



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

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 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, 2006 and 2005, 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, as of and for the year ended June 30, 2006. Those financial statements reflect total assets and total revenues constituting 33.2% and 25.2%, respectively, of the consolidated totals as of and for the year ended June 30, 2006. 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 report 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, 2006 and 2005, 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.

KPMG LLP

October 17, 2006

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

Consolidated Balance Sheets

June 30, 2006 and 2005

Assets	2006					2005
	Foundation	230 West 41st Street LLC	Grants Plus	Eliminations	Total	
Cash and cash equivalents	\$ 62,890,092	2,337,568	36,545	—	65,264,205	73,148,408
Restricted cash (notes 2(1), 11, 12, and 15)	1,731,393	5,903,216	—	—	7,634,609	7,854,341
Grants, contracts, and accounts receivable (net of allowance of \$2,500,000 in 2006 and \$1,100,000 in 2005)	42,354,189	—	45,990	(19,256)	42,380,923	38,121,080
Loans receivable (note 15)	5,285,107	—	45,135	—	5,330,242	—
Rent receivable (net of allowance of \$64,613 in 2006 and \$48,977 in 2005)	—	186,658	—	—	186,658	65,250
Prepaid expenses and other assets	499,741	311,914	11,880	—	823,535	882,388
Investments, at fair value (note 3)	45,015,446	—	—	—	45,015,446	40,194,647
Investment in Grants Plus	112,735	—	—	(112,735)	—	—
Investment in 230 West 41st Street LLC	11,245,432	—	—	(11,245,432)	—	—
Deferred rent receivable	—	2,897,651	—	(520,416)	2,377,235	1,697,661
Value of in-place leases (net of accumulated amortization of \$4,033,617 in 2006 and \$2,560,671 in 2005) (note 10)	—	3,923,692	—	—	3,923,692	5,882,245
Above market leases (net of accumulated amortization of \$1,417,821 in 2006 and \$784,418 in 2005) (note 10)	—	2,524,466	—	—	2,524,466	3,217,643
Deferred costs (net of accumulated amortization of \$418,672 in 2006 and \$186,582 in 2005)	—	1,841,951	—	—	1,841,951	1,751,973
Fixed assets:						
Rental property, net (note 10)	—	59,514,014	—	—	59,514,014	51,432,290
Furniture, fixtures, and equipment (net of accumulated depreciation of \$1,376,364 in 2006 and \$884,229 in 2005)	1,745,146	—	—	—	1,745,146	1,877,120
Leasehold improvements (net of accumulated amortization of \$38,128 in 2006 and \$9,411 in 2005)	385,603	—	—	—	385,603	235,285
Total assets	<u>\$ 171,264,884</u>	<u>79,441,130</u>	<u>139,550</u>	<u>(11,897,839)</u>	<u>238,947,725</u>	<u>226,360,331</u>
Liabilities and Net Assets (Deficit)						
Accounts payable and accrued expenses	\$ 29,697,115	3,222,855	23,746	(19,256)	32,924,460	28,813,989
Deferred revenue (note 5)	62,819,689	—	3,069	—	62,822,758	64,341,064
Grants payable to CUNY (note 9)	2,459,277	—	—	—	2,459,277	3,045,036
Revolving credit loan payable (note 15)	7,016,500	—	—	—	7,016,500	—
Prepaid rent	—	52,014	—	—	52,014	16,091
Deferred rent payable	520,416	—	—	(520,416)	—	—
Security deposits payable	—	595,380	—	—	595,380	593,178
Deposits held in custody for CUNY colleges	51,666,970	—	—	—	51,666,970	49,914,027
Below market leases (net of accumulated amortization of \$276,795 in 2006 and \$198,188 in 2005) (note 10)	—	182,743	—	—	182,743	261,351
Due to tenant (note 12)	—	2,142,706	—	—	2,142,706	—
Postretirement benefits payable (note 4)	17,915,066	—	—	—	17,915,066	17,892,781
Mortgage loan payable (note 11)	—	62,000,000	—	—	62,000,000	62,000,000
Total liabilities	<u>172,095,033</u>	<u>68,195,698</u>	<u>26,815</u>	<u>(539,672)</u>	<u>239,777,874</u>	<u>226,877,517</u>
Net assets (deficit):						
Unrestricted:						
Postretirement benefits	(17,915,066)	—	—	—	(17,915,066)	(17,892,781)
230 West 41st Street LLC	11,245,432	11,245,432	—	(11,245,432)	11,245,432	12,322,680
Grants Plus	112,735	—	112,735	(112,735)	112,735	—
Other	5,726,750	—	—	—	5,726,750	5,052,915
Total net assets (deficit)	<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>
Total liabilities and net assets (deficit)	<u>\$ 171,264,884</u>	<u>79,441,130</u>	<u>139,550</u>	<u>(11,897,839)</u>	<u>238,947,725</u>	<u>226,360,331</u>

See accompanying notes to consolidated financial statements.

**RESEARCH FOUNDATION OF
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Consolidated Statements of Activities

Years ended June 30, 2006 and 2005

	2006				2005
	Foundation	230 West 41st Street LLC	Grants Plus	Eliminations	
Grants and contracts administered for others:					
Revenue:					
Governmental	\$ 237,253,445	—	—	—	237,253,445
Private	78,683,839	—	25,131	—	78,708,970
Total grants and contracts revenue	<u>315,937,284</u>	<u>—</u>	<u>25,131</u>	<u>—</u>	<u>315,962,415</u>
Expenses:					
Research	(90,519,181)	—	—	—	(90,519,181)
Training	(127,729,942)	—	—	—	(127,729,942)
Academic development	(66,372,249)	—	—	—	(66,372,249)
Student services	(21,899,935)	—	—	—	(21,899,935)
Other	(9,415,977)	—	(25,131)	—	(9,441,108)
Total grants and contracts expenses	<u>(315,937,284)</u>	<u>—</u>	<u>(25,131)</u>	<u>—</u>	<u>(315,962,415)</u>
Administrative services:					
Revenue:					
Administrative fees	20,433,690	—	77,126	—	20,510,816
Investment return (note 3)	3,798,930	—	—	—	3,798,930
Rental income (note 6)	—	10,791,543	—	(2,535,619)	8,255,924
Donated services	—	—	407,493	(407,493)	—
Other	186,972	—	—	(19,256)	167,716
Total administrative revenue	<u>24,419,592</u>	<u>10,791,543</u>	<u>484,619</u>	<u>(2,962,368)</u>	<u>32,733,386</u>
Expenses:					
Management and general	(17,854,686)	—	—	2,535,619	(15,319,067)
Postretirement (cost) credit (note 4)	(22,287)	—	—	—	(22,287)
Grants to CUNY for central research initiatives (note 9)	(3,600,000)	—	—	—	(3,600,000)
Investment return allocated to individual colleges	(1,658,167)	—	—	—	(1,658,167)
Operating expenses of LLC	—	(3,343,094)	—	—	(3,343,094)
Interest expense	—	(4,080,636)	—	—	(4,080,636)
Real estate taxes (note 16)	—	(522,424)	—	—	(522,424)
Depreciation and amortization	(520,852)	(3,017,913)	—	—	(3,538,765)
Loss on lease termination of LLC above market leases (note 13)	—	(545,381)	—	—	(545,381)
Donated expenses (note 12)	—	—	(407,493)	407,493	—
Other	(12,050)	(359,343)	(64,391)	19,256	(416,528)
Total administrative expenses	<u>(23,668,042)</u>	<u>(11,868,791)</u>	<u>(471,884)</u>	<u>2,962,368</u>	<u>(33,046,349)</u>
Excess (deficiency) of revenue over expenses before other changes	751,550	(1,077,248)	12,735	—	(312,963)
Other changes:					
Capital contribution (note 12)	—	—	100,000	(100,000)	—
Loss on lease termination and write-off of leasehold improvements of Foundation (note 6)	—	—	—	—	(2,343,084)
Change in Foundation investment in 230 West 41st Street LLC	(1,077,248)	—	—	1,077,248	—
Change in Foundation investment in Grants Plus	12,735	—	—	(12,735)	—
FEMA aid (note 8)	—	—	—	—	238,000
(Decrease) increase in net assets	<u>(312,963)</u>	<u>(1,077,248)</u>	<u>112,735</u>	<u>964,513</u>	<u>(312,963)</u>
Net assets (deficit) at beginning of year	(517,186)	12,322,680	—	(12,322,680)	(517,186)
Net assets (deficit) at end of year	<u>\$ (830,149)</u>	<u>11,245,432</u>	<u>112,735</u>	<u>(11,358,167)</u>	<u>(830,149)</u>

See accompanying notes to consolidated financial statements.

**RESEARCH FOUNDATION OF
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Consolidated Statements of Cash Flows

Years ended June 30, 2006 and 2005

	2006	2005
Cash flows from operating activities:		
Decrease in net assets	\$ (312,963)	(6,344,468)
Adjustments to reconcile decrease in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	2,023,195	909,160
Amortization of deferred financing costs	232,091	186,582
Amortization of in-place leases	1,472,946	2,560,671
Amortization of above and below market leases	554,794	586,230
Loss on early termination of tenant leases	545,381	6,020,107
Net appreciation in fair value of investments	(149,681)	(175,617)
Changes in assets and liabilities:		
Grants, contracts, accounts, and rents receivable	(4,381,251)	245,923
Prepaid expenses and other assets	58,853	(546,941)
Deferred rent receivable	(679,574)	(1,697,661)
Accounts payable and accrued expenses, prepaid rent, and security deposits payable	4,148,596	(2,608,742)
Deferred revenue	(1,518,306)	9,957,643
Due to tenant	2,142,706	—
Grants payable to CUNY	(585,759)	(416,589)
Postretirement benefits payable	22,285	(862,473)
Deposits held in custody for CUNY colleges	1,752,943	7,457,168
Deposits held in custody for others	—	(2,051,508)
Net cash (used in) provided by operating activities	5,326,256	13,219,485
Cash flows from investing activities:		
Increase in loan receivables	(5,330,242)	—
Purchases of fixed assets	(539,196)	(1,716,382)
Purchase of rental property and intangible assets	—	(60,850,200)
Expenditures for rental property improvements	(9,584,067)	(6,742,122)
Change in restricted cash	219,732	(7,854,341)
Payment of deferred leasing costs	(322,068)	(43,900)
Building deposit and deferred revenue	—	6,220,230
Purchases of investments	(98,608,276)	(132,488,540)
Sales and maturity of investments	93,937,157	127,485,907
Net cash used in investing activities	(20,226,960)	(75,989,348)
Cash flows from financing activities:		
Borrowings under revolving credit loan	7,016,500	—
Borrowings under mortgage loan	—	62,000,000
Payment for deferred financing costs	—	(1,894,655)
Net cash provided by financing activities	7,016,500	60,105,345
Net decrease in cash and cash equivalents	(7,884,204)	(2,664,518)
Cash and cash equivalents at beginning of year	73,148,408	75,812,926
Cash and cash equivalents at end of year	\$ 65,264,204	73,148,408
Supplemental cash flow disclosure:		
Cash paid for interest	\$ 3,891,103	3,539,305

See accompanying notes to consolidated financial statements.

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Notes to Consolidated Financial Statements

June 30, 2006 and 2005

(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 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, 2006 and 2005.

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, 2006 and 2005.

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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 \$679,574 in 2006 and \$1,697,661 in 2005.

(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 2006 or 2005.

(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 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 \$3,760,509 at June 30, 2006.

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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 recoveries, released time 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, 2006 and 2005:

	<u>2006</u>		<u>2005</u>	
	<u>Fair value</u>	<u>Cost</u>	<u>Fair value</u>	<u>Cost</u>
U.S. Money market	\$ 2,579,758	2,579,758	4,503,582	4,503,583
U.S. Treasury bills	17,691,688	17,577,888	14,868,265	14,791,110
U.S. Government agency obligations	24,744,000	24,463,368	20,822,800	20,655,205
Total	<u>\$ 45,015,446</u>	<u>44,621,014</u>	<u>40,194,647</u>	<u>39,949,898</u>

Components of investment return, including interest on cash and cash equivalents, are as follows for the years ended June 30, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Interest	\$ 3,649,249	2,083,980
Net appreciation in fair value of investments	149,681	175,617
Total	<u>\$ 3,798,930</u>	<u>2,259,597</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, 2006 and 2005 was approximately \$7,683,000 and \$7,701,000, 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 \$875,000 and \$753,000 in 2006 and 2005, 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).

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, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Benefit obligation	\$ (60,182,740)	(55,714,067)
Fair value of plan assets	28,047,036	22,481,662
Funded status as of June 30	(32,135,704)	(33,232,405)
Unrecognized transition obligation	8,937,463	9,694,876
Unrecognized net loss	11,768,982	12,909,596
Unrecognized prior service credit	(6,485,807)	(7,264,848)
Accrued liability	\$ <u>(17,915,066)</u>	<u>(17,892,781)</u>

Postretirement benefit costs for 2006 and 2005 included the following components:

	<u>2006</u>	<u>2005</u>
Service cost	\$ 4,629,688	3,437,894
Interest cost	3,195,106	2,957,904
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	797,167	304,856
Expected return on plan assets	(1,379,491)	(1,049,722)
Net periodic postretirement benefit cost	\$ <u>7,220,842</u>	<u>5,629,304</u>

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The weighted average assumptions used in determining the accumulated postretirement benefit obligation as of June 30, 2006 and 2005 were as follows:

	<u>2006</u>	<u>2005</u>
Discount rate	6.15%	5.25%
Expected return on assets	5.50	5.50

The weighted average assumptions used in determining the net periodic postretirement benefit cost for the years ended June 30, 2006 and 2005 were as follows:

	<u>2006</u>	<u>2005</u>
Discount rate	5.25%	6.25%
Expected return on assets	5.50	5.50

For measurement purposes, healthcare costs other than Medicare Part B were assumed to increase 7.0% and 7.5% for the years ended 2006 and 2005, 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, 2006 and 2005 by asset category are as follows:

	<u>Target allocation</u>		<u>2006</u>	<u>2005</u>
	<u>2006</u>	<u>2005</u>		
Equity securities	12-66%	20-30%	57.0%	31.0%
Debt securities	30-60%	70-80%	43.0	69.0
Money market	0%	0-5%	—	—
Real estate	0-5%	0%	—	—
International equity	10-20%	0%	—	—
Other	0-5%	0%	—	—
			<u>100.0%</u>	<u>100.0%</u>

For the years ended June 30, 2006 and 2005, the Foundation made contributions to the plan of \$5,200,000 and \$4,800,000, respectively. In addition, for the years ended June 30, 2006 and 2005, the Foundation paid claims of approximately \$1,999,000 and \$1,692,000, respectively. The Foundation expects to contribute or pay claims aggregating \$6,900,000 in fiscal 2007.

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

2007	\$ 1,803,513
2008	2,018,053
2009	2,251,637
2010	2,548,423
2011	2,869,523
Years 2012-2016	20,772,682

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, 2005 by approximately \$5.1 million and reduced the annual expense beginning in 2006.

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, 2006.

(5) Deferred Revenue

At June 30, 2006 and 2005, cash advances for grants and contracts are for the following projects:

	<u>2006</u>	<u>2005</u>
Research	\$ 10,697,466	9,490,059
Training	18,822,239	16,843,482
Academic development	21,693,996	21,597,410
Student services	9,240,894	13,984,591
Other	2,368,163	2,425,522
	<u>\$ 62,822,758</u>	<u>64,341,064</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:		
2007	\$	918,677
2008		943,941
2009		969,899
2010		996,571
2011		1,023,977
Thereafter		<u>258,299</u>
	\$	<u><u>5,111,364</u></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, 2006 and 2005 was \$215,218 and \$1,705,050, respectively.

In 2005, the Foundation recorded a loss of \$1,925,116 on the termination of leases and a loss of \$417,968 on the disposal of associated leasehold improvements.

(b) Rental Income Under Operating Leases

Future minimum rental payments under the LLC's operating lease are approximately as follows:

Year ending June 30:		
2007	\$	6,790,000
2008		6,697,000
2009		6,452,000
2010		6,123,000
2011		5,849,000
Thereafter		<u>39,668,000</u>
	\$	<u><u>71,579,000</u></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 and others 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) 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) Grants to CUNY for Central Research Initiatives

In fiscal years 2006 and 2005, the Foundation approved grants to CUNY for central research initiatives of \$3,600,000 and \$3,500,000, respectively.

(10) 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 11). The property consists of approximately 300,000 square feet of rentable retail and office space and, as of June 30, 2006, was approximately 93% occupied.

Rental property consists of the following at June 30, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Land	\$ 9,037,040	9,037,040
Building	36,149,160	36,149,160
Building improvements	2,988,302	2,541,461
Tenant improvements	13,337,888	4,200,662
	<u>61,512,390</u>	<u>51,928,323</u>
Total	61,512,390	51,928,323
Accumulated depreciation	(1,998,376)	(496,033)
	<u>(1,998,376)</u>	<u>(496,033)</u>
Rental property, net	<u>\$ 59,514,014</u>	<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.

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(11) 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 \$54,630,844 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 \$5,307,000 as of June 30, 2006. 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, 2006, future minimum principal payments are as follows:

2007	\$	672,000
2008		777,000
2009		827,000
2010		880,000
2011		936,000
Thereafter		<u>57,908,000</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, 2006. 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 consolidated balance sheet. The LLC was no longer required to maintain this letter of credit at June 30, 2006. Also included in restricted cash are amounts to be funded for replacements and repairs, and leasing commissions as required by the loan agreement.

(12) 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

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agreement has the same rate and terms. For the years ended June 30, 2006 and 2005, rental revenues earned from CUNY were \$6,282,018 and \$5,543,537, respectively.

At June 30, 2006, the LLC had \$2,142,706 of CUNY's funds on hand for space improvements. These funds are reflected in restricted cash on the consolidated balance sheet.

In 2006, 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 2006 approximated \$1,563,000. These funds were agency in nature and, accordingly, were excluded from the consolidated statement of activities.

The Foundation made capital contributions to Grants Plus in 2006 totaling \$100,000 and paid all start-up and operating costs of the Organization, which totaled \$407,493. These costs are reflected as donated services and expenses in the consolidated statement of activities and they consist of the following:

Personnel services	\$	212,257
Supplies, telephones, and communications		43,096
Software and equipment		94,838
Rent		47,302
Other		10,000
		<hr/>
	\$	<u>407,493</u>

In 2006, Grants Plus accrued a management fee of \$19,256, payable to the Foundation for services rendered.

(13) Lease Terminations

One of the LLC's tenants terminated its lease in 2006 and two of the LLC's tenants terminated their leases in 2005. One tenant paid the LLC a lease cancellation fee of \$580,000 in 2005. The LLC wrote-off intangible and other lease related assets relating to these tenants totaling \$545,381 in 2006 and \$3,677,023 in 2005. The loss on lease terminations is presented net of the cancellation fee received in the accompanying consolidated statement of activities.

(14) 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.

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(15) 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, 2006, the Foundation received \$7,016,500 in loan proceeds, of which \$5,285,107 were used to pay for tenant improvements, interest expenses, and legal fees. The remaining loan proceeds of \$1,731,393, including interest income, are recorded as restricted cash on the consolidated 2006 balance sheet.

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, 2006, outstanding loans totaled \$90,270, of which \$45,135 were written-off.

(16) Real Estate Tax Exemption

During fiscal year 2006, the LLC obtained a real estate tax reduction amounting to approximately \$670,000 relating to an exemption for the portion of the property used by CUNY as a not-for-profit, tax-exempt organization.