PACE UNIVERSITY

Financial Statements

June 30, 2011 and 2010

(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, 2011 and 2010, 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, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

November 18, 2011

PACE UNIVERSITY

Balance Sheets

June 30, 2011 and 2010

Assets	**2011**	**2010**
Cash and cash equivalents	$ 11,064,942	1,836,531
Short-term investments (note 6)	3,459,176	7,321,657
Student accounts receivable (net of allowance for doubtful accounts of $2,161,138 and $1,720,231 in 2011 and 2010, respectively)	6,127,790	4,213,647
Grants and other receivables	4,527,296	6,599,564
Prepaid expenses and other assets	8,028,401	8,019,161
Contributions receivable, net (note 3)	11,950,819	16,258,152
Investments (notes 4, 5, and 6)	126,549,444	104,579,683
Student loans receivable (net of allowance for doubtful accounts of $3,349,426 and $3,250,775 in 2011 and 2010, respectively)	13,447,293	13,679,816
Funds held by bond trustees, at fair value (notes 6 and 9)	7,772,272	14,163,367
Plant assets, net (note 7)	258,134,088	256,264,477
Total assets	$ 451,061,521	432,936,055
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued liabilities (note 17)	$ 29,501,482	28,915,519
Notes payable (note 8)	34,000,000	34,000,000
Fair value of derivative instrument (notes 6 and 9)	6,738,724	7,566,865
Deferred revenues and deposits	10,450,005	10,034,354
Long-term debt (notes 9 and 10)	113,466,000	122,521,035
Deferred rental revenue (note 11)	8,497,770	9,441,966
Asset retirement obligations (note 12)	3,360,833	3,463,323
Accrued postretirement health benefits obligation (note 13)	76,147,276	74,669,821
U.S. government grants refundable	12,415,269	12,506,154
Total liabilities	294,577,359	303,119,037
Commitments and contingencies (notes 4, 8, 17, and 20)		
Net assets:		
Unrestricted:		
General	92,418,141	77,012,272
Accrued postretirement health benefits obligation (note 13)	(76,147,276)	(74,669,821)
Total unrestricted	16,270,865	2,342,451
Temporarily restricted (note 15)	65,314,301	53,689,798
Permanently restricted (note 15)	74,898,996	73,784,769
Total net assets	156,484,162	129,817,018
Total liabilities and net assets	$ 451,061,521	432,936,055

See accompanying notes to financial statements.

PACE UNIVERSITY

Statements of Activities

Years ended June 30, 2011 and 2010

	2011				2010			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**	**Unrestricted**	**Temporarily restricted**	**Permanently restricted**	**Total**
Revenues:								
Tuition and fees, net (note 16)	$ 229,472,625	—	—	229,472,625	206,926,232	—	—	206,926,232
Government grants and contracts	9,150,098	—	—	9,150,098	9,743,592	—	—	9,743,592
State appropriations	856,934	—	—	856,934	1,040,023	—	—	1,040,023
Contributions	1,498,766	4,063,130	1,084,441	6,646,337	1,130,831	4,325,418	951,022	6,407,271
Investment return appropriated (note 4)	319,682	2,495,048	—	2,814,730	1,129,449	2,269,554	—	3,399,003
Sales and services of auxiliary enterprises	43,083,572	—	—	43,083,572	40,123,388	—	—	40,123,388
Other sources	8,267,390	—	252	8,267,642	6,398,669	—	2,920	6,401,589
Net assets released from restrictions	7,434,993	(7,434,993)	—	—	7,911,655	(7,911,655)	—	—
Total revenues	300,084,060	(876,815)	1,084,693	300,291,938	274,403,839	(1,316,683)	953,942	274,041,098
Expenses (notes 18 and 19):								
Instruction	114,997,401	—	—	114,997,401	112,059,759	—	—	112,059,759
Research	3,961,896	—	—	3,961,896	3,238,883	—	—	3,238,883
Academic support	43,382,021	—	—	43,382,021	42,715,317	—	—	42,715,317
Student services	38,630,574	—	—	38,630,574	37,397,974	—	—	37,397,974
Institutional support	46,073,036	—	—	46,073,036	39,577,345	—	—	39,577,345
Auxiliary enterprises	45,339,931	—	—	45,339,931	42,058,124	—	—	42,058,124
Total expenses	292,384,859	—	—	292,384,859	277,047,402	—	—	277,047,402
Excess (deficiency) of operating revenues over expenses	7,699,201	(876,815)	1,084,693	7,907,079	(2,643,563)	(1,316,683)	953,942	(3,006,304)
Nonoperating activities:								
Unrealized appreciation (depreciation) in fair value of derivative instrument (note 9)	828,141	—	—	828,141	(3,195,706)	—	—	(3,195,706)
Change in value of split-interest agreements	—	44,203	29,534	73,737	—	30,608	42,795	73,403
Investment return, net (note 4)	1,082,883	17,133,200	—	18,216,083	281,565	5,682,814	—	5,964,379
Effect of underwater endowments (note 4)	4,676,085	(4,676,085)	—	—	1,813,064	(1,813,064)	—	—
Investment return on funds held by bond trustees	17,447	—	—	17,447	19,537	—	—	19,537
Changes in postretirement health benefits obligation other than net periodic cost (note 13)	(71,115)	—	—	(71,115)	(13,901,587)	—	—	(13,901,587)
Write-off of unamortized debt issuance costs	(304,228)	—	—	(304,228)	—	—	—	—
	6,229,213	12,501,318	29,534	18,760,065	(14,983,127)	3,900,358	42,795	(11,039,974)
Change in net assets	13,928,414	11,624,503	1,114,227	26,667,144	(17,626,690)	2,583,675	996,737	(14,046,278)
Net assets at beginning of year	2,342,451	53,689,798	73,784,769	129,817,018	19,969,141	51,106,123	72,788,032	143,863,296
Net assets at end of year	$ 16,270,865	65,314,301	74,898,996	156,484,162	2,342,451	53,689,798	73,784,769	129,817,018

See accompanying notes to financial statements.

PACE UNIVERSITY

Statements of Cash Flows

Years ended June 30, 2011 and 2010

		2011	2010
Cash flows from operating activities:			
Change in net assets	$	26,667,144	(14,046,278)
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Net appreciation in fair value of investments		(19,596,750)	(7,804,548)
Investment return on funds held by bond trustee		(17,447)	(19,537)
Change in fair value of derivative instrument		(828,141)	3,195,706
Change in value of split-interest agreements		73,737	73,403
Changes in postretirement health benefits obligation other than net periodic cost		71,115	13,901,587
Allowance for student loans receivable		98,651	123,131
Deferred rental revenue		(944,196)	(944,196)
Depreciation		9,981,588	10,496,311
Amortization and write-off of unamortized debt issuance costs		249,569	262,997
Disposals and write-off of plant assets		—	174,798
Revenues restricted for permanent investment and capital		(1,230,050)	(953,942)
Changes in operating assets and liabilities:			
(Increase) decrease in student accounts receivable, net		(1,914,143)	1,487,989
Decrease in grants and other receivables		2,072,268	860,108
(Increase) decrease in prepaid expenses and other assets		(342,334)	441,902
Decrease (increase) in contributions receivable, net		1,294,183	(126,437)
Increase (decrease) in noncapital accounts payable and accrued liabilities		816,717	(515,970)
Increase in deferred revenues and deposits		415,651	823,170
Increase in accrued postretirement health benefits obligation		1,406,340	1,141,660
(Decrease) increase in U.S. government grants refundable		(90,885)	172,662
Net cash provided by operating activities		18,183,017	8,744,516
Cash flows from investing activities:			
Decrease in student loans receivable		133,872	61,175
Purchase of plant assets		(11,851,199)	(11,547,666)
(Decrease) increase in accounts payable and accrued liabilities related to purchase of plant assets		(297,462)	165,007
Short-term investments, net		3,862,481	18,088,733
Purchase of investments		(36,034,850)	(28,706,320)
Proceeds from sale of investments		33,661,839	27,129,968
Net cash (used in) provided by investing activities		(10,525,319)	5,190,897
Cash flows from financing activities:			
Revenues restricted for permanent investment and capital		1,230,050	953,942
Decrease in contributions receivable restricted for permanent investment		2,092,702	2,721,977
Decrease in contributions receivable restricted for capital projects		920,448	842,942
Change in liabilities under split-interest agreements, net		(7,029)	(70,181)
Decrease in notes payable		—	(24,000,000)
Repayment of indebtedness		(9,074,000)	(3,631,503)
Decrease (increase) in funds held by bond trustees		6,408,542	(1,174,536)
Net cash provided by (used in) financing activities		1,570,713	(24,357,359)
Net increase (decrease) in cash and cash equivalents		9,228,411	(10,421,946)
Cash and cash equivalents at beginning of year		1,836,531	12,258,477
Cash and cash equivalents at end of year	$	11,064,942	1,836,531
Supplemental disclosure:			
Interest paid	$	8,654,452	8,151,458

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) 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.

Short-term investments are reported at fair value and represent the University's investment of operating cash.

(Continued)

(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) 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-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.

(e) 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.

(f) Plant Assets

Plant assets are stated at cost, except library books and collections, which are recorded at a nominal amount of $1 per volume.

Depreciation of plant assets is computed on a straight-line basis over their estimated useful lives. 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 3 years to 20 years.

(g) 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.

(h) 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.

(i) Fair Value

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. 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 a reporting entity has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

The University applies the provisions of Accounting Standards Codification (ASC) 820, *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, to certain investments in alternative investments that do not have readily determinable fair values, including hedge funds, limited partnerships, and other funds. This guidance allows, as a practical expedient, for the estimation of the fair value of investments in investment companies for which the investment does not have a readily determinable fair value, using net asset value per share or its equivalent, as reported by the investment managers.

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 reported by each fund is used as a practical expedient to estimate 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 June 30. If the interest can be redeemed in the near term, the investment is classified as 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.

(j) 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.

(Continued)

(k) 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, changes in postretirement health benefits obligation other than net periodic cost, and other nonrecurring transactions.

(l) 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 and loans receivable, allowance for uncollectible contributions receivable, useful lives of plant assets, and asset retirement obligation. Actual results could differ from those estimates.

(m) Recently Adopted Accounting Standard

In January 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2010-06, *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements*. ASU No. 2010-06 outlines certain new disclosures and clarifies some existing disclosure requirements about fair value measurement as set forth in ASC Topic 820-10. ASU No. 2010-06 amends ASC Topic 820-10 to now require that a reporting entity disclose separately the amounts of significant transfers into and out of Level 1 and Level 2 fair value measurements, and to describe the reasons for the transfers. It also provides that, in the reconciliation for fair value measurements using significant unobservable inputs, a reporting entity should separately present information about purchases, sales, issuances, and settlements. ASU No. 2010-06 also further clarifies existing disclosures on how a reporting entity discloses fair value measurements for each class of assets and liabilities, as well as the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements. Those provisions are illustrated further in note 6.

(n) Reclassifications

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

(3) 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 are expected to be collected as follows at June 30, 2011 and 2010:

		2011	2010
Amounts expected to be collected in:			
Less than one year	$	3,779,424	5,332,476
One to five years		4,404,019	7,383,748
More than five years		7,568,279	7,964,525
		15,751,722	20,680,749
Less discount to present value, from 1.01% to 5.15%		(3,074,649)	(3,611,925)
Less allowance for uncollectible amounts		(726,254)	(810,672)
	$	11,950,819	16,258,152

Included in contributions receivable at June 30, 2011 and 2010 are outstanding pledges from four donors, which collectively represent approximately 76% and 77%, respectively, of total outstanding gross contributions receivable.

(4) 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, 2011 and 2010:

	Fair value	
	2011	2010
Cash and cash equivalents	$ 2,039,276	2,185,760
Common stocks	296,894	825,761
Mutual funds	4,873,006	3,197,845
Equity and fixed income funds:		
Multi-strategy equity funds (a)	54,417,584	41,525,024
Small cap fund (b)	6,683,641	3,569,531
International equity funds (c)	17,832,194	13,274,210
Index fund (d)	2,590,755	—
Fixed income funds (e)	14,956,276	18,563,022
	96,480,450	76,931,787
Alternative investments:		
Diversifying fund (a)	2,869,837	—
Hedged equity (f)	4,853,797	9,056,812
Private equity (g)	7,216,275	4,673,212
Distressed (h)	6,671,652	6,207,924
Real assets (i)	440,161	295,752
Absolute return (j)	—	327,846
	22,051,722	20,561,546
U.S. government bonds	—	79,014
Municipal bonds	808,096	797,970
	$ 126,549,444	104,579,683

Equity and fixed income 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. Equity and fixed income funds have monthly liquidity, whereas alternative investments are either non-redeemable or can have limited liquidity. Individual investment holdings within equity and fixed income funds and alternative investments may be invested in both publicly traded securities and less liquid securities. The net asset values of equity and fixed income funds and alternative investments are reviewed and evaluated by management. Because equity and fixed income 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.

(a) Includes investments in funds that allocate their assets across a broad spectrum of equity strategies, including U.S. core equities, opportunistic equities, and diversifying strategies. Opportunistic equities are unconstrained by size, sector, and region. Diversifying strategies consist of investments within developed international and emerging market equities as well as marketable alternative investments (hedged equity).

(b) Includes investment in funds that invest in small cap common stocks.

(c) Includes investment in funds that invest in non-U.S. common stocks. Funds are invested in both traditional and emerging markets.

(d) Includes investment in funds that seek an investment return that approximates as closely as practical the performance of an industry index over the long term.

(e) Includes investment in funds that allocate their assets across a broad spectrum of fixed income strategies. Investments can include domestic and global fixed income, value oriented debt, emerging market debt, high yield, subordinated debt, and liquid and illiquid debt.

(f) Includes investment in funds that invest in long and short positions on equity securities that are primarily marketable securities issued by U.S. companies.

(g) Includes investment in funds that invest in domestic and international limited partnerships.

(h) Includes investments in funds that allocate their investments between a variety of distressed debt investment strategies including publicly traded and privately placed debt securities, loans, participation in loans, trade and other claims against issuers, other indebtedness and debtor in possession financing.

(i) Includes investments in funds that allocate their investments in limited partnerships, which in turn make investments in real estate, as well as oil, gas, and other natural related investments with the objective of obtaining loan term growth in capital.

(j) Include investment in funds that allocate their investments in investment categories, such as event driven fixed assets arbitrage, long/short equity, and absolute return multi-strategy strategies.

Investments include $1,570,643 and $1,304,467 of assets held under split-interest agreements at June 30, 2011 and 2010, 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, $2,764,433 and $2,552,602 of investment return was made available for the years ended June 30, 2011 and 2010, respectively, to support operations of the University. In addition, the University also utilized investment return from nonpooled investments, cash and cash equivalents, and short-term investments of $50,297 and $846,401 in fiscal years 2011 and 2010, 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, 2011, the University had commitments of $6,140,929 for which capital calls had not been exercised. This amount has not been recorded as a liability in the accompanying balance sheets. The University maintains sufficient liquidity in its portfolio to cover such calls.

The University's hedge funds and alternative investments contain various redemption restrictions with required notice periods. The following table summarizes the composition of such investments by redemption provision and notice period at June 30, 2011:

	Redemption provision	Notice period		Amount
Equity and fixed income funds	Monthly	5 days	$	77,881,440
		15 days		2,590,755
		30 days		16,008,255
			$	96,480,450
Alternative investments	Quarterly	90 – 95 days	$	7,723,634
	Lock-up	N/A		14,328,088
			$	22,051,722

The following summarizes the University's total investment return (excluding investment return on assets held under split-interest arrangements) and its classification in the financial statements for the years ended June 30, 2011 and 2010:

	2011			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Dividends and interest on investments (net of expenses of $421,901)	$ 125,038	1,309,025	—	1,434,063
Net appreciation in fair value of investments	1,277,527	18,319,223	—	19,596,750
Effect of underwater endowments	4,676,085	(4,676,085)	—	—
Total return on investments	6,078,650	14,952,163	—	21,030,813
Investment return appropriated for operations	319,682	2,495,048	—	2,814,730
Total return on investments net of amount appropriated for operations	$ 5,758,968	12,457,115	—	18,216,083

	2010			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Dividends and interest on investments (net of expenses of $298,261)	$ 292,904	1,265,930	—	1,558,834
Net appreciation in fair value of investments	1,118,110	6,686,438	—	7,804,548
Effect of underwater endowments	1,813,064	(1,813,064)	—	—
Total return on investments	3,224,078	6,139,304	—	9,363,382
Investment return appropriated for operations	1,129,449	2,269,554	—	3,399,003
Total return on investments net of amount appropriated for operations	$ 2,094,629	3,869,750	—	5,964,379

(Continued)

(5) Endowment Funds

The University's endowment consists of approximately 370 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 U.S. 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 University's management and investment of donor-restricted endowment funds has historically been subject to the provisions of the Uniform Management of Institutional Funds Act (UMIFA) and the New York State Trust Laws. In 2006, the Uniform Law Commission approved the model act, the Uniform Prudent Management of Institutional Funds Act (UPMIFA), which serves as a guideline for states to use in enacting legislation. In September 2010, the State of New York enacted the New York Prudent Management of Institutional Funds Act (NYPMIFA), its version of UPMIFA, effective immediately. Among NYPMIFA's most significant changes was the elimination of UMIFA's important concept of the historical dollar-value threshold, the amount below which an organization could not spend from the fund, in favor of a more robust set of guidelines about what constitutes prudent spending. The enactment of this law did not have a significant effect on the University's financial position or disclosures.

Pursuant to the investment policy approved by the Board of Trustees of the University, the University has interpreted NYPMIFA as allowing the University to appropriate for expenditure or accumulate so much of a donor-restricted endowment fund, as the University deems prudent for the uses, benefits, purposes, and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument, absent explicit donor stipulations to the contrary. As a result of this interpretation, the University has not changed the way permanently restricted net assets are classified.

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 until those amounts are appropriated for expenditure in a manner consistent with the standards of prudence prescribed by NYPMIFA.

The following represents the University's endowment composition by type of fund as of June 30, 2011 and 2010 (excluding contributions receivable):

	2011			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Donor-restricted endowment	$ (1,910,255)	50,698,634	67,251,422	116,039,801
Board-designated endowment	8,069,086	—	—	8,069,086
Total pooled endowment	6,158,831	50,698,634	67,251,422	124,108,887
Nonpooled investments	400,478	1,877,213	162,866	2,440,557
Total investments	$ 6,559,309	52,575,847	67,414,288	126,549,444

	2010			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Donor-restricted endowment	$ (6,586,340)	38,256,600	64,074,027	95,744,287
Board-designated endowment	6,783,689	—	—	6,783,689
Total pooled endowment	197,349	38,256,600	64,074,027	102,527,976
Nonpooled investments	335,362	1,585,022	131,323	2,051,707
Total investments	$ 532,711	39,841,622	64,205,350	104,579,683

Changes in pooled endowment assets for the year ended June 30, 2011 were as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment at June 30, 2010	$ 197,349	38,256,600	64,074,027	102,527,976
Investment return:				
Investment income	125,038	1,309,025	—	1,434,063
Net appreciation in fair value of investments	1,277,527	18,319,223	—	19,596,750
Effect of underwater endowments	4,676,085	(4,676,085)	—	—
Total investment return	6,078,650	14,952,163	—	21,030,813
Less investment return on nonpooled investments	(50,297)	(77,124)	—	(127,421)
Total endowment investment return	6,028,353	14,875,039	—	20,903,392
Contributions	202,514	62,043	3,177,395	3,441,952
Appropriation of endowment assets for expenditure	(269,385)	(2,495,048)	—	(2,764,433)
Endowment at June 30, 2011	$ 6,158,831	50,698,634	67,251,422	124,108,887

Changes in pooled endowment assets for the year ended June 30, 2010 were as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment at June 30, 2009	$ (1,986,278)	34,577,964	60,398,108	92,989,794
Investment return:				
Investment income	292,904	1,265,930	—	1,558,834
Net appreciation in fair value of investments	1,118,110	6,686,438	—	7,804,548
Effect of underwater endowments	1,813,064	(1,813,064)	—	—
Total investment return	3,224,078	6,139,304	—	9,363,382
Less investment return on nonpooled investments	(846,401)	(32,176)	—	(878,577)
Total endowment investment return	2,377,677	6,107,128	—	8,484,805
Contributions	—	—	3,605,979	3,605,979
Appropriation of endowment assets for expenditure	(283,048)	(2,269,554)	—	(2,552,602)
Other changes, including transfers	88,998	(158,938)	69,940	—
Endowment at June 30, 2010	$ 197,349	38,256,600	64,074,027	102,527,976

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 NYPMIFA require to retain as a fund for perpetual duration. In accordance with U.S. 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. At June 30, 2011 and 2010, unrestricted net assets reflected a deficiency of $1,910,255 and $6,586,340, respectively.

(6) 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 and below. 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 comprising U.S. dollar-denominated fair market curves with applicable ratings), minus the risk-free rate (London Interbank Offered 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 value in order to determine whether such valuation is representative of an exit price. The University considered both its credit risk and counterparty credit risk in determining fair value and appropriate adjustments.

The following table presents financial instruments that are measured at fair value on a recurring basis within the fair value hierarchy as of June 30, 2011 and 2010:

	June 30, 2011			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets:				
Short-term investments	$ 3,459,176	—	—	3,459,176
Cash and cash equivalents	389,399	1,649,877	—	2,039,276
Common stocks	285,635	—	11,259	296,894
Mutual funds	4,873,006	—		4,873,006
Equity and fixed income funds:				
Multi-strategy equity funds	—	54,417,584	—	54,417,584
Small cap fund	—	6,683,641	—	6,683,641
International equity funds	—	17,832,194	—	17,832,194
Index fund	—	2,590,755	—	2,590,755
Fixed income funds	—	14,956,276	—	14,956,276
Alternative investments:				
Diversifying fund	—	2,869,837	—	2,869,837
Hedged equity	—	4,853,797	—	4,853,797
Private equity	—	—	7,216,275	7,216,275
Distressed	—	—	6,671,652	6,671,652
Real assets	—	—	440,161	440,161
Municipal bonds	808,096	—	—	808,096
Total investments	6,356,136	105,853,961	14,339,347	126,549,444
Funds held by bond trustee	7,772,272	—	—	7,772,272
Total assets	$ 17,587,584	105,853,961	14,339,347	137,780,892
Liabilities:				
Fair value of derivative instrument	$ —	6,738,724	—	6,738,724

	June 30, 2010			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets:				
Short-term investments	$ 7,321,657	—	—	7,321,657
Cash and cash equivalents	463,340	1,722,420	—	2,185,760
Common stocks	814,853	—	10,908	825,761
Mutual funds	3,197,845	—	—	3,197,845
Equity and fixed income funds:				
Multi-strategy equity funds	—	41,525,024	—	41,525,024
Small cap fund	—	3,569,531	—	3,569,531
International equity funds	—	13,274,210	—	13,274,210
Fixed income funds	—	18,563,022	—	18,563,022
Alternative investments:				
Hedged equity	—	9,056,812	—	9,056,812
Private equity	—	—	4,673,212	4,673,212
Distressed	—	—	6,207,924	6,207,924
Real assets	—	—	295,752	295,752
Absolute return	—	—	327,846	327,846
U.S. government bonds	79,014	—	—	79,014
Municipal bonds	797,970	—	—	797,970
Total investments	5,353,022	87,711,019	11,515,642	104,579,683
Funds held by bond trustee	14,163,367	—	—	14,163,367
Total assets	$ 26,838,046	87,711,019	11,515,642	126,064,707
Liabilities:				
Fair value of derivative instrument	$ —	7,566,865	—	7,566,865

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.

(Continued)

The following table presents a reconciliation for all Level 3 assets measured at fair value for the period July 1, 2011 to June 30, 2010.

	Level 3 assets
Financial assets:	
Balance at June 30, 2009	$ 28,444,142
Net depreciation in fair value	(1,899,581)
Transfers to Level 2	(8,640,198)
Purchases	881,956
Sales	(7,270,677)
Balance at June 30, 2010	11,515,642
Net appreciation in fair value	2,375,952
Purchases	1,081,919
Sales	(634,166)
Balance at June 30, 2011	$ 14,339,347

(7) Plant Assets

Plant assets at June 30, 2011 and 2010 consist of the following:

	2011	2010
Land	$ 12,659,093	11,285,093
Land improvements	6,181,935	6,181,935
Buildings and building improvements	304,180,633	294,043,329
Construction in progress	6,563,996	10,007,636
Furniture and equipment	74,437,520	70,722,386
Library books	1,011,570	943,169
Total	405,034,747	393,183,548
Less accumulated depreciation	(146,900,659)	(136,919,071)
	$ 258,134,088	256,264,477

Included in buildings and building improvements at June 30, 2011 and 2010 is $16,226,522 relating to a building received in exchange for use of land. See note 11 for a discussion on the Judicial Training Institute.

(8) 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 LIBOR as defined in the Trust Indenture. The initial term on the drawdown note, as amended April 15, 2011, is through June 25, 2013 with a University renewal option through June 25, 2017. The amount of the drawdown note decreases annually throughout the initial and option terms (available amounts, as amended, reduced to $56,960,000 and $48,240,000 on June 25, 2011 and June 25, 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, 2011 were $34,000,000 and $22,960,000, respectively. The outstanding balance and unused portion under this facility as of June 30, 2010 were $34,000,000 and $25,665,000, respectively. During 2011 and 2010, interest and fees on borrowings under this facility amounted to $455,174 and $654,561, respectively. The range of interest rates on the amounts outstanding in 2011 and 2010 was 2.19% –2.35% and 2.2% – 2.4%, respectively.

(9) Long-Term Debt

Long-term debt at June 30, 2011 and 2010 consists of the following:

	2011	2010
Long-term debt of the Dormitory Authority of the State of New York (DASNY or the Authority):		
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	$ 72,775,000	73,675,000
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	40,125,000	40,950,000
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	—	1,921,541
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	—	5,264,494
Other debt	566,000	710,000
Total long-term debt	$ 113,466,000	122,521,035

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, 2011 and 2010, $4,722,327 and $4,807,168, respectively, of debt service reserve funds were included in funds held by bond trustees. These bonds are variable rate securities in which the coupon is reset each week by a remarketing agent. The interest rate is capped in the governing agreements at 15%.

The weighted average interest rate in 2011 and 2010 for Series 2005A was 4.0% and 3.5%, respectively. The range of rates in 2011 and 2010 was 3.1% – 4.9% and 2.4% – 4.1%, 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% of one-month LIBOR plus 32 basis points (.43% and .53% at June 30, 2011 and 2010, respectively) and pays a fixed rate of 3.428% effective October 15, 2009 (3.303% prior to that date) on the remaining notional amount ($72,775,000 and $73,675,000 as of June 30, 2011 and 2010, respectively) 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 University is downgraded below certain ratings. The fair value of the Derivative Instrument was a liability of $6,738,724 and $7,566,865 at June 30, 2011 and 2010, respectively, and is reflected in the accompanying balance sheets as fair value of Derivative Instrument. The accompanying 2011 and 2010 statements of activities reflect the unrealized appreciation (depreciation) in fair value of Derivative Instrument of $828,141 and $(3,195,706), 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, 2011 and 2010, $1,028,529 and $1,025,044, respectively, of debt service funds were included in funds held by bond trustees. Similar to Series 2005A, these bonds are variable rate securities that are subject to a weekly remarketing process with a cap of 20%. The weighted average interest rate in 2011 and 2010 for Series 2005B was 5.3% and 4.6%, respectively. The range of rates in 2011 and 2010 was 3.7% – 6.6% and 3.9% – 5.8%, 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, 2011 and 2010, $1,938,475 and $1,384,625, respectively, was deposited with the Trustee, and is included in funds held by bond trustees in the accompanying balance sheets.

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. On April 8, 2011, at the request of the University, the bond trustee issued a notice of redemption with respect to the Series 2000 Revenue Bonds. In accordance with this notice, the Revenue Bonds were called on May 13, 2011 at a redemption price of 101% of the outstanding principal amount of $1,310,000. The related loss of $41,724 is included as loss on early retirement of long-term debt in the accompanying statements of activities. Under the Series 2000 bond agreement, the University maintained a debt service reserve fund on deposit with a trustee. At June 30, 2010, $1,374,671 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. On April 13, 2011, the University defeased the remaining principal balance of $3,635,000 on the Series 1997 Revenue Bonds. The related loss of $262,504 is included as loss on early retirement of long-term debt in the accompanying statements of activities. Under the Series 1997 bond agreement, the University maintained a debt service reserve fund on deposit with a trustee. At June 30, 2010, $3,858,406 of debt service reserve funds and $1,650,745 of building and equipment reserve funds were included in funds held by bond trustees.

The Series 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.

Interest and fees incurred for the years ended June 30, 2011 and 2010 was $7,896,136 and $7,518,848, 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 27.5% as of each June 30 and December 31 occurring from January 1, 2008 through December 31, 2010; and (ii) at least 30.0% as of each June 30 and December 31 occurring subsequent to December 31, 2010. Unrestricted Investments, as defined, for the years ended June 30, 2011 and 2010 were:

		2011	2010
Investments and short-term investments	$	130,008,620	111,901,340
Permanently restricted net assets		(74,898,996)	(73,784,769)
Contributions receivable – permanently restricted		7,019,614	9,115,421
Market fluctuation adjustment		—	4,396,544
Total unrestricted investments	$	62,129,238	51,628,536

(10) 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	Total
Year ending June 30:			
2012	$ 1,800,000	89,000	1,889,000
2013	1,850,000	91,000	1,941,000
2014	4,650,000	92,000	4,742,000
2015	4,825,000	93,000	4,918,000
2016	5,025,000	151,000	5,176,000

(11) 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, 2011 and 2010, $8,497,770 and $9,441,966, respectively, of deferred rental revenue was included in the accompanying balance sheets. For each of the years ended June 30, 2011 and 2010, $944,196 was recognized as rental revenue and is included in other sources in the accompanying statements of activities.

(Continued)

(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, 2011 and 2010 amounted to $3,360,833 and $3,463,323, respectively.

(13) 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, 2011 and 2010:

		2011	2010
Change in benefit obligation:			
Benefit obligation at beginning of year	$	74,669,821	59,626,574
Service cost		662,567	578,090
Interest cost		3,948,340	4,173,733
Plan participant's contributions		458,417	425,150
Actuarial (gain) loss		(380,763)	12,492,534
Benefits paid		(3,383,208)	(2,760,013)
Subsidies received		172,102	133,753
Benefit obligation at end of year		76,147,276	74,669,821
Change in plan assets:			
Employer contribution		2,752,689	2,201,110
Plan participant's contributions		458,417	425,150
Benefits paid		(3,383,208)	(2,760,013)
Subsidies received		172,102	133,753
Fair value of plan assets at end of year		—	—
Accrued postretirement health benefits obligation	$	76,147,276	74,669,821

The net periodic postretirement benefit expense for 2011 and 2010 includes the following components:

		2011	2010
Net periodic benefit cost:			
Service cost	$	662,567	578,090
Interest cost		3,948,340	4,173,733
Amortization of prior service credit		(1,726,712)	(1,726,954)
Amortization of net loss		1,274,834	317,901
Total net periodic benefit cost	$	4,159,029	3,342,770

The discount rates for 2011 and 2010 were as follows:

	2011	2010
Benefit obligation weighted average assumptions as of June 30, 2011 and 2010:		
Discount rate	5.65%	5.50%
Benefit cost weighted average assumptions for the years ended June 30, 2011 and 2010:		
Discount rate	5.50%	7.00%

Other changes in postretirement benefit obligations recognized in unrestricted net assets for 2011 and 2010 include the following components:

		2011	2010
Actuarial net (gain) loss	$	(380,763)	12,492,534
Amortization of prior service cost		1,726,712	1,726,954
Amortization of net loss		(1,274,834)	(317,901)
	$	71,115	13,901,587

(Continued)

As of June 30, 2011 and 2010, the items not yet recognized as net periodic postretirement benefit cost are as follows:

	2011	2010
Prior service credit	$ (3,432,229)	(5,158,941)
Net loss	17,885,739	19,541,336
	$ 14,453,510	14,382,395

The estimated prior service credit and net loss that will be amortized into net periodic benefit cost in 2012 are $(1,530,929) and $1,257,162, respectively.

For measurement purposes, an 8% 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, 2011, decreasing to 5% in 2017 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 $10,414,626 and $683,127, respectively, in 2011. A 1% decrease in the rate translates to a decrease in the accumulated postretirement benefit obligation and service and interest cost of $8,542,899 and $549,436, respectively, in 2011.

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
2012	$ 3,924,448	305,685	3,618,763
2013	4,275,641	343,884	3,931,757
2014	4,551,180	383,071	4,168,109
2015	4,717,757	401,294	4,316,463
2016	4,976,743	433,427	4,543,316
2017 through 2021	27,545,315	2,517,684	25,027,631

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.

(14) Defined Contribution Retirement Plan

The University has defined contribution retirement plan established in accordance with Section 403(b) of the Internal Revenue Code of 1986, which covers substantially all full-time employees. Teacher's Insurance and Annuity Association and College Retirement Equities Fund (TIAA-CREF), Fidelity Management Trust Company (Fidelity), and T. Rowe Price Trust Company (T. Rowe Price) are the plan's record-keepers and custodians. In 2011, the University selected TIAA-CREF as the University's sole 403(b) vendor effective January 1, 2011. Existing accounts with Fidelity and T. Rowe Price continue to be part of the plan, but new contributions can only be made to TIAA-CREF accounts.

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, 2011 and 2010 amounted to $9,489,392 and $8,492,863, respectively.

(15) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets at June 30, 2011 and 2010 are available to support the following areas:

		2011	2010
Instruction	$	30,042,747	21,272,814
Research		508,581	298,243
Academic support		16,135,904	15,368,733
Student activities		1,005,874	649,522
Institutional support		3,927,488	4,464,057
Capital projects		399,613	264,972
Scholarships		7,695,738	3,980,687
Contributions receivable		4,882,162	6,718,779
Split-interest agreements		716,194	671,991
	$	65,314,301	53,689,798

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, 2011 and 2010 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 $112,550,227 and $114,576,505 for the years ended June 30, 2011 and 2010, respectively.

(17) 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:		
2012	$	20,428,379
2013		20,632,000
2014		18,249,005
2015		18,379,725
2016		18,551,221
2017 and thereafter		250,837,434
	$	347,077,764

Included in the above is a lease commitment for student housing of $229,558,454.

Total rental expense for the years ended June 30, 2011 and 2010 was $23,216,709 and $22,036,991, respectively. Included in accounts payable and accrued liabilities is a deferred rent obligation of $4,401,092 and $4,183,705 at June 30, 2011 and 2010, respectively, which represents the effect of straight-lining the total minimum lease payments over the lease terms.

(18) 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, institutional support, and auxiliary enterprises are incurred in support of these primary program services. Institutional support includes fund-raising expenses of $3,469,102 and $3,538,652 for the years ended June 30, 2011 and 2010, respectively. For purposes of reporting fund-raising expenses, the University includes only those fund-raising costs incurred by its Development office.

(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, 2011 (with comparative totals for 2010), 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 activities**
Instruction	$	5,399,435	1,723,584	1,241,051	106,633,331	114,997,401
Research		411,578	131,382	51,365	3,367,571	3,961,896
Academic support		7,858,486	2,508,552	980,735	32,034,248	43,382,021
Student services		4,914,783	1,568,876	1,755,879	30,391,036	38,630,574
Institutional support		3,253,051	1,038,424	861,153	40,920,408	46,073,036
Auxiliary enterprises		9,431,773	3,010,770	3,739,554	29,157,834	45,339,931
Total 2011	$	31,269,106	9,981,588	8,629,737	242,504,428	292,384,859
Total 2010	$	29,762,093	10,496,311	8,466,583	228,322,415	277,047,402

(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.

(21) Subsequent Events

In accordance with ASC Subtopic 855-10, *Subsequent Events*, the University evaluated subsequent events after the balance sheet date of June 30, 2011 through November 18, 2011, which was the date the financial statements were issued and determined that there were no additional matters that are required to be disclosed.