



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

Consolidated Financial Statements

June 30, 2005 and 2004

(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, 2005 and 2004, and the related consolidated statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these 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 Foundation's internal control over financial reporting. Accordingly, we express no such opinion. 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 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, 2005 and 2004, 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

October 14, 2005

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

Consolidated Balance Sheets

June 30, 2005 and 2004

Assets	2005				2004
	Foundation	230 West 41st Street LLC	Eliminations	Total	
Cash and cash equivalents	\$ 69,928,996	3,219,412	—	73,148,408	75,812,926
Restricted cash	—	7,854,341	—	7,854,341	—
Grants, contracts, and accounts receivable (net of allowance of \$1,100,000 in 2005 and \$2,600,000 in 2004)	38,121,080	—	—	38,121,080	38,432,253
Rent receivable (net of allowance of \$48,977)	—	65,250	—	65,250	—
Prepaid expenses and other assets	612,013	270,375	—	882,388	335,447
Investments, at fair value (note 3)	40,194,647	—	—	40,194,647	35,016,397
Investment in 230 West 41st Street LLC	12,322,680	—	(12,322,680)	—	—
Building deposits – 230 West 41st Street LLC	—	—	—	—	6,220,230
Deferred rent receivable	—	1,944,233	(246,572)	1,697,661	—
Value of in-place leases (net of accumulated amortization of \$2,560,671)	—	5,882,245	—	5,882,245	—
Above market leases (net of accumulated amortization of \$784,418)	—	3,217,643	—	3,217,643	—
Deferred costs (net of accumulated amortization of \$186,582)	—	1,751,973	—	1,751,973	—
Fixed assets:					
Rental property, net (note 11)	—	51,432,290	—	51,432,290	—
Furniture, fixtures, and equipment (net of accumulated depreciation of \$884,229 in 2005 and \$543,331 in 2004)	1,877,120	—	—	1,877,120	746,333
Leasehold improvements (net of accumulated amortization of \$9,411 in 2005 and \$133,545 in 2004)	235,285	—	—	235,285	479,247
Total assets	\$ 163,291,821	75,637,762	(12,569,252)	226,360,331	157,042,833
Liabilities and Net Assets (Deficit)					
Accounts payable and accrued expenses	\$ 28,369,527	444,462	—	28,813,989	30,106,884
Deferred revenue (note 5)	64,341,064	—	—	64,341,064	54,383,421
Grants payable to CUNY	3,045,036	—	—	3,045,036	3,461,625
Prepaid rent	—	16,091	—	16,091	—
Deferred rent payable	246,572	—	(246,572)	—	—
Security deposits payable	—	593,178	—	593,178	—
Deposits held in custody for CUNY colleges	49,914,027	—	—	49,914,027	42,456,859
Deposits held in custody for others (note 9)	—	—	—	—	2,051,508
Below market leases (net of accumulated amortization of \$198,188)	—	261,351	—	261,351	—
Postretirement benefits payable (note 4)	17,892,781	—	—	17,892,781	18,755,254
Mortgage loan payable (note 12)	—	62,000,000	—	62,000,000	—
Total liabilities	163,809,007	63,315,082	(246,572)	226,877,517	151,215,551
Net assets (deficit):					
Unrestricted:					
Postretirement benefits	(17,892,781)	—	—	(17,892,781)	(18,755,254)
230 West 41st Street LLC	12,322,680	12,322,680	(12,322,680)	12,322,680	—
Other	5,052,915	—	—	5,052,915	24,582,536
Total net assets (deficit)	(517,186)	12,322,680	(12,322,680)	(517,186)	5,827,282
Total liabilities and net assets (deficit)	\$ 163,291,821	75,637,762	(12,569,252)	226,360,331	157,042,833

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Activities

Years ended June 30, 2005 and 2004

	2005				2004
	Foundation	230 West 41st Street LLC	Eliminations	Total	
Grants and contracts administered for others:					
Revenue:					
Governmental	\$ 229,597,379	—	—	229,597,379	225,469,318
Private	68,567,362	—	—	68,567,362	76,025,324
Total grants and contracts revenue	<u>298,164,741</u>	<u>—</u>	<u>—</u>	<u>298,164,741</u>	<u>301,494,642</u>
Expenses:					
Research	(87,809,277)	—	—	(87,809,277)	(91,231,924)
Training	(120,561,355)	—	—	(120,561,355)	(114,226,175)
Academic development	(63,535,122)	—	—	(63,535,122)	(72,068,187)
Student services	(19,882,754)	—	—	(19,882,754)	(16,884,866)
Other	(6,376,233)	—	—	(6,376,233)	(7,083,490)
Total grants and contracts expenses	<u>(298,164,741)</u>	<u>—</u>	<u>—</u>	<u>(298,164,741)</u>	<u>(301,494,642)</u>
Administrative services:					
Revenue:					
Administrative fees	19,817,057	—	—	19,817,057	22,242,499
Investment return (note 3)	2,259,597	—	—	2,259,597	1,229,643
Rental income (note 6)	—	9,418,743	(1,901,530)	7,517,213	—
Other	8,396	183,401	—	191,797	15,005
Total administrative revenue	<u>22,085,050</u>	<u>9,602,144</u>	<u>(1,901,530)</u>	<u>29,785,664</u>	<u>23,487,147</u>
Expenses:					
Management and general	(16,499,318)	—	1,901,530	(14,597,788)	(14,066,393)
Postretirement credit (note 4)	862,473	—	—	862,473	445,938
Grants to CUNY for central research initiatives (note 10)	(3,500,000)	—	—	(3,500,000)	(3,500,000)
Investment return allocated to individual colleges	(1,755,463)	—	—	(1,755,463)	(1,024,446)
Operating expenses of LLC	—	(2,593,581)	—	(2,593,581)	—
Interest expense	—	(3,934,087)	—	(3,934,087)	—
Real estate taxes	—	(1,109,756)	—	(1,109,756)	—
Depreciation and amortization	(411,587)	(3,061,714)	—	(3,473,301)	(283,064)
Loss on lease termination of LLC above market leases (note 14)	—	(3,097,023)	—	(3,097,023)	—
Other	—	(826,522)	—	(826,522)	—
Total administrative expenses	<u>(21,303,895)</u>	<u>(14,622,683)</u>	<u>1,901,530</u>	<u>(34,025,048)</u>	<u>(18,427,965)</u>
Excess (deficiency) of revenue over expenses before other changes	781,155	(5,020,539)	—	(4,239,384)	5,059,182
Other changes:					
Capital contribution	—	17,343,219	(17,343,219)	—	—
Loss on lease termination and write-off of leasehold improvements of Foundation (note 6)	(2,343,084)	—	—	(2,343,084)	—
Change in Foundation investment in 230 West 41st Street LLC	(5,020,539)	—	5,020,539	—	—
FEMA aid (note 8)	238,000	—	—	238,000	—
(Decrease) increase in net assets	<u>(6,344,468)</u>	<u>12,322,680</u>	<u>(12,322,680)</u>	<u>(6,344,468)</u>	<u>5,059,182</u>
Net assets at beginning of year	5,827,282	—	—	5,827,282	768,100
Net assets at end of year	<u>\$ (517,186)</u>	<u>12,322,680</u>	<u>(12,322,680)</u>	<u>(517,186)</u>	<u>5,827,282</u>

See accompanying notes to consolidated financial statements.

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Consolidated Statements of Cash Flows

Years ended June 30, 2005 and 2004

	2005	2004
Cash flows from operating activities:		
(Decrease) increase in net assets	\$ (6,344,468)	5,059,182
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	909,160	283,064
Amortization of deferred costs	186,582	—
Amortization of in place leases	2,560,671	—
Amortization of above and below market leases	586,230	—
Loss on lease termination	6,020,107	—
Net (appreciation) depreciation in fair value of investments	(175,617)	108,223
Changes in assets and liabilities:		
Decrease in grants, contracts, accounts, and rents receivable	245,923	5,653,870
(Increase) decrease in prepaid expenses and other assets	(546,941)	331,432
Increase in deferred rent receivable	(1,697,661)	—
(Decrease) increase in payables and accrued expenses, prepaid rent and security deposits	(2,608,742)	4,524,630
Increase (decrease) in deferred revenue	9,957,643	(5,389,228)
(Decrease) increase in grants payable to CUNY	(416,589)	260,391
Decrease in postretirement benefits payable	(862,473)	(445,938)
Increase in deposits held in custody for CUNY colleges	7,457,168	8,268,467
Decrease in deposits held in custody for others	(2,051,508)	(723,844)
Net cash provided by operating activities	13,219,485	17,930,249
Cash flows from investing activities:		
Purchases of fixed assets	(1,716,382)	(169,589)
Purchase of rental property and intangible assets	(60,850,200)	—
Expenditures for rental property improvements	(6,742,122)	—
Deposit of restricted cash	(7,854,341)	—
Payment of deferred leasing costs	(43,900)	—
Building deposit and deferred revenue	6,220,230	(3,434,230)
Purchases of investments	(132,488,540)	(109,165,030)
Sales and maturity of investments	127,485,907	143,554,453
Net cash (used in) provided by investing activities	(75,989,348)	30,785,604
Cash flows from financing activities:		
Borrowings under mortgage loan payable	62,000,000	—
Rate lock fee paid	—	(2,786,000)
Payment for deferred financing costs	(1,894,655)	—
Net cash provided by (used in) financing activities	60,105,345	(2,786,000)
Net (decrease) increase in cash and cash equivalents	(2,664,518)	45,929,853
Cash and cash equivalents at beginning of year	75,812,926	29,883,073
Cash and cash equivalents at end of year	\$ 73,148,408	75,812,926
Supplemental cash flow disclosure:		
Cash paid for interest	\$ 3,539,305	—

See accompanying notes to consolidated financial statements.

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Notes to Consolidated Financial Statements

June 30, 2005 and 2004

(1) Organization and Purpose

The Research Foundation of The City University of New York (the Foundation) was chartered in 1963 to provide post-award administration of sponsored programs for The City University of New York (the University or CUNY) and other not-for-profit organizations. 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 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 11).

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.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying financial statements, which consolidate the Foundation and the LLC (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 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, 2005 and 2004.

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, 2005 and 2004.

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.

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(b) Grants and Contracts

Revenue from grants and contracts, awarded to and accepted by the Foundation 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 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 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 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 accounting. The impact of the straight-line adjustment increased rental income by \$1,697,661 in fiscal 2005.

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(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.

(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 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. 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.

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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 includes amounts to be funded for tenant improvements, replacements and repairs, and leasing commissions as required by the LLC's loan agreement.

(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 recoveries and released time recoveries 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 others.

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

(n) *Reclassifications*

Certain 2004 amounts have been reclassified to conform to the 2005 presentation.

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(3) Investments

Investments held by the Foundation consist of the following at June 30, 2005 and 2004:

	2005		2004	
	<u>Fair value</u>	<u>Cost</u>	<u>Fair value</u>	<u>Cost</u>
U.S. Money market	\$ 4,503,582	4,503,583	3,616,057	3,616,057
U.S. Treasury bills	14,868,265	14,791,110	16,455,690	16,416,596
U.S. Government agency obligations	<u>20,822,800</u>	<u>20,655,205</u>	<u>14,944,650</u>	<u>14,914,609</u>
Total	<u>\$ 40,194,647</u>	<u>39,949,898</u>	<u>35,016,397</u>	<u>34,947,262</u>

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

	<u>2005</u>	<u>2004</u>
Interest	\$ 2,083,980	1,337,866
Net appreciation (depreciation) in fair value of investments	<u>175,617</u>	<u>(108,223)</u>
Total	<u>\$ 2,259,597</u>	<u>1,229,643</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, 2005 and 2004 was approximately \$7,701,000 and \$7,114,000, respectively. There are no unfunded past service costs.

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 \$753,000 in 2005 and \$673,000 in 2004.

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

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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).

The following table sets forth the plan's funded status reconciled with the amounts shown in the Foundation's balance sheets as of June 30, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Benefit obligation	\$ (55,714,067)	(48,187,314)
Fair value of plan assets	22,481,662	16,685,848
Funded status as of June 30	(33,232,405)	(31,501,466)
Unrecognized transition obligation	9,694,876	10,452,289
Unrecognized net loss	12,909,596	10,337,812
Unrecognized prior service credit	(7,264,848)	(8,043,889)
Accrued liability	\$ (17,892,781)	(18,755,254)

Postretirement benefit costs for 2005 and 2004 included the following components:

	<u>2005</u>	<u>2004</u>
Service cost	\$ 3,437,894	3,386,958
Interest cost	2,957,904	2,677,793
Amortization of transition obligation over 22.8 years	757,413	757,413
Amortization of prior service credit	(779,041)	(779,041)
Amortization of unrecognized net loss	304,856	350,450
Expected return on plan assets	(1,049,722)	(764,213)
Net periodic postretirement benefit cost	\$ 5,629,304	5,629,360

The weighted average assumptions used in determining the accumulated postretirement benefit obligation as of June 30, were as follows:

	<u>2005</u>	<u>2004</u>
Discount rate	5.25%	6.25%
Expected return on assets	5.50	5.50

The weighted average assumption used in determining the net periodic postretirement benefit cost for the years ended June 30, 2005 and 2004 were as follows:

	<u>2005</u>	<u>2004</u>
Discount rate	6.25%	6.00%
Expected return on assets	5.50	5.50

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For measurement purposes, healthcare costs other than Medicare Part B were assumed to increase 7.5% and 8.0% for the years ended 2005 and 2004, 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.

The postretirement plan's weighted average asset allocations at June 30, 2005 and 2004 by asset category are as follows:

	Target allocation	2005	2004
Equity securities	20-30%	31.0%	25.6%
Debt securities	70-80%	69.0	68.0
Money market	0-5%	—	6.4
		100.0%	100.0%

For the years ended June 30, 2005 and 2004, the Foundation made contributions to the plan of \$4,800,000. In addition, for the years ended June 30, 2005 and 2004, the Foundation paid claims of approximately \$1,692,000 and \$1,275,000, respectively. The Foundation expects to contribute or pay claims aggregating \$6,800,000 in fiscal 2006.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

2006	\$	2,014,331
2007		2,228,219
2008		2,480,826
2009		2,779,075
2010		3,117,875
Years 2011-2014		22,408,378

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 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 expects to collect this subsidy beginning in 2006. This subsidy reduced the accumulated post-retirement benefit obligation (APBO) as of June 30, 2005 by approximately \$5.1 million and is expected to reduce the annual expense beginning in 2006.

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(5) Deferred Revenue

At June 30, 2005 and 2004, cash advances for grants and contracts are for the following projects:

	<u>2005</u>	<u>2004</u>
Research	\$ 9,490,059	10,363,653
Training	16,843,482	14,814,037
Academic development	21,597,410	18,458,526
Student services	13,984,591	6,243,691
Other	2,425,522	4,503,514
	<u>\$ 64,341,064</u>	<u>54,383,421</u>

(6) Commitments

Rental Expenses Under Operating Leases

During 2005, the Foundation re-located its headquarters from 555 West 57th Street to 230 West 41st Street (note 13). However, the Foundation is obligated under noncancelable operating leases at 555 West 57th Street as follows:

Year ending June 30:	
2006	\$ 1,653,405
2007	918,677
2008	943,941
2009	969,899
2010	996,571
Thereafter	<u>1,282,276</u>
	<u>\$ 6,764,769</u>

Rent expense for the years ended June 30, 2005 and 2004 was \$1,705,050 and \$1,613,635, respectively.

The Foundation recorded a loss of \$1,925,116 on the termination of the leases. In addition, the Foundation recorded a loss of \$417,968 on the disposal of associated leasehold improvements.

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Rental Income Under Operating Leases

Future minimum rental payments under the noncancelable portion of the LLC's operating leases, exclusive of the lease with the Foundation, are as follows:

Year ending June 30:	
2006	\$ 6,252,286
2007	5,934,461
2008	5,642,122
2009	5,310,372
2010	4,948,733
Thereafter	<u>40,921,851</u>
	<u>\$ 69,009,825</u>

Pursuant to the individual tenant leases, the tenants pay the allocable share of the costs of operating the 230 West 41st Street property, including real estate taxes, certain insurance premiums, and other expenses which are not included above.

(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 and others approximate fair value due to the short maturity of these financial instruments.

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

(8) Events of September 11, 2001

The events of September 11, 2001 resulted in operational disruptions and facilities damage, causing the Foundation to relocate its operations. The Foundation received additional FEMA aid in the amount of \$238,000 in fiscal year 2005.

(9) Deposits Held in Custody for Others

During fiscal 2003, the Foundation entered into a fee-for-service agreement with the September 11 Fund to administer payments to designated service providers and training providers for employment assistance services, as well as to make support payments to eligible individuals who lost their jobs and/or experienced a substantial reduction in earnings as a result of the September 11, 2001 terrorist attack. Total funds administered by the Foundation on behalf of the September 11 Fund amounted to over \$75.8 million. These funds were agency in nature and, accordingly, were excluded from the statement of activities. All cash received from the September 11 Fund was disbursed by June 30, 2005.

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(10) Grants to CUNY for Central Research Initiatives

In both fiscal 2005 and 2004, the Foundation approved a grant of \$3,500,000 to CUNY for central research initiatives.

(11) Purchase of Rental Property

On July 14, 2004, the LLC purchased 230 West 41st Street from a third party for approximately \$60,850,200, 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 12). The property consists of approximately 300,000 square feet of rentable retail and office space and, as of June 30, 2005, was approximately 84% occupied.

Rental property consists of the following at June 30, 2005:

Land	\$ 9,037,040
Building	36,149,160
Building improvements	2,541,461
Tenant improvements	<u>4,200,662</u>
Total	51,928,323
Accumulated depreciation	<u>(496,033)</u>
Rental property, net	<u>\$ 51,432,290</u>

In addition to the above acquired tangible assets, the purchase price also includes 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.

(12) 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 in July 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 and accrued and unpaid interest.

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At June 30, 2005, future minimum principal payments are as follows:

2007	\$	563,136
2008		660,838
2009		660,838
2010		660,838
2011		660,838
Thereafter		<u>58,793,512</u>
	\$	<u><u>62,000,000</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, 2005. The Loan is subject to certain prepayment penalties if it is repaid prior to its maturity date.

The LLC was required to maintain a letter of credit with an initial value of \$8 million collateralized by cash for tenant improvements. The balance on this letter of credit at June 30, 2005 was approximately \$4.9 million and the cash collateral in a like amount is included in restricted cash on the accompanying balance sheet. Also included in restricted cash is approximately \$3 million of amounts to be funded for replacements and repairs, and leasing commissions as required by the loan agreement.

(13) Related Party Transactions

The Foundation entered into an agreement with The City University of New York (CUNY), a tenant in the building, to sublease 66,867 of CUNY's 152,545 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's sublease agreement has the same rate and terms. For the year ended June 30, 2005, \$5,543,537 of rental income was earned from CUNY.

(14) Lease Terminations

Two of the LLC's tenants terminated their leases in 2005. One tenant paid the LLC a lease cancellation fee of \$580,000. The LLC wrote off intangible and other lease related assets related to these tenants totaling \$3,677,023. The loss on lease termination is presented net of the cancellation fee received on the accompanying statement of activities.

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(15) 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 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 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.