PACE UNIVERSITY

Financial Statements

June 30, 2012 and 2011

(With Independent Auditors' Report Thereon)

KPMG LLP
345 Park Avenue
New York, NY 10154-0102

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, 2012 and 2011, 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, 2012 and 2011, 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

October 29, 2012

PACE UNIVERSITY

Balance Sheets

June 30, 2012 and 2011

Assets		**2012**	**2011**
Cash and cash equivalents	$	22,154,829	11,064,942
Short-term investments (note 6)		3,514,119	3,459,176
Student accounts receivable (net of allowance for doubtful accounts of $2,448,408 and $2,161,138 in 2012 and 2011, respectively)		6,994,220	6,127,790
Grants and other receivables		5,441,740	4,527,296
Prepaid expenses and other assets		9,378,199	8,028,401
Contributions receivable, net (note 3)		10,860,855	11,950,819
Investments (notes 4, 5, and 6)		124,381,733	126,549,444
Student loans receivable (net of allowance for doubtful accounts of $3,596,242 and $3,349,426 in 2012 and 2011, respectively)		13,347,848	13,447,293
Funds held by bond trustees, at fair value (notes 6 and 9)		8,235,974	7,772,272
Plant assets, net (note 7)		260,175,782	258,134,088
Total assets	$	464,485,299	451,061,521
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued liabilities (note 17)	$	33,046,862	29,501,482
Notes payable (note 8)		46,000,000	34,000,000
Fair value of derivative instrument (notes 6 and 9)		11,370,956	6,738,724
Deferred revenues and deposits		10,430,171	10,450,005
Long-term debt (notes 9 and 10)		111,577,000	113,466,000
Deferred rental revenue (note 11)		7,553,574	8,497,770
Asset retirement obligations (note 12)		3,378,371	3,360,833
Accrued postretirement health benefits obligation (note 13)		88,018,979	76,147,276
U.S. government grants refundable		12,550,303	12,415,269
Total liabilities		323,926,216	294,577,359
Commitments and contingencies (notes 4, 8, 17, and 20)			
Net assets:			
Unrestricted:			
General		88,659,543	92,418,141
Accrued postretirement health benefits obligation (note 13)		(88,018,979)	(76,147,276)
Total unrestricted		640,564	16,270,865
Temporarily restricted (note 15)		63,052,550	65,314,301
Permanently restricted (note 15)		76,865,969	74,898,996
Total net assets		140,559,083	156,484,162
Total liabilities and net assets	$	464,485,299	451,061,521

See accompanying notes to financial statements.

PACE UNIVERSITY

Statements of Activities

Years ended June 30, 2012 and 2011

	2012				2011			
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues:								
Tuition and fees, net (note 16)	$ 233,065,592	—	—	233,065,592	229,472,625	—	—	229,472,625
Government grants and contracts	11,720,371	—	—	11,720,371	9,150,098	—	—	9,150,098
State appropriations	809,227	—	—	809,227	856,934	—	—	856,934
Contributions	1,071,163	5,145,132	1,953,939	8,170,234	1,498,766	4,063,130	1,084,441	6,646,337
Investment return appropriated (note 4)	265,471	2,548,878	—	2,814,349	319,682	2,495,048	—	2,814,730
Sales and services of auxiliary enterprises	45,142,281	—	—	45,142,281	43,083,572	—	—	43,083,572
Other sources	8,670,457	—	1,453	8,671,910	8,267,390	—	252	8,267,642
Net assets released from restrictions	6,826,104	(6,826,104)	—	—	7,434,993	(7,434,993)	—	—
Total revenues	307,570,666	867,906	1,955,392	310,393,964	300,084,060	(876,815)	1,084,693	300,291,938
Expenses (notes 18 and 19):								
Instruction	120,587,721	—	—	120,587,721	114,997,401	—	—	114,997,401
Research	4,206,806	—	—	4,206,806	3,961,896	—	—	3,961,896
Academic support	45,612,469	—	—	45,612,469	43,382,021	—	—	43,382,021
Student services	40,470,122	—	—	40,470,122	38,630,574	—	—	38,630,574
Institutional support	49,095,559	—	—	49,095,559	46,073,036	—	—	46,073,036
Auxiliary enterprises	46,093,691	—	—	46,093,691	45,339,931	—	—	45,339,931
Total expenses	306,066,368	—	—	306,066,368	292,384,859	—	—	292,384,859
Excess (deficiency) of operating revenues over expenses	1,504,298	867,906	1,955,392	4,327,596	7,699,201	(876,815)	1,084,693	7,907,079
Nonoperating activities:								
Unrealized (depreciation) appreciation in fair value of derivative instrument (note 9)	(4,632,232)	—	—	(4,632,232)	828,141	—	—	828,141
Investment return, net (note 4)	(452,040)	(4,400,536)	—	(4,852,576)	1,082,883	17,133,200	—	18,216,083
Effect of underwater endowments (note 4)	(1,296,954)	1,296,954	—	—	4,676,085	(4,676,085)	—	—
Changes in postretirement health benefits obligation other than net periodic cost (note 13)	(11,028,272)	—	—	(11,028,272)	(71,115)	—	—	(71,115)
Other	274,899	(26,075)	11,581	260,405	(286,781)	44,203	29,534	(213,044)
	(17,134,599)	(3,129,657)	11,581	(20,252,675)	6,229,213	12,501,318	29,534	18,760,065
Change in net assets	(15,630,301)	(2,261,751)	1,966,973	(15,925,079)	13,928,414	11,624,503	1,114,227	26,667,144
Net assets at beginning 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
Net assets at end of year	$ 640,564	63,052,550	76,865,969	140,559,083	16,270,865	65,314,301	74,898,996	156,484,162

See accompanying notes to financial statements.

PACE UNIVERSITY

Statements of Cash Flows

Years ended June 30, 2012 and 2011

		2012	2011
Cash flows from operating activities:			
Change in net assets	$	(15,925,079)	26,667,144
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Net depreciation (appreciation) in fair value of investments		3,025,251	(19,596,750)
Investment return on funds held by bond trustee		(486)	(17,447)
Change in fair value of derivative instrument		4,632,232	(828,141)
Change in value of split-interest agreements		(14,494)	73,737
Changes in postretirement health benefits obligation other than net periodic cost		11,028,272	71,115
Allowance for student loans receivable		246,816	98,651
Deferred rental revenue		(944,196)	(944,196)
Depreciation		10,445,614	9,981,588
Amortization and write-off of unamortized debt issuance costs		251,786	249,569
Gain on sale of plant assets		(274,413)	—
Revenues restricted for permanent investment and capital		(1,966,018)	(1,230,050)
Changes in operating assets and liabilities:			
Increase in student accounts receivable, net		(866,430)	(1,914,143)
(Increase) decrease in grants and other receivables		(914,444)	2,072,268
Increase in prepaid expenses and other assets		(1,584,046)	(342,334)
(Increase) decrease in contributions receivable, net		(92,310)	1,294,183
Increase in noncapital accounts payable and accrued liabilities		3,275,153	816,717
(Decrease) increase in deferred revenues and deposits		(19,834)	415,651
Increase in accrued postretirement health benefits obligation		843,431	1,406,340
Increase (decrease) in U.S. government grants refundable		135,034	(90,885)
Net cash provided by operating activities		11,281,839	18,183,017
Cash flows from investing activities:			
(Increase) decrease in student loans receivable		(147,371)	133,872
Purchase of plant assets		(12,490,496)	(11,851,199)
Proceeds from sale of plant assets		277,601	—
Increase (decrease) in accounts payable and accrued liabilities related to purchase of plant assets		297,738	(297,462)
Short-term investments, net		(54,943)	3,862,481
Purchase of investments		(102,281,161)	(36,034,850)
Proceeds from sale of investments		101,423,621	33,661,839
Net cash used in investing activities		(12,975,011)	(10,525,319)
Cash flows from financing activities:			
Revenues restricted for permanent investment and capital		1,966,018	1,230,050
Decrease in contributions receivable restricted for permanent investment		604,778	2,092,702
Decrease in contributions receivable restricted for capital projects		577,496	920,448
Change in liabilities under split-interest agreements, net		(13,017)	(7,029)
Increase in notes payable		12,000,000	—
Repayment of indebtedness		(1,889,000)	(9,074,000)
(Increase) decrease in funds held by bond trustees		(463,216)	6,408,542
Net cash provided by financing activities		12,783,059	1,570,713
Net increase in cash and cash equivalents		11,089,887	9,228,411
Cash and cash equivalents at beginning of year		11,064,942	1,836,531
Cash and cash equivalents at end of year	$	22,154,829	11,064,942
Supplemental disclosure:			
Interest paid	$	5,822,779	8,654,452

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 transactions and, accordingly, are reported as unrestricted revenue when expenses are incurred in accordance with the 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 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) 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, 2012 and 2011:

	2012	2011
Amounts expected to be collected in:		
Less than one year	$ 3,334,328	3,779,424
One to five years	3,760,443	4,404,019
More than five years	7,170,560	7,568,279
	14,265,331	15,751,722
Less discount to present value, from 0.13% to 5.15%	(2,773,307)	(3,074,649)
Less allowance for uncollectible amounts	(631,169)	(726,254)
	$ 10,860,855	11,950,819

Included in contributions receivable at June 30, 2012 and 2011 are outstanding pledges from four donors, which collectively represent approximately 69% and 76%, 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, 2012 and 2011:

		Fair value	
		2012	**2011**
Cash and cash equivalents	$	2,678,451	2,039,276
Common stocks		292,246	296,894
Mutual funds:			
Domestic equities		15,817,769	1,500,351
International equities		10,348,800	2,675,442
Fixed income		17,882,179	697,213
		44,048,748	4,873,006
Equity and fixed income funds:			
Multi-strategy equity funds (a)		—	54,417,584
Large cap funds (b)		36,820,253	—
Small cap fund (c)		9,812,639	6,683,641
International equity funds (d)		4,953,785	17,832,194
Natural resources index fund (i)		2,155,313	2,590,755
Fixed income funds (e)		—	14,956,276
		53,741,990	96,480,450
Alternative investments:			
Diversifying fund (a)		2,808,068	2,869,837
Hedged equity (f)		4,472,952	4,853,797
Private equity (g)		7,703,935	7,216,275
Distressed (h)		6,287,325	6,671,652
Real assets (i)		1,533,991	440,161
		22,806,271	22,051,722
Municipal bonds		814,027	808,096
	$	124,381,733	126,549,444

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 daily, weekly, or monthly liquidity, whereas alternative investments are either nonredeemable 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 large cap common stocks.

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

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

(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 long-term growth in capital. The category also includes related index funds.

Investments include $1,520,016 and $1,570,643 of assets held under split-interest agreements at June 30, 2012 and 2011, 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, $2,876,986 and $2,764,433 of investment return was made available for the years ended June 30, 2012 and 2011, respectively, to support operations of the University. In addition, the University also utilized investment (loss) return from nonpooled investments, cash and cash equivalents, and short-term investments of $(62,637) and $50,297 in fiscal years 2012 and 2011, 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, 2012, the University had commitments of $4,495,079 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, 2012:

	Redemption provision	Notice period		Amount
Equity and fixed income funds	Daily	None	$	15,739,337
	Weekly	5 days		21,080,916
	Monthly	5 days		10,416,981
		15 days		2,155,313
		30 days		4,349,443
			$	53,741,990
Alternative investments	Quarterly	90 – 95 days	$	7,281,020
	Lock-up	N/A		15,525,251
			$	22,806,271

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, 2012 and 2011:

	2012			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Dividends and interest on investments (net of expenses of $377,389)	$ 6,608	980,416	—	987,024
Net depreciation in fair value of investments	(193,177)	(2,832,074)	—	(3,025,251)
Effect of underwater endowments	(1,296,954)	1,296,954	—	—
Total loss on investments	(1,483,523)	(554,704)	—	(2,038,227)
Investment return appropriated for operations	265,471	2,548,878	—	2,814,349
Total loss on investments, net of amount appropriated for operations	$ (1,748,994)	(3,103,582)	—	(4,852,576)

	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

(5) Endowment Funds

The University's endowment consists of approximately 380 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.

Relevant Law

The University's management and investment of donor-restricted endowment funds is subject to the provisions of the New York Prudent Management of Institutional Funds Act (NYPMIFA).

Pursuant to the investment policy approved by the Board of Trustees of the University, the University appropriates for expenditure or accumulates 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.

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 tables represent the University's endowment composition by type of fund as of June 30, 2012 and 2011 (excluding contributions receivable):

	2012			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Donor-restricted endowment	$ (3,207,209)	47,472,541	69,810,139	114,075,471
Board-designated endowment	7,686,684	—	—	7,686,684
Total pooled endowment	4,479,475	47,472,541	69,810,139	121,762,155
Nonpooled investments	643,252	1,811,853	164,473	2,619,578
Total investments	$ 5,122,727	49,284,394	69,974,612	124,381,733

	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

Included in donor-restricted endowments at June 30, 2012 and 2011 are $34,071,056 and $35,308,133, respectively, of temporarily restricted net assets expendable only for projects approved by the donor or donor's designee.

Changes in pooled endowment assets for the year ended June 30, 2012 were as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment at June 30, 2011	$ 6,158,831	50,698,634	67,251,422	124,108,887
Investment return:				
Investment income	6,608	980,416	—	987,024
Net depreciation in fair value of investments	(193,177)	(2,832,074)	—	(3,025,251)
Effect of underwater endowments	(1,296,954)	1,296,954	—	—
Total loss on investment	(1,483,523)	(554,704)	—	(2,038,227)
Less loss on investment nonpooled investments	62,637	12,443	—	75,080
Total endowment loss on investment	(1,420,886)	(542,261)	—	(1,963,147)
Contributions	7,603	25,000	2,460,798	2,493,401
Appropriation of endowment assets for expenditure	(328,108)	(2,548,878)	—	(2,876,986)
Other changes, including transfers	62,035	(159,954)	97,919	—
Endowment at June 30, 2012	$ 4,479,475	47,472,541	69,810,139	121,762,155

(Continued)

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

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, 2012 and 2011, unrestricted net assets reflected a deficiency of $3,207,209 and $1,910,255, 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 4 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.

(Continued)

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. Municipal revenue bonds 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, 2012 and 2011:

	June 30, 2012			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets:				
Short-term investments	$ 3,514,119	—	—	3,514,119
Cash and cash equivalents	831,422	1,847,029	—	2,678,451
Common stocks	280,691	—	11,555	292,246
Mutual funds:				
Domestic equities	15,817,769	—	—	15,817,769
International equities	10,348,800	—	—	10,348,800
Fixed income	17,882,179	—	—	17,882,179
Equity and fixed income funds:				
Large cap funds	—	36,820,253	—	36,820,253
Small cap fund	—	9,812,639	—	9,812,639
International equity funds	—	4,953,785	—	4,953,785
Index fund	—	2,155,313	—	2,155,313
Alternative investments:				
Diversifying fund	—	2,808,068	—	2,808,068
Hedged equity	—	4,472,952	—	4,472,952
Private equity	—	—	7,703,935	7,703,935
Distressed	—	—	6,287,325	6,287,325
Real assets	—	—	1,533,991	1,533,991
Municipal bonds	814,027	—	—	814,027
Total investments	45,974,888	62,870,039	15,536,806	124,381,733
Funds held by bond trustees	8,235,974	—	—	8,235,974
Total assets	$ 57,724,981	62,870,039	15,536,806	136,131,826
Liabilities:				
Fair value of derivative instrument	$ —	11,370,956	—	11,370,956

	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:				
Domestic equities	1,500,351	—	—	1,500,351
International equities	2,675,442	—	—	2,675,442
Fixed income	697,213	—	—	697,213
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 trustees	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

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 June 30, 2010 to June 30, 2012:

		Level 3 assets
Financial assets:		
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
Net appreciation in fair value		72,234
Purchases		2,539,484
Sales		(1,414,259)
Balance at June 30, 2012	$	15,536,806

(7) Plant Assets

Plant assets at June 30, 2012 and 2011 consist of the following:

		2012	2011
Land	$	12,659,093	12,659,093
Land improvements		6,181,935	6,181,935
Buildings and building improvements		305,730,090	304,180,633
Construction in progress		14,102,373	6,563,996
Furniture and equipment		76,915,196	74,437,520
Library books		1,022,917	1,011,570
Total		416,611,604	405,034,747
Less accumulated depreciation		(156,435,822)	(146,900,659)
	$	260,175,782	258,134,088

Included in buildings and building improvements at June 30, 2012 and 2011 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 on 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 $55,465,000 and $48,240,000 on

June 25, 2012 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, 2012 were $46,000,000 and $9,465,000, respectively. The outstanding balance and unused portion under this facility as of June 30, 2011 were $34,000,000 and $22,960,000, respectively. During 2012 and 2011, interest and fees on borrowings under this facility amounted to $326,528 and $455,174, respectively. The range of interest rates on the amounts outstanding in 2012 and 2011 was 2.19% to 2.30% and 2.19% to 2.35%, respectively.

(9) Long-Term Debt

Long-term debt at June 30, 2012 and 2011 consists of the following:

		2012	2011
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	$	71,850,000	72,775,000
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		39,250,000	40,125,000
Other debt		477,000	566,000
Total long-term debt	$	111,577,000	113,466,000

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, 2012 and 2011, $4,679,188 and $4,722,327, 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 2012 and 2011 for Series 2005A was 2.6% and 4.0%, respectively. The range of rates in 2012 and 2011 was 2.0% to 3.0% and 3.1% to 4.9%, 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 (0.46% and 0.43% at June 30, 2012 and 2011, respectively) and pays a fixed rate of 3.428% effective October 15, 2009 (3.303% prior to that date) on the remaining notional amount ($71,850,000 and $72,775,000 as of June 30, 2012 and 2011, 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 $11,370,956 and $6,738,724 at June 30, 2012 and 2011, respectively, and is reflected in the accompanying balance sheets as fair value of Derivative Instrument. The University is required to post collateral for the negative market value of the

(Continued)

Derivative Instrument when it exceeds $10.0 million and certain minimum credit ratings are not met. At June 30, 2012, $2,150,000 of collateral was included in prepaid expenses and other assets. The accompanying 2012 and 2011 statements of activities reflect the unrealized (depreciation) appreciation in fair value of Derivative Instrument of $(4,632,232) and $828,141, 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, 2012 and 2011, $1,001,538 and $1,028,529, 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 2012 and 2011 for Series 2005B was 2.9% and 5.3%, respectively. The range of rates in 2012 and 2011 was 2.2% to 3.3% and 3.7% to 6.6%, 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, 2012 and 2011, $2,492,325 and $1,938,475, respectively, was deposited with the Trustee and is included in funds held by bond trustees in the accompanying balance sheets.

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, 2012 and 2011 was $5,494,438 and $7,896,136, 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, 2012 and 2011 were as follows:

		2012	2011
Investments and short-term investments	$	127,895,852	130,008,620
Permanently restricted net assets		(76,865,969)	(74,898,996)
Contributions receivable – permanently restricted		6,414,836	7,019,614
Total unrestricted investments	$	57,444,719	62,129,238

(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:				
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
2017		5,200,000	50,000	5,250,000

(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, 2012 and 2011, $7,553,574 and $8,497,770, respectively, of deferred rental revenue was included in the accompanying balance sheets. For each of the years ended June 30, 2012 and 2011, $944,196 was recognized as rental revenue and is included in other sources in the accompanying statements of activities.

(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, 2012 and 2011 amounted to $3,378,371 and $3,360,833, 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.

(Continued)

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, 2012 and 2011:

	2012	2011
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 76,147,276	74,669,821
Service cost	600,735	662,567
Interest cost	4,125,323	3,948,340
Plan participant's contributions	557,922	458,417
Actuarial loss (gain)	10,417,644	(380,763)
Benefits paid	(4,043,382)	(3,383,208)
Subsidies received	213,461	172,102
Benefit obligation at end of year	88,018,979	76,147,276
Change in plan assets:		
Employer contribution	3,271,999	2,752,689
Plan participant's contributions	557,922	458,417
Benefits paid	(4,043,382)	(3,383,208)
Subsidies received	213,461	172,102
Fair value of plan assets at end of year	—	—
Accrued postretirement health benefits obligation	$ 88,018,979	76,147,276

The net periodic postretirement benefit expense for 2012 and 2011 includes the following components:

	2012	2011
Net periodic benefit cost:		
Service cost	$ 600,735	662,567
Interest cost	4,125,323	3,948,340
Amortization of prior service credit	(1,530,929)	(1,726,712)
Amortization of net loss	920,301	1,274,834
Total net periodic benefit cost	$ 4,115,430	4,159,029

The discount rates for 2012 and 2011 were as follows:

	2012	2011
Benefit obligation weighted average assumptions as of June 30, 2012 and 2011:		
Discount rate	4.60%	5.65%
Benefit cost weighted average assumptions for the years ended June 30, 2012 and 2011:		
Discount rate	5.65%	5.50%

Other changes in postretirement benefit obligations recognized in unrestricted net assets for 2012 and 2011 include the following components:

		2012	2011
Actuarial net loss (gain)	$	10,417,644	(380,763)
Amortization of prior service cost		1,530,929	1,726,712
Amortization of net loss		(920,301)	(1,274,834)
	$	11,028,272	71,115

As of June 30, 2012 and 2011, the items not yet recognized as net periodic postretirement benefit cost are as follows:

		2012	2011
Prior service credit	$	(1,901,300)	(3,432,229)
Net loss		27,383,082	17,885,739
	$	25,481,782	14,453,510

The estimated prior service credit and net loss that will be amortized into net periodic benefit cost in 2012 are $(633,768) and $1,925,511, 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, 2012, decreasing to 5% in 2018 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 $13,410,742 and $737,431, respectively, in 2012. A 1% decrease in the rate translates to a decrease in the accumulated postretirement benefit obligation and service and interest cost of $10,820,999 and $589,985, respectively, in 2012.

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
2013	3,768,888	276,311	3,492,577
2014	4,069,917	309,729	3,760,188
2015	4,321,535	327,148	3,994,387
2016	4,604,591	356,370	4,248,221
2017	4,889,407	382,616	4,506,791
2018 through 2022	27,053,611	2,243,061	24,810,550

(Continued)

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 a 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 recordkeepers 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, 2012 and 2011 amounted to $9,835,206 and $9,489,392, respectively.

(15) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets at June 30, 2012 and 2011 are available to support the following areas:

	2012	2011
Instruction	$ 28,895,308	30,042,747
Research	872,079	508,581
Academic support	16,536,127	16,135,904
Student activities	935,177	1,005,874
Institutional support	4,766,006	3,927,488
Capital projects	248,405	399,613
Scholarships	5,768,544	7,695,738
Contributions receivable	4,340,785	4,882,162
Split-interest agreements	690,119	716,194
	$ 63,052,550	65,314,301

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, 2012 and 2011 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 $122,290,052 and $112,550,227 for the years ended June 30, 2012 and 2011, respectively.

(17) Operating Leases

The University leases office, student housing, and classroom space under several lease agreements expiring at various dates through June 30, 2043. The minimum annual rentals in connection with such leases are as follows:

	Amount
Year ending June 30:	
2013	$ 23,165,672
2014	20,735,136
2015	21,925,145
2016	22,164,021
2017	23,017,774
2018 and thereafter	273,008,026
	$ 384,015,774

Included in the above is a lease commitment for student housing of $228,558,454. In August 2012 the University entered into a new 30-year lease for student housing, estimated to commence in August 2015, with total base rent payable of $261,909,039.

Total rental expense for the years ended June 30, 2012 and 2011 was $25,075,917 and $23,216,709, respectively. Included in accounts payable and accrued liabilities is a deferred rent obligation of $6,079,103 and $4,401,092 at June 30, 2012 and 2011, 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 $4,210,661 and $3,469,102 for the years ended June 30, 2012 and 2011, respectively. For purposes of reporting fund-raising expenses, the University includes only those fund-raising costs incurred by its development office.

(Continued)

(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, 2012 (with comparative totals for 2011), 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	$	5,550,660	1,803,710	823,764	112,409,587	120,587,721
Research		423,105	137,490	38,743	3,607,468	4,206,806
Academic support		8,078,582	2,625,170	739,741	34,168,976	45,612,469
Student services		5,052,434	1,641,810	1,098,151	32,677,727	40,470,122
Institutional support		3,344,161	1,086,699	641,997	44,022,702	49,095,559
Auxiliary enterprises		9,695,934	3,150,735	2,722,068	30,524,954	46,093,691
Total 2012	$	32,144,876	10,445,614	6,064,464	257,411,414	306,066,368
Total 2011	$	31,269,106	9,981,588	8,629,737	242,504,428	292,384,859

(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, 2012 through October 29, 2012, which was the date the financial statements were issued, and determined that there were no additional matters that are required to be disclosed.