



PACE UNIVERSITY

Financial Statements

June 30, 2002 and 2001

(With Independent Auditors' Report Thereon)

PACE UNIVERSITY

Balance Sheets

June 30, 2002 and 2001

| Assets | <u>2002</u> | <u>2001</u> |
|---|-----------------------|--------------------|
| Cash and cash equivalents | \$ 245,813 | 200,276 |
| Student accounts receivable (net of allowance for doubtful accounts of \$1,479,000 in 2002 and 2001) | 6,215,715 | 7,330,233 |
| Grants and other receivables (note 21) | 16,435,514 | 9,192,248 |
| Prepaid expenses and other assets | 5,959,966 | 5,976,685 |
| Contributions receivable, net (note 4) | 2,720,666 | 2,585,698 |
| Investments (notes 3 and 10) | 81,813,540 | 112,832,913 |
| Student loans receivable (net of allowance for doubtful accounts of \$1,806,000 and \$1,781,000 in 2002 and 2001, respectively) | 13,752,455 | 12,618,884 |
| Funds held by bond trustees (note 7) | 11,898,388 | 14,073,960 |
| Plant assets (notes 5 and 7) | <u>238,606,958</u> | <u>207,931,597</u> |
| Total assets | <u>\$ 377,649,015</u> | <u>372,742,494</u> |
| Liabilities and Net Assets | | |
| Liabilities: | | |
| Accounts payable and accrued liabilities (notes 12 and 14) | \$ 26,221,017 | 28,022,022 |
| Notes payable (note 6) | 35,000,000 | 20,000,000 |
| Deferred revenues and deposits | 4,451,692 | 4,244,623 |
| Liability under split-interest agreements | 914,295 | 966,422 |
| Long-term debt (notes 7 and 8) | 83,441,757 | 85,029,942 |
| Deferred compensation (note 10) | 8,142,535 | 8,974,876 |
| Accrued postretirement benefit obligation (note 11) | 49,742,786 | 47,521,548 |
| U.S. Government grants refundable | 11,900,662 | 11,343,118 |
| Total liabilities | <u>219,814,744</u> | <u>206,102,551</u> |
| Net assets: | | |
| Unrestricted | 90,276,232 | 90,126,843 |
| Temporarily restricted (note 15) | 21,858,295 | 31,958,527 |
| Permanently restricted (note 15) | 45,699,744 | 44,554,573 |
| Total net assets | <u>157,834,271</u> | <u>166,639,943</u> |
| Total liabilities and net assets | <u>\$ 377,649,015</u> | <u>372,742,494</u> |

See accompanying notes to financial statements.

PACE UNIVERSITY
 Statements of Changes in Unrestricted Net Assets
 Years ended June 30, 2002 and 2001

| | Operating | Nonoperating | Total | |
|--|----------------------|--------------------|--------------------|--------------------|
| | | | 2002 | 2001 |
| Revenues: | | | | |
| Tuition and fees, net (note 16) | \$ 166,293,214 | — | 166,293,214 | 160,548,634 |
| State appropriations | 1,235,981 | — | 1,235,981 | 1,310,418 |
| Contributions (note 17) | 943,646 | — | 943,646 | 598,372 |
| Investment return (note 3) | 1,356,291 | (3,127,121) | (1,770,830) | (1,487,645) |
| Investment return on funds held by bond trustees | — | 344,478 | 344,478 | (57,135) |
| Sales and services of auxiliary enterprises | 16,077,684 | — | 16,077,684 | 17,487,186 |
| Other sources | 4,523,650 | — | 4,523,650 | 3,796,128 |
| Net assets released from restrictions | 20,895,328 | — | 20,895,328 | 18,194,505 |
| Total revenues | 211,325,794 | (2,782,643) | 208,543,151 | 200,390,463 |
| Expenses (notes 17 and 19): | | | | |
| Instruction | 90,602,574 | 2,110,921 | 92,713,495 | 88,191,292 |
| Research | 1,883,040 | 39,349 | 1,922,389 | 1,864,664 |
| Academic support | 28,843,012 | 1,480,347 | 30,323,359 | 28,365,768 |
| Student services | 27,493,897 | 1,089,738 | 28,583,635 | 26,170,116 |
| Institutional support | 33,836,314 | 1,045,342 | 34,881,656 | 34,792,844 |
| Auxiliary enterprises | 20,198,759 | 3,026,393 | 23,225,152 | 24,923,595 |
| Total expenses | 202,857,596 | 8,792,090 | 211,649,686 | 204,308,279 |
| Losses and related recoveries (note 21): | | | | |
| Costs and losses related to events of September 11, 2001 | (2,859,749) | — | (2,859,749) | — |
| Insurance recoveries | 6,115,673 | — | 6,115,673 | — |
| Excess insurance recoveries over costs and losses | 3,255,924 | — | 3,255,924 | — |
| Transfer for repayment of indebtedness | (1,606,227) | 1,606,227 | — | — |
| Increase (decrease) in unrestricted net assets | \$ 10,117,895 | (9,968,506) | 149,389 | (3,917,816) |

See accompanying notes to financial statements.

PACE UNIVERSITY
 Statements of Changes in Net Assets
 Years ended June 30, 2002 and 2001

| | <u>2002</u> | <u>2001</u> |
|--|-----------------------|---------------------|
| Increase (decrease) in unrestricted net assets | \$ 149,389 | (3,917,816) |
| Changes in temporarily restricted net assets: | | |
| Government grants and contracts | 8,402,991 | 7,489,906 |
| Private gifts and grants (note 17) | 10,399,886 | 8,762,749 |
| Investment return (note 3) | (8,045,578) | (7,217,200) |
| Change in value of split-interest agreements | 37,797 | 335,568 |
| Net assets released from restrictions | <u>(20,895,328)</u> | <u>(18,194,505)</u> |
| Decrease in temporarily restricted net assets | <u>(10,100,232)</u> | <u>(8,823,482)</u> |
| Changes in permanently restricted net assets: | | |
| Contributions (note 17) | 1,370,539 | 1,144,345 |
| Investment return (note 3) | (190,468) | (25,724) |
| Change in value of split-interest agreements | (49,241) | (176,202) |
| Interest on student loans, net | <u>14,341</u> | <u>(9,703)</u> |
| Increase in permanently restricted net assets | <u>1,145,171</u> | <u>932,716</u> |
| Decrease in net assets | (8,805,672) | (11,808,582) |
| Net assets at beginning of year | <u>166,639,943</u> | <u>178,448,525</u> |
| Net assets at end of year | <u>\$ 157,834,271</u> | <u>166,639,943</u> |

See accompanying notes to financial statements.

PACE UNIVERSITY
 Statements of Cash Flows
 Years ended June 30, 2002 and 2001

| | <u>2002</u> | <u>2001</u> |
|---|---------------------|---------------------|
| Cash flows from operating activities: | | |
| Decrease in net assets | \$ (8,805,672) | (11,808,582) |
| Adjustments to reconcile decrease in net assets to net cash provided by operating activities: | | |
| Net depreciation in fair value of investments | 11,955,956 | 11,883,618 |
| Change in value of split-interest agreements | (11,444) | 159,366 |
| Depreciation | 8,806,110 | 8,238,549 |
| Amortization | 135,574 | 135,574 |
| Write-off of fixed assets | 344,917 | 485,720 |
| Revenues and losses restricted for permanent investment | (1,384,880) | (1,134,642) |
| Decrease (increase) in student accounts receivable | 1,114,518 | (984,474) |
| (Increase) decrease in grants and other receivables | (7,243,266) | 269,338 |
| Increase in prepaid expenses and other assets | (100,813) | (322,438) |
| (Increase) decrease in contributions receivable | (48,127) | 88,316 |
| (Decrease) increase in accounts payable and accrued liabilities | (1,801,005) | 4,409,838 |
| Increase (decrease) in deferred revenues and deposits | 207,069 | (2,361,167) |
| Increase in accrued postretirement benefit obligation | 2,221,238 | 2,387,343 |
| Increase in U.S. Government grants refundable | 557,544 | 446,015 |
| Net cash provided by operating activities | <u>5,947,719</u> | <u>11,892,374</u> |
| Cash flows from investing activities: | | |
| Increase in student loans receivable | (1,133,571) | (124,976) |
| Decrease in deferred compensation | (832,341) | (537,360) |
| Purchase of plant assets | (39,826,388) | (21,740,250) |
| Purchase of investments | (74,734,250) | (97,323,745) |
| Proceeds from sale of investments | 93,797,667 | 89,233,430 |
| Net cash used in investing activities | <u>(22,728,883)</u> | <u>(30,492,901)</u> |
| Cash flows from financing activities: | | |
| Revenues and losses from contributions restricted for permanent investment | 1,384,880 | 1,134,642 |
| (Increase) decrease in contributions receivable restricted for permanent investment | (86,841) | 1,388,872 |
| Decrease in liabilities under split-interest agreements, net | (40,683) | (407,416) |
| Increase in notes payable | 52,500,000 | 20,000,000 |
| Repayment of notes payable | (37,500,000) | (6,000,000) |
| Repayment of indebtedness | (1,606,227) | (1,177,600) |
| Decrease (increase) in funds held by bond trustees | 2,175,572 | (645,157) |
| Net cash provided by financing activities | <u>16,826,701</u> | <u>14,293,341</u> |
| Net increase (decrease) in cash and cash equivalents | 45,537 | (4,307,186) |
| Cash and cash equivalents at beginning of year | <u>200,276</u> | <u>4,507,462</u> |
| Cash and cash equivalents at end of year | <u>\$ 245,813</u> | <u>200,276</u> |
| Supplemental disclosure: | | |
| Interest paid | <u>\$ 5,587,733</u> | <u>5,294,962</u> |

See accompanying notes to financial statements.

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Notes to Financial Statements

June 30, 2002 and 2001

(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.

(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

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June 30, 2002 and 2001

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.

(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 sheets 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 statements 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

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depreciation. Fixed asset disposals resulting from the events of September 11, 2001 are recorded in operations as required by generally accepted accounting principles.

(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.

The following tabulation summarizes the composition of investments at June 30, 2002 and 2001:

| | 2002 | | 2001 | |
|---|----------------------|-------------------|--------------------|--------------------|
| | Cost | Fair value | Cost | Fair value |
| Cash and cash equivalents | \$ 1,720,225 | 1,769,630 | 4,670,544 | 4,652,886 |
| Cash and cash equivalents – deferred compensation | 4,297,442 | 4,343,299 | 4,528,843 | 4,579,582 |
| Common stocks | 24,926,541 | 22,245,174 | 31,057,396 | 32,370,977 |
| Mutual funds – pooled: | | | | |
| Equity | 27,937,592 | 22,538,876 | 46,811,397 | 41,410,064 |
| Fixed income | 17,197,389 | 17,884,799 | 13,769,615 | 14,059,121 |
| Mutual funds – deferred compensation | 3,800,012 | 3,795,310 | 4,034,914 | 4,386,651 |
| Alternative investments | 7,471,450 | 7,381,187 | — | — |
| U.S. Government bonds | 951,854 | 979,970 | 11,289,947 | 10,503,078 |
| Collateralized mortgage obligations | 103,549 | 97,256 | 119,068 | 112,782 |
| Municipal bonds | 776,443 | 778,039 | 791,911 | 757,772 |
| | <u>\$ 89,182,497</u> | <u>81,813,540</u> | <u>117,073,635</u> | <u>112,832,913</u> |

Investments include \$2,156,297 and \$2,275,095 of assets held under split-interest agreements at June 30, 2002 and 2001, respectively.

Alternative investments consist of two hedge funds. They are less liquid than the University's other investments.

During the year ended June 30, 2002, the University withdrew \$15 million from its investment portfolio to finance a portion of the construction of certain capital projects.

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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, \$3,777,553 and \$3,353,186 of investment return was made available for the years ended June 30, 2002 and 2001, respectively, to support operations of the University. In addition, the University recognized negative investment return of \$47,247 in fiscal 2002 and utilized \$1,330,197 of investment return earned in fiscal 2001 on short-term and other nonpooled 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 years ended June 30, 2002 and 2001:

| | <u>Unrestricted</u> | <u>Temporarily restricted</u> | <u>Permanently restricted</u> | <u>Total</u> |
|--|-----------------------|-----------------------------------|-----------------------------------|---------------------|
| 2002: | | | | |
| Dividends and interest on investments (net of expenses of \$499,425) | \$ 516,751 | 1,401,012 | 31,317 | 1,949,080 |
| Net depreciation in fair value of investments | <u>(2,287,581)</u> | <u>(9,446,590)</u> | <u>(221,785)</u> | <u>(11,955,956)</u> |
| Total return on investments | (1,770,830) | (8,045,578) | (190,468) | (10,006,876) |
| Investment return utilized in operations | <u>1,356,291</u> | <u>2,374,015</u> | — | <u>3,730,306</u> |
| Utilization of prior years' accumulated investment return | <u>\$ (3,127,121)</u> | <u>(10,419,593)</u> | <u>(190,468)</u> | <u>(13,737,182)</u> |
| 2001: | | | | |
| 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 | (1,487,645) | (7,217,200) | (25,724) | (8,730,569) |
| Investment return utilized in operations | <u>2,602,600</u> | <u>2,080,783</u> | — | <u>4,683,383</u> |
| Utilization of prior years' 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
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(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, 2002 and 2001:

| | 2002 | 2001 |
|--|---------------------|------------------|
| Amounts expected to be collected in: | | |
| Less than one year | \$ 455,350 | 324,266 |
| One to five years | 3,091,293 | 3,106,716 |
| | 3,546,643 | 3,430,982 |
| Less discount to present value, at 6.5% | (616,062) | (642,379) |
| Less allowance for uncollectible amounts | (209,915) | (202,905) |
| | \$ 2,720,666 | 2,585,698 |

(5) Plant Assets

Plant assets at June 30, 2002 and 2001 consist of the following:

| | 2002 | 2001 |
|-------------------------------------|-----------------------|--------------------|
| Land | \$ 11,285,092 | 11,285,092 |
| Land improvements | 5,784,728 | 5,546,632 |
| Buildings and building improvements | 233,937,618 | 200,087,087 |
| Equipment | 70,243,331 | 65,096,055 |
| Library books | 886,959 | 872,939 |
| Total | 322,137,728 | 282,887,805 |
| Less accumulated depreciation | (83,530,770) | (74,956,208) |
| | \$ 238,606,958 | 207,931,597 |

(6) Notes Payable

To meet its short-term working capital needs, the University entered into a two tranche \$50,000,000 secured line of credit which expires on March 1, 2003. Tranche A is for \$35,000,000 and interest is based on the prime/fed funds rate of the banking institution or LIBOR plus 0.75%. Tranche B is for \$15,000,000 and interest is based on the prime/fed funds rate of the banking institution or LIBOR plus 1.25%. At June 30, 2002, \$35,000,000 was outstanding under Tranche A of the line of credit at an average interest rate of 2.7%. No amounts were outstanding under Tranche B at June 30, 2002.

The University has an additional \$10,000,000 secured line of credit which expires on December 31, 2002. Interest on the line is based on the prime or money market fixed rate of the banking institution or 1 or 2

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month LIBOR plus 0.75%. At June 30, 2002, no amounts were outstanding under this line of credit.

At June 30, 2001, the University had a \$40,000,000 revolving line of credit which expired on December 31, 2001. At June 30, 2001, \$20,000,000 was outstanding under the line of credit at an average interest rate of 4.7%.

The above lines of credit are secured by certain investments of the University.

Interest incurred for the years ended June 30, 2002 and 2001 was \$806,726 and \$479,068, of which \$769,760 and \$282,213 has been capitalized in plant assets, respectively.

(7) Long-Term Debt

Long-term debt at June 30, 2002 and 2001 consists of the following:

| | 2002 | 2001 |
|--|----------------------|-------------------|
| Long-term leases of the Dormitory Authority of the State of New York (DASNY) (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 \$254,463 and \$263,888, at June 30, 2002 and 2001, respectively | \$ 25,939,463 | 26,338,888 |
| 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 \$659,206 and \$686,673 at June 30, 2002 and 2001, respectively | 55,975,794 | 56,973,327 |
| Bonds payable to the U.S. Department of Housing and Urban Development (HUD) (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% | 37,000 | 49,000 |
| 1961 issue, \$548,000, at 3.5% | 243,000 | 263,000 |
| 1966 issue, \$1,115,000, at 3% | 609,000 | 640,000 |
| 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% | 637,500 | 672,500 |
| Interest-free loan due to the New York State Power Authority payable monthly through May 2002 | — | 93,227 |
| Total long-term debt | \$ 83,441,757 | 85,029,942 |

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- (a) The Series 2000 Revenue Bonds payable to the Dormitory Authority of the State of New York (the Authority or DASNY) 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, 2002 and 2001, \$3,146,458 and \$3,154,622, respectively, of debt service reserve funds and \$516,947 and \$2,922,343, respectively, of construction, capitalized interest, and rebate 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 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, 2002 and 2001, \$7,174,711 and \$7,282,815, respectively, of debt service reserve funds and \$1,028,272 and \$682,179, 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.

Interest incurred for the years ended June 30, 2002 and 2001 was \$4,830,591 and \$4,893,851, of which \$1,120,133 and \$1,199,504 has been capitalized in plant assets, respectively.

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(8) Debt Service – Long-Term Debt

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

| | <u>Long-term leases to DASNY</u> | <u>Bonds payable to HUD</u> | <u>Total</u> |
|------------------------------|--|-------------------------------------|------------------|
| Year ending: | | | |
| 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>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>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>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>6,369,883</u> |
| June 30, 2007: | | | |
| Principal | \$ 1,895,000 | 102,000 | 1,997,000 |
| Interest, reserves, and fees | 4,334,063 | 41,760 | 4,375,823 |
| | <u>\$ 6,229,063</u> | <u>143,760</u> | <u>6,372,823</u> |

(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

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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.

As of June 30, 2002, the construction of the judicial training facility was in process with completion anticipated in early 2003.

(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 years ended June 30, 2002 and 2001 amounted to \$5,533,191 and \$5,295,877, respectively.

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 (\$8,235,172 in 2002 and \$9,077,514 in 2001) 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.

(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.

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Information with respect to this unfunded plan as of and for the years ended June 30, 2002 and 2001 is as follows:

| | 2002 | 2001 |
|---|-----------------|--------------|
| Change in benefit obligation: | | |
| Benefit obligation at beginning of year | \$ 44,233,205 | 33,777,650 |
| Service cost | 1,191,501 | 1,070,775 |
| Interest cost | 3,005,001 | 2,929,672 |
| Benefits paid | (1,631,029) | (1,268,590) |
| Plan amendments | — | (1,193,755) |
| Actuarial (gain) loss | (1,939,814) | 8,917,453 |
| | \$ 44,858,864 | 44,233,205 |
| Funded status | \$ (44,858,864) | (44,233,205) |
| Prior service cost | (2,425,336) | (2,682,656) |
| Unrecognized net gain | (2,458,586) | (605,687) |
| | \$ (49,742,786) | (47,521,548) |

The net periodic postretirement benefit expense for 2002 and 2001 includes the following components:

| | 2002 | 2001 |
|------------------------------------|--------------|-----------|
| Service cost | \$ 1,191,501 | 1,070,775 |
| Interest cost | 3,005,001 | 2,929,672 |
| Amortization of prior service cost | (257,320) | (257,320) |
| Amortization of net gain | (86,915) | (87,194) |
| | \$ 3,852,267 | 3,655,933 |

For measurement purposes, for 2002, a 7% (6% in 2001) 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 fiscal year 2007 and remaining at that level. 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 \$5,383,064 in 2002 (\$5,307,985 in 2001) and an increase in the service and interest cost of \$638,676 in 2002 (\$581,046 in 2001). A 1% decrease in the rate translates to a decrease in the accumulated postretirement benefit obligation of \$4,485,886 in 2002 (\$4,423,321 in 2001) and a decrease in the service and interest cost of \$530,650 in 2002 (\$466,257 in 2001).

The weighted average discount rate used in determining the accumulated postretirement benefit obligation was 7.5% and 8.0% as of June 30, 2002 and 2001, respectively.

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.

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The first amendment reduced the medical plan liabilities by \$1,200,000 and the expense by \$150,000. The expense reduction included 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.

(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, 2002 and 2001, the present value (discounted at 6.5%) of the amounts due under the Plan was \$1,292,000 and \$3,559,000, 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:

| | Amount |
|----------------------|---------------|
| Year ending June 30: | |
| 2003 | \$ 7,188,018 |
| 2004 | 4,708,430 |
| 2005 | 4,037,292 |
| 2006 | 4,245,676 |
| 2007 | 4,514,874 |
| 2008 and thereafter | 47,352,349 |
| | \$ 72,046,639 |

Total rental expense for the years ended June 30, 2002 and 2001 was \$8,888,587 and \$7,958,955, respectively.

(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 (HMOs). 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 \$6,801,309 and \$6,560,860 for the years ending December 31, 2002 and 2001, respectively. The expense for this program for the years ended June 30, 2002 and 2001 was approximately \$5,561,985 and \$5,415,000, respectively. A liability for claims incurred but not reported of approximately \$1,233,000 and \$1,169,000 as of June 30, 2002 and 2001, respectively, is included in accounts payable and accrued liabilities in the accompanying balance sheets.

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(15) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets at June 30, 2002 and 2001 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, 2002 and 2001 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 \$34,038,646 and \$31,181,141 for the years ended June 30, 2002 and 2001, respectively.

(17) Expenses

Expenses are reported in the statements 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 \$3,032,838 and \$2,628,144 for the years ended June 30, 2002 and 2001, respectively. For purposes of reporting fund-raising expenses, the University includes only those fund-raising costs incurred by its institutional advancement office. Contributions and private gifts and grants for the years ended June 30, 2002 and 2001 were \$12,714,071 and \$10,505,466, respectively.

(18) Fair Value of Financial Instruments

The carrying amount of cash, student accounts receivable, 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 is 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.

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(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, 2002 (with comparative totals for 2001), the following allocation of expenses was included in the accompanying statements of changes in unrestricted net assets:

| | <u>Allocated expenses</u> | | | | <u>Total per statement of changes in unrestricted net assets</u> |
|-----------------------|---|---------------------|--|----------------------------|--|
| | <u>Operation and maintenance of plant</u> | <u>Depreciation</u> | <u>Interest and other debt-related</u> | <u>Direct expenses</u> | |
| Instruction | \$ 4,723,938 | 2,110,920 | 818,567 | 85,060,070 | 92,713,495 |
| Research | 88,057 | 39,349 | 15,259 | 1,779,724 | 1,922,389 |
| Academic support | 3,345,848 | 1,495,113 | 579,771 | 24,902,627 | 30,323,359 |
| Student services | 2,438,679 | 1,089,739 | 422,575 | 24,632,642 | 28,583,635 |
| Institutional support | 2,337,656 | 1,044,596 | 442,036 | 31,057,368 | 34,881,656 |
| Auxiliary enterprises | 6,772,632 | 3,026,393 | 1,660,768 | 11,765,359 | 23,225,152 |
| Total 2002 | <u>\$ 19,706,810</u> | <u>8,806,110</u> | <u>3,938,976</u> | <u>179,197,790</u> | <u>211,649,686</u> |
| Total 2001 | <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> |

(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 in 2001 to the Religious Order for acquisition of this property amounted to \$3,721,646.

(21) Impact of September 11, 2001 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.

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The University has insurance policies covering loss of physical property, as well as business interruption. During the fiscal year ended June 30, 2002, the University recorded insurance recoveries totaling \$6,115,673, of which \$4,000,000 was collected prior to June 30, 2002. An insurance recovery receivable in the amount of \$2,115,673 has been recorded and is included in grants and other receivables in the accompanying balance sheets. Costs and losses incurred during the fiscal year ended June 30, 2002 related to the events of September 11, 2001 amounted to \$2,859,749. No amounts for business income interruption have been recorded in the accompanying financial statements.

