**PACE UNIVERSITY**

Financial Statements

June 30, 2009 and 2008

(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, 2009 and 2008, and the related statements of activities 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, 2009 and 2008, 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 2 to the financial statements, the University adopted the provisions of Statement of Financial Accounting Standards No. 157, *Fair Value Measurements*, as amended; and Financial Accounting Standards Board Staff Position FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*, in 2009.

KPMG LLP

November 17, 2009

**PACE UNIVERSITY**

Balance Sheets

June 30, 2009 and 2008

| Assets | | 2009 | 2008 |
|---|---|---|---|
| Cash and cash equivalents | $ | 12,258,477 | 2,390,699 |
| Short-term investments (notes 2 and 18) | | 25,410,390 | 38,622,089 |
| Student accounts receivable (net of allowance for doubtful accounts of $1,974,593 and $2,262,832 in 2009 and 2008, respectively) | | 5,701,636 | 6,082,928 |
| Grants and other receivables | | 7,459,672 | 8,696,170 |
| Prepaid expenses and other assets | | 8,744,734 | 9,486,915 |
| Contributions receivable, net (note 4) | | 19,696,634 | 22,168,099 |
| Investments (notes 3, 10, 15, and 18) | | 95,198,783 | 122,883,159 |
| Student loans receivable (net of allowance for doubtful accounts of $3,127,644 and $2,861,285 in 2009 and 2008, respectively) | | 13,864,122 | 14,292,079 |
| Funds held by bond trustees, at fair value (notes 7 and 18) | | 12,969,294 | 11,537,868 |
| Plant assets (notes 5 and 7) | | 255,387,920 | 261,266,078 |
| Total assets | $ | 456,691,662 | 497,426,084 |
| **Liabilities and Net Assets** | | | |
| Liabilities: | | | |
| Accounts payable and accrued liabilities (note 13) | $ | 29,263,260 | 28,523,805 |
| Notes payable (note 6) | | 58,000,000 | — |
| Fair value of derivative instrument (notes 7 and 18) | | 4,371,159 | 1,487,236 |
| Deferred revenues and deposits | | 9,211,184 | 8,571,470 |
| Long-term debt (notes 7 and 8) | | 126,143,056 | 191,051,348 |
| Deferred rental revenue (note 9) | | 10,386,162 | 11,330,358 |
| Asset retirement obligations (note 12) | | 3,493,479 | 3,331,298 |
| Accrued postretirement benefit obligation (note 11) | | 59,626,574 | 55,247,494 |
| U.S. government grants refundable | | 12,333,492 | 12,514,205 |
| Total liabilities | | 312,828,366 | 312,057,214 |
| Commitments and contingencies (notes 3, 13, and 20) | | | |
| Net assets: | | | |
| Unrestricted | | 19,969,141 | 40,637,793 |
| Temporarily restricted (note 14) | | 51,106,123 | 73,940,373 |
| Permanently restricted (note 14) | | 72,788,032 | 70,790,704 |
| Total net assets | | 143,863,296 | 185,368,870 |
| Total liabilities and net assets | $ | 456,691,662 | 497,426,084 |

See accompanying notes to financial statements.

**PACE UNIVERSITY**

Statements of Activities

Years ended June 30, 2009 and 2008

| | 2009 | | | | 2008 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Unrestricted** | **Temporarily restricted** | **Permanently restricted** | **Total** | **Unrestricted** | **Temporarily restricted** | **Permanently restricted** | **Total** |
| Revenues: | | | | | | | | |
| Tuition and fees, net (note 16) | $ 211,088,222 | — | — | 211,088,222 | 202,491,590 | — | — | 202,491,590 |
| Government grants and contracts | 9,269,853 | — | — | 9,269,853 | 7,870,453 | — | — | 7,870,453 |
| State appropriations | 1,081,481 | — | — | 1,081,481 | 1,388,076 | — | — | 1,388,076 |
| Contributions | 1,415,917 | 3,633,502 | 2,076,289 | 7,125,708 | 1,178,379 | 10,736,760 | 1,534,185 | 13,449,324 |
| Investment return appropriated (note 3) | 607,733 | 2,125,560 | — | 2,733,293 | 1,893,118 | 3,360,090 | — | 5,253,208 |
| Sales and services of auxiliary enterprises | 36,547,715 | — | — | 36,547,715 | 29,805,944 | — | — | 29,805,944 |
| Other sources | 8,509,035 | — | 2,504 | 8,511,539 | 10,000,072 | — | 815 | 10,000,887 |
| Net assets released from restrictions | 9,433,696 | (9,433,696) | — | — | 8,674,370 | (8,674,370) | — | — |
| Total revenues | 277,953,652 | (3,674,634) | 2,078,793 | 276,357,811 | 263,302,002 | 5,422,480 | 1,535,000 | 270,259,482 |
| Expenses (notes 17 and 19): | | | | | | | | |
| Instruction | 115,623,327 | — | — | 115,623,327 | 111,031,940 | — | — | 111,031,940 |
| Research | 1,649,599 | — | — | 1,649,599 | 2,471,769 | — | — | 2,471,769 |
| Academic support | 38,418,532 | — | — | 38,418,532 | 36,478,222 | — | — | 36,478,222 |
| Student services | 36,867,687 | — | — | 36,867,687 | 33,941,626 | — | — | 33,941,626 |
| Institutional support | 43,174,421 | — | — | 43,174,421 | 44,988,850 | — | — | 44,988,850 |
| Auxiliary enterprises | 44,524,150 | — | — | 44,524,150 | 37,911,038 | — | — | 37,911,038 |
| Total expenses | 280,257,716 | — | — | 280,257,716 | 266,823,445 | — | — | 266,823,445 |
| (Deficiency) excess of operating revenues over expenses | (2,304,064) | (3,674,634) | 2,078,793 | (3,899,905) | (3,521,443) | 5,422,480 | 1,535,000 | 3,436,037 |
| Nonoperating activities: | | | | | | | | |
| Unrealized depreciation in fair value of derivative instrument (note 7) | (2,883,923) | — | — | (2,883,923) | (3,922,931) | — | — | (3,922,931) |
| Change in value of split-interest agreements | — | (38,996) | (81,465) | (120,461) | — | 5,711 | (50,065) | (44,354) |
| Investment return, net (note 3) | (2,247,661) | (19,120,620) | — | (21,368,281) | (754,403) | (6,298,615) | (18,179) | (7,071,197) |
| Effect of underwater endowments (note 3) | (8,399,404) | — | — | (8,399,404) | — | — | — | — |
| Investment return on funds held by bond trustees | 143,414 | — | — | 143,414 | 435,452 | — | — | 435,452 |
| Pension-related changes other than net periodic pension cost (note 11) | (4,260,729) | — | — | (4,260,729) | 4,935,076 | — | — | 4,935,076 |
| Write-off of unamortized debt issuance costs (note 7) | (716,285) | — | — | (716,285) | — | — | — | — |
| | (18,364,588) | (19,159,616) | (81,465) | (37,605,669) | 693,194 | (6,292,904) | (68,244) | (5,667,954) |
| Change in net assets | (20,668,652) | (22,834,250) | 1,997,328 | (41,505,574) | (2,828,249) | (870,424) | 1,466,756 | (2,231,917) |
| Net assets at beginning of the year | 40,637,793 | 73,940,373 | 70,790,704 | 185,368,870 | 43,466,042 | 74,810,797 | 69,323,948 | 187,600,787 |
| Net assets at end of the year | $ 19,969,141 | 51,106,123 | 72,788,032 | 143,863,296 | 40,637,793 | 73,940,373 | 70,790,704 | 185,368,870 |

See accompanying notes to financial statements.

**PACE UNIVERSITY**

Statements of Cash Flows

Years ended June 30, 2009 and 2008

| | 2009 | 2008 |
|---|---|---|
| Cash flows from operating activities: | | |
| Change in net assets | $ (41,505,574) | (2,231,917) |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Gain from demutualization | — | (713,407) |
| Net depreciation in fair value of investments | 28,451,384 | 4,319,472 |
| Investment return on funds held by bond trustee | (143,414) | (435,452) |
| Change in fair value of derivative instrument | 2,883,923 | 3,922,931 |
| Change in value of split-interest agreements | (120,461) | (44,354) |
| Pension-related changes other than net periodic pension cost | 4,260,729 | (4,935,076) |
| Allowance for student loans receivable | 266,359 | 808,359 |
| Deferred rental revenue | (944,196) | (944,196) |
| Depreciation | 11,275,066 | 11,634,337 |
| Amortization and write-off of unamortized debt issuance costs | 1,184,185 | 503,991 |
| Write-off of plant assets | 14,457 | 609,153 |
| Revenues restricted for permanent investment | (2,078,793) | (1,537,104) |
| Changes in operating assets and liabilities: | | |
| Decrease (increase) in student accounts receivable, net | 381,292 | (190,031) |
| Decrease in government grants and other receivables | 1,236,498 | 8,446,659 |
| (Increase) decrease in prepaid expenses and other assets | (270,341) | 1,071,565 |
| Decrease in contributions receivable, net | 282,686 | 328,905 |
| Increase (decrease) in accounts payable and accrued liabilities | 776,099 | (16,844,142) |
| Increase in deferred revenues and deposits | 639,714 | 126,936 |
| Increase in accrued postretirement benefit obligation | 118,351 | 748,930 |
| Decrease in U.S. government grants refundable | (180,713) | (528,047) |
| Net cash provided by operating activities | 6,527,251 | 4,117,512 |
| Cash flows from investing activities: | | |
| Decrease in student loans receivable | 161,598 | 349,955 |
| Purchase of plant assets | (5,411,365) | (4,399,751) |
| Short-term investments, net | 13,211,699 | (5,799,281) |
| Purchase of investments | (21,190,114) | (24,451,599) |
| Proceeds from sale of investments | 20,423,106 | 27,027,531 |
| Net cash provided by (used in) investing activities | 7,194,924 | (7,273,145) |
| Cash flows from financing activities: | | |
| Revenues and losses from contributions restricted for permanent investment | 2,076,289 | 1,534,185 |
| Decrease in contributions receivable restricted for permanent investment | 1,861,041 | 2,513,731 |
| Decrease in contributions receivable restricted for capital projects | 330,242 | 687,725 |
| Change in liabilities under split-interest agreements, net | 83,817 | 2,554 |
| Increase in notes payable | 58,000,000 | — |
| Repayment of notes payable | — | (750,562) |
| Repayment of indebtedness | (64,917,774) | (979,617) |
| Increase in funds held by bond trustees | (1,288,012) | (1,628,934) |
| Net cash (used in) provided by financing activities | (3,854,397) | 1,379,082 |
| Net increase (decrease) in cash and cash equivalents | 9,867,778 | (1,776,551) |
| Cash and cash equivalents at beginning of year | 2,390,699 | 4,167,250 |
| Cash and cash equivalents at end of year | $ 12,258,477 | 2,390,699 |
| Supplemental disclosure: | | |
| Interest paid | $ 11,504,743 | 11,182,367 |

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 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.



(Continued)

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-adjusted 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 and Short-Term Investments***

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 long-term investment strategies.

The University classifies book overdrafts as an operating activity in the statements of cash flows.

Short-term investments are reported at fair value and represent the University's investment of operating cash. At June 30, 2009 and 2008, $5,344,582 and $38,622,089, respectively, of short-term investments in the accompanying balance sheets represented investments in the Commonfund's Short Term Fund. Effective September 29, 2008, the Trustee of the Short Term Fund announced its decision to terminate and liquidate the Short Term Fund. Under the liquidation plan, funds are being disbursed based on investors' proportional interest in the Short Term Fund as assets mature or are sold. The value of the liquidation proceeds received by the University is not expected to vary significantly from the fair value carried on the University's books. However, the realization of the balance of the Short Term Fund will depend upon market conditions including the liquidity of the Short Term Fund's assets during the liquidation period.

***(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 statement of activities 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, investment return on funds held by bond trustees, unrealized appreciation (depreciation) in fair value of derivative instruments, pension-related changes other than net periodic pension cost, and other nonrecurring transactions.

### *(i) Accounting Estimates*

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates made in the preparation of these financial statements include the fair value of hedge funds and alternative investments, fair value of derivative instrument, accrued postretirement benefit obligation, allowance for student accounts receivable, and allowance for uncollectible contributions receivable. Actual results could differ from those estimates.

### *(j) Asset Retirement Obligations*

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.



(Continued)

***(k) Accounting for Uncertainty in Income Taxes***

The University recognizes the benefit of tax positions when it is more-likely-than-not that the position will be sustainable based on the merits of the position.

***(l) New Accounting Pronouncements***

Effective July 1, 2008, the University adopted Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 defines fair value, requires expanded disclosures about fair value measurements, and establishes a three-level hierarchy for fair value measurements based on the observable inputs to the valuation of an asset or liability at the measurement date. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It prioritizes the inputs to the valuation techniques used to measure fair value by giving the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). SFAS 157 applies to other accounting pronouncements that require or permit fair value measurements and, accordingly, does not require any new fair value measurements.

In connection with the adoption of SFAS 157, the University elected to early adopt the measurement provisions of Accounting Standards Update No. 2009-12, *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, with respect to hedge funds, alternative investments and other funds that do not have readily determinable fair values. This guidance amends SFAS 157 and allows for the estimation of the fair value of investments within its scope using net asset value per share or its equivalent, as provided by the investment managers.

Effective July 1, 2008, the University adopted FASB Staff Position (FSP) FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* (FSP 117-1). FSP 117-1 provides guidance on the net asset classification of donor restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA), and requires disclosures about endowment funds. A key component of the FSP is a requirement to classify the portion of a donor-restricted endowment fund that is not classified as permanently restricted net assets as temporarily restricted net assets until appropriated for expenditure. As of June 30, 2009, New York State had not enacted the provisions of UPMIFA, and accordingly, the impact of FSP 117-1 has been limited to additional disclosures regarding the University's endowment funds.

Effective June 30, 2009, the University adopted SFAS No. 165, *Subsequent Events* (SFAS 165). SFAS 165 establishes principles and requirements for subsequent events and applies to accounting for and disclosure of subsequent events not addressed in other applicable GAAP. The University evaluated events subsequent to June 30, 2009 and through November 17, 2009, the date on which the financial statements were issued.

*(m) Reclassifications*

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

*(n) 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 net asset values provided by the University's external investment managers, if no quoted market prices exist.

The University invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the balance sheets.

The following table summarizes the composition of investments at June 30, 2009 and 2008:

| | Fair value | |
|---|---|---|
| | **2009** | **2008** |
| Cash and cash equivalents | $ 4,602,831 | 1,293,304 |
| Common stocks | 616,141 | 1,334,078 |
| Mutual funds | 3,126,017 | 4,818,595 |
| Hedge funds | 62,958,187 | 76,087,093 |
| Alternative investments | 23,061,313 | 37,890,187 |
| U.S. government bonds | 73,252 | 676,146 |
| Municipal bonds | 761,042 | 783,756 |
| | $ 95,198,783 | 122,883,159 |

Hedge funds and 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 hedge funds and alternative investments may be invested in both publicly traded securities and less liquid securities. The net asset values of hedge funds and alternative investments are reviewed and evaluated by management. Because hedge funds and 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 $1,209,572 and $1,658,957 of assets held under split-interest agreements at June 30, 2009 and 2008, 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, $2,417,771 and $3,826,974 of investment return was made available for the years ended June 30, 2009 and 2008, respectively, to support operations of the University. In addition, the University also utilized investment return from nonpooled investments of $315,522 and $1,426,234 in fiscal years 2009 and 2008, respectively.

Under the terms of certain limited partnership agreements, the University is obligated to periodically advance additional funding for its limited partnership investments. At June 30, 2009, the University had commitments of $8,353,929 for which capital calls had not been exercised. This amount has not been recorded as a liability in the accompanying balance sheet. The University maintains sufficient liquidity in its portfolio to cover such calls.

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, 2009 and 2008:

| | Unrestricted | Temporarily restricted | Permanently restricted | Total |
|---|---|---|---|---|
| 2009: | | | | |
| Dividends and interest on investments (net of expenses of $389,315) | $ 579,525 | 837,467 | — | 1,416,992 |
| Net depreciation in fair value of investments | (2,219,453) | (26,231,931) | — | (28,451,384) |
| Effect of underwater endowments | (8,399,404) | 8,399,404 | — | — |
| Total loss on investments | (10,039,332) | (16,995,060) | — | (27,034,392) |
| Investment return appropriated for operations | 607,733 | 2,125,560 | — | 2,733,293 |
| Total loss on investments net of amount appropriated for operations | $ (10,647,065) | (19,120,620) | — | (29,767,685) |

| | | Unrestricted | Temporarily restricted | Permanently restricted | Total |
|---|---|---|---|---|---|
| 2008: | | | | | |
| Dividends and interest on investments (net of expenses of $371,841) | $ | 1,704,309 | 795,070 | 2,104 | 2,501,483 |
| Net depreciation in fair value of investments | | (565,594) | (3,733,595) | (20,283) | (4,319,472) |
| Total return (loss) on investments | | 1,138,715 | (2,938,525) | (18,179) | (1,817,989) |
| Investment return appropriated for operations | | 1,893,118 | 3,360,090 | — | 5,253,208 |
| Total loss on investments net of amount appropriated for operations | $ | (754,403) | (6,298,615) | (18,179) | (7,071,197) |

**(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, 2009 and 2008:

| | | 2009 | 2008 |
|---|---|---|---|
| Amounts expected to be collected in: | | | |
| Less than one year | $ | 5,576,256 | 5,225,783 |
| One to five years | | 11,241,375 | 14,469,976 |
| More than five years | | 7,975,577 | 8,444,314 |
| | | 24,793,208 | 28,140,073 |
| Less discount to present value, from 2.46% to 5.10% | | (3,947,057) | (5,120,756) |
| Less allowance for uncollectible amounts | | (1,149,517) | (851,218) |
| | $ | 19,696,634 | 22,168,099 |

Included in contributions receivable at June 30, 2009 and 2008 are outstanding pledges from four donors, which collectively represent approximately 78% and 79%, respectively, of total outstanding gross contributions receivable.

## (5) Plant Assets

Plant assets at June 30, 2009 and 2008 consist of the following:

| | | 2009 | 2008 |
|---|---|---|---|
| Land | $ | 11,285,093 | 11,285,093 |
| Land improvements | | 6,181,935 | 6,181,935 |
| Buildings and building improvements | | 295,612,407 | 292,315,606 |
| Furniture and equipment | | 67,826,901 | 65,754,096 |
| Library books | | 961,665 | 965,417 |
| Total | | 381,868,001 | 376,502,147 |
| Less accumulated depreciation | | (126,480,081) | (115,236,069) |
| | $ | 255,387,920 | 261,266,078 |

Included in buildings and building improvements at June 30, 2009 and 2008 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. Additionally, included in furniture and equipment at June 30, 2009 and 2008 is telephone equipment under capital leases of $1,862,573 and $3,798,524, respectively.

## (6) Notes Payable

On December 31, 2008, the University established a $60,880,000 drawdown note with a financial institution bearing interest at the one-month adjusted London Interbank Offered Rate (LIBOR) as defined in the Trust Indenture. The initial term on the drawdown note is through July 1, 2013 with a University renewal option through July 1, 2017. The amount of the drawdown note decreases annually throughout the initial and option terms (available amounts reduced to $55,465,000 and $48,240,000 on July 1, 2012 and July 1, 2016, respectively). The University is required to be out of the line for at least one 7-day period each year. The outstanding balance and unused portion under this facility as of June 30, 2009 were $58,000,000 and $2,880,000, respectively. During 2009, interest on borrowings under this facility amounted to $347,627. The range of interest rates in the amounts outstanding in 2009 was 2.3% – 2.5%.

## (7) Long-Term Debt

Long-term debt at June 30, 2009 and 2008 consists of the following:

| | | 2009 | 2008 |
|---|---|---|---|
| Long-term debt 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 a variable rate subject to weekly reset in the auction market | $ | 73,975,000 | 73,975,000 |
| Revenue Bonds, Pace University issue, $42,500,000, Series 2005B, due serially to 2035, at a variable rate subject to weekly reset in the auction market | | 41,750,000 | 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 | | 2,499,812 | 2,503,083 |
| Revenue Bonds, Pace University issue, $60,000,000, Series 1997, due serially to 2026 at interest rates ranging from 5.00% to 5.75% per annum, net of unamortized original issue discount | | 6,806,741 | 8,253,988 |
| Unsecured long-term taxable notes payable, due serially to 2037 at a variable interest rate (b) | | — | 62,000,000 |
| Other debt | | 1,111,503 | 1,819,277 |
| Total long-term debt | $ | 126,143,056 | 191,051,348 |

*(a)* The Series 2005A insured revenue 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, 2009 and 2008, $4,208,950 and $3,911,557, respectively, of debt service reserve funds were included in funds held by bond trustees. These bonds are auction rate securities in which the coupon is reset each week by a Dutch auction process. In the event of a failed auction, the holders of the securities must keep them until the next auction, and the interest rate rises to the cap specified in the governing agreements of 15.0%. The weighted average interest rate in 2009 and 2008 for Series 2005A was 5.4% and 4.8%, respectively. The range of rates in 2009 and 2008 was 3.8% – 10.6% and 3.3% – 9.3%, respectively.

In May 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, on a monthly settlement the University receives 59.00% of one-month LIBOR plus 32 basis points (0.51% and 1.77% at June 30, 2009 and 2008, respectively) and pays a fixed rate of 3.303% on the notional amount ($73,975,000 as of June 30, 2009 and 2008) 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 long-term interest rate environment at the time of termination. The counterparty has the option to terminate the Derivative

Instrument if the bonds' insurer is downgraded below certain ratings (see below). The fair value of the Derivative Instrument was a liability of $4,371,159 and $1,487,236 at June 30, 2009 and 2008, respectively, and is reflected in the accompanying balance sheets as fair value of Derivative Instrument. The accompanying 2009 and 2008 statements of activities reflect the unrealized depreciation in fair value of Derivative Instrument of $2,883,923 and $3,922,931, respectively.

The Series 2005B insured revenue bonds were issued to fund the cost of a surety bond for the debt service reserve fund for the Series 2005B 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. At June 30, 2009 and 2008, $1,624,370 and $1,025,268, respectively, of debt service funds were included in funds held by bond trustees. Similar to Series 2005A, these bonds are auction rate securities that are subject to a weekly auction process with a cap of 20.0%. The weighted average interest rate in 2009 and 2008 for Series 2005B was 7.7% and 6.8%, respectively. The range of rates in 2009 and 2008 was 5.9% – 11.0% and 5.0% – 14.0%, respectively.

On July 28, 2008, the University was notified by the Trustee for the Series 2005 Insured Revenue Bonds that it was required to deposit collateral with the Trustee, as a result of a rating agency's downgrade of the bond insurer's financial strength rating on June 19, 2008. Collateral in the amount of $2,769,250 is required to be deposited with the Trustee in semi-annual payments of $276,925 over a five-year period to fund the Debt Service Reserve Fund, replacing the Surety Bond. The first of the 10 payments was made to the Trustee on August 14, 2008 (for $276,925). The ongoing semi-annual payments are made in each January and July. As of June 30, 2009, $553,850 was deposited with the Trustee, and is included in funds held by bond trustees in the accompanying balance sheets.

On November 7, 2008, the University's bond insurer was further downgraded by the rating agency. The counterparty has notified the University of its election not to terminate the Derivative Instrument provided the University posts collateral equivalent to the fair value of the Derivative Instrument (to the extent it is a liability). However, the University later received notice from the counterparty that the collateral posting requirement was deferred and therefore no collateral posting was made as of June 30, 2009. Management and the counterparty are in discussions to restructure the Derivative Instrument.

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, 2009 and 2008, $1,372,492 and $815,174, respectively, of debt service reserve 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. Under the Series 1997 bond agreement, the University maintains a debt service reserve fund on deposit with a trustee. At June 30, 2009 and 2008, $3,838,294 and $3,863,847, respectively, of debt service reserve funds and $1,834,026 and $1,802,142, respectively, of building and equipment reserve funds were included in funds held by bond trustees.



(Continued)

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 an outstanding line of credit, during 2006 the University issued a series of unsecured long-term taxable notes aggregating $62 million bearing interest at the one-month adjusted LIBOR as defined in the Trust Indenture and scheduled to mature on July 1, 2037. On December 31, 2008, the remaining balance of the notes of $60,800,000 was fully redeemed and the related unamortized debt issuance costs of $716,285 were written off.

Interest incurred for the years ended June 30, 2009 and 2008 was $11,003,851 and $11,634,306, 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 25.0% 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 30.0% as of each June 30 and December 31 occurring subsequent to December 31, 2009. Unrestricted Investments, as defined, for the years ended June 30, 2009 and 2008 were:

| | | 2009 | 2008 |
|---|---|---|---|
| Investments and short-term investments | $ | 120,609,173 | 161,505,248 |
| Permanently restricted net assets | | (72,788,032) | (70,790,704) |
| Contributions receivable – permanently restricted | | 11,837,398 | 13,698,439 |
| Total unrestricted investments | $ | 59,658,539 | 104,412,983 |

## (8) Debt Service – Long-Term Debt

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

| | Long-term debt to DASNY | Bonds payable to HUD | Taxable notes and capital lease obligations | Total |
|---|---|---|---|---|
| Year ending June 30: | | | | |
| 2010 | $ 3,230,000 | 108,000 | 293,503 | 3,631,503 |
| 2011 | 3,985,000 | 144,000 | — | 4,129,000 |
| 2012 | 4,200,000 | 89,000 | — | 4,289,000 |
| 2013 | 4,395,000 | 91,000 | — | 4,486,000 |
| 2014 | 4,650,000 | 92,000 | — | 4,742,000 |

## (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.

The University recorded the value $16,208,704 of the building as 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. At June 30, 2009 and 2008, $10,386,162 and $11,330,358, respectively, of deferred rental revenue was included in the accompanying balance sheets. For each of the years ended June 30, 2009 and 2008, $944,196 was recognized as rental revenue and is included in other sources in the accompanying statements of activities.

## (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, 2009 and 2008 amounted to $8,085,923 and $7,743,118, respectively.

## (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.

The University reports the funded status of its postretirement plans on its balance sheets. The following provides a summary of this unfunded plan as of June 30, 2009 and 2008:

| | 2009 | 2008 |
|---|---|---|
| Change in benefit obligation: | | |
| Benefit obligation at beginning of year | $ 55,247,494 | 59,433,640 |
| Service cost | 539,874 | 700,729 |
| Interest cost | 3,985,652 | 3,711,128 |
| Plan participant's contributions | 140,000 | 107,729 |
| Amendments | — | — |
| Actuarial loss (gain) | 2,578,457 | (6,110,730) |
| Benefits paid | (3,003,454) | (2,738,836) |
| Subsidies paid | 138,551 | 143,834 |
| Benefit obligation at end of year | 59,626,574 | 55,247,494 |
| Change in plan assets: | | |
| Employer contribution | 2,724,903 | 2,487,273 |
| Plan participant's contributions | 140,000 | 107,729 |
| Benefits paid | (3,003,454) | (2,738,836) |
| Subsidies received | 138,551 | 143,834 |
| Fair value of plan assets at end of year | — | — |
| Accrued postretirement benefit obligation | $ 59,626,574 | 55,247,494 |

The net periodic postretirement benefit expense for 2009 and 2008 includes the following components:

| | | 2009 | 2008 |
|---|---|---|---|
| Net periodic benefit cost: | | | |
| Service cost | $ | 539,874 | 700,729 |
| Interest cost | | 3,985,652 | 3,711,128 |
| Amortization of prior service credit | | (1,726,954) | (1,726,954) |
| Amortization of net loss | | 44,682 | 551,300 |
| Total net periodic benefit cost | $ | 2,843,254 | 3,236,203 |

Other changes in postretirement benefit obligations recognized in unrestricted net assets for 2009 and 2008 include the following components:

| | | 2009 | 2008 |
|---|---|---|---|
| Actuarial net loss (gain) | $ | 2,578,457 | (6,110,730) |
| Amortization of prior service cost | | 1,726,954 | 1,726,954 |
| Amortization of net loss | | (44,682) | (551,300) |
| | $ | 4,260,729 | (4,935,076) |

As of June 30, 2009 and 2008, the items not yet recognized as net periodic postretirement benefit cost are as follows:

| | | 2009 | 2008 |
|---|---|---|---|
| Prior service credit | $ | (6,885,895) | (8,612,849) |
| Net loss | | 7,366,703 | 4,832,928 |
| | $ | 480,808 | (3,779,921) |

The estimated prior service credit and net loss that will be amortized into net periodic benefit cost in 2010 are $(1,726,954) and $150,810, respectively.

For measurement purposes, an 8.50% annual rate of increase in the medical per capita cost of covered healthcare benefits was assumed for pre-age and post-age 65 coverage for the year ended June 30, 2009, decreasing to 4.50% in 2017 and remaining at that level thereafter. The healthcare cost trend rate assumption has a significant effect on the accrual. A 1.00% increase in the rate translates to an increase in the accumulated postretirement benefit obligation and service and interest cost of $7,034,675 and $572,622, respectively, in 2009. A 1.00% decrease in the rate translates to a decrease in the accumulated postretirement benefit obligation and service and interest cost of $5,877,822 and $471,760, respectively, in 2009.

| | 2009 | 2008 |
|---|---|---|
| Benefit obligation weighted average assumptions as of June 30, 2009 and 2008: | | |
| Discount rate | 7.00% | 7.25% |
| Benefit cost weighted average assumptions for the years ended June 30, 2009 and 2008: | | |
| Discount rate | 7.25% | 6.40% |

Projected plan 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 |
|---|---|---|---|
| 2010 | $ 3,656,489 | 302,680 | 3,353,809 |
| 2011 | 3,947,886 | 338,827 | 3,609,059 |
| 2012 | 4,217,393 | 374,472 | 3,842,921 |
| 2013 | 4,453,054 | 413,020 | 4,040,034 |
| 2014 | 4,688,825 | 449,910 | 4,238,915 |
| 2015 through 2019 | 25,880,809 | 2,573,230 | 23,307,579 |

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

The University has recorded conditional asset retirement obligations primarily for removal and/or abatement of certain building asbestos. Asset retirement obligations at June 30, 2009 and 2008 amounted to $3,493,479 and $3,331,298, respectively.



(Continued)

## (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: | | |
| 2010 | $ | 16,781,289 |
| 2011 | | 16,798,965 |
| 2012 | | 15,279,606 |
| 2013 | | 12,262,406 |
| 2014 | | 12,273,629 |
| 2015 and thereafter | | 58,090,631 |
| | $ | 131,486,526 |

Total rental expense for the years ended June 30, 2009 and 2008 was $21,531,525 and $15,673,171, respectively. Included in accounts payable and accrued liabilities is a deferred rent obligation of $3,913,450 and $3,555,196 at June 30, 2009 and 2008, respectively, which represents straight-lining the total minimum lease payments over the lease terms.

## (14) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets at June 30, 2009 and 2008 are available to support the following areas:

| | | 2009 | 2008 |
|---|---|---|---|
| Instruction | $ | 15,015,587 | 26,906,980 |
| Research | | 632,800 | 1,260,595 |
| Academic support | | 15,612,334 | 22,055,508 |
| Student activities | | 578,588 | 285,701 |
| Institutional support | | 4,427,580 | 4,832,933 |
| Capital projects | | 1,924,951 | 2,185,459 |
| Scholarships | | 4,609,907 | 7,260,793 |
| Contributions receivable | | 7,662,993 | 8,459,932 |
| Split-interest agreements | | 641,383 | 692,472 |
| | $ | 51,106,123 | 73,940,373 |

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, 2009 and 2008 are restricted to investment in perpetuity, with investment return principally available to support scholarships and fellowships, academic programs, academic chairs, and capital improvements.

## (15) Endowment Funds

The University's endowment consists of approximately 360 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments (quasi endowments). As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

### *Interpretation of Relevant Law*

The Board of Trustees of the University has interpreted the Uniform Management of Institutional Funds Act (UMIFA) and the New York State Trust Laws as requiring the preservation of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the University classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations of investment returns to the permanent endowment made in accordance with the direction of the applicable donor gift instrument, when applicable. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets to the extent the donor restricted income earned on such endowments to a particular purpose or time, and in all other cases is classified as unrestricted net assets. Such amounts recorded as temporarily restricted net assets are released from restriction when the donor stipulated purpose has been fulfilled and/or the required time period has elapsed.

The following represents the University's endowment composition by type of fund as of June 30, 2009 and 2008 (excluding contributions receivable):

| | 2009 | | | |
|---|---|---|---|---|
| | Unrestricted | Temporarily restricted | Permanently restricted | Total |
| Donor-restricted endowment | $ (8,399,404) | 34,577,964 | 60,398,108 | 86,576,668 |
| Board-designated endowment | 6,413,126 | — | — | 6,413,126 |
| Total pooled endowment | (1,986,278) | 34,577,964 | 60,398,108 | 92,989,794 |
| Nonpooled investments | 614,957 | 1,471,851 | 122,181 | 2,208,989 |
| Total investments | $ (1,371,321) | 36,049,815 | 60,520,289 | 95,198,783 |

| | 2008 | | | |
|---|---|---|---|---|
| | **Unrestricted** | **Temporarily restricted** | **Permanently restricted** | **Total** |
| Donor-restricted endowment | $ — | 53,718,926 | 56,456,434 | 110,175,360 |
| Board-designated endowment | 8,660,787 | — | — | 8,660,787 |
| Total pooled endowment | 8,660,787 | 53,718,926 | 56,456,434 | 118,836,147 |
| Nonpooled investments | 1,920,337 | 1,914,862 | 211,813 | 4,047,012 |
| Total investments | $ 10,581,124 | 55,633,788 | 56,668,247 | 122,883,159 |

Changes in pooled endowment assets for the year ended June 30, 2009 were as follows:

| | **Unrestricted** | **Temporarily restricted** | **Permanently restricted** | **Total** |
|---|---|---|---|---|
| Endowment at June 30, 2008 | $ 8,660,787 | 53,718,926 | 56,456,434 | 118,836,147 |
| Investment return: | | | | |
| Investment income | 579,525 | 837,467 | — | 1,416,992 |
| Net depreciation in fair value of investments | (2,219,453) | (26,231,931) | — | (28,451,384) |
| Effect of underwater endowments | (8,399,404) | 8,399,404 | — | — |
| Total investment return | (10,039,332) | (16,995,060) | — | (27,034,392) |
| Less investment return on nonpooled investments | (315,522) | 66,054 | — | (249,468) |
| Total endowment investment return | (10,354,854) | (16,929,006) | — | (27,283,860) |
| Contributions | — | — | 3,855,278 | 3,855,278 |
| Appropriation of endowment assets for expenditure | (292,211) | (2,125,560) | — | (2,417,771) |
| Other changes, including transfers | — | (86,396) | 86,396 | — |
| Endowment at June 30, 2009 | $ (1,986,278) | 34,577,964 | 60,398,108 | 92,989,794 |



(Continued)

Changes in endowment assets for the year ended June 30, 2008 are as follows (excluding contributions receivable):

| | Unrestricted | Temporarily restricted | Permanently restricted | Total |
|---|---|---|---|---|
| Endowment at June 30, 2007 | $ 9,415,190 | 60,197,000 | 52,426,057 | 122,038,247 |
| Investment return: | | | | |
| Investment income | 1,704,309 | 795,070 | 2,104 | 2,501,483 |
| Net depreciation in fair value of investments | (565,594) | (3,733,595) | (20,283) | (4,319,472) |
| Total investment return | 1,138,715 | (2,938,525) | (18,179) | (1,817,989) |
| Less investment return on nonpooled investments | (1,426,234) | (7,145) | — | (1,433,379) |
| Total endowment investment return | (287,519) | (2,945,670) | (18,179) | (3,251,368) |
| Contributions | — | 1,056,566 | 3,943,637 | 5,000,203 |
| Appropriation of endowment assets for expenditure | (466,884) | (3,360,090) | — | (3,826,974) |
| Other changes, including transfers | — | (1,228,880) | 104,919 | (1,123,961) |
| Endowment at June 30, 2008 | $ 8,660,787 | 53,718,926 | 56,456,434 | 118,836,147 |

***Funds with Deficiencies***

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UMIFA require to retain as a fund for perpetual duration. In accordance with GAAP, deficiencies of this nature would be reported in temporarily restricted net assets to the extent there are accumulated gains available to absorb such loss, or otherwise unrestricted net assets. There was a deficiency as of June 30, 2009 of $8,399,404.

## (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 $83,946,704 and $69,642,787 for the years ended June 30, 2009 and 2008, respectively.

## (17) Expenses

Expenses are reported in the statements of activities 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 $3,585,477 and $3,943,099 for the years ended June 30, 2009 and 2008, respectively. For purposes of reporting fund-raising expenses, the University includes only those fund-raising costs incurred by its Philanthropy office.

## (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 is disclosed in note 3. Contributions receivable are stated at their present value, which approximates fair value.

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.

The fair value of the derivative instrument is based upon inputs from current valuation information priced with observable market assumptions and appropriate valuation adjustments for credit risk. The valuation model adjusts each semiannual net cash flow by a credit spread depending on whether a net payment is due to the counterparty or due to the University. If the net payment was due to the counterparty, the rate used to adjust the net cash flow was a proxy curve for the University (a composite curve comprised of U.S. Dollar-denominated fair market curves with applicable ratings), minus the risk-free rate (LIBOR or the swap curve). If the net payment was due from the counterparty, the rate used to adjust the net cash flow was from the counterparty's 10-year credit default swap. The net cash flow for each payment was adjusted using the aforementioned rates (the credit adjustment) discounted for the appropriate time period from the valuation date via continuous compounding. The University has evaluated the valuation methodologies used to develop the fair values in order to determine whether such valuations are representative of an exit price. The University considered both its credit risk and counterparty credit risk in determining fair value and appropriate adjustments.

Under SFAS 157, which prioritizes the inputs to valuation techniques used to measure fair value, the three levels of the fair value hierarchy are as follows:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the University has the ability to access at the measurement date.

Level 2 inputs are inputs other than quoted prices included in Level 1 that are either directly or indirectly observable for the assets or liabilities.

Level 3 inputs are unobservable for the assets or liabilities.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement in its entirety.

Most investments classified in Levels 2 and 3 consist of shares or units in investment funds as opposed to direct interests in the funds' underlying holdings, which may be marketable. Because the Net Asset Value (NAV) reported by each fund is used as a practical expedient to estimate the fair value of the University's interest therein, its classification in Level 2 or 3 is based on the University's ability to redeem its interest at or near the date of the balance sheets. If the interest can be redeemed in the near term, the investment is classified in Level 2. The classification of investments in the fair value hierarchy is not necessarily an indication of the risks, liquidity, or degree of difficulty in estimating the fair value of each investment's underlying assets and liabilities.

The following table presents financial instruments that are measured at fair value on a recurring basis by the SFAS 157 hierarchy as of June 30, 2009:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Assets: | | | | |
| Short-term investments | $ 20,065,808 | — | 5,344,582 | 25,410,390 |
| Cash and cash equivalents | 718,096 | 3,856,467 | 28,268 | 4,602,831 |
| Common stocks | 606,162 | — | 9,979 | 616,141 |
| Mutual funds | 3,126,017 | — | — | 3,126,017 |
| Hedge funds | — | 62,958,187 | — | 62,958,187 |
| Alternative investments | — | — | 23,061,313 | 23,061,313 |
| U.S. government bonds | 73,252 | — | — | 73,252 |
| Municipal bonds | 761,042 | — | — | 761,042 |
| Total investments | 5,284,569 | 66,814,654 | 23,099,560 | 95,198,783 |
| Funds held by bond trustee | 12,969,294 | — | — | 12,969,294 |
| Total assets | $ 38,319,671 | 66,814,654 | 28,444,142 | 133,578,467 |
| Liabilities: | | | | |
| Fair value of derivative instrument | $ — | 4,371,159 | — | 4,371,159 |

While the University believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The following table presents a reconciliation for all Level 3 assets measured at fair value for the period July 1, 2008 to June 30, 2009.

| | | Level 3 assets |
|---|---|---|
| Financial assets: | | |
| Beginning balance at July 1, 2008 | $ | 37,890,186 |
| Transfers | | 39,487,712 |
| Net depreciation in fair value | | (10,231,122) |
| Purchases | | 12,992,359 |
| Sales | | (51,694,993) |
| Ending balance at June 30, 2009 | $ | 28,444,142 |

## (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, 2009 (with comparative totals for 2008), the following allocation of expenses was included in the accompanying statements of activities:

| | | Allocated expenses | | | | |
|---|---|---|---|---|---|---|
| | | Operation and maintenance of plant | Depreciation | Interest and other debt-related expenses | Direct expenses | Total per statement of changes in unrestricted net assets |
| Instruction | $ | 7,083,907 | 2,663,014 | 1,843,899 | 104,032,507 | 115,623,327 |
| Research | | 132,048 | 49,640 | 19,621 | 1,448,290 | 1,649,599 |
| Academic support | | 5,017,356 | 1,886,147 | 749,073 | 30,765,956 | 38,418,532 |
| Student services | | 3,656,985 | 1,374,750 | 2,140,206 | 29,695,746 | 36,867,687 |
| Institutional support | | 3,505,494 | 1,483,596 | 2,356,750 | 35,828,581 | 43,174,421 |
| Auxiliary enterprises | | 10,156,081 | 3,817,919 | 4,535,432 | 26,014,718 | 44,524,150 |
| Total 2009 | $ | 29,551,871 | 11,275,066 | 11,644,981 | 227,785,798 | 280,257,716 |
| Total 2008 | $ | 27,980,977 | 11,634,337 | 11,945,532 | 215,262,599 | 266,823,445 |

## (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.