses and legal fees. The remaining balance on the loan due from CUNY is \$2,011,247 as of June 30, 2007.

Grants Plus made loans to one of its clients for working capital purposes. These loans were supported by the client's grants and contracts with federal, state and city agencies. As of June 30, 2007, outstanding loans totaled \$70,270, of which \$45,135 were written-off.

(15) Real Estate Tax Exemption

During fiscal year 2007, the LLC obtained a real estate tax reduction amounting to approximately \$714,000 relating to an exemption for the portion of the property used by CUNY as a not-for-profit, tax-exempt organization.