



PACE UNIVERSITY

Financial Statements

June 30, 2001 and 2000

(With Independent Auditors' Report Thereon)



345 Park Avenue
New York, NY 10154

Independent Auditors' Report

The Board of Trustees
Pace University:

We have audited the accompanying balance sheets of Pace University as of June 30, 2001 and 2000, and the related statements of changes in unrestricted net assets, changes in net assets, and cash flows for the year ended June 30, 2000. These financial statements are the responsibility of the University'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 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 Pace University as of June 30, 2001 and 2000, and the changes in its net assets and its cash flows for the year ended June 30, 2001 in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

October 30, 2001



PACE UNIVERSITY

Balance Sheets

June 30, 2001 and 2000

Assets	2001	2000
Cash and cash equivalents	\$ 200,276	4,507,462
Student accounts receivable (net of allowance for uncollectible amounts of \$1,479,000 and \$2,270,000 in 2001 and 2000, respectively)	7,330,233	6,345,759
Grants and other receivables	9,192,248	9,461,586
Prepaid expenses and other assets	5,976,685	5,771,779
Contributions receivable, net (note 4)	2,585,698	4,062,886
Investments (notes 3 and 10)	112,832,913	116,626,216
Student loans receivable (net of allowance for uncollectible amount of \$1,781,000 and \$1,786,000 in 2001 and 2000, respectively)	12,618,884	12,493,908
Funds held by bond trustees (note 7)	14,073,960	13,428,803
Plant assets (notes 5 and 7)	207,931,597	194,915,616
Total assets	\$ 372,742,494	367,614,015
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued liabilities (notes 12 and 14)	\$ 28,022,022	23,612,184
Notes payable (note 6)	20,000,000	6,000,000
Deferred revenues and deposits	4,244,623	6,605,790
Liability under split-interest agreements	966,422	1,214,472
Long-term debt (notes 7 and 8)	85,029,942	86,189,500
Deferred compensation (note 10)	8,974,876	9,512,236
Accrued postretirement benefit obligation (note 11)	47,521,548	45,134,205
U.S. Government grants refundable	11,343,118	10,897,103
Total liabilities	206,102,551	189,165,490
Net assets:		
Unrestricted	90,126,843	94,044,659
Temporarily restricted (note 15)	31,958,527	40,782,009
Permanently restricted (note 15)	44,554,573	43,621,857
Total net assets	166,639,943	178,448,525
Total liabilities and net assets	\$ 372,742,494	367,614,015

See accompanying notes to financial statements.

PACE UNIVERSITY

Statement of Changes in Unrestricted Net Assets

Year ended June 30, 2001

	<u>Operating</u>	<u>Nonoperating</u>	<u>Total</u>
Revenues:			
Tuition and fees, net (note 16)	\$ 160,548,634	—	160,548,634
State appropriations	1,310,418	—	1,310,418
Contributions	598,372	—	598,372
Investment return (note 3)	2,602,600	(4,090,245)	(1,487,645)
Investment return on funds held by bond trustees	—	(57,135)	(57,135)
Sales and services of auxiliary enterprises	17,487,186	—	17,487,186
Other sources	3,796,128	—	3,796,128
Net assets released from restrictions	18,194,505	—	18,194,505
Total revenues	<u>204,537,843</u>	<u>(4,147,380)</u>	<u>200,390,463</u>
Expenses (notes 17 and 19):			
Instruction	86,216,422	1,974,870	88,191,292
Research	1,827,851	36,813	1,864,664
Academic support	26,982,793	1,382,975	28,365,768
Student services	25,150,612	1,019,504	26,170,116
Institutional support	33,329,853	1,462,991	34,792,844
Auxiliary enterprises	22,092,256	2,831,339	24,923,595
Total expenses	<u>195,599,787</u>	<u>8,708,492</u>	<u>204,308,279</u>
Transfer for repayment of indebtedness	<u>(1,177,600)</u>	<u>1,177,600</u>	<u>—</u>
Increase (decrease) in unrestricted net assets	<u>\$ 7,760,456</u>	<u>(11,678,272)</u>	<u>(3,917,816)</u>

See accompanying notes to financial statements.

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Statement of Changes in Net Assets

Year ended June 30, 2001

Decrease in unrestricted net assets	\$ <u>(3,917,816)</u>
Changes in temporarily restricted net assets:	
Government grants and contracts	7,489,906
Private gifts and grants	8,762,749
Investment return (note 3)	(7,217,200)
Change in value of split-interest agreements	335,568
Net assets released from restrictions	<u>(18,194,505)</u>
Decrease in temporarily restricted net assets	<u>(8,823,482)</u>
Changes in permanently restricted net assets:	
Contributions	1,144,345
Investment return (note 3)	(25,724)
Change in value of split-interest agreements	(176,202)
Interest on student loans, net	<u>(9,703)</u>
Increase in permanently restricted net assets	<u>932,716</u>
Decrease in net assets	<u>(11,808,582)</u>
Net assets at beginning of year	<u>178,448,525</u>
Net assets at end of year	\$ <u><u>166,639,943</u></u>

See accompanying notes to financial statements.

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Statement of Cash Flows

Year ended June 30, 2001

Cash flows from operating activities:	\$ (11,808,582)
Decrease in net assets	
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:	
Net depreciation in fair value of investments	11,883,618
Change in value of split-interest agreements	101,825
Depreciation	8,238,549
Amortization	135,574
Write-off of fixed assets	485,720
Revenues and losses restricted for permanent investment	(1,108,918)
Decrease in grants and other receivables	269,338
Increase in prepaid expenses and other assets	(322,438)
Decrease in contributions receivable	88,316
Increase in student accounts receivable	(984,474)
Increase in accounts payable and accrued liabilities	4,409,838
Decrease in deferred revenues and deposits	(2,361,167)
Increase in accrued postretirement benefit obligation	2,387,343
Increase in U.S. Government grants refundable	446,015
Net cash provided by operating activities	<u>11,860,557</u>
Cash flows from investing activities:	
Increase in student loans receivable	(124,976)
Decrease in deferred compensation	(537,360)
Purchase of plant assets	(21,740,250)
Purchase of investments	(97,323,745)
Proceeds from sale of investments	89,233,430
Net cash used in investing activities	<u>(30,492,901)</u>
Cash flows from financing activities:	
Revenues and losses from contributions restricted for permanent investment	1,108,918
Decrease in contributions receivable restricted for permanent investment	1,388,872
Decrease in liabilities under split-interest agreements, net	(349,875)
Increase in notes payable	20,000,000
Repayment of notes payable	(6,000,000)
Repayment of indebtedness	(1,177,600)
Increase in funds held by bond trustees	(645,157)
Net cash provided by financing activities	<u>14,325,158</u>
Net decrease in cash and cash equivalents	(4,307,186)
Cash and cash equivalents at beginning of year	<u>4,507,462</u>
Cash and cash equivalents at end of year	<u>\$ 200,276</u>
Supplemental disclosure:	
Interest paid	<u>\$ 5,294,962</u>

See accompanying notes to financial statements.

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Notes to Financial Statements

June 30, 2001 and 2000

(1) Nature of Operations

Pace University (the University) is an independent, coeducational, nonsectarian, not-for-profit institution of higher education with campuses in New York City and Westchester County. The University was founded in 1906 and was granted college status in 1948 by the New York State Board of Regents. It is exempt from Federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code.

The University considers teaching and learning its highest priorities. The University's commitment to the individual needs of students is at the heart of its mission. Offering access and opportunity to qualified men and women, the University embraces persons of diverse talents, interests, experiences, and origins who have the will to learn and the desire to participate in University life. The University offers a wide range of academic and professional programs at the graduate and undergraduate levels in six colleges and schools. The University is accredited by major accrediting entities.

(2) Summary of Significant Accounting Policies

The significant accounting policies followed by the University are described below:

(a) *Basis of Presentation*

The University's financial statements are prepared on the accrual basis of accounting in accordance with standards established by the Financial Accounting Standards Board for external financial reporting by not-for-profit organizations. Accordingly, net assets of the University and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed restrictions.

Temporarily restricted net assets - Net assets subject to donor-imposed restrictions that will be met either by actions of the University or the passage of time.

Permanently restricted net assets - Net assets subject to donor-imposed restrictions that stipulate that they be maintained permanently by the University, but permit the University to expend part or all of the income derived therefrom.

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. Expiration of temporary restrictions on net assets is reported as net assets released from restrictions.

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Notes to Financial Statements

June 30, 2001 and 2000

(b) Contributions

Contributions, including unconditional promises to give (pledges), are reported as revenues in the period received or pledged. Contributions with purpose or time restrictions are reported as increases in temporarily restricted net assets and are reclassified to unrestricted net assets when the purpose or time restrictions are met. Contributions subject to donor-imposed stipulations that the corpus be maintained permanently are recognized as increases in permanently restricted net assets.

Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. The University reports contributions of plant assets as increases in unrestricted net assets unless the donor places restrictions on their use. Contributions to be received after one year are discounted at a risk-free rate. An allowance is recorded for uncollectible contributions based on management's judgment, past collection experience, and other relevant factors. Amortization of the discount is recorded as additional contribution revenue in accordance with the donor-imposed restrictions, if any, on the contribution.

(c) Cash Equivalents

The University considers all highly liquid debt instruments with maturities of three months or less at the time of purchase to be cash equivalents, except for those that are purchased by the University's investment managers as part of their investment strategies.

(d) Plant Assets

Plant assets are stated as follows:

- Land, land improvements, and buildings – at cost.
- Equipment – at cost.
- Library books – at nominal amount of \$1 per volume.

Depreciation of plant assets is computed on a straight-line basis over their estimated useful lives. No depreciation is computed in the year assets are acquired and a full year's depreciation is computed in the year of disposition. Depreciable lives of land improvements, buildings, and building improvements range from 16 years to 92 years and the depreciable life of equipment is 10 years.

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Notes to Financial Statements

June 30, 2001 and 2000

(e) U.S. Government Grants Refundable

Funds provided by the U.S. Government under the Federal Perkins and Nursing Student Loan programs are loaned to qualified students and may be reloaned after collection. These funds are ultimately refundable to the Government and are presented in the accompanying balance sheet as a liability.

(f) Split-Interest Agreements

The University's split-interest agreements with donors consist primarily of irrevocable charitable remainder trusts and charitable gift annuities for which the University serves as trustee. Assets associated with such split-interest agreements are included in investments. Contributions are recognized at the date the trusts are established or when funds are transferred from the donor to the University after recording liabilities for the present value of the estimated future payments to be made to the donors and/or other beneficiaries. The liabilities are adjusted annually for changes in the value of the assets, accretion of the discount, and other changes in the estimates of future benefits.

(g) Operations

The statement of changes in unrestricted net assets distinguishes between operating and nonoperating activities. Nonoperating activities principally include investment return in excess of (or less than) amounts authorized for spending by the University's Board of Trustees (see note 3), investment return on funds held by bond trustees, gain or loss on fixed asset disposal, if any, and depreciation.

(h) Accounting 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

(i) Other Significant Accounting Policies

Other significant accounting policies are set forth in the following notes.

(3) Investments and Investment Return

Investments are carried at fair value based upon quoted market prices or values provided by the University's external investment managers if no quoted market prices exist.

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Notes to Financial Statements

June 30, 2001 and 2000

The following tabulation summarizes the composition of investments at June 30, 2001 and 2000:

	2001		2000	
	Cost	Fair value	Cost	Fair value
Cash and cash equivalents	\$ 9,199,387	9,232,468	8,068,156	8,128,004
Common stocks	31,057,396	32,370,977	34,101,885	40,142,780
Mutual funds – pooled:				
Equity	46,811,397	41,410,064	31,909,105	38,383,747
Fixed income	13,769,615	14,059,121	23,900,668	22,443,813
Mutual funds – deferred compensation	4,034,914	4,386,651	4,602,669	6,142,827
U.S. Government bonds	11,289,947	10,503,078	590,525	556,179
Collateralized mortgage obligations	119,068	112,782	133,499	127,198
Municipal bonds	791,911	757,772	776,478	701,668
	<u>\$ 117,073,635</u>	<u>112,832,913</u>	<u>104,082,985</u>	<u>116,626,216</u>

Investments include \$2,275,095 and \$2,346,466 of assets held under split-interest agreements at June 30, 2001 and 2000, respectively.

The University maintains an investment pool for certain investments. The pool is managed to achieve the maximum prudent long-term total return. The University's Board of Trustees has authorized a policy designed to preserve the value of these investments in real terms (after inflation) and provide a predictable flow of funds to support operations. This policy permits the use of total return (dividend and interest income and investment gains) at a rate (spending rate) of 5% of the three-year moving average fair value of the pooled investments. In accordance with the above spending rate, \$3,353,186 of investment return was made available for the year ended June 30, 2001 to support operations of the University. In addition, the University also utilized \$1,330,197 of investment return earned on short-term and other non-pooled investments to support operations.

The following summarizes the University's total investment return (excluding investment return on assets held under split-interest and deferred compensation arrangements) and its classification in the financial statements for the year ended June 30, 2001:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Dividends and interest on investments (net of expenses of \$475,143)	\$ 1,763,407	1,385,524	4,118	3,153,049
Net depreciation in fair value of investments	<u>(3,251,052)</u>	<u>(8,602,724)</u>	<u>(29,842)</u>	<u>(11,883,618)</u>
Total return on investments	<u>(1,487,645)</u>	<u>(7,217,200)</u>	<u>(25,724)</u>	<u>(8,730,569)</u>
Investment return utilized in operations	<u>2,602,600</u>	<u>2,080,783</u>	—	<u>4,683,383</u>
Utilization of prior year's accumulated investment return	<u>\$ (4,090,245)</u>	<u>(9,297,983)</u>	<u>(25,724)</u>	<u>(13,413,952)</u>

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Notes to Financial Statements

June 30, 2001 and 2000

(4) Contributions Receivable

Unconditional promises to give are reported in the financial statements as contributions receivable and as revenue of the appropriate net asset class. Contributions receivable due more than one year from the date of the financial statements are recorded net of a discount to reflect the present value of future cash flows. Contributions receivable consist of the following at June 30, 2001 and 2000:

	2001	2000
Amounts expected to be collected in:		
Less than one year	\$ 324,266	2,486,194
One to five years	3,106,716	2,319,221
	3,430,982	4,805,415
Less discount to present value, at 6.5%	(642,379)	(490,192)
Less allowance for uncollectible amounts	(202,905)	(252,337)
	\$ 2,585,698	4,062,886

(5) Plant Assets

Plant assets at June 30, 2001 and 2000 consist of the following:

	2001	2000
Land	\$ 11,285,092	7,654,408
Land improvements	5,546,632	5,437,526
Buildings and building improvements	200,087,087	187,832,091
Equipment	65,096,055	60,233,909
Library books	872,939	857,162
Total	282,887,805	262,015,096
Less accumulated depreciation	(74,956,208)	(67,099,480)
	\$ 207,931,597	194,915,616

(6) Notes Payable

To meet its short-term working capital needs, the University has a \$40,000,000 revolving line of credit which expires on December 31, 2001. Interest on the line of credit is based on the prime or fixed rate of the banking institution or the adjusted Eurodollar rate plus 0.75%. At June 30, 2001, \$20,000,000 was outstanding under the line of credit at an average interest rate of 4.7%. At June 30, 2000, \$6,000,000 was outstanding at an interest rate of 7.5%. Interest incurred for the year ended June 30, 2001 was \$479,068, of which \$282,213 has been capitalized in plant assets.

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Notes to Financial Statements

June 30, 2001 and 2000

(7) Long-Term Debt

Long-term debt at June 30, 2001 and 2000 consists of the following:

	2001	2000
Long-term leases of the Dormitory Authority of the State of New York (a):		
Revenue Bonds, Pace University issue, \$26,075,000, Series 2000, due serially to 2029 at interest rates ranging from 4.75% to 5.88% per annum, net of unamortized original issue premium of \$263,888 and \$273,312, at June 30, 2001 and 2000, respectively	\$ 26,338,888	26,348,312
Revenue Bonds, Pace University issue, \$60,000,000, Series 1997, due serially to 2026 at interest rates ranging from 5% to 5.75% per annum, net of unamortized original issue discount of \$686,673 and \$714,140 at June 30, 2001 and 2000, respectively	56,973,327	57,920,860
Bonds payable to the U.S. Department of Housing and Urban Development (b):		
Bonds issued to Briarcliff College assumed by Pace University as a result of a purchase agreement in 1977 with Briarcliff College maturing in annual installments ranging from \$42,000 to \$101,000 through 2016:		
1954 issue, \$224,000, at 3.6%	49,000	67,000
1961 issue, \$548,000, at 3.5%	263,000	282,000
1966 issue, \$1,115,000, at 3%	640,000	670,000
Bonds issued to the College of White Plains assumed by Pace University as a result of a consolidation in 1975 with the College of White Plains, maturing in annual installments ranging from \$20,000 to \$45,000 through 2016 with interest at 3%	672,500	705,000
Interest-free loan due to the New York State Power Authority payable monthly through May 2002 (c)	93,227	196,328
Total long-term debt	\$ 85,029,942	86,189,500

(a) The Series 2000 Revenue Bonds payable to the Dormitory Authority of the State of New York (the Authority) were issued to finance the acquisition and renovation of a 15-story building located in lower Manhattan. The 76,000 square foot building will be used by the University for student and staff housing and other related activities. The Series 2000 Revenue Bonds are secured by tuition and fees in an amount equal to the interest, principal, and sinking fund installments required in a given year. Under the Series 2000 bond agreement, the University maintains a debt service reserve fund on deposit with a trustee. At June 30, 2001 and 2000, \$3,154,622 and \$2,281,586, respectively, of debt service reserve funds and \$2,922,343 and \$3,460,311, respectively, of construction and capitalized interest funds were included in funds held by bond trustees, at fair value.

The Series 1997 Revenue Bonds payable to the Authority were issued to finance various projects and retire other indebtedness of the University as follows: retirement of the credit agreement with The Chase Manhattan Bank used to initially finance the construction of the Goldstein Center; expansion of instructional space at the law school on the White Plains campus; technology initiatives, including various acquisitions of equipment and installation of networks and connections; renovation and repair projects (including preservation and enhancement) to extend the useful lives of various facilities; acquisition of property adjacent to the White Plains

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Notes to Financial Statements

June 30, 2001 and 2000

campus; and retirement of the remaining principal outstanding on the Series 1985 Revenue Bonds. The Series 1997 Revenue Bonds are secured by mortgages on certain of the University's properties, security interest in certain fixtures, furnishings, and equipment and pledges of revenues limited in each year to the greatest amount payable by the Authority in any bond year for the principal. Under the Series 1997 bond agreement, the University maintains a debt service reserve fund on deposit with a trustee. At June 30, 2001 and 2000, \$7,282,815 and \$7,348,108, respectively, of debt service reserve funds and \$682,179 and \$332,224, respectively, of building and equipment reserve funds were included in funds held by bond trustees, at fair value.

- (b) The bond issues are secured by first mortgages on the dormitory facilities and liens on and pledges of the net revenues derived from the operation of the facilities.
- (c) The loan is secured by a first-lien security interest in the energy-efficiency equipment and machinery purchased with the loan proceeds.

Interest incurred for the year ended June 30, 2001 was \$4,893,851, of which \$1,199,504 has been capitalized in plant assets.

(8) Debt Service – Long-Term Debt

Debt service relating to long-term debt for the next five years is as follows:

<u>Year ending</u>	<u>Long-term lease</u>	<u>Bonds payable</u>	<u>Loan payable</u>	<u>Total</u>
June 30, 2002:				
Principal	\$ 1,485,000	98,000	93,227	1,676,227
Interest, reserves, and fees	4,746,118	58,339	—	4,804,457
	<u>\$ 6,231,118</u>	<u>156,339</u>	<u>93,227</u>	<u>6,480,684</u>
June 30, 2003:				
Principal	\$ 1,560,000	100,000	—	1,660,000
Interest, reserves, and fees	4,671,868	55,227	—	4,727,095
	<u>\$ 6,231,868</u>	<u>155,227</u>	<u>—</u>	<u>6,387,095</u>
June 30, 2004:				
Principal	\$ 1,640,000	119,000	—	1,759,000
Interest, reserves, and fees	4,593,868	52,050	—	4,645,918
	<u>\$ 6,233,868</u>	<u>171,050</u>	<u>—</u>	<u>6,404,918</u>
June 30, 2005:				
Principal	\$ 1,715,000	93,000	—	1,808,000
Interest, reserves, and fees	4,511,868	47,665	—	4,559,533
	<u>\$ 6,226,868</u>	<u>140,665</u>	<u>—</u>	<u>6,367,533</u>
June 30, 2006:				
Principal	\$ 1,805,000	94,000	—	1,899,000
Interest, reserves, and fees	4,426,118	44,765	—	4,470,883
	<u>\$ 6,231,118</u>	<u>138,765</u>	<u>—</u>	<u>6,369,883</u>

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Notes to Financial Statements

June 30, 2001 and 2000

(9) Judicial Training Institute

On April 5, 2000, the University entered into a loan agreement with the Authority for the issuance of up to \$17,500,000 State Judicial Institute at Pace University Insured Lease Revenue Bonds, Series 2000 (the bonds) dated July 1, 2000. In July 2000, bonds with a face value of \$16,105,000 plus accrued interest were issued. Proceeds from the bonds will be used to finance the construction of a judicial training facility on the University's White Plains campus to serve as the New York State Judicial Training Institute (the Institute). The Institute was established to serve as a statewide center for continuing education, training, and research for all judges and justices of the Unified Court System (the System). The bonds are due serially through 2020 at interest rates ranging from 4.5% to 5.5% per annum with interest payable every October 1 and principal, sinking fund installments, and interest payable every April 1. These bonds are solely payable from certain revenues, funds, and assets pledged by the System as security for the payment thereof, including certain rental payments to be made by the System to the University pursuant to an agreement of sublease, also dated April 5, 2000, in amounts sufficient to pay the principal, sinking fund installments, and interest on the bonds. Payments to be made under the sublease have been assigned to the Authority pursuant to an assignment of sublease and rent agreement, dated April 5, 2000, between the University and the Authority that requires the System to make payments to the Authority by March 31 of each year. The loan agreement between the Authority and the University is without recourse to the University and the University's obligation thereunder on account of payments due on the Series 2000 Bonds are payable solely from the aforesaid rental payments as received under the sublease with the System. The obligation of the System to make payments of rent under the sublease is subject to annual appropriations by the State of New York for such purpose. The bond proceeds and related obligation are not included in the accompanying financial statements.

(10) Retirement and Deferred Compensation Plans

The University has defined contribution retirement annuity plans with Teachers' Insurance and Annuity Association of America and College Retirement Equities Fund, Fidelity Investments, and T. Rowe Price which cover substantially all full-time employees. The University makes annual plan contributions which are vested immediately for the benefit of the participants. The University's contributions under the plan for the year ended June 30, 2001 amounted to \$5,295,877.

The University offers a deferred compensation plan to substantially all full-time employees. Amounts deferred are invested by the University in consultation with the participant. Such amounts consist of cash and cash equivalents and mutual funds and are included in investments (\$9,077,514 in 2001 and \$9,604,874 in 2000) in the accompanying balance sheets and continue to be the assets of the University subject to claims of its creditors. Contributions to this plan have been limited since the enactment of the Tax Reform Act of 1986.

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Notes to Financial Statements

June 30, 2001 and 2000

(11) Postretirement Benefits Other Than Pensions

The University sponsors a plan to provide certain health care and life insurance benefits for retirees. The University's employees may become eligible for these benefits if they retire while working for the University. Benefits and eligibility may be modified from time to time.

Information with respect to this unfunded plan as of June 30, 2001 and 2000 and for the year ended June 30, 2001 is as follows:

	2001	2000
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 33,777,650	35,416,029
Service cost	1,070,775	906,248
Interest cost	2,929,672	2,083,185
Benefits paid	(1,268,590)	(806,106)
Plan amendments	(1,193,755)	(1,852,122)
Actuarial loss	8,917,453	(1,969,584)
Benefit obligation at end of year	\$ 44,233,205	33,777,650
Funded status	\$ (44,233,205)	(33,777,650)
Prior service cost	(2,682,656)	(1,746,221)
Unrecognized net gain	(605,687)	(9,610,334)
Accrued postretirement benefit obligation	\$ (47,521,548)	(45,134,205)

The net periodic postretirement benefit expense for 2001 includes the following components:

	2001
Service cost	\$ 1,070,775
Interest cost	2,929,672
Amortization of prior service cost	(257,320)
Amortization of net gain	(87,194)
Net periodic postretirement benefit expense	\$ 3,655,933

For measurement purposes, for 2001, a 6% annual rate of increase in the per capita cost of covered health care benefits was assumed for pre-age and post-age 65 coverage, decreasing to 5% by the fiscal year 2006 and remaining at those levels thereafter. The health care cost trend rate assumption has a significant effect on the accrual. A 1% increase in the rate translates to an increase in the accumulated postretirement benefit obligation of \$5,307,985 and an increase in the service and interest cost of \$581,046. A 1% decrease in the rate translates to a decrease in the accumulated postretirement benefit obligation of \$4,423,321 and a decrease in the service and interest cost of \$466,257.

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The weighted average discount rate used in determining the accumulated postretirement benefit obligation was 8%.

During 2001, the plan was amended to reflect an increase in the retail prescription drug copay from \$5 to \$10 and the elimination of postretirement welfare benefit coverage for employees hired after October 1, 2000.

The first amendment reduces the medical plan liabilities by \$1,200,000 and the expense by \$150,000. The expense reduction includes a prior service cost amortization component of \$154,000 that will reduce the postretirement benefit expense over the next 12 years. The second amendment has no impact on the accumulated benefit obligation since it only impacts future hires.

During 2000, the Plan was amended to reflect a change in the primary medical plan from an indemnity plan to a point-of-service plan, and an increase in out-of-pocket limit from \$1,000 to \$1,800. The effect of these amendments reduce the medical plan liabilities by \$1,900,000.

(12) Faculty Retirement Incentive Plan

During fiscal 2000, the University offered an early retirement incentive plan (the Plan) to qualified faculty. Under the Plan, qualified faculty had the option of (1) electing to receive one and one-half years of base salary at the last full-time salary prior to retirement paid over eighteen months immediately following retirement, or (2) teaching an annual one-half of the normal course load compensated at the rate of 75% of regular annual base salary and continuation of benefits for three years. At June 30, 2001 and 2000, the present value (discounted at 6.5%) of the amounts due under the Plan was \$3,559,000 and \$5,200,000, respectively, and is included in accounts payable and accrued liabilities in the accompanying balance sheets.

(13) Commitments

Leases

The University leases office and classroom space under several lease agreements expiring at various dates through October 31, 2021. The minimum annual rentals in connection with such leases are as follows:

<u>Year ending June 30</u>	<u>Amount</u>
2002	\$ 6,032,315
2003	4,749,195
2004	4,708,430
2005	4,037,292
2006	4,071,178
2007 and thereafter	<u>47,693,224</u>
	\$ <u>71,291,634</u>

Total rental expense for the year ended June 30, 2001 was \$7,958,955.

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(14) Self-Insurance

Effective January 1, 1993, the University established a self-insurance plan for employee medical benefits, exclusive of those benefits provided by Health Maintenance Organizations (HMO's). Under the provisions of this plan, insurance carriers provide claims processing and administrative functions, as well as stop-loss coverage for claims (on a calendar year basis) in excess of \$6,560,860 for the year ending December 31, 2001. The expense for this program for the year ended June 30, 2001 was approximately \$5,415,000. A liability for claims incurred but not reported of approximately \$1,169,000 and \$1,089,000 as of June 30, 2001 and 2000, respectively, is included in accounts payable and accrued liabilities in the accompanying balance sheets.

(15) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets at June 30, 2001 and 2000 are principally available to support the Lubin School of Business and academic chairs. Certain temporarily restricted net assets available to support the Lubin School of Business are expendable only for projects approved by the donor's designee.

Permanently restricted net assets at June 30, 2001 and 2000 are restricted to investment in perpetuity, with investment return principally available to support scholarships and fellowships and academic chairs.

(16) Scholarships and Fellowships

Tuition and fees are presented net of amounts awarded to students to defray their cost of attending the University. The amount awarded totaled \$31,181,141 for the year ended June 30, 2001.

(17) Expenses

Expenses are reported in the statement of changes in unrestricted net assets in categories recommended by the National Association of College and University Business Officers. The University's primary program services are instruction and research. Expenses reported as academic support, student services, and auxiliary enterprises are incurred in support of these primary program services. Institutional support includes fund-raising expenses of \$2,628,144 for the year ended June 30, 2001. For purposes of reporting fund-raising expenses, the University includes only those fund-raising costs incurred by its institutional advancement office.

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(18) Fair Value of Financial Instruments

The carrying amount of cash, student accounts receivable and grants and other receivables, accounts payable and accrued liabilities, and notes payable approximates fair value because of the short maturity of these financial instruments. The fair value of investments and contributions are disclosed in notes 3 and 4, respectively.

A reasonable estimate of the fair value of loans receivable from students under government loan programs could not be made because the notes are not salable and can only be assigned to the U.S. Government or its designees. The fair value of the loans receivable from students under University loan programs approximates carrying value.

The carrying amount of long-term debt approximates fair value because these financial instruments bear interest at various rates, which, when averaged, are not significantly different from current market rates for loans with similar maturities and credit quality.

(19) Allocation of Certain Expenses

The University allocates operation and maintenance of plant, depreciation, and interest expenses based upon building square footage and the use of each facility. For the year ended June 30, 2001, the following allocation of expenses was included in the statement of changes in unrestricted net assets:

	<u>Allocated expenses</u>				Total per statement of changes in unrestricted net assets
	Operation and maintenance of plant	Depreciation	Interest and other debt- related	Direct expenses	
Instruction	\$ 4,581,224	1,974,870	830,693	80,804,505	88,191,292
Research	85,397	36,813	15,485	1,726,969	1,864,664
Academic support	3,244,767	1,398,752	588,359	23,133,890	28,365,768
Student services	2,365,004	1,019,504	428,836	22,356,772	26,170,116
Institutional support	2,267,033	977,271	607,926	30,940,614	34,792,844
Auxiliary enterprises	6,568,026	2,831,339	1,767,813	13,756,417	24,923,595
Total	\$ <u>19,111,451</u>	<u>8,238,549</u>	<u>4,239,112</u>	<u>172,719,167</u>	<u>204,308,279</u>

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(20) Contingency

The University is involved in various legal proceedings and claims arising in the normal course of business. Management of the University does not expect the ultimate resolution of these actions to have a material adverse effect on the University's financial position.

The action pending, at June 30, 2000, in New York State Supreme Court, Westchester County, commenced by the Sisters of Divine Compassion of the State of New York (the Religious Order) was amicably resolved on February 14, 2001. The resolution consisted of an exchange of real property between the parties in which the University purchased land previously leased from the Religious Order. Total consideration paid to the Religious Order for acquisition of this property amounted to \$3,721,646.

(21) Subsequent Events

As a result of the September 11, 2001 attack on the World Trade Center, the leased space and all equipment, furniture, and fixtures where the University's World Trade Institute operated were totally destroyed. In addition, the University suffered some damage to its Pace Plaza and Park Row buildings due to debris and the use of these buildings as staging and triage areas by emergency services workers. The University's New York City campus operations were temporarily suspended until electrical power and other utility services could be restored, the campus buildings could be cleaned, appropriate certifications were received from a structural engineer and an environmental consultant retained by the University, and the City of New York provided clearance that it was safe to resume operations. On September 19, 2001, the University reopened the New York City campus and began a five-day phase-in of operations. A full academic and administrative schedule resumed on September 24, 2001. All necessary repairs to the Pace Plaza and Park Row buildings have been completed. The World Trade Institute immediately resumed operations in shared space at the University's Midtown New York City location and since then has relocated to short-term temporary leased space until design and construction are completed on its long-term space. The University has insurance policies covering loss of physical property, as well as business income interruption. Based on meetings with the University's insurance brokers, consultants and carriers, management is confident that direct losses suffered by the University will be substantially covered by its insurance policies.

The University's Westchester campus academic and administrative operations were physically unaffected by the events that transpired on September 11, 2001.