



PACE UNIVERSITY

Financial Statements

June 30, 2013 and 2012

(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 financial statements of Pace University (the University), which comprise the balance sheets as of June 30, 2013 and 2012, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



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, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

October 30, 2013

PACE UNIVERSITY

Balance Sheets

June 30, 2013 and 2012

Assets	2013	2012
Cash and cash equivalents	\$ 14,894,949	22,154,829
Short-term investments (note 6)	3,526,053	3,514,119
Student accounts receivable (net of allowance for doubtful accounts of \$2,698,408 and \$2,448,408 in 2013 and 2012, respectively)	7,311,958	6,994,220
Grants and other receivables	4,622,087	5,441,740
Prepaid expenses and other assets	4,856,146	9,378,199
Contributions receivable, net (note 3)	8,956,396	10,860,855
Investments (notes 4, 5, and 6)	139,871,214	124,381,733
Student loans receivable (net of allowance for doubtful accounts of \$3,921,353 and \$3,596,242 in 2013 and 2012, respectively)	13,146,825	13,347,848
Funds held by bond trustees, at fair value (notes 6 and 9)	11,341,754	8,235,974
Plant assets, net (note 7)	269,309,259	260,175,782
Total assets	\$ 477,836,641	464,485,299
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued liabilities (note 17)	\$ 36,756,619	33,046,862
Notes payable (note 8)	34,000,000	46,000,000
Fair value of derivative instrument (notes 6 and 9)	—	11,370,956
Deferred revenues and deposits	13,764,323	10,430,171
Long-term debt (notes 9 and 10)	124,539,721	111,577,000
Deferred rental revenue (note 11)	6,609,378	7,553,574
Asset retirement obligations (note 12)	3,458,197	3,378,371
Accrued postretirement health benefits obligation (note 13)	85,162,816	88,018,979
U.S. government grants refundable	12,725,794	12,550,303
Total liabilities	317,016,848	323,926,216
Commitments and contingencies (notes 4, 8, 17, and 20)		
Net assets:		
Unrestricted:		
General	94,027,400	88,659,543
Accrued postretirement health benefits obligation (note 13)	(85,162,816)	(88,018,979)
Total unrestricted	8,864,584	640,564
Temporarily restricted (note 15)	74,961,052	63,052,550
Permanently restricted (note 15)	76,994,157	76,865,969
Total net assets	160,819,793	140,559,083
Total liabilities and net assets	\$ 477,836,641	464,485,299

See accompanying notes to financial statements.

PACE UNIVERSITY
Statements of Activities
Years ended June 30, 2013 and 2012

	2013				2012			
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues:								
Tuition and fees, net (note 16)	\$ 247,238,494	—	—	247,238,494	233,065,592	—	—	233,065,592
Government grants and contracts	8,203,642	—	—	8,203,642	11,720,371	—	—	11,720,371
State appropriations	806,235	—	—	806,235	809,227	—	—	809,227
Contributions	912,058	6,826,323	101,837	7,840,218	1,071,163	5,145,132	1,953,939	8,170,234
Investment return appropriated (note 4)	287,982	2,980,232	—	3,268,214	265,471	2,548,878	—	2,814,349
Sales and services of auxiliary enterprises	49,540,045	—	—	49,540,045	45,142,281	—	—	45,142,281
Other sources	9,461,098	—	124	9,461,222	8,670,457	—	1,453	8,671,910
Net assets released from restrictions	8,238,981	(8,238,981)	—	—	6,826,104	(6,826,104)	—	—
Total revenues	324,688,535	1,567,574	101,961	326,358,070	307,570,666	867,906	1,955,392	310,393,964
Expenses (notes 18 and 19):								
Instruction	125,412,697	—	—	125,412,697	120,587,721	—	—	120,587,721
Research	3,999,298	—	—	3,999,298	4,206,806	—	—	4,206,806
Academic support	46,439,128	—	—	46,439,128	45,612,469	—	—	45,612,469
Student services	42,058,739	—	—	42,058,739	40,470,122	—	—	40,470,122
Institutional support	54,690,550	—	—	54,690,550	49,095,559	—	—	49,095,559
Auxiliary enterprises	49,940,888	—	—	49,940,888	46,093,691	—	—	46,093,691
Total expenses	322,541,300	—	—	322,541,300	306,066,368	—	—	306,066,368
Excess of operating revenues over expenses	2,147,235	1,567,574	101,961	3,816,770	1,504,298	867,906	1,955,392	4,327,596
Nonoperating activities:								
Realized and unrealized gain (loss) in fair value of derivative instrument (note 9)	1,829,896	—	—	1,829,896	(4,632,232)	—	—	(4,632,232)
Investment return, net (note 4)	666,401	12,827,441	—	13,493,842	(452,040)	(4,400,536)	—	(4,852,576)
Effect of underwater endowments (note 4)	2,513,472	(2,513,472)	—	—	(1,296,954)	1,296,954	—	—
Changes in postretirement health benefits obligation other than net periodic cost (note 13)	5,646,016	—	—	5,646,016	(11,028,272)	—	—	(11,028,272)
Loss on refunding of long term debt (note 9)	(4,322,084)	—	—	(4,322,084)	—	—	—	—
Other	(256,916)	26,959	26,227	(203,730)	274,899	(26,075)	11,581	260,405
Change in net assets	6,076,785	10,340,928	26,227	16,443,940	(17,134,599)	(3,129,657)	11,581	(20,252,675)
Net assets at beginning 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
Net assets at end of year	\$ 8,864,584	74,961,052	76,994,157	160,819,793	640,564	63,052,550	76,865,969	140,559,083

See accompanying notes to financial statements.

PACE UNIVERSITY

Statements of Cash Flows

Years ended June 30, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Change in net assets	\$ 20,260,710	(15,925,079)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net (appreciation) depreciation in fair value of investments	(14,842,284)	3,025,251
Investment return on funds held by bond trustee	19,904	(486)
Realized and unrealized (gain) loss in fair value of derivative instrument	(1,829,896)	4,632,232
Loss on refunding of long-term debt	4,322,084	—
Change in value of split-interest agreements	53,186	(14,494)
Changes in postretirement health benefits obligation other than net periodic cost	(5,646,016)	11,028,272
Allowance for student loans receivable	325,111	246,816
Deferred rental revenue	(944,196)	(944,196)
Depreciation	10,351,772	10,445,614
Amortization	156,946	251,786
Gain on sale of plant assets	—	(274,413)
Revenues restricted for permanent investment and capital	(212,059)	(1,966,018)
Changes in operating assets and liabilities:		
Increase in student accounts receivable, net	(317,738)	(866,430)
Decrease (increase) in grants and other receivables	819,653	(914,444)
Decrease (increase) in prepaid expenses and other assets	1,949,055	(1,584,046)
Increase in contributions receivable, net	(192,777)	(92,310)
Increase in noncapital accounts payable and accrued liabilities	3,143,773	3,275,153
Increase (decrease) in deferred revenues and deposits	3,334,152	(19,834)
Increase in accrued postretirement health benefits obligation	2,789,853	843,431
Increase in U.S. government grants refundable	175,491	135,034
Net cash provided by operating activities	23,716,724	11,281,839
Cash flows from investing activities:		
Increase in student loans receivable	(124,088)	(147,371)
Purchase of plant assets	(19,485,249)	(12,490,496)
Proceeds from sale of plant assets	—	277,601
Increase in accounts payable and accrued liabilities related to purchase of plant assets	517,454	297,738
Short-term investments, net	(11,934)	(54,943)
Purchase of investments	(16,617,679)	(102,281,161)
Proceeds from sale of investments	15,970,482	101,423,621
Net cash used in investing activities	(19,751,014)	(12,975,011)
Cash flows from financing activities:		
Revenues restricted for permanent investment and capital	212,059	1,966,018
Decrease in contributions receivable restricted for permanent investment	2,092,121	604,778
Decrease in contributions receivable restricted for capital projects	5,115	577,496
Change in liabilities under split-interest agreements, net	(4,656)	(13,017)
(Decrease) increase in notes payable	(12,000,000)	12,000,000
Bond issuance costs	(1,928,330)	—
Proceeds from indebtedness	124,445,845	—
Retirement of indebtedness	(109,440,000)	—
Repayment of indebtedness	(1,941,000)	(1,889,000)
Settlement of derivative instrument	(9,541,060)	—
Increase in funds held by bond trustees	(3,125,684)	(463,216)
Net cash (used in) provided by financing activities	(11,225,590)	12,783,059
Net (decrease) increase in cash and cash equivalents	(7,259,880)	11,089,887
Cash and cash equivalents at beginning of year	22,154,829	11,064,942
Cash and cash equivalents at end of year	\$ 14,894,949	22,154,829
Supplemental disclosure:		
Interest paid	\$ 4,522,627	5,822,779

See accompanying notes to financial statements.

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Notes to Financial Statements

June 30, 2013 and 2012

(1) Nature of Operations

Pace University (the University) is an independent, coeducational, nonsectarian, not-for-profit institution of higher education with campuses in New York City and Westchester County. The University was founded in 1906 and was granted college status in 1948 by the New York State Board of Regents. It is exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code.

The University considers teaching and learning its highest priorities. The University's commitment to the individual needs of students is at the heart of its mission. Offering access and opportunity to qualified men and women, the University embraces persons of diverse talents, interests, experiences, and origins who have the will to learn and the desire to participate in university life. The University offers a wide range of academic and professional programs at the graduate and undergraduate levels in six colleges and schools. The University is accredited by major accrediting entities.

(2) Summary of Significant Accounting Policies

The significant accounting policies followed by the University are described below:

(a) *Basis of Presentation*

The University's financial statements are prepared on the accrual basis of accounting in accordance with standards established by the Financial Accounting Standards Board for external financial reporting by not-for-profit organizations. Accordingly, net assets of the University and changes therein are classified and reported as follows:

Unrestricted Net Assets – Net assets that are not subject to donor-imposed restrictions.

Temporarily Restricted Net Assets – Net assets subject to donor-imposed restrictions that will be met either by actions of the University or the passage of time.

Permanently Restricted Net Assets – Net assets subject to donor-imposed restrictions that stipulate that they be maintained permanently by the University, but permit the University to expend part or all of the income derived therefrom.

Revenues and gains and losses on investments and other assets are reported as changes in unrestricted net assets unless limited by explicit donor-imposed restrictions or by law. Expenses are reported as decreases in unrestricted net assets. Expiration of temporary restrictions on net assets is reported as net assets released from restrictions.

(b) *Cash Equivalents and Short-Term Investments*

The University considers all highly liquid debt instruments with original 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.

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(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.

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Notes to Financial Statements

June 30, 2013 and 2012

(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, and alternative investments redeemable at or near the balance sheet date.
- Level 3 inputs are unobservable inputs for the asset or liability, and alternative investments not redeemable at or near the balance sheet date.

The University applies the provisions of Accounting Standards Codification (ASC) Topic 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.

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Notes to Financial Statements

June 30, 2013 and 2012

(j) Accounting for Uncertainty in Income Taxes

Income generated that is unrelated to the University's exempt purpose is subject to tax. The University believes it did not have any material tax liability nor any significant uncertain tax positions for the years ended June 30, 2013 and 2012. Accordingly, no provision for income taxes has been reflected in the accompanying financial statements.

(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, realized and unrealized gain (loss) in fair value of derivative instrument, 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.

(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, 2013 and 2012:

	2013	2012
Amounts expected to be collected in:		
Less than one year	\$ 4,745,571	3,334,328
One to five years	1,812,927	3,760,443
More than five years	5,516,334	7,170,560
	12,074,832	14,265,331
Less discount to present value, rates ranging from 0.13% to 5.15%	(1,949,973)	(2,773,307)
Less allowance for uncollectible amounts	(1,168,463)	(631,169)
	\$ 8,956,396	10,860,855

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Notes to Financial Statements

June 30, 2013 and 2012

Included in contributions receivable at June 30, 2013 and 2012 are outstanding pledges from three and four donors, respectively, which collectively represent approximately 73% and 69%, 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, 2013 and 2012:

	Fair value	
	2013	2012
Cash and cash equivalents	\$ 2,586,082	2,678,451
Common stocks	346,867	292,246
Mutual funds:		
Domestic equities	23,098,909	15,817,769
International equities	10,502,218	10,348,800
Fixed income	18,237,100	17,882,179
	<u>51,838,227</u>	<u>44,048,748</u>
Equity and fixed income funds:		
Large cap funds (a)	46,534,190	36,820,253
Small cap fund (b)	12,250,480	9,812,639
International equity funds (c)	5,311,106	4,953,785
Natural resources index fund (d)	2,229,878	2,155,313
	<u>66,325,654</u>	<u>53,741,990</u>
Alternative investments:		
Diversifying fund (e)	2,701,771	2,808,068
Hedged equity (f)	—	4,472,952
Private equity (g)	7,806,591	7,703,935
Distressed (h)	6,392,110	6,287,325
Real assets (d)	1,059,771	1,533,991
	<u>17,960,243</u>	<u>22,806,271</u>
Municipal bonds	814,141	814,027
	<u>\$ 139,871,214</u>	<u>124,381,733</u>

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June 30, 2013 and 2012

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 investment in funds that invest in large cap common stocks.
- (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 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.
- (e) 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).
- (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.

Investments include \$1,714,552 and \$1,520,016 of assets held under split-interest agreements at June 30, 2013 and 2012, 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

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June 30, 2013 and 2012

fair value of the pooled investments. In accordance with the above spending rate, \$3,350,694 and \$2,876,986 of investment return was made available for the years ended June 30, 2013 and 2012, respectively, to support operations of the University. This was offset by investment loss from nonpooled investments, cash and cash equivalents, and short-term investments of \$82,480 and \$62,637 in fiscal years 2013 and 2012, 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, 2013, the University had commitments of \$3,359,279 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 equity and fixed income 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, 2013:

	<u>Redemption provision</u>	<u>Notice period</u>	<u>Amount</u>
Equity and fixed income funds	Daily	None	\$ 20,147,002
	Weekly	5 days	26,387,188
	Monthly	5 days	12,991,134
		15 days	2,229,878
		30 days	4,570,452
		<u>\$ 66,325,654</u>	
Alternative investments	Quarterly	90–95 days	\$ 2,701,771
	Lock-up	N/A	<u>15,258,472</u>
		<u>\$ 17,960,243</u>	

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Notes to Financial Statements

June 30, 2013 and 2012

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, 2013 and 2012:

	2013			Total
	Unrestricted	Temporarily restricted	Permanently restricted	
Dividends and interest on investments (net of expenses of \$385,536)	\$ 52,206	1,867,566	—	1,919,772
Net appreciation in fair value of investments	902,177	13,940,107	—	14,842,284
Effect of underwater endowments	2,513,472	(2,513,472)	—	—
Total return on investments	3,467,855	13,294,201	—	16,762,056
Investment return appropriated for operations	287,982	2,980,232	—	3,268,214
Total return on investments, net of amount appropriated for operations	\$ 3,179,873	10,313,969	—	13,493,842

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June 30, 2013 and 2012

	2012			Total
	Unrestricted	Temporarily restricted	Permanently restricted	
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)

(5) Endowment Funds

The University's endowment consists of approximately 390 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.

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Notes to Financial Statements

June 30, 2013 and 2012

The following tables represent the University's endowment composition by type of fund as of June 30, 2013 and 2012 (excluding contributions receivable):

2013					
		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment	\$	(693,737)	57,826,264	72,005,076	129,137,603
Board-designated endowment		8,496,671	—	—	8,496,671
Total pooled endowment		7,802,934	57,826,264	72,005,076	137,634,274
Nonpooled investments		225,885	1,818,018	193,037	2,236,940
Total investments	\$	<u>8,028,819</u>	<u>59,644,282</u>	<u>72,198,113</u>	<u>139,871,214</u>
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	\$	<u>5,122,727</u>	<u>49,284,394</u>	<u>69,974,612</u>	<u>124,381,733</u>

Included in donor-restricted endowments at June 30, 2013 and 2012 are \$39,145,853 and \$34,071,056, respectively, of temporarily restricted net assets expendable only for projects approved by the donor or donor's designee.

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Notes to Financial Statements
June 30, 2013 and 2012

Changes in pooled endowment assets for the year ended June 30, 2013 were as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment at June 30, 2012	\$ 4,479,475	47,472,541	69,810,139	121,762,155
Investment return:				
Investment income	52,206	1,867,566	—	1,919,772
Net appreciation in fair value of investments	902,177	13,940,107	—	14,842,284
Effect of underwater endowments	2,513,472	(2,513,472)	—	—
Total return on investment	3,467,855	13,294,201	—	16,762,056
Less loss (gain) on nonpooled investments	82,480	(48,795)	—	33,685
Total endowment return on investment	3,550,335	13,245,406	—	16,795,741
Contributions	192,784	25,000	2,194,231	2,412,015
Appropriation of endowment assets for expenditure	(370,462)	(2,980,232)	—	(3,350,694)
Other changes, including transfers	(49,198)	63,549	706	15,057
Endowment at June 30, 2013	\$ <u>7,802,934</u>	<u>57,826,264</u>	<u>72,005,076</u>	<u>137,634,274</u>

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Notes to Financial Statements

June 30, 2013 and 2012

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

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
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 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	<u>\$ 4,479,475</u>	<u>47,472,541</u>	<u>69,810,139</u>	<u>121,762,155</u>

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, 2013 and 2012, unrestricted net assets reflected a deficiency of \$693,737 and \$3,207,209, respectively.

(6) Fair Value of Financial Instruments

The carrying amount of 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 estimated fair values, however, involve unobservable inputs considered to be Level 3 in the fair value hierarchy.

The fair value of investments is disclosed in note 4 and below.

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Notes to Financial Statements

June 30, 2013 and 2012

Unconditional promises to give are recognized initially at fair value as contributions revenue in the period such promises are made by donors. Fair value is estimated giving consideration to anticipated future cash receipts (after allowance is made for uncollectible contributions) and discounting such amounts at a risk-adjusted rate commensurate with the duration of the donor's payment plan. These inputs to the fair value estimate are considered Level 3 in the fair value hierarchy. In subsequent periods, the discount rate is unchanged and the allowance for uncollectible contributions is reassessed and adjusted if necessary. Amortization of the discounts is recorded as additional contribution revenue.

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 inputs to the fair value estimate are considered Level 3 in the fair value hierarchy.

Funds held by bond trustees are reported at fair value and are invested in short-term, highly liquid securities considered Level 1 in the fair value hierarchy.

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 was estimated by an evaluation service using market information of the specific bond and other bonds with similar characteristics (such as sector, credit rating, and maturity). Long-term debt is considered Level 2 in the fair value hierarchy.

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.

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Notes to Financial Statements

June 30, 2013 and 2012

The following tables present financial instruments that are measured at fair value on a recurring basis within the fair value hierarchy as of June 30, 2013 and 2012:

	June 30, 2013			
	Level 1	Level 2	Level 3	Total
Assets:				
Short-term investments	\$ 3,526,053	—	—	3,526,053
Cash and cash equivalents	278,087	2,307,995	—	2,586,082
Common stocks	326,546	—	20,321	346,867
Mutual funds:				
Domestic equities	23,098,909	—	—	23,098,909
International equities	10,502,218	—	—	10,502,218
Fixed income	18,237,100	—	—	18,237,100
Equity and fixed income funds:				
Large cap funds	—	46,534,190	—	46,534,190
Small cap fund	—	12,250,480	—	12,250,480
International equity funds	—	5,311,106	—	5,311,106
Index fund	—	2,229,878	—	2,229,878
Alternative investments:				
Diversifying fund	—	2,701,771	—	2,701,771
Private equity	—	—	7,806,591	7,806,591
Distressed	—	—	6,392,110	6,392,110
Real assets	—	—	1,059,771	1,059,771
Municipal bonds	814,141	—	—	814,141
Total investments	<u>53,257,001</u>	<u>71,335,420</u>	<u>15,278,793</u>	<u>139,871,214</u>
Funds held by bond trustees	<u>11,341,754</u>	<u>—</u>	<u>—</u>	<u>11,341,754</u>
Total assets	<u>\$ 68,124,808</u>	<u>71,335,420</u>	<u>15,278,793</u>	<u>154,739,021</u>

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Notes to Financial Statements

June 30, 2013 and 2012

	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	<u>45,974,888</u>	<u>62,870,039</u>	<u>15,536,806</u>	<u>124,381,733</u>
Funds held by bond trustees	8,235,974	—	—	8,235,974
Total assets	<u>\$ 57,724,981</u>	<u>62,870,039</u>	<u>15,536,806</u>	<u>136,131,826</u>
Liabilities:				
Fair value of derivative instrument	\$ —	11,370,956	—	11,370,956

There were no transfers between fair value hierarchy levels in 2013 and 2012.

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.

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Notes to Financial Statements
June 30, 2013 and 2012

The following table presents a reconciliation for all Level 3 assets measured at fair value for the period June 30, 2012 to June 30, 2013:

	Level 3 assets
Financial assets:	
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
Net appreciation in fair value	163,059
Purchases	1,225,679
Sales	(1,646,751)
Balance at June 30, 2013	\$ 15,278,793

(7) Plant Assets

Plant assets at June 30, 2013 and 2012 consist of the following:

	2013	2012
Land	\$ 12,659,093	12,659,093
Land improvements	6,181,935	6,181,935
Buildings and building improvements	319,437,877	305,730,090
Construction in progress	13,088,345	14,102,373
Furniture and equipment	73,935,078	76,915,196
Library books	1,053,033	1,022,917
Total	426,355,361	416,611,604
Less accumulated depreciation	(157,046,102)	(156,435,822)
	\$ 269,309,259	260,175,782

The University capitalized interest of \$159,062 in 2013.

Included in buildings and building improvements at June 30, 2013 and 2012 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, is through October 15, 2013 with a University renewal option

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Notes to Financial Statements

June 30, 2013 and 2012

through June 25, 2017. The amount of the drawdown note decreases annually throughout the initial and option terms (available amounts, as amended, reduced to \$53,845,000 and \$48,240,000 on June 25, 2013 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, 2013 were \$34,000,000 and \$19,845,000, respectively. The outstanding balance and unused portion under this facility as of June 30, 2012 were \$46,000,000 and \$9,465,000, respectively. During 2013 and 2012, interest and fees on borrowings under this facility amounted to \$365,486 and \$326,528, respectively. The range of interest rates on the amounts outstanding in 2013 and 2012 was 2.19% to 2.25% and 2.19% to 2.30%, respectively.

On October 15, 2013, the University replaced the drawdown note with an unsecured one-year line of credit with a seasonal commitment of up to \$45,000,000. The line bears interest at LIBOR plus 180 basis points and is subject to annual renewal at the bank's discretion. However, the University has an option to convert the line into a 4-year term loan facility. The University is required to be out of the line for at least 30 consecutive days, twice per year.

(9) Long-Term Debt

Long-term debt at June 30, 2013 and 2012 consists of the following:

	2013	2012
Long-term debt of the Dormitory Authority of the State of New York (DASNY or the Authority):		
Revenue Bonds, Pace University issue, \$95,840,000, Series 2013A, due serially to 2042 at effective fixed rate of 4% per annum, plus unamortized premium of \$8,833,721 at June 30, 2013	\$ 104,673,721	—
Revenue Bonds, Pace University issue, \$19,670,000, Series 2013B, due serially to 2035, at a variable rate subject to weekly reset in the auction market	19,670,000	—
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
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
Other debt	196,000	477,000
Total long-term debt	\$ 124,539,721	111,577,000

The Series 2013A Bonds (Tax Exempt) were issued on March 7, 2013 to (i) finance the acquisition, renovation, construction, equipping and/or furnishing of certain of the University's facilities, (ii) refund a portion of the \$70,900,000 outstanding principal amount of DASNY's Pace University Insured Revenue Bonds, Series 2005A, (iii) fund the cost of terminating an interest rate swap agreement associated with the Series 2005A Bonds, and (iv) pay the Costs of Issuance of the Series 2013A Bonds. At June 30, 2013,

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Notes to Financial Statements

June 30, 2013 and 2012

\$1,207,165, of debt service reserve funds and \$10,001,335 of construction funds were included in funds held by bond trustees.

The Series 2013B Bonds (Federally Taxable) were issued on March 7, 2013 to (i) refund a portion of the \$38,350,000 outstanding principal amount of DASNY's Pace University Insured Revenue Bonds, Series 2005B, and (ii) pay the Costs of Issuance of the Series 2013B Bonds. At June 30, 2013, \$133,254 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 was capped in the governing agreements at 15% per annum based on the University's current credit rating (22% per annum if the University does not maintain a rating of BBB- or Baa3). The weighted average interest rate in 2013 for the Series 2013B Bonds was 1.04%. The range of rates in 2013 was 1.0% to 1.2%.

The Series 2005A Insured Revenue Bonds (Tax Exempt) were issued on June 1, 2005. On March 7, 2013, the outstanding principal amount of \$70,900,000 was redeemed. At June 30, 2012, \$4,679,188 of debt service reserve funds was included in funds held by bond trustees. These bonds were variable rate securities in which the coupon was reset each week by a remarketing agent. The weighted average interest rate in 2013 and 2012 for Series 2005A was 1.8% and 2.6%, respectively. The range of rates in 2013 and 2012 was 1.3% to 2.0% and 2.0% to 3.0%, 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. The Derivative Instrument was terminated on February 27, 2013 at a settlement amount of \$9,700,000, which included accrued interest of \$158,940, using proceeds from the Series 2013A Bonds. Under the Derivative Instrument, on a monthly settlement, the University received 59% of one-month LIBOR plus 32 basis points (0.46% at June 30, 2012) and paid a fixed rate of 3.428% effective October 15, 2009 (3.303% prior to that date) on the remaining notional amount (\$71,850,000 as of June 30, 2012) through June 2029. The fair value of the Derivative Instrument was a liability of \$11,370,956 at June 30, 2012, and is reflected in the accompanying 2012 balance sheet as fair value of Derivative Instrument. The University was required to post collateral for the negative market value of the Derivative Instrument when it exceeded \$10 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 2013 and 2012 statements of activities reflect the realized and unrealized gain (loss) in fair value of Derivative Instrument of \$1,829,896 and \$(4,632,232), respectively.

The Series 2005B Insured Revenue Bonds (Federally Taxable) were issued on June 1, 2005. On March 7, 2013, the outstanding principal amount of \$38,350,000 was redeemed. At June 30, 2012, \$1,001,538 of debt service funds were included in funds held by bond trustees. Similar to Series 2005A, these bonds were variable rate securities. The weighted average interest rate in 2013 and 2012 for Series 2005B was 2.1% and 2.9%, respectively. The range of rates in 2013 and 2012 was 1.6% to 2.2% and 2.2% to 3.3%, respectively.

The University 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 in 2008. As of June 30, 2012, \$2,492,325 was deposited with the Trustee and is included in funds held by bond trustees in the accompanying 2012 balance sheet with final payment of \$276,925 made in December 2012. These collateral funds were used as a funding source of the March 7, 2013 refinancing.

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June 30, 2013 and 2012

In connection with the redemption of the Series 2005A and 2005B Revenue Bonds, the University recognized a loss of \$4,322,084 relating to the write-off of deferred financing costs, which is included in the accompanying 2013 statement of activities.

The Series 2013A and 2013B 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, 2013 and 2012 was \$4,683,075 and \$5,494,438, respectively.

Financial Covenants DASNY Series 2013

Pursuant to the March 7, 2013 loan agreements related to the DASNY Series 2013 Revenue Bonds, the University is required to adhere to certain financial covenants, including a Debt Service Coverage Ratio, determined by dividing the Operating Income Available for Debt Service by Annual Debt Service, as defined. It shall be an Event of Default under the Master Trust Indenture if the Debt Service Coverage Ratio is less than 1.00 as of any Calculation Date or less than 1.10 for two consecutive years.

The University's ability to incur additional Indebtedness, as defined, is limited by a requirement to maintain a rating of BBB- or Baa3 or by meeting one of two pro-forma Maximum Annual Debt Service ratios, as defined.

Financial Covenants DASNY Series 2005

Pursuant to the June 1, 2005 loan agreements related to the DASNY Series 2005 Insured Revenue Bonds, the University was 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.

At June 30, 2013 and 2012, the University was in compliance with debt covenant requirements.

(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:			
2014	\$ 3,440,000	47,000	3,487,000
2015	3,525,000	48,000	3,573,000
2016	3,635,000	101,000	3,736,000
2017	3,785,000	—	3,785,000
2018	3,975,000	—	3,975,000

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Notes to Financial Statements

June 30, 2013 and 2012

(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, 2013 and 2012, \$6,609,378 and \$7,553,574, respectively, of deferred rental revenue was included in the accompanying balance sheets. For each of the years ended June 30, 2013 and 2012, \$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, 2013 and 2012 amounted to \$3,458,197 and \$3,378,371, 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.

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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, 2013 and 2012:

	2013	2012
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 88,018,979	76,147,276
Service cost	628,510	600,735
Interest cost	3,856,595	4,125,323
Plan participant's contributions	541,002	557,922
Actuarial (gain) loss	(4,500,282)	10,417,644
Benefits paid	(3,609,438)	(4,043,382)
Subsidies received	227,450	213,461
Benefit obligation at end of year	85,162,816	88,018,979
Change in plan assets:		
Employer contribution	2,840,986	3,271,999
Plan participant's contributions	541,002	557,922
Benefits paid	(3,609,438)	(4,043,382)
Subsidies received	227,450	213,461
Fair value of plan assets at end of year	—	—
Accrued postretirement health benefits obligation	\$ 85,162,816	88,018,979

The net periodic postretirement benefit expense for 2013 and 2012 includes the following components:

	2013	2012
Net periodic benefit cost:		
Service cost	\$ 628,510	600,735
Interest cost	3,856,595	4,125,323
Amortization of prior service credit	(633,768)	(1,530,929)
Amortization of net loss	1,779,502	920,301
Total net periodic benefit cost	\$ 5,630,839	4,115,430

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The discount rates for 2013 and 2012 were as follows:

	<u>2013</u>	<u>2012</u>
Benefit obligation weighted average assumptions as of June 30, 2013 and 2012:		
Discount rate	4.75%	4.60%
Benefit cost weighted average assumptions for the years ended June 30, 2013 and 2012:		
Discount rate	4.60%	5.65%

Other changes in postretirement benefit obligations recognized in unrestricted net assets for 2013 and 2012 include the following components:

	<u>2013</u>	<u>2012</u>
Actuarial net (gain) loss	\$ (4,500,282)	10,417,644
Amortization of prior service credit	633,768	1,530,929
Amortization of net loss	(1,779,502)	(920,301)
	<u>\$ (5,646,016)</u>	<u>11,028,272</u>

As of June 30, 2013 and 2012, the items not yet recognized as net periodic postretirement benefit cost are as follows:

	<u>2013</u>	<u>2012</u>
Prior service credit	\$ (1,267,532)	(1,901,300)
Net loss	21,103,298	27,383,082
	<u>\$ 19,835,766</u>	<u>25,481,782</u>

The estimated prior service credit and net loss that will be amortized into net periodic benefit cost in 2014 are \$(633,768) and \$1,371,135, respectively.

For measurement purposes, an 8.5% 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, 2013, decreasing to 4.5% in 2021 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 \$12,070,512 and \$726,259, respectively, in 2013. A 1% decrease in the rate translates to a decrease in the accumulated postretirement benefit obligation and service and interest cost of \$9,852,965 and \$577,746, respectively, in 2013.

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

	<u>Before Medicare subsidy</u>	<u>Medicare subsidy</u>	<u>After Medicare subsidy</u>
2014	\$ 4,072,118	367,424	3,704,694
2015	4,408,151	451,724	3,956,427
2016	4,802,998	543,581	4,259,417
2017	5,215,464	637,437	4,578,027
2018	5,549,723	726,847	4,822,876
2019 through 2023	30,890,702	4,693,191	26,197,511

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. Teachers 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, 2013 and 2012 amounted to \$10,132,632 and \$9,835,206, respectively.

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(15) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets at June 30, 2013 and 2012 are available to support the following areas:

	<u>2013</u>	<u>2012</u>
Instruction	\$ 33,959,909	28,895,308
Research	1,101,337	872,079
Academic support	17,613,243	16,536,127
Student activities	1,168,049	935,177
Institutional support	5,724,518	4,766,006
Capital projects	216,658	248,405
Scholarships	10,009,183	5,768,544
Contributions receivable	4,451,077	4,340,785
Split-interest agreements	717,078	690,119
	<u>\$ 74,961,052</u>	<u>63,052,550</u>

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, 2013 and 2012 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 \$130,396,880 and \$122,290,052 for the years ended June 30, 2013 and 2012, respectively.

(17) Operating Leases

The University leases office, student housing, and classroom space under several lease agreements expiring at various dates through January 31, 2046. The minimum annual rentals in connection with such leases are as follows:

	<u>Amount</u>
Year ending June 30:	
2014	\$ 20,959,792
2015	21,932,954
2016	27,640,752
2017	29,124,463
2018	21,447,524
2019 and thereafter	<u>501,898,627</u>
	<u>\$ 623,004,112</u>

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Included in the above are two 30-year lease commitments for student housing of \$490,467,493.

Total rental expense for the years ended June 30, 2013 and 2012 was \$28,945,917 and \$25,075,917, respectively. Included in accounts payable and accrued liabilities is a deferred rent obligation of \$7,311,541 and \$6,079,103 at June 30, 2013 and 2012, 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 \$4,870,821 and \$4,210,661 for the years ended June 30, 2013 and 2012, 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, 2013 (with comparative totals for 2012), the following allocation of expenses was included in the accompanying statements of activities:

	Allocated expenses				Total per statement of activities
	Operation and maintenance of plant	Depreciation	Interest and other debt-related expenses	Direct expenses	
Instruction	\$ 5,602,037	1,785,401	685,321	117,339,938	125,412,697
Research	427,022	136,094	32,255	3,403,927	3,999,298
Academic support	8,153,358	2,598,522	615,860	35,071,388	46,439,128
Student services	5,099,200	1,625,144	904,896	34,429,499	42,058,739
Institutional support	3,451,056	1,099,871	626,160	49,513,463	54,690,550
Auxiliary enterprises	9,747,987	3,106,740	2,261,189	34,824,972	49,940,888
Total 2013	<u>\$ 32,480,660</u>	<u>10,351,772</u>	<u>5,125,681</u>	<u>274,583,187</u>	<u>322,541,300</u>
Total 2012	\$ 32,144,876	10,445,614	6,064,464	257,411,414	306,066,368

(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.

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(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, 2013 through October 30, 2013, which was the date the financial statements were issued, and determined that there were no additional matters required to be disclosed.