PACE UNIVERSITY

Financial Statements

June 30, 2007 and 2006

(With Independent Auditors' Report Thereon)

KPMG LLP
345 Park Avenue
New York, NY 10154

Independent Auditors' Report

The Board of Trustees
Pace University:

We have audited the accompanying balance sheets of Pace University (the University) as of June 30, 2007 and 2006, and the related statements of changes in unrestricted net assets, changes in net assets, and cash flows for the years then ended. 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 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 University'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, the financial statements referred to above present fairly, in all material respects, the financial position of Pace University as of June 30, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

As discussed in note 11 to the financial statements, the University adopted the provisions of Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, in 2007.

KPMG LLP

November 19, 2007

PACE UNIVERSITY

Balance Sheets

June 30, 2007 and 2006

Assets		**2007**	**2006**
Cash and cash equivalents	$	31,851,579	2,399,573
Student accounts receivable (net of allowance for doubtful accounts of $2,418,000 and $2,405,000 in 2007 and 2006, respectively)		4,749,897	9,801,095
Grants and other receivables		15,484,508	16,810,021
Prepaid expenses and other assets		10,867,283	8,067,602
Contributions receivable, net (note 4)		25,695,541	28,243,403
Fair value of derivative instrument (note 7)		2,435,695	2,745,625
Investments (notes 3 and 10)		128,773,585	110,703,217
Student loans receivable (net of allowance for doubtful accounts of $2,053,000 and $1,795,000 in 2007 and 2006, respectively)		15,450,393	14,700,150
Funds held by bond trustees, at fair value (note 7)		9,473,482	9,034,341
Plant assets (notes 5 and 7)		269,109,817	280,601,183
Total assets	$	513,891,780	483,106,210
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued liabilities (notes 13 and 14)	$	35,927,719	37,102,882
Notes payable (note 6)		750,562	22,899,822
Deferred revenues and deposits		5,643,213	6,624,323
Liability under split-interest agreements		672,725	672,971
Long-term debt (notes 7 and 8)		192,021,482	131,073,292
Deferred compensation (note 10)		3,379,253	5,976,862
Deferred rental revenue (note 9)		12,274,554	13,218,750
Asset retirement obligations (note 12)		3,145,593	3,225,019
Accrued postretirement benefit obligation (note 11)		59,433,640	56,837,053
U.S. Government grants refundable		13,042,252	13,131,994
Total liabilities		326,290,993	290,762,968
Net assets:			
Unrestricted		43,466,042	70,288,976
Temporarily restricted (note 15)		74,810,797	55,094,920
Permanently restricted (note 15)		69,323,948	66,959,346
Total net assets		187,600,787	192,343,242
Total liabilities and net assets	$	513,891,780	483,106,210

See accompanying notes to financial statements.

PACE UNIVERSITY

Statements of Changes in Unrestricted Net Assets

Years ended June 30, 2007 and 2006

	Operating	Nonoperating	Total 2007	Total 2006
Revenues:				
Tuition and fees, net (note 16)	$ 203,192,850	—	203,192,850	198,660,853
Government grants and contracts	6,855,764	—	6,855,764	7,961,033
State appropriations	1,333,838	—	1,333,838	1,190,012
Contributions (note 17)	1,706,067	—	1,706,067	1,695,698
Investment return (note 3)	2,597,678	1,353,610	3,951,288	1,773,994
Investment return on funds held by bond trustees	—	378,845	378,845	314,140
Sales and services of auxiliary enterprises	26,899,643	—	26,899,643	25,189,466
Other sources (note 9)	9,210,773	63,151	9,273,924	11,482,860
Net assets released from restrictions	10,808,698	—	10,808,698	12,096,341
Total revenues	262,605,311	1,795,606	264,400,917	260,364,397
Expenses (notes 17 and 19):				
Instruction	115,492,408	—	115,492,408	117,536,417
Research	2,245,638	—	2,245,638	2,452,166
Academic support	36,978,171	—	36,978,171	38,355,333
Student services	35,231,481	—	35,231,481	33,462,248
Institutional support	56,489,505	—	56,489,505	47,903,289
Auxiliary enterprises	33,908,092	—	33,908,092	34,472,650
Total expenses	280,345,295	—	280,345,295	274,182,103
(Decrease) increase of revenues over expenses	(17,739,984)	1,795,606	(15,944,378)	(13,817,706)
Unrealized (depreciation) appreciation in fair value of derivative instrument (note 7)	—	(309,930)	(309,930)	5,474,787
Write-off of plant assets (note 5)	—	(5,199,506)	(5,199,506)	—
Loss on termination of lease (note 13)	—	(4,213,965)	(4,213,965)	—
Decrease in unrestricted net assets before effect of adoption of SFAS No. 158 and cumulative effect of change in accounting principle	(17,739,984)	(7,927,795)	(25,667,779)	(8,342,919)
Effects of adoption of SFAS No. 158 (note 11)	(1,155,155)	—	(1,155,155)	—
Cumulative effect of change in accounting principle (note 12)	—	—	—	(2,366,927)
Decrease in unrestricted net assets	$ (18,895,139)	(7,927,795)	(26,822,934)	(10,709,846)

See accompanying notes to financial statements.

PACE UNIVERSITY

Statements of Changes in Net Assets

Years ended June 30, 2007 and 2006

		2007	2006
Decrease in unrestricted net assets	$	(26,822,934)	(10,709,846)
Changes in temporarily restricted net assets:			
Private gifts and grants (note 17)		12,536,612	14,138,485
Investment return (note 3)		17,789,974	9,875,849
Change in value of split-interest agreements		197,989	106,604
Net assets released from restrictions		(10,808,698)	(12,096,341)
Increase in temporarily restricted net assets		19,715,877	12,024,597
Changes in permanently restricted net assets:			
Contributions (note 17)		2,306,820	16,459,428
Investment return (note 3)		44,774	25,733
Change in value of split-interest agreements		36,819	16,314
Interest on student loans, net of fees		(23,811)	4,002
Increase in permanently restricted net assets		2,364,602	16,505,477
(Decrease) increase in net assets		(4,742,455)	17,820,228
Net assets at beginning of year		192,343,242	174,523,014
Net assets at end of year	$	187,600,787	192,343,242

See accompanying notes to financial statements.

PACE UNIVERSITY

Statements of Cash Flows

Years ended June 30, 2007 and 2006

	2007	2006
Cash flows from operating activities:		
(Decrease) increase in net assets	$ (4,742,455)	17,820,228
Adjustments to reconcile (decrease) increase in net assets to net cash (used in) provided by operating activities:		
Effect of adoption of SFAS No. 158	1,155,155	—
Cumulative effect of change in accounting principle	—	2,366,927
Net appreciation in fair value of investments	(18,490,307)	(9,740,465)
Change in fair value of derivative instrument	309,930	(5,474,787)
Change in value of split-interest agreements	(234,808)	(122,918)
Deferred rental revenue	(944,196)	(944,196)
Depreciation	13,207,868	12,733,499
Amortization	227,341	491,143
Write-off of plant assets	6,726,854	—
Revenues and losses restricted for permanent investment	(2,285,900)	(16,467,056)
Contributions restricted for capital projects	(47,000)	(4,280,826)
Decrease (increase) in student accounts receivable	5,051,198	(1,559,272)
Decrease in government grants and other receivables	1,325,513	3,166,272
(Increase) decrease in prepaid expenses and other assets	(2,329,368)	968,946
(Increase) decrease in contributions receivable, net	(60,856)	321,375
(Decrease) increase in accounts payable and accrued liabilities	(1,175,163)	7,474,505
(Decrease) increase in deferred revenues and deposits	(981,110)	1,310,639
Decrease in deferred compensation	(2,597,609)	(81,939)
Increase in accrued postretirement benefit obligation	1,441,432	1,772,146
(Decrease) increase in U.S. government grants refundable	(89,742)	185,302
Net cash (used in) provided by operating activities	(4,533,223)	9,939,523
Cash flows from investing activities:		
Increase in student loans receivable	(750,243)	(19,608)
Purchase of plant assets	(8,443,356)	(12,267,452)
Purchase of investments	(12,304,978)	(28,425,155)
Proceeds from sale of investments	12,724,917	30,082,652
Net cash used in investing activities	(8,773,660)	(10,629,563)
Cash flows from financing activities:		
Revenues and losses from contributions restricted for permanent investment	2,285,900	16,467,056
Decrease (increase) in contributions receivable restricted for permanent investment	1,979,864	(14,600,412)
Revenues and losses from contributions restricted for capital projects	47,000	4,280,826
Contributions receivable restricted for capital projects	628,854	(4,263,439)
Change in liabilities under split-interest agreements, net	234,562	88,881
Increase in notes payable	42,241,688	73,489,680
Repayment of notes payable	(64,390,948)	(70,769,319)
Increase in bond issuance costs	(767,598)	(363,063)
Proceeds from long-term debt	62,000,000	—
Repayment of indebtedness	(1,061,292)	(1,557,427)
Increase in funds held by bond trustees	(439,141)	(13,570)
Net cash provided by financing activities	42,758,889	2,759,213
Net increase in cash and cash equivalents	29,452,006	2,069,173
Cash and cash equivalents at beginning of year	2,399,573	330,400
Cash and cash equivalents at end of year	$ 31,851,579	2,399,573
Supplemental disclosure:		
Interest paid	$ 8,084,992	6,295,682

See accompanying notes to financial statements.

(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 (FASB) 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 are 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 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 of cash or other assets that must be used to acquire or construct long-lived assets are reported as temporarily restricted net assets until the assets are placed in service. Contributions to be received after one year are discounted at a risk-free rate. Amortization of the discount is recorded as additional contribution revenue in accordance with the donor-imposed restrictions, if any, on the contribution. An allowance is recorded for uncollectible contributions based on management's judgment, past collection experience, and other relevant factors.

(c) Government Grants and Contracts

Government grants and contracts are treated as exchange contracts and, accordingly, are reported as unrestricted revenue when expenses are incurred in accordance with contractual terms.

(d) 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.

(e) Plant Assets

Plant assets are stated as follows:

- Land and land improvements – at cost.
- Buildings, building improvements, and leasehold improvements – at cost.
- Furniture and 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, building improvements, and leasehold improvements range from 5 years to 90 years and the depreciable lives of furniture and equipment range from 2 years to 20 years.

(f) 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.

(g) Split-Interest Agreements

The University's split-interest agreements with donors consist primarily of irrevocable charitable remainder trusts, for which the University serves as trustee, and charitable gift annuities. 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. Such adjustments are reflected as change in value of split-interest agreements in the accompanying financial statements.

(h) Operations

The statements of changes in unrestricted net assets distinguish 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, unrealized appreciation (depreciation) in fair value of derivative instruments, and other nonrecurring transactions.

(i) Accounting Estimates

The preparation of financial statements in conformity with U.S. 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.

(j) Asset Retirement Obligations

On July 1, 2005, the University adopted FASB Interpretation No. 47 (FIN 47), *Accounting for Conditional Asset Retirement Obligations – an Interpretation of FASB Statement No. 143*. Upon acquisition, and when reasonably estimable, the University recognizes the fair value of the liability related to the legal obligation to perform asset retirement activity on tangible long-lived assets.

(k) Reclassifications

Certain reclassifications have been made to prior year amounts to conform to the current year presentation.

(l) 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 table summarizes the composition of investments at June 30, 2007 and 2006:

	2007		2006	
	Cost	**Fair value**	**Cost**	**Fair value**
Cash and cash equivalents (note 10)	$ 10,063,117	10,063,143	4,297,124	4,299,407
Common stocks	680,164	769,937	516,345	549,527
Mutual funds (note 10)	4,435,291	5,344,262	6,134,104	6,701,438
Hedge funds	51,494,026	69,767,684	53,616,388	63,722,613
Alternative investments	32,561,329	41,314,140	29,738,145	34,066,121
U.S. government bonds	692,210	724,847	580,744	571,711
Municipal bonds	780,071	789,572	780,035	792,400
	$ 100,706,208	128,773,585	95,662,885	110,703,217

Alternative investments represent limited partnerships and similar interests held by the University that follow a variety of investment strategies. Terms and conditions of these investments, including liquidity provisions, are different for each fund. Individual investment holdings within the alternative investments may be invested in both publicly traded securities and less liquid securities, which are valued by the investment managers after considering pertinent factors. The estimated fair value of alternative investments is reviewed and evaluated by management. Because alternative investments do not have readily determinable market values, the estimated value is subject to uncertainty and, therefore, may differ significantly from the values that would have been used had a ready market for those securities existed.

Investments include $2,378,524 and $2,163,757 of assets held under split-interest agreements at June 30, 2007 and 2006, 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 quarterly three-year moving average fair value of the pooled investments. In accordance with the above spending rate, $3,396,191 and $2,998,603, of investment return was made available for the years ended June 30, 2007 and 2006, respectively, to support operations of the University. In addition, the University also utilized investment return from nonpooled investments of $2,158,630 and $730,451 in fiscal years 2007 and 2006, respectively.

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, 2007 and 2006:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
2007:				
Dividends and interest on investments (net of expenses of $292,306)	$ 2,141,489	1,151,349	2,891	3,295,729
Net appreciation in fair value of investments	1,809,799	16,638,625	41,883	18,490,307
Total return on investments	3,951,288	17,789,974	44,774	21,786,036
Investment return appropriated for operations	2,597,678	2,957,143	—	5,554,821
Excess of total return on investments over investment return appropriated for operations	$ 1,353,610	14,832,831	44,774	16,231,215

	Unrestricted	Temporarily restricted	Permanently restricted	Total
2006:				
Dividends and interest on investments (net of expenses of $358,995)	$ 727,092	1,204,393	3,626	1,935,111
Net appreciation in fair value of investments	1,046,902	8,671,456	22,107	9,740,465
Total return on investments	1,773,994	9,875,849	25,733	11,675,576
Investment return appropriated for operations	1,132,741	2,596,313	—	3,729,054
Excess of total return on investments over investment return appropriated for operations	$ 641,253	7,279,536	25,733	7,946,522

(Continued)

(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, 2007 and 2006:

	2007	2006
Amounts expected to be collected in:		
Less than one year	$ 6,345,934	4,671,116
One to five years	19,053,546	21,941,735
More than five years	8,645,740	9,058,685
	34,045,220	35,671,536
Less discount to present value, from 3.9% to 6.5%	(6,608,636)	(5,589,463)
Less allowance for uncollectible amounts	(1,741,043)	(1,838,670)
	$ 25,695,541	28,243,403

Included in contributions receivable at June 30, 2007 are outstanding pledges from four donors, which collectively represent 74.7% of total outstanding gross contributions receivable. Included in contributions receivable at June 30, 2006 are outstanding pledges from three donors, which collectively represent 73.5% of total outstanding gross contributions receivable.

(5) Plant Assets

Plant assets at June 30, 2007 and 2006 consist of the following:

	2007	2006
Land	$ 11,285,093	11,285,092
Land improvements	6,181,935	6,181,935
Buildings and building improvements	290,681,894	288,909,294
Furniture and equipment	90,880,063	104,129,696
Library books	932,111	881,519
Total	399,961,096	411,387,536
Less accumulated depreciation	(130,851,279)	(130,786,353)
	$ 269,109,817	280,601,183

During 2007, the University engaged a third-party appraisal company to perform, under the University's supervision, a physical inventory of its furniture and equipment. As a result of such physical inventory, the University recorded a write-off of furniture and equipment of approximately $5.2 million, which is reported as a nonoperating charge in the accompanying statement of changes in unrestricted net assets for the year ended June 30, 2007. As further discussed in note 13, the University wrote off $1.5 million of leasehold improvements relating to the termination of a lease.

(Continued)

Included in buildings and building improvements at June 30, 2007 and 2006 is $16,226,522 relating to a building received in exchange for use of land. See note 9 for a discussion on the Judicial Training Institute. Buildings and building improvements also include $974,743 of asset retirement costs capitalized under FIN 47. Additionally, included in furniture and equipment at June 30, 2007 and 2006 is telephone equipment under capital leases of $3,798,524.

(6) Notes Payable

As of June 30, 2006, the University had an outstanding balance of $20,780,000 relating to a $25 million unsecured working capital line of credit expiring June 30, 2007. On December 15, 2006, the line of credit was paid off with proceeds received from the University's issuance of unsecured notes (see note 7). Interest expense on the notes payable for the years ended June 30, 2007 and 2006 was $331,285 and $499,284, respectively. The average interest rate on the outstanding borrowings was 5.3% for both years.

The University has a revolving financing agreement with Sallie Mae, Inc., to fund its School as Lender Program, a program designed to provide financial assistance in the form of loans to graduate students (Student Loans). All outstanding amounts are secured by Student Loans owned by the University. Under this agreement, the University sells and Sallie Mae, Inc. is obligated to purchase all the Student Loans owned by the University within 90 days from the date the Student Loans are made. The proceeds from the sale of the Student Loans are applied to any outstanding principal balance under the revolving finance agreement. Under the University's semester schedule, no principal outstanding under the revolving financing agreement should exceed 180 days.

The outstanding balance under this agreement was $750,562 and $2,119,822 as of June 30, 2007 and 2006, respectively. Interest expense for the years ended June 30, 2007 and 2006 was $537,190 and $473,422, respectively. Student Loans issued under this program of $336,699 and $1,314,903 are outstanding at June 30, 2007 and 2006, respectively, securing the outstanding principal balance under the revolving finance agreement. The unused portion under this line of credit at June 30, 2007 and 2006 was $29,249,438 and $27,880,178, respectively.

The University ceased awarding School-As-Lender loans to new students as of the Spring 2007 semester.

(7) Long-Term Debt

Long-term debt at June 30, 2007 and 2006 consists of the following:

		2007	2006
Long-term leases of the Dormitory Authority of the State of New York (DASNY or the Authority) (a):			
Revenue Bonds, Pace University issue, $73,975,000, Series 2005A, due serially to 2029 at an effective interest rate of 3.303% per annum	$	73,975,000	73,975,000
Revenue Bonds, Pace University issue, $42,500,000, Series 2005B, due serially to 2035 at an interest rate of 3.5% the first year, and 4.5% per annum, thereafter		42,500,000	42,500,000
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, plus unamortized original issue premium of $16,353 and $19,624, at June 30, 2007 and 2006, respectively.		2,506,353	2,509,624
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 $63,765 and $76,518 at June 30, 2007 and 2006, respectively.		8,241,235	8,228,482
Unsecured long-term taxable notes payable, due serially to 2037 at interest rates ranging from 7.35% to 17.85% per annum (b)		62,000,000	—
Bonds payable to the U.S. Department of Housing and Urban Development (HUD) (c):			
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:			
1961 issue, $548,000, at 3.5%		134,000	158,000
1966 issue, $1,115,000, at 3%		433,000	471,000
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%		455,000	515,000
Capital lease obligations (d)		1,776,894	2,716,186
Total long-term debt	$	192,021,482	131,073,292

(a) The Series 2005A bonds were issued on June 1, 2005 to (i) refund a portion of the DASNY Pace University Insured Revenue Bonds, Series 1997 and Series 2000, (ii) fund the debt service reserve fund for the Series 2005A bonds, and (iii) pay the costs of issuance of the Series 2005A bonds. At June 30, 2007 and 2006, $4,110,422 and $3,918,779, respectively, of debt service reserve funds and $38,344 and $36,867, respectively, of construction funds were included in funds held by bond trustees.

In June 2005, the University entered into a floating-to-fixed-rate swap agreement (the Derivative Instrument) as a hedge on a portion of its DASNY Series 2005A insured revenue bonds. Under the Derivative Instrument, the University receives the one-month London InterBank Offered Rate (LIBOR) (5.32% at June 30, 2007) and pays a fixed rate of 3.303% on the notional amount of $73,975,000 through June 2029. The University has the option to terminate the Derivative Instrument at its discretion. A payment will either be received or paid by the University depending on the interest rate environment at the time of termination. The fair value of the Derivative Instrument of $2,435,695 and $2,745,625 is reflected in the accompanying balance sheets as fair value of derivative instrument at June 30, 2007 and 2006, respectively. The accompanying 2007 and 2006 statements of changes in unrestricted net assets reflect the unrealized (depreciation) appreciation in fair value of derivative instrument of $(309,930) and $5,474,787, respectively.

The Series 2005B bonds were issued to fund the cost of a surety bond for the debt service reserve fund for the Series 2005 bonds, pay the cost of issuance of the Series 2005B bonds, and refinance certain indebtedness of the University incurred to pay for various capital improvement projects including construction and equipping of the health and fitness center located on the Pleasantville Campus; the installation of Sprinkler Systems at various student housing facilities; the renovation of facilities located at 106 Fulton Street and 163 William Street on the New York City Campus; renovations to the Student Union in New York City, Law School Campus in White Plains, New York, and the Schimmel Theatre in New York City; as well as installation of fire alarm and public address systems and replacement of roofs at various locations. At June 30, 2007 and 2006, $235,346 and $221,278, respectively, of debt service funds and $16,450 and $15,814, respectively, of construction funds were included in funds held by bond trustees.

The Series 2000 Revenue Bonds payable to 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 is being used by the University for student and staff housing and other related activities. Under the Series 2000 bond agreement, the University maintains a debt service reserve fund on deposit with a trustee. At June 30, 2007 and 2006, $824,339 and $816,602, respectively, of debt service reserve funds and $32,464 and $31,062, respectively, of rebate funds were included in funds held by bond trustees.

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. Under the Series 1997 bond agreement, the University maintains a debt service reserve fund on deposit with a trustee. At June 30, 2007 and 2006, $2,453,550 and $2,379,345, respectively, of debt service reserve funds and $1,727,565 and $1,579,592, respectively, of building and equipment reserve funds were included in funds held by bond trustees.

The Series 1997, 2000, 2005A, and 2005B 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 to the Authority in any bond year for the principal.

(b) To support its operations and repay the line of credit described in note 6, during 2007 the University issued a series of unsecured long-term taxable notes aggregating $62 million. The notes bear interest at the one-month adjusted LIBOR rate as defined and mature on July 1, 2037. The notes may be redeemed, at a premium ranging from 100.5% to 102.0%, from July 1, 2012 through June 30, 2017.

(c) 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.

(d) The University has several capital leases, expiring through February 1, 2010, related to the purchase of communication and networking equipment and systems.

Interest incurred for the years ended June 30, 2007 and 2006 was $8,090,264 and $5,881,145, respectively.

Financial Covenants DASNY Series 2005

Pursuant to the June 1, 2005 loan agreements related to the DASNY Series 2005 insured revenue bonds, the University is required to adhere to certain financial covenants regarding Maximum Annual Debt Service, as defined, and the maintenance of Unrestricted Investments, as defined, and limiting the University's right to incur any additional indebtedness without consent from DASNY and the bond insurer.

The University must maintain debt service (interest on all outstanding indebtedness and principal on all outstanding long-term indebtedness) at or below 6% of annual Unrestricted Gross Revenues, as defined.

The University must maintain a level of Unrestricted Investments, as defined, (as adjusted for market fluctuation) divided by Outstanding Indebtedness, as defined, equal to (i) at least 25% as of each June 30 and December 31 through December 31, 2007; (ii) at least 27.5% as of each June 30 and December 31 occurring from January 1, 2008 through December 31, 2009; and (iii) at least 30% as of each June 30 and December 31 occurring subsequent to December 31, 2009. Unrestricted investments, as defined for the years ended June 30, 2007 and 2006 were:

		2007	2006
Investments	$	128,773,585	110,703,217
Permanently restricted net assets		(69,323,948)	(66,959,346)
Contributions receivable included above		16,212,170	18,192,034
Total unrestricted investments		75,661,807	61,935,905

(8) Debt Service – Long-Term Debt

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

		Long-term leases to DASNY	Bonds payable to HUD	Taxable notes and capital lease obligations	Total
June 30, 2008:					
Principal	$	2,210,000	104,000	2,000,617	4,314,617
Interest, reserves, and fees		5,027,314	38,580	4,743,566	9,809,460
	$	7,237,314	142,580	6,744,183	14,124,077
June 30, 2009:					
Principal	$	3,230,000	105,000	1,812,450	5,147,450
Interest, reserves, and fees		4,898,664	35,335	4,583,264	9,517,263
	$	8,128,664	140,335	6,395,714	14,664,713
June 30, 2010:					
Principal	$	3,985,000	108,000	1,598,503	5,691,503
Interest, reserves, and fees		4,721,780	32,060	4,455,205	9,209,045
	$	8,706,780	140,060	6,053,708	14,900,548
June 30, 2011:					
Principal	$	4,200,000	144,000	1,400,000	5,744,000
Interest, reserves, and fees		4,514,466	28,610	4,349,036	8,892,112
	$	8,714,466	172,610	5,749,036	14,636,112
June 30, 2012:					
Principal	$	4,395,000	89,000	1,495,000	5,979,000
Interest, reserves, and fees		4,296,218	20,905	4,256,336	8,573,459
	$	8,691,218	109,905	5,751,336	14,552,459

(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 were 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.

On April 23, 2003, the City of White Plains issued a certificate of occupancy evidencing completion of the judicial training facility and the University recorded the value ($16,208,704) of the building and a corresponding deferred rental revenue. The deferred rental revenue will be recognized on a straight-line basis over the life of the land lease, May 1, 2003 through June 30, 2020. For each of the years ended June 30, 2007 and 2006, $944,196 was recognized as rental revenue.

(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, 2007 and 2006 amounted to $7,911,606 and $7,609,091, respectively.

The University offered 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 ($3,406,753 in 2007 and $5,986,362 in 2006) 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 healthcare and life insurance benefits for qualified 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. In accordance with the 2001 plan amendment, postretirement healthcare and life insurance benefits coverage for employees hired after October 1, 2000 has been eliminated.

Effective June 30, 2007 the University adopted Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, which requires that the funded status of such plans be fully reflected on the balance sheet. The following provides a summary of this unfunded plan as of June 30, 2007 and 2006:

		2007	2006
Change in benefit obligation:			
Benefit obligation at beginning of year	$	55,832,624	59,178,745
Service cost		714,264	971,569
Interest cost		3,786,788	3,288,863
Plan participant's contributions		7,158	—
Amendments		(5,070,140)	—
Actuarial loss (gain)		6,456,002	(5,298,169)
Benefits paid		(2,293,056)	(2,308,384)
Benefit obligation at end of year		59,433,640	55,832,624
Change in plan assets:			
Employer contribution		2,285,898	2,308,384
Plan participant's contributions		7,158	—
Benefits paid		(2,293,056)	(2,308,384)
Fair value of plan assets at end of year		—	—
Funded status		(59,433,640)	(55,832,624)
Prior service cost		—	(6,363,387)
Unrecognized net loss		—	5,358,958
Accrued postretirement benefit obligation	$	(59,433,640)	(56,837,053)

The net periodic postretirement benefit expense for 2007 and 2006 includes the following components:

		2007	2006
Net periodic benefit cost:			
Service cost	$	714,264	971,569
Interest cost		3,786,788	3,288,863
Amortization of prior service credit		(1,093,724)	(1,096,397)
Amortization of net loss		320,002	916,495
Net periodic benefit cost	$	3,727,330	4,080,530

As of June 30, 2007, the items not yet recognized as net periodic postretirement benefit cost are as follows:

Prior service credit	$	(10,339,803)
Net loss		11,494,958
	$	1,155,155

The estimated prior service credit and net loss that will be amortized into net periodic benefit cost over the next fiscal year are $(1,747,282) and $542,678, respectively.

The $1,155,155 appears on the fiscal year 2007 statement of activities as the effect of adoption of SFAS No. 158 decreasing unrestricted net assets.

The effects of applying SFAS No. 158 on the University's financial position as of June 30, 2007 are as follows:

	Before SFAS No. 158	After SFAS No. 158
Accrued postretirement benefit obligation	$ 58,278,485	59,433,640
Total liabilities	325,135,838	326,290,993
Total unrestricted net assets	44,621,197	43,466,042

For measurement purposes, a 9% annual rate of increase in the medical per capita cost of covered health care benefits was assumed for pre-age and post-age 65 coverage for the year ended June 30, 2007, decreasing to 4.5% in 2014 and remaining at that level thereafter. The healthcare 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 and service and interest cost of $7,038,927 and $622,018, respectively, in 2007. A 1% decrease in the rate translates to a decrease in the accumulated postretirement benefit obligation and service and interest cost of $5,777,170 in $498,810, respectively, in 2007.

	2007	2006
Benefit obligation weighted average assumptions as of June 30, 2007 and 2006:		
Discount rate	6.40%	6.50%
Benefit cost weighted average assumptions for the years ended June 30, 2007 and 2006:		
Discount rate	6.50	5.25

Projected plan contributions and benefit payments for each of the next five fiscal years and the five years thereafter are as follows:

	Before Medicare subsidy	Medicare Subsidy	After Medicare subsidy
2008	$ 3,179,147	284,618	2,894,529
2009	3,507,592	329,874	3,177,718
2010	3,838,229	366,548	3,471,681
2011	4,079,671	405,590	3,674,081
2012	4,302,404	442,119	3,860,285
2013 through 2017	23,932,100	2,701,478	21,230,622

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 is reflected assuming that the University will continue to provide a prescription drug benefit to plan participants that is at least actuarially equivalent to Medicare Part D.

(12) Asset Retirement Obligations

As discussed in note 2, effective July 1, 2005, the University adopted the provisions of FIN 47. Upon implementation of FIN 47, the University recorded conditional asset retirement obligations primarily for removal and/or abatement of certain building asbestos. The effect of implementing FIN 47 was a $661,260 increase in fixed assets (net of accumulated depreciation of $313,483), a $3,028,187 increase in liabilities, and a $2,366,927 charge, which is reported as a cumulative effect of change in accounting principle in the accompanying 2006 statement of changes in unrestricted net assets. Asset retirement obligations at June 30, 2007 and 2006 amount to $3,145,593 and $3,225,019, respectively,

(13) Operating Leases

The University leases office, student housing, 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:		
2008	$	18,787,269
2009		19,582,268
2010		19,805,934
2011		20,801,531
2012		19,783,659
2013 and thereafter		81,006,481
	$	179,767,142

Total rental expense for the years ended June 30, 2007 and 2006 was $14,023,270 and $14,300,484, respectively. Included in accounts payable and accrued liabilities is a deferred rent obligation of $3,325,296 and $3,385,575 at June 30, 2007 and 2006, respectively, which represents straight-lining the total minimum lease payments over the lease terms.

On June 14, 2007, the University entered into a lease termination agreement with one of its landlords and incurred a loss of $4.2 million, consisting of the amount due to the landlord upon termination of $2.8 million and the write-off of unamortized leasehold improvements of $1.5 million.

(14) Self-Insurance

For the years ended June 30, 2007 and 2006, the University had 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 $11,739,919 and $10,957,419 for the years ended December 31, 2007 and 2006, respectively. The expense for this program for the years ended June 30, 2007 and 2006 was approximately $8,593,000 and $8,927,000, respectively. A liability for claims incurred but not reported of approximately $1,157,000 and $980,500 as of June 30, 2007 and 2006, respectively, is included in accounts payable and accrued liabilities in the accompanying balance sheets.

The University discontinued its program effective June 30, 2007.

(15) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets at June 30, 2007 and 2006 are available to support the following areas:

		2007	2006
Instruction	$	23,468,994	17,153,954
Research		1,609,047	1,069,003
Academic support		21,778,783	20,348,644
Student activities		367,354	389,500
Institutional support		10,656,192	2,294,491
Capital projects		1,807,310	—
Scholarships		5,378,644	3,307,927
Contributions receivable		9,057,712	10,040,804
Split-interest agreements		686,761	490,597
	$	74,810,797	55,094,920

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, 2007 and 2006 are restricted to investment in perpetuity, with investment return principally available to support scholarships and fellowships, academic programs, academic chairs, and capital improvements.

(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 $55,600,216 and $50,600,139 for the years ended June 30, 2007 and 2006, 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 $4,414,271 and $4,312,659 for the years ended June 30, 2007 and 2006, respectively. For purposes of reporting fund-raising expenses, the University includes only those fund-raising costs incurred by its Philanthropy office. Contributions and private gifts and grants for the years ended June 30, 2007 and 2006 were $16,549,499 and $32,293,611, respectively.

(18) Fair Value of Financial Instruments

The carrying amount of cash and cash equivalents, 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 receivable 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 the University's 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 and other debt-related expenses based upon building square footage and the use of each facility. For the year ended June 30, 2007 (with comparative totals for 2006), the following allocation of expenses was included in the accompanying statements of changes in unrestricted net assets:

	Allocated expenses				Total per
	Operation and maintenance of plant	Depreciation	Interest and other debt-related expenses	Direct expenses	statement of changes in unrestricted net assets
Instruction	$ 7,349,955	3,166,070	1,150,622	103,825,761	115,492,408
Research	137,008	59,018	10,930	2,038,682	2,245,638
Academic support	5,205,791	2,242,449	415,325	29,114,606	36,978,171
Student services	3,794,330	1,634,447	1,973,470	27,829,234	35,231,481
Institutional support	3,637,149	1,566,740	2,805,141	48,480,475	56,489,505
Auxiliary enterprises	10,537,511	4,539,144	2,604,877	16,226,560	33,908,092
Total 2007	$ 30,661,744	13,207,868	8,960,365	227,515,318	280,345,295
Total 2006	$ 31,290,225	12,733,499	6,852,140	223,306,239	274,182,103

(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.