# PACE UNIVERSITY

Financial Statements

June 30, 2019 and 2018

(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 financial statements of Pace University (the University), which comprise the balance sheets as of June 30, 2019 and 2018, 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, 2019 and 2018, 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.

*Emphasis of Matter*

As discussed in note 2(c) to the financial statements, the University adopted Accounting Standards Update No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* during the year ended June 30, 2019. Our opinion is not modified with respect to this matter.

KPMG LLP

November 20, 2019

**PACE UNIVERSITY**

Balance Sheets

June 30, 2019 and 2018

| **Assets** | | **2019** | **2018** |
|---|---|---|---|
| Cash and cash equivalents | $ | 5,975,342 | 2,468,879 |
| Student accounts receivable (net of allowance for doubtful accounts of $3,001,263 and $2,919,851, respectively) | | 10,537,764 | 9,427,469 |
| Grants and other receivables | | 4,368,251 | 3,944,702 |
| Prepaid expenses and other assets | | 4,450,733 | 2,536,638 |
| Contributions receivable, net (note 4) | | 21,901,877 | 21,561,835 |
| Investments – endowment and other (notes 5 and 6) | | 196,927,406 | 185,561,223 |
| Investments – designated for construction (note 7) | | 16,002,171 | 42,448,731 |
| Student loans receivable (net of allowance for doubtful accounts of $5,031,345 and $4,873,268, respectively) | | 9,524,221 | 11,880,674 |
| Funds held by bond trustees (note 11) | | 1,533,830 | 1,509,336 |
| Plant assets (note 9) | | 421,517,041 | 401,995,275 |
| Total assets | $ | 692,738,636 | 683,334,762 |
| **Liabilities and Net Assets** | | | |
| Liabilities: | | | |
| Accounts payable and accrued liabilities | $ | 45,675,202 | 47,716,426 |
| Notes payable (note 10) | | 5,000,000 | 5,000,000 |
| Deferred revenues and deposits | | 23,152,463 | 25,218,974 |
| Long-term debt (notes 11 and 12) | | 195,677,170 | 199,857,750 |
| Deferred rental revenue (note 13) | | 944,196 | 1,888,393 |
| Asset retirement obligations | | 5,984,107 | 6,635,277 |
| Deferred rental obligation (note 18) | | 35,174,496 | 29,504,572 |
| Accrued postretirement health benefits obligation (note 14) | | 67,075,889 | 65,759,242 |
| U.S. government grants refundable | | 12,826,855 | 12,603,206 |
| Total liabilities | | 391,510,378 | 394,183,840 |
| Commitments and contingencies( notes 5, 10, 12,18, and 21) | | | |
| Net assets without donor restrictions: | | | |
| General | | 151,324,083 | 139,189,059 |
| Accrued postretirement health benefits obligation (note 14) | | (67,075,889) | (65,759,242) |
| Total net assets without donor restrictions | | 84,248,194 | 73,429,817 |
| Net assets with donor restrictions (note 16): | | | |
| Purpose and/or time restricted | | 108,461,843 | 110,028,998 |
| Endowment fund corpus | | 108,518,221 | 105,692,107 |
| Total net assets with donor restrictions | | 216,980,064 | 215,721,105 |
| Total net assets | | 301,228,258 | 289,150,922 |
| Total liabilities and net assets | $ | 692,738,636 | 683,334,762 |

See accompanying notes to financial statements.

**PACE UNIVERSITY**

Statements of Activities

Years ended June 30, 2019 and 2018

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | **Without donor restrictions** | **With donor restrictions** | **Total** | **Without donor restrictions** | **With donor restrictions** | **Total** |
| Revenues: | | | | | | |
| Tuition and fees, net (note 17) | $ 281,339,586 | — | 281,339,586 | 274,968,647 | — | 274,968,647 |
| Government grants and contracts | 8,617,082 | — | 8,617,082 | 9,256,654 | — | 9,256,654 |
| State appropriations | 842,538 | — | 842,538 | 857,486 | — | 857,486 |
| Contributions | 2,040,240 | 10,400,460 | 12,440,700 | 1,938,567 | 12,629,562 | 14,568,129 |
| Investment return (note 5) | 1,911,476 | 5,717,622 | 7,629,098 | 1,685,606 | 5,215,474 | 6,901,080 |
| Sales and services of auxiliary enterprises | 71,782,149 | — | 71,782,149 | 68,386,237 | — | 68,386,237 |
| Other sources | 7,724,409 | — | 7,724,409 | 6,796,273 | — | 6,796,273 |
| Net assets released from restrictions | 23,573,192 | (23,573,192) | — | 15,942,445 | (15,942,445) | — |
| Total revenues | 397,830,672 | (7,455,110) | 390,375,562 | 379,831,915 | 1,902,591 | 381,734,506 |
| Expenses (notes 19 and 20): | | | | | | |
| Instruction | 139,368,211 | — | 139,368,211 | 138,763,445 | — | 138,763,445 |
| Research | 3,733,601 | — | 3,733,601 | 4,699,676 | — | 4,699,676 |
| Academic support | 54,266,301 | — | 54,266,301 | 54,880,144 | — | 54,880,144 |
| Student services | 47,705,795 | — | 47,705,795 | 48,655,479 | — | 48,655,479 |
| Institutional support | 61,336,159 | — | 61,336,159 | 62,030,959 | — | 62,030,959 |
| Auxiliary enterprises | 75,341,294 | — | 75,341,294 | 73,230,971 | — | 73,230,971 |
| Total expenses | 381,751,361 | — | 381,751,361 | 382,260,674 | — | 382,260,674 |
| Excess (deficiency) of operating revenues over expenses | 16,079,311 | (7,455,110) | 8,624,201 | (2,428,759) | 1,902,591 | (526,168) |
| Nonoperating activities: | | | | | | |
| Investment return, net (note 5) | 702,713 | 8,649,196 | 9,351,909 | 537,484 | 10,046,341 | 10,583,825 |
| Changes in postretirement health benefits obligation other than net periodic cost (note 14) | (6,433,748) | — | (6,433,748) | 6,425,058 | — | 6,425,058 |
| Net periodic benefit credit (costs) other than service costs (note 14) | 394,786 | — | 394,786 | (1,665,977) | — | (1,665,977) |
| Other | 75,315 | 64,873 | 140,188 | (793,299) | 72,083 | (721,216) |
| | (5,260,934) | 8,714,069 | 3,453,135 | 4,503,266 | 10,118,424 | 14,621,690 |
| Change in net assets | 10,818,377 | 1,258,959 | 12,077,336 | 2,074,507 | 12,021,015 | 14,095,522 |
| Net assets, beginning of the year | 73,429,817 | 215,721,105 | 289,150,922 | 71,355,310 | 203,700,090 | 275,055,400 |
| Net assets, end of the year | $ 84,248,194 | 216,980,064 | 301,228,258 | 73,429,817 | 215,721,105 | 289,150,922 |

See accompanying notes to financial statements.

**PACE UNIVERSITY**

Statements of Cash Flows

Years ended June 30, 2019 and 2018

| | | 2019 | 2018 |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| Change in net assets | $ | 12,077,336 | 14,095,522 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | | |
| Net appreciation in fair value of investments | | (13,787,376) | (14,691,878) |
| Net appreciation in investments designated for construction | | (7,461) | (188,846) |
| Net appreciation in fair value in split-interest agreement investments | | (22,294) | (87,138) |
| Investment return on funds held by bond trustee | | (75,315) | (38,445) |
| Change in value of split-interest agreement liabilities | | (29,411) | 22,798 |
| Postretirement related changes other than net periodic pension cost | | 6,433,748 | (6,425,058) |
| Provision for doubtful student loans receivable | | 158,077 | 523,491 |
| Deferred rental revenue | | (944,197) | (944,196) |
| Depreciation | | 19,180,298 | 17,823,981 |
| Amortization of asset retirement obligations | | 408,238 | 487,116 |
| Amortization of bond premium, net of bond discount accretion | | (285,187) | (285,187) |
| Amortization of bond issuance costs | | 144,607 | 144,607 |
| Revenues restricted for permanent investment and capital | | (5,923,647) | (5,126,049) |
| Changes in operating assets and liabilities: | | | |
| Student accounts receivable, net of allowance | | (1,110,295) | (4,142,805) |
| Grants and other receivables | | (423,549) | 367,925 |
| Prepaid expenses and other assets | | (1,914,095) | 349,782 |
| Contributions receivable, net | | (995,279) | 2,088,520 |
| Noncapital accounts payable and accrued liabilities | | 2,218,744 | 6,245,125 |
| Deferred revenues and deposits | | (2,066,511) | (221,077) |
| Deferred rental obligation | | 5,669,924 | 5,092,149 |
| Asset retirement obligations | | (1,059,408) | (1,523,665) |
| Accrued postretirement benefit obligation | | (5,117,101) | (1,621,183) |
| U.S. government grants refundable | | 223,649 | (258,514) |
| Net cash provided by operating activities | | 12,753,495 | 11,686,975 |
| Cash flows from investing activities: | | | |
| Decrease in student loans, net of repayments | | 2,198,376 | 554,590 |
| Purchase of plant assets | | (38,702,064) | (53,590,462) |
| (Decrease) increase in capital accounts payable | | (4,230,557) | 4,618,560 |
| Purchase of investments | | (41,620,843) | (94,517,118) |
| Proceeds from sale of investments | | 70,518,351 | 120,479,608 |
| Net cash used in investing activities | | (11,836,737) | (22,454,822) |
| Cash flows from financing activities: | | | |
| Contributions received for permanent investments and capital projects | | 5,923,647 | 5,126,049 |
| Net decrease in contribution receivable for permanent investments and capital projects | | 655,237 | 764,641 |
| Repayment of notes payable | | (5,000,000) | — |
| Proceeds from notes payable | | 5,000,000 | 5,000,000 |
| Repayment of indebtedness | | (4,040,000) | (3,885,000) |
| Decrease in funds held by bond trustees | | 50,821 | 267,210 |
| Net cash provided by financing activities | | 2,589,705 | 7,272,900 |
| Net increase (decrease) in cash and cash equivalents | | 3,506,463 | (3,494,947) |
| Cash and cash equivalents at beginning of year | | 2,468,879 | 5,963,826 |
| Cash and cash equivalents at end of year | $ | 5,975,342 | 2,468,879 |
| Supplemental disclosure: | | | |
| Interest paid | $ | 7,880,739 | 8,048,032 |

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. The University is exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code (IRC).

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 and is accredited by major accrediting entities. In addition, the University offers JD and LLM degrees through the Pace University Elisabeth Haub School of Law.

Pace University Fund, LP (Pace Fund) is a limited partnership, which commenced operations on December 4, 2013, in which the University is the sole limited partner, and Cambridge Associates Resources, LLC is the general partner. The Pace Fund acts as an investment vehicle for a significant portion of the University's endowment and is recorded at its net asset value at June 30, 2019 and 2018. As the sole limited partner of the Pace Fund, the University continues to have access to investments on a daily basis, subject to the liquidity of the portfolio. In addition, the University has the right to redeem the entire investment portfolio included in the Pace Fund on a quarterly basis.

## (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 generally accepted accounting principles promulgated in the United States of America (U.S. GAAP) for not-for profit entities. Net assets are presented either as net assets without donor restrictions or as net assets with donor restrictions (see note 2(c) below, *Recently Adopted Accounting Pronouncements)*.

Net assets without donor restrictions are available to support the University's operations. The only limits on the use of these net assets are the broad limits resulting in the nature of the University, the environment in which it operates, the purposes specified in the University's corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations.

Net assets with donor restrictions are restricted by a donor for use for a particular purpose or in a future year. Some donor-imposed restrictions are temporary in nature and the restriction will expire when the resources are used in accordance with the donor's instructions or when the stipulated time has passed. When a donor's restriction is satisfied, the expiration of the restriction is reported in the financial statements by reclassifying the net asset from net assets with donor restrictions to net assets without donor restrictions. Donor restricted contributions (including government grants and contracts) that are received within the same reporting period of when the restrictions are satisfied are recognized as net assets without donor restrictions. Other donor-imposed restrictions are perpetual in nature; the University must continue to use these resources in accordance with the donor's instructions. All revenues and net gains are reported in net assets without donor restrictions in the Statement of Activities unless the donor specified the use of the related resources for a particular purpose or in a future period. All expenses are reported as decreases in net assets without donor restrictions.

In accordance with ASU 2014-15, *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*, management has evaluated the University's ability to continue as a going concern and has determined that there are no conditions or events that raise substantial doubt about the University's ability to continue as a going concern for a period of one year after the date that these financial statements were issued.

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

### *(b) Accounting Estimates*

The preparation of financial statements in conformity with U.S. 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. On an ongoing basis, the University's management evaluates the estimates and assumptions based on historical experiences and various other factors and circumstances. University management believes that the estimates and assumptions are reasonable: however, the actual results could differ from those estimates.

Significant estimates made in the preparation of these financial statements include the fair value of investments, 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.

### *(c) Recently Adopted Accounting Pronouncements*

The University adopted Accounting Standards Update (ASU) 2016-14: *Presentation of Financial Statements of Not-for-Profits Entities* (ASU 2016-14) in 2019. ASU 2016-14 requires the reduction of the number of net assets from three to two in the financial statement presentation: net assets without donor restrictions previously reported as unrestricted net assets, and net assets with donor restrictions, previously reported as temporarily restricted net assets of $110,028,998 and permanently restricted net assets of $105,692,107 as of June 30, 2018. Additionally, ASU 2016-14 requires quantitative and qualitative disclosures regarding liquidity and availability of resources to be included in the notes to the financial statements and also requires expenses to be reported by both their natural and functional classification in one location in the financial statements.

The University adopted ASU 2014-09, *Revenue from Contracts with Customers*, which includes criteria on how entities recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The provisions of ASU 2014-09 did not have a significant effect on the University's current method of revenue recognition.

The University adopted ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, to clarify and improve the scope and the accounting guidance for contributions received and contributions made and to assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. The adoption of ASU 2018-08 did not have a significant effect on the financial statements.

### *(d) Cash and Cash Equivalents*

The University considers all highly liquid 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 or for the purpose of investments-designated for construction.

The University maintains cash balances at various financial institutions located in the New York Metropolitan area and deposit accounts at each bank are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000 per account. The balances occasionally exceed those limits. Cash equivalents, other securities, and limited amounts of cash held in brokerage accounts are protected by the Securities Investor Protection Corporation (SIPC) in the event of broker-dealer failure, up to $500,000 of protection for each brokerage account, with a limit of $250,000 for claims of un-invested cash balances. The SIPC insurance does not protect against market losses on investments.

### *(e) Student Tuition and Fees*

Revenue from student education, residence, and dining services is determined based on published rates and is billed and reflected net of reductions from institutional student aid, which may be funded by endowment funds or other institutional resources. Such revenue is recognized as the services are provided over the academic year, which generally aligns with the Universal's fiscal year. Payments for student services received prior to the commencement of each academic term are reported as student deposits to the extent services will be rendered in the following fiscal year.

### *(f) Student Accounts Receivable*

Student accounts receivable are unsecured noninterest-bearing amounts from students for their tuition, housing, and fees due to the University. Management has established an allowance for doubtful accounts for outstanding balances deemed to be uncollectible. The allowance for uncollectible student accounts receivable is based on management's evaluation of individual student accounts, established payment terms, and historical trends.

### *(g) Government Grants and Contracts*

Government grants and contracts are generally considered conditional contributions as the agreements generally include a barrier that must be overcome and either a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets. The presence of both a barrier and a right of return or right of release indicates that a recipient promises to give are not recognized until they become unconditional, that is, when the barrier(s) in the agreement are overcome.Grant revenue from federal agencies is subject to independent audit under the Office of Management and Budget's audit requirements for federal awards and review by grantor agencies. The review could result in a disallowance of expenditures under the terms of the grant or reductions of future grant funds. Based on prior experience, the University's management believes that costs that may ultimately be disallowed, if any, would not materially affect the financial position of the University.

### *(h) Contributions*

Contributions, including unconditional promises to give (pledges), are recognized when received. All contributions are reported as increases in net assets without donor restrictions unless use of the contributed assets is specifically restricted by the donor. Amounts received that are restricted by the donor to use in future periods or for specific purposes are reported as increases in net assets with donor restrictions. Unconditional promises with payments due in future years have an implied time restriction to be used in the year the payment is received and therefore are reported as restricted. Conditional promises are not recognized until they become unconditional. A contribution is conditional on the basis of whether an agreement includes a barrier that must be overcome and either a right of return of assets transferred or a right of release of promisor's obligation to transfer assets. When such barriers are overcome and therefore a contribution has been deemed unconditional, the University considers whether the contribution is restricted on the basis of the specific donor-imposed restriction.

Contributions of assets other than cash are recorded at their estimated fair value. Contributions of long-lived assets and their purchase or construction are reported in net assets with donor restrictions and are released to net assets without donor restrictions when the assets are placed in service. Contributions with restrictions whose donor-imposed restrictions were met during the fiscal year, including contributions for assets placed in service are recorded in net assets without donor restrictions. Contributions that are expected to be collected in less than a year are reported at net realizable value. Contributions that are expected to be collected in more than one year are reported at fair value at the date of promise. The fair value is computed using present value techniques applied to anticipated cash flows. Amortization of the resulting discount is recognized as additional contribution revenue in accordance with the donor-imposed restrictions, if any. The allowance for uncollectible contributions is determined based on management's evaluation of the collectability of individual promises and historical trends. The allowance is adjusted for promises to give that remain uncollectible more than a year after their due date.

### *(i) Prepaid Expenses and Other Assets*

Prepaid expenses and other assets are primarily payments made by the University in advance of services to be provided. They consist of insurance premiums, as well as various subscription payments made by the University. These assets are amortized over the period associated within the underlying agreement.

### *(j) Investments-Endowment and Other*

Endowment investments are reported at fair value with changes in fair value reported as investment return in the Statement of Activities. Purchases and sales of endowment investments are reported on the trade date. Endowment investments are from the following resources:

- Donor-restricted perpetual endowments are contributions restricted by donors to investment in perpetuity with only investment income and appreciation being used to support the University's activities (no purpose restrictions).

- Purpose-restricted endowments are contributions restricted by donors to investment in perpetuity with investment income for a purpose specified by the donor. The donor may either require the investment income and appreciation to be reinvested in the fund or may permit the University to spend those amounts in accordance with the donor's restricted purpose.

Board-designated endowments are resources set aside by the Board of Trustees (the Board) for an indeterminate period to operate in a manner similar to a donor's restricted perpetual endowment. Because a board-designated endowment results from an internal designation, it can be spent upon action of the Board.

Split-interest agreements are included in investments - endowment and other in the Balance Sheet but are considered nonpooled (nonendowment) investments.

The investment and spending policies for the University's endowment are discussed in note 5.

The University maintains a significant portion of its endowment investments in the Pace Fund. The University sets investment policy, asset allocation and ranges, and monitors performance for the investments in the Pace Fund. The University has delegated the authority for investment decisions of the Pace Fund to Cambridge Associates Resources, LLC, which includes asset allocation within approved ranges.

***(k) Investments-Designated for Construction***

Investments designated for construction are recorded at fair value and are board-designated funds primarily for the construction of a master plan for the campus located in New York City (the NY Master-Plan). The NY Master-Plan is designed to create new distinct locations for the Lubin School of Business (Lubin) and the Dyson College of Arts and Sciences (Dyson), create a new student center and a new exterior identity for the building at 1 Pace Plaza, and create new forms of learning and research spaces.

***(l) Student loans receivable***

Funds provided by the U.S. government under the Federal Perkins and Nursing Student Loan programs are loaned to qualified students. Such amounts may be re-loaned after collection. These funds are ultimately refundable to the government and, therefore, are also presented in the Balance Sheet as a liability. Effective June 30, 2018, the Federal Perkins program was terminated by the U.S. government.

***(m) Plant Assets***

Plant assets are reported at cost if purchased and at fair value at the date of donation if donated except for library books and art collections, which are recorded at a nominal amount of $1 per volume. All land and buildings are capitalized and equipment is capitalized if it has a cost of $2,000 or more and a useful life when acquired of more than one year. Repairs and maintenance costs that do not significantly increase the useful life of the asset are expensed as incurred.

Depreciation and amortization is computed using the straight-line method over the estimated useful lives of the assets, as follows;

| | |
|---|---|
| Building and improvements | 5 to 70 Years |
| Leasehold improvements | Shorter of lease term or asset life |
| Furnishings and equipment | 3 to 20 Years |

### *(n) Split-Interest Agreements*

The University conducts a deferred-giving program in which a donors make an irrevocable transfer of assets primarily through charitable remainder trusts (trust assets) and gift annuity contracts. In exchange, the donors (or a beneficiary named by the donors) receive periodic payments for his or her lifetime. Assets associated with such split-interest agreements are reported at fair value (of the underlying trust) and are included in investments-endowment and other in the Balance Sheet. The value of the trust assets is adjusted annually for changes in its estimated fair value.

The periodic payments to the individuals are fixed amounts (annuities) or are a percentage of the fair value of the trust assets. Contribution revenues are recognized when trusts (or annuity agreements) are established, after recording liabilities for the present value of the estimated future payments to be made to the beneficiaries. The liabilities are adjusted annually for changes in the value of assets, accretion of discount, and other changes in the estimated future benefits. These adjustments are reported in other sources under nonoperating activities in the Statement of Activities. Investment returns from the trust assets are reported as increases in net assets with donor restrictions.

### *(o) Asset Retirement Obligations*

Asset retirement obligations (ARO) arise primarily from regulations that specify how to dispose of asbestos if long-lived assets are demolished or undergo major renovations or repairs. ARO is measured and recorded at fair value. Upon initial recognition of an ARO liability, the University capitalizes that cost as part of the cost basis of the related long-lived assets and depreciates the asset over its useful life. Changes in the ARO due to revised estimates of the amount or timing of cash flows required to settle the future liability are recognized by increasing or decreasing the ARO liability and the related long-lived asset. Changes due solely to the passage of time (accretion of the discounted liability) are recognized as increases in the carrying amount of the liability and as an expense in the Statement of Activities.

### *(p) Operations, Expense Recognition and Allocation*

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, investment return on funds held by bond trustees, and changes in postretirement health benefits obligation, including components of net periodic benefit costs other than the service cost component.

The cost of providing the University’s programs and other activities is summarized on the functional basis in the Statement of Activities and these functional classifications have been reconciled by their natural expense classifications in note 20. Expenses that can be identified with a specific program or support service are charged directly to that program or support service. Costs common to multiple


(Continued)

functions have been allocated among the various functions benefitted using a reasonable allocation method that is consistently applied as follows:

- Salary and wages, benefits and payroll taxes are allocated based on the primary job description and work assignment of personnel.
- Operations of plant and maintenance, depreciation, amortization, and interest are allocated on a square foot basis dependent on the programs and supporting activities occupying the space.

The bases of allocation is reviewed annually or when new space or programs are added.

Fundraising costs are expensed as incurred, even though they may result in contributions received in the future years. The University generally does not conduct its fundraising activities in conjunction with its other activities. Advertising costs are also expensed as incurred.

***(q) Fair Value***

The University reports fair value measures of its financial assets and liabilities using a three-level hierarchy that prioritizes the inputs used to measure fair value. This hierarchy, established by U.S. GAAP, requires that entities maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The asset's or liability's measurement within the fair value hierarchy is based on the lowest level of input that is significant to the measurement. The University applies the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 820, *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, to investments in alternative investments that do not have readily determinable fair values. 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.

The three levels of input used to measure fair value are as follows:

- *Level 1.* Quoted prices for identical assets or liabilities in active markets to which the University has access at the measurement date.
- *Level 2.* Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include:

  Quoted prices for similar assets or liabilities in active markets;

  Quoted prices for identical or similar assets in markets that are not active;

  Observable inputs other than quoted prices for the asset or liability (e.g., interest rates and yield curves); and

  Inputs derived principally from, or corroborated by, observable market data by correlation or other means.

- *Level 3.* Unobservable inputs for the asset and liability used to measure the fair value if observable inputs are not available.

When available, the University measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. However, Level 1 inputs may not be available for all of the assets and liabilities that the University is required to measure at fair value (e.g. unconditional promises to give and in-kind contributions).

The primary use of fair value measures in the University's financial statements is noncash gifts, including gifts of investments and unconditional promises, endowment investments and other, and investments designated for construction.

### *(r) Tax Status*

The University is principally exempt from federal income taxation under Section 501(c) (3) of the IRC, though is subject to tax on income unrelated to its exempt purposes (unless that income is otherwise excluded by the IRC). As a result of the Tax Cuts and Jobs Act signed into law on December 22, 2017, the University is subject to tax on certain provisions. These provisions include items that generate unrelated business income and certain incentives given to employees. The provision for income taxes that has been reflected in the accompanying financial statements for 2019 is $175,000. There was no tax provision required for 2018.

### *(s) Future Accounting Pronouncements*

The FASB issued ASU 2016-02, *Leases,* which requires that lessees recognize most leases on the balance sheet with the recognition of a right-of-use asset and a lease liability and with required expanded quantitative and qualitative disclosures. While leases will continue to be classified as either finance or operating, the classification will impact the expense recognition of such leases over their term. This ASU is effective for the University in fiscal year 2020 and requires retrospective adoption with early adoption permitted. Because of the significance of the University's operating leases, management expects that the adoption of this ASU will have a significant impact on the Balance Sheets (including the recognition of the right-of-use assets and liabilities), but does not believe the adoption will have a significant effect on the University's Statements of Activities or Cash Flows. The University plans to adopt this ASU for the year ending June 30, 2020.

The FASB issued ASU 2016-18, *Restricted Cash*, which requires that the Statement of Cash Flows include the change during the period in the total cash and cash equivalents, as well as in restricted cash and restricted cash equivalents. Therefore, the amounts classified as restricted cash and cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of period total amounts shown on the Statement of Cash Flows. This ASU is effective for fiscal years beginning after December 15, 2018 and requires a retrospective transition method. The University plans to adopt this ASU for the year ending June 30, 2020. The University does not believe the adoption will have a significant effect on the University's Statement of Cash Flows.



(Continued)

### (3) Liquidity and Availability

The University's financial assets available within one year of the June 30, 2019 statement of financial position for general expenditures, including operating expenses, principal and interest on debt, and capital expenditure not financed with debt, are as follows:

| | | |
|---|---|---|
| Total Assets | $ | 692,738,636 |
| Less: | | |
| Cash and cash equivalents not available within one year | | (2,602,778) |
| Student accounts receivable not available within one year | | (2,735,687) |
| Grants and other receivables not available within one year | | (804,377) |
| Prepaid expenses and other assets | | (4,450,733) |
| Contributions receivables not available within one year | | (17,876,395) |
| Investments – endowment and other | | (196,625,454) |
| Investments – designated for construction | | (16,002,171) |
| Student loans receivable | | (9,524,221) |
| Funds held by bond trustees | | (1,533,830) |
| Plant assets | | (421,517,041) |
| | | 19,065,949 |
| Available lines of credit | | 35,000,000 |
| Investment return appropriated for spending in the following year | | 6,200,000 |
| Total assets and other resources available within one year | $ | 60,265,949 |

In addition to the financial assets available within one year, current year operating revenues including tuition, sales and services of auxiliary enterprises, and other income will fund annual expenditures. The above table excludes donor-restricted and board-designated endowment funds as well as investments designated for construction because it is the University management's intention to invest those resources for the long-term support of the University. However, in the case of cash needs or changes to the University's strategic plan of operation, the Board may re-appropriate resources from either Board designated endowment funds of $10,521,182 or Investments designated for construction of $16,002,171.

As part of the University's liquidity management, excess cash resulting from the use and needs of cash within the academic year is invested in short term investments consisting primarily in money market funds and U.S. Government and Government Agency issues .The University maintains an unsecured one-year line of credit with a seasonal commitment of up to $40 million of which $35 million is available as of June 30, 2019.

### (4) Contributions Receivable

| | | 2019 | 2018 |
|---|---|---|---|
| Amounts expected to be collected in: | | | |
| Less than one year | $ | 15,717,038 | 12,176,280 |
| One to five years | | 3,352,306 | 6,633,812 |
| More than five years | | 5,000,000 | 5,032,084 |
| | | 24,069,344 | 23,842,176 |
| Less unamortized discount at rates from 1.13% to 3.04% | | (1,712,833) | (1,839,350) |
| Less allowance for uncollectible amounts | | (454,634) | (440,991) |
| | $ | 21,901,877 | 21,561,835 |

Included in contributions receivable at June 30, 2019 and 2018 are outstanding pledges from five donors for each year, which collectively represent approximately 84% of total related outstanding gross contributions receivable balance for each of the years.

### (5) Investments and Investment Return

The following table summarizes the composition of investments at June 30:

| | | 2019 | 2018 |
|---|---|---|---|
| Pace Fund: | | | |
| Cash and cash equivalents | $ | 11,855,066 | 13,174,633 |
| Common stocks | | 28,351,792 | 19,149,821 |
| Mutual funds: | | | |
| Domestic equities | | 37,006,515 | 29,703,532 |
| Exchange traded funds: | | | |
| Domestic equities | | 6,283,709 | 31,030,095 |
| Fixed income and Master Limited Partnerships (MLP's) | | 557,926 | — |
| Total exchange traded funds | | 6,841,635 | 31,030,095 |
| Commingled funds: | | | |
| Global equities (a) | | 31,672,290 | 17,441,442 |



(Continued)

| | | 2019 | 2018 |
|---|---|---|---|
| Alternative investments: | | | |
| Long/short equity and credit (b) | $ | 9,394,099 | 9,399,614 |
| Private equity (c) | | 20,333,389 | 14,976,472 |
| Distressed (c) | | 818,775 | 1,281,428 |
| Real assets (c) | | 1,148,382 | 936,057 |
| Total alternative investments | | 31,694,645 | 26,593,571 |
| Pace Fund total | | 147,421,943 | 137,093,094 |
| Other investments: | | | |
| Cash and cash equivalents | | 3,773,640 | 3,575,379 |
| Common stocks | | 678,878 | 706,566 |
| Mutual funds: | | | |
| Domestic equities | | 2,587,385 | 2,637,702 |
| International equities | | 588,541 | 576,031 |
| Fixed income | | 10,441,681 | 9,517,128 |
| Total mutual funds | | 13,617,607 | 12,730,861 |
| Bonds: | | | |
| U.S. Treasuries | | 7,280,404 | 6,388,624 |
| Domestic corporate bonds | | 15,836,366 | 17,391,658 |
| International corporate bonds | | 3,936,228 | 3,330,033 |
| Asset backed securities | | 1,765,681 | 1,709,678 |
| Commercial mortgage-backed securities | | 1,802,426 | 1,821,097 |
| Municipal bonds | | 814,233 | 814,233 |
| Total bonds | | 31,435,338 | 31,455,323 |
| Other investments total | | 49,505,463 | 48,468,129 |
| Total investments | $ | 196,927,406 | 185,561,223 |

(a) Includes investments in limited partnerships, limited liability corporations, and trust funds invested in public U.S. equities and international equities.

(b) Includes investments in limited partnerships and limited liability corporations invested in long stock positions with short sales of stock and stock indexes, multi-strategy portfolios that seek to exploit securities miss-pricings caused by mergers and acquisitions, spin-offs, reorganizations, and bankruptcies.

(c) Includes investment through limited partnerships in underlying private equity partnerships invested in debt securities, buyouts, and natural resources. The underlying investments are diversified by strategy, fund, and vintage year.

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 University has an investment policy specific to its endowment fund, which is monitored by the Investment Committee of the Board. The investment policy describes the objective for the fund and sets ranges for asset allocation. The object of the endowment fund is to earn the highest possible total return consistent with a level of risk suitable for these assets. At a minimum, long-term rates of return should be equal to an amount sufficient to maintain the purchasing power of the endowment fund assets, to provide necessary capital to fund the spending policy, and to cover the costs of managing the endowment fund investments. The desired minimum rate of return is equal to the Consumer Price Index plus 500 basis points on an annualized basis. Actual returns in any given year may vary from this amount. In light of this return requirement, the portfolio is constructed using a total return approach with a significant portion of the funds invested to seek growth of principal over time. The assets are invested for the long term, and a higher short term volatility in these assets is expected and accepted. The University limits its investments in commingled funds and so-called alternative investments. Commingled funds and alternative investments of the Pace Fund represent limited partnerships, limited liability corporations, trusts, and similar interests that follow a variety of investment strategies. Terms and conditions of investments, including liquidity provisions, are different for each fund. Commingled funds have monthly and semi-monthly liquidity. Alternative investments are either nonredeemable or can have limited liquidity. Individual investment holdings within commingled funds and alternative investments may be invested in both publicly traded securities and less liquid securities. The net asset values of commingled funds and alternative investments are reviewed and evaluated by management. Because commingled funds and alternative investments do not have readily determinable fair 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.

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, 2019, the Pace Fund had commitments of approximately $17.9 million for which capital calls had not been exercised. This amount has not been recorded as a liability in the Balance Sheet as of June 30, 2019. The University maintains sufficient liquidity in its portfolio to cover such calls.

The current endowment spending appropriation is 4.5% of the moving average fair value of the endowment fund investments for the prior 12 quarters. In establishing this policy, the University considers the long term expected return on its endowment fund investments and the sets the rate with the objective of maintaining the purchasing power of its donor-restricted perpetual endowment funds over time.

In accordance with the above spending rate, $6,172,920 and $5,697,106 of investment return was made available for the years ended June 30, 2019 and 2018, respectively, to support operations of the University.

There was an investment gain from nonpooled investments, cash and cash equivalents, and investments designated for construction of $1,456,178 and $1,203,974 in fiscal years 2019 and 2018, respectively.

The Pace Fund contains 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, 2019:

| | Redemption provision | Notice period | | Amount |
|---|---|---|---|---|
| Commingled funds | Daily | 15 Days | $ | 16,098,646 |
| | | 30 Days | | 1,542,020 |
| | Monthly | 20 Days | | 4,602,570 |
| | | 30 Days | | 1,951,500 |
| | Quarterly | 60 Days | | 7,477,554 |
| Alternative investments: | | | | |
| Emerging markets | Monthly | 33 Days | | 2,146,714 |
| Event driven | Quarterly | 65 Days | | 3,511,464 |
| | | 90 Days | | 3,549,096 |
| Long/short equity and credit | Lock-up | | | 186,825 |
| Private equity partnerships (including distressed and real assets) | Illiquid | | | 22,300,546 |
| | | | $ | 63,366,935 |

The lock-up on certain funds totaling $186,825 does not expire until underlying investments are liquidated.

## (6) Endowment Funds

The University's endowment consists of 424 individual funds established either by donors (referred to as donor-restricted funds) or by resources set aside by the Board to function as endowments (referred to as board-designated endowment funds). Donor-restricted endowment funds are both those that provide a perpetual source of support for the University's activities and those that are restricted by donors for investments to be made for specific purposes 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 as 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. In making its determination to appropriate or accumulate, the University must act in good faith, with the care that an ordinary prudent person in a like position would exercise under similar circumstances considering all relevant factors at the time.

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

| | 2019 | | |
|---|---|---|---|
| | Without donor restriction | With donor restriction | Total |
| Donor-restricted endowment | $ — | 182,527,460 | 182,527,460 |
| Board-designated endowment | 10,521,182 | — | 10,521,182 |
| Total pooled endowment | 10,521,182 | 182,527,460 | 193,048,642 |
| Non-pooled investments | 1,705,270 | 2,173,494 | 3,878,764 |
| Total investments | $ 12,226,452 | 184,700,954 | 196,927,406 |

| | 2018 | | |
|---|---|---|---|
| | Without donor restriction | With donor restriction | Total |
| Donor-restricted endowment | $ — | 171,780,152 | 171,780,152 |
| Board-designated endowment | 10,073,668 | — | 10,073,668 |
| Total pooled endowment | 10,073,668 | 171,780,152 | 181,853,820 |
| Non-pooled investments | 1,443,590 | 2,263,813 | 3,707,403 |
| Total investments | $ 11,517,258 | 174,043,965 | 185,561,223 |

Non-pooled (non-endowment) investments are investments that are not subject to the provisions of the NYPMIFA and are classified as either net assets with donor restrictions or net assets without donor restrictions based on whether the assets have any donor-imposed restrictions at time of receipt by the University. Non-pooled investments include $1,785,386 of assets held under split-interest agreements, $1,398,418 of a corporate bond, $678,878 of corporate stocks, and $16,082 of cash equivalents at June 30, 2019. Non-pooled investments include $1,862,868 of assets held under split-interest agreements, $1,112,438 of a corporate bond, $706,566 of corporate stocks, and $25,531 of cash equivalents at June 30, 2018. The changes in split-interest agreements during the year ended June 30, 2019 include investment returns of $45,127 and payment to beneficiaries of $112,944.

Included in donor-restricted endowments at June 30, 2019 and 2018 are $45,419,294 and $42,636,993, respectively, of net assets expendable only for projects for the Lubin School of Business approved by the donors or the donors' designee. During 2018, donors or a donor's designee approved projects totaling approximately $1.0 million (primarily for capital). Accordingly, in 2018, such amount has been transferred out of endowment funds but remains in net assets with donor restrictions until the purpose restrictions are satisfied, which is expected to primarily occur by fiscal year 2021. No projects were approved in 2019.

Changes in endowment assets for the year ended June 30, 2019 were as follows:

| | | Without donor restriction | With donor restriction | Total |
|---|---|---|---|---|
| Endowment at June 30, 2018 | $ | 10,073,668 | 171,780,152 | 181,853,820 |
| Investment return: | | | | |
| Investment income | | 1,512,042 | 1,681,589 | 3,193,631 |
| Net appreciation in fair value of investments | | 1,102,147 | 12,685,229 | 13,787,376 |
| Total return on investment | | 2,614,189 | 14,366,818 | 16,981,007 |
| Less appreciation on funds designated for construction and nonpooled investments | | (1,731,877) | (69,029) | (1,800,906) |
| Total endowment return on investment | | 882,312 | 14,297,789 | 15,180,101 |
| Contributions | | 20,500 | 2,139,295 | 2,159,795 |
| Appropriation of endowment assets for expenditure | | (455,298) | (5,717,622) | (6,172,920) |
| Other changes, including transfers | | — | 27,846 | 27,846 |
| Endowment at June 30, 2019 | $ | 10,521,182 | 182,527,460 | 193,048,642 |

Changes in endowment assets for the year ended June 30, 2018 were as follows:

| | | Without donor restriction | With donor restriction | Total |
|---|---|---|---|---|
| Endowment at June 30, 2017 | $ | 9,455,683 | 160,424,119 | 169,879,802 |
| Investment return: | | | | |
| Investment income | | 1,285,873 | 1,507,154 | 2,793,027 |
| Net appreciation in fair value of investments | | 937,217 | 13,754,661 | 14,691,878 |
| Total return on investment | | 2,223,090 | 15,261,815 | 17,484,905 |
| Less appreciation on funds designated for construction and nonpooled investments | | (1,203,974) | (115,463) | (1,319,437) |
| Total endowment return on investment | | 1,019,116 | 15,146,352 | 16,165,468 |
| Contributions | | 20,500 | 1,810,557 | 1,831,057 |
| Appropriation of endowment assets for expenditure | | (481,632) | (5,215,474) | (5,697,106) |
| Other changes, including transfers | | 60,001 | (385,402) | (325,401) |
| Endowment at June 30, 2018 | $ | 10,073,668 | 171,780,152 | 181,853,820 |

*Funds with Deficiencies*

The fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the NYPMIFA requirement to retain as a fund for perpetual duration. Deficiencies of this nature would be reported in net assets with donor restrictions. At June 30, 2019 and June 30, 2018, there were no funds with deficiencies.

## (7) Investments – Designated for Construction

The Board designated these investments primarily for the construction of the NY Master-Plan. Funds held by bond trustees were released in 2018 as requisitioned by the University for payments for capital projects. As of June 30, 2019 and 2018, investments designated for construction totaled $16,002,171 and $42,448,731, respectively. These investments include $8,427,162 and $18,698,759 of cash and cash equivalents as of June 30, 2019 and 2018, respectively, with the remaining balance invested in fixed-income securities (consisting of certificates of deposits and corporate bonds) with maturities of less than five years.

## (8) Fair Value of Financial Instruments

The following table summarizes the fair value hierarchy of the University's investments as of June 30:

| 2019 | | Level 1 | Level 2 | Level 3 | | Total |
|---|---|---|---|---|---|---|
| Investments: | | | | | | |
| Cash and cash equivalents | $ | 3,773,640 | — | — | | 3,773,640 |
| Common stocks | | 673,978 | 4,900 | — | | 678,878 |
| Mutual funds: | | | | | | |
| Domestic equities | | 2,587,385 | — | — | | 2,587,385 |
| International equities | | 588,541 | — | — | | 588,541 |
| Fixed income | | 10,441,681 | — | — | | 10,441,681 |
| Bonds | | 9,493,055 | 21,942,283 | — | | 31,435,338 |
| | $ | 27,558,280 | 21,947,183 | — | | 49,505,463 |
| Investments measured at net asset value: | | | | | | |
| Pace Fund | | | | | | 147,421,943 |
| Total investments | | | | | $ | 196,927,406 |
| Funds held by bond trustees | $ | 1,533,830 | — | — | | 1,533,830 |
| Investments designated for construction | $ | 16,002,171 | — | — | | 16,002,171 |

| 2018 | | Level 1 | Level 2 | Level 3 | | Total |
|---|---|---|---|---|---|---|
| Investments: | | | | | | |
| Cash and cash equivalents | $ | 3,575,379 | — | — | | 3,575,379 |
| Common stocks | | 701,666 | 4,900 | — | | 706,566 |
| Mutual funds: | | | | | | |
| Domestic equities | | 2,637,702 | — | — | | 2,637,702 |
| International equities | | 576,031 | — | — | | 576,031 |
| Fixed income | | 9,517,128 | — | — | | 9,517,128 |
| Bonds | | 8,293,380 | 23,161,943 | — | | 31,455,323 |
| | $ | 25,301,286 | 23,166,843 | — | | 48,468,129 |
| Investments measured at net asset value: | | | | | | |
| Pace Fund | | | | | | 137,093,094 |
| Total investments | | | | | $ | 185,561,223 |
| Funds held by bond trustees | $ | 1,509,336 | — | — | | 1,509,336 |
| Investments designated for construction | $ | 42,448,731 | — | — | | 42,448,731 |

There were no transfers between fair value hierarchy levels in 2019 and 2018.

## (9) Plant Assets

Plant assets at June 30, 2019 and 2018 consist of the following:

| | 2019 | 2018 |
|---|---|---|
| Land | $ 12,453,325 | 12,453,325 |
| Land improvements | 1,508,920 | 1,531,991 |
| Buildings, leaseholds, and improvements | 490,203,749 | 428,515,405 |
| Construction in progress | 7,682,949 | 38,429,606 |
| Furniture and equipment | 103,101,349 | 96,546,403 |
| Library books | 769,614 | 769,614 |
| Total | 615,719,906 | 578,246,344 |
| Less accumulated depreciation | (194,202,865) | (176,251,069) |
| | $ 421,517,041 | 401,995,275 |

Construction in progress primarily consists of amounts expended for the construction of the NY Master-Plan, which was primarily funded by restricted contributions and proceeds received from the sale of 106 Fulton Street in 2017, and therefore, no interest was capitalized for the years ended June 30, 2019 and 2018.

Included in buildings, leaseholds, and improvements at June 30, 2019 and 2018 is $16,226,522 relating to a training facility received in exchange for use of land. See note 13 for a discussion on the Judicial Training Institute.

## (10) Line of Credit

The University has established an unsecured one-year line of credit with a seasonal commitment of up to $40,000,000. The line bears interest at LIBOR plus 200 basis points and is subject to annual renewal at the lender's discretion. However, the University has an option to convert the line into a 4-year term loan facility. The University is required to maintain a zero balance on the line for at least 30 consecutive days, twice per year. The University had an outstanding balance of $5.0 million under the line of credit as of June 30, 2019 and June 30, 2018. These outstanding balances were repaid on July 29, 2019 and July 23, 2018, respectively.

Interest on this borrowing amounted to $17,960 and $1,706 for fiscal years 2019 and 2018, respectively.

### (11) Long-Term Debt

Long-term debt at June 30 consists of the following:

| | | 2019 | 2018 |
|---|---|---|---|
| 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 an effective fixed rate of 4% per annum, plus unamortized premium of $6,995,490 and $7,301,862 and less unamortized prepaid bond issue costs of $1,283,962 and $1,340,194 at June 30, 2019 and 2018, respectively | $ | 81,456,528 | 85,076,668 |
| 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, less $205,881 and $218,884 unamortized prepaid bond issue costs at June 30, 2019 and 2018, respectively | | 15,844,119 | 16,501,116 |
| Westchester County Local Development Corporation (WCLDC): | | | |
| Revenue Bonds, Pace University issue, $85,665,000, Series 2014A, due serially to 2042 at an effective fixed rate of 5% per annum through May 2034 increasing to a rate of 5.5% to maturity, less unamortized discount of $481,968 and $503,153 and unamortized prepaid bond issue costs of $1,523,550 and $1,590,519 at June 30, 2019 and June 30, 2018, respectively | | 83,659,482 | 83,571,328 |
| Revenue Bonds, Pace University issue, $14,925,000 Series 2014B, due serially to 2044 at a variable rate subject to weekly reset in the auction market, less $207,959 and $216,362 unamortized prepaid bond issue costs at June 30, 2019 and 2018, respectively | | 14,717,041 | 14,708,638 |
| Total long-term debt | $ | 195,677,170 | 199,857,750 |

Debt issuance costs of $3,221,352 and $3,365,959 are reported as a reduction of long-term debt on the Balance Sheets at June 30, 2019 and 2018, respectively.

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, 2019 and 2018, $1,305,345 and $1,240,186, respectively, of unexpended funds from these bonds was included in funds held by bond trustees in the Balance Sheets.

The Series 2013B Bonds (federally taxable) were issued on March 7, 2013 to (i) refund a portion of $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, 2019 and 2018, $191,107 and $184,479, respectively, was included in funds held by bond trustees in the Balance Sheets. 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 22.0% per annum based on the University's current credit rating. The weighted average interest rate in 2019 for the Series 2013B Bonds was 3.3%. The range of rates in 2019 was 3.1% to 3.5%.

The Series 2014A Bonds (tax-exempt) were issued on April 3, 2014 (i) to finance the design, renovation, construction, equipping, and/or furnishing of certain of the University's facilities, and (ii) fund the costs of issuance and interest costs during the construction period. At June 30, 2019 and June 30, 2018, there were no funds held by bond trustees in the balance sheet related to the Series 2014A.

The Series 2014B Bonds (tax-exempt) were issued on April 3, 2014 to finance (i) the design, renovation, construction, equipping, and/or furnishing of certain of the University's facilities and (ii) fund the costs of issuance and interest costs during the construction period. The bonds pay variable rate interest, which is based on weekly resets in the auction rate market and the bonds mature in 2044. The weighted average interest rate in 2019 for the Series 2014B Bonds was 2.1%. The range of rates in 2019 was 1.6% to 2.4%. At June 30, 2019 and 2018, $37,378 and $84,671, respectively, was included in funds held by bond trustees in the Balance Sheets and consisted of construction funds.

The Series 2013 and 2014 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 and WCLDC in any bond year for the principal.

Interest and fees incurred for the years ended June 30, 2019 and 2018 were $9,306,093 and $9,508,411, respectively.

*Financial Covenants DASNY Series 2013 and WCLDC Series 2014*

Pursuant to the loan agreements related to the DASNY Series 2013 Revenue Bonds and the WCLDC Series 2014 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. A Debt Service Coverage Ratio less than 1.00 as of any Calculation Date or less than 1.10 for two consecutive years constitutes an Event of Default under the Master Trust Indentures.

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

At June 30, 2019 and 2018, the University was in compliance with its financial debt covenant requirements.

## (12) Debt Service – Long-Term Debt

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

| | DASNY Bonds | | WCLDC Bonds | | |
|---|---|---|---|---|---|
| | Principal | Interest | Principal | Interest | Total |
| Year ending June 30: | | | | | |
| 2020 | 4,235,000 | 4,234,162 | — | 5,046,175 | 13,515,337 |
| 2021 | 4,415,000 | 4,062,590 | — | 5,044,325 | 13,521,915 |
| 2022 | 5,560,000 | 3,848,782 | — | 5,045,250 | 14,454,032 |
| 2023 | 5,785,000 | 3,625,954 | — | 5,045,250 | 14,456,204 |
| 2024 | 6,070,000 | 3,345,756 | — | 5,046,175 | 14,461,931 |

## (13) 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. As a result of the assignment, the loan agreement between the Authority and the University is without recourse to the University and the University's repayment obligation 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 financial statements.

The University recorded the cost of the training facility of $16,208,704 as deferred rental revenue. The deferred rental revenue is recognized on a straight-line basis over the life of the related lease, May 1, 2003 through June 30, 2020. At June 30, 2019 and 2018, deferred rental revenue of $944,196 and $1,888,393, respectively, is included in the Balance Sheets. For each of the years ended June 30, 2019 and 2018, $944,197 and $944,196 respectively, was recognized as rental revenue and is included in other sources in the Statements of Activities.



(Continued)

## (14) 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, all postretirement healthcare and life insurance benefits coverage for employees hired after October 1, 2000 has been eliminated.

The University reports the funded status of its postretirement plans on the Balance Sheets. The following table provides a summary of this unfunded plan as of June 30, 2019 and 2018:

| | | 2019 | 2018 |
|---|---|---|---|
| Change in benefit obligation: | | | |
| Benefit obligation at beginning of year | $ | 65,759,242 | 73,805,483 |
| Service cost | | 247,339 | 375,800 |
| Interest cost | | 2,574,893 | 2,787,877 |
| Participants' contributions | | 831,918 | 747,016 |
| Amendments (A) | | 732,278 | (3,781,414) |
| Actuarial loss (gain) (B) | | 2,731,791 | (3,765,544) |
| Benefits paid | | (6,004,355) | (4,642,874) |
| Subsidies received | | 202,783 | 232,898 |
| Benefit obligation at end of year | | 67,075,889 | 65,759,242 |
| Change in plan assets: | | | |
| Employer contribution (C) | | 4,969,654 | 3,662,960 |
| Plan participants' contributions | | 831,918 | 747,016 |
| Benefits paid (C) | | (6,004,355) | (4,642,874) |
| Subsidies received | | 202,783 | 232,898 |
| Fair value of plan assets at end of year | | — | — |
| Accrued postretirement health benefits obligation | $ | 67,075,889 | 65,759,242 |

(A) The Plan was amended on January 1, 2019 to increase the plan deductible and lower coinsurance amounts at one of the options offered. In addition, premium rates for all other plan options were reduced by 10%. The effect of these amendments was an increase to the accrued postretirement obligation of $732,278 as of June 30, 2019. The amendments to the Plan effective July 1, 2018 included increased retiree contribution requirements and revised medical and prescription drug claim reimbursements, which resulted in a reduction in the postretirement obligation of $3,781,414 as of June 30, 2018.

(B) The actuarial loss in 2019 of $2,731,791 was primarily the result of the change in discount rate from $4.25% to 3.5%, offset by favorable claims and contribution changes (experience gains).The actuarial gain in 2018 of $3,765,544 was primarily the result of changes in the mortality scale and resulting demographic gains offset by experience losses.



(Continued)

(C) The increase in employer contribution was the result of the increase in benefit claims paid during 2019.

The net periodic postretirement benefit expense(credit) includes the following components:

| | | 2019 | 2018 |
|---|---|---|---|
| Net periodic benefit cost(credit): | | | |
| Service cost | $ | 247,339 | 375,800 |
| Interest cost | | 2,574,893 | 2,787,877 |
| Amortization of prior service credit | | (3,909,814) | (3,185,018) |
| Amortization of net loss | | 940,135 | 2,063,118 |
| Total net periodic benefit cost(credit) | $ | (147,447) | 2,041,777 |

The discount rates were as follows:

| | 2019 | 2018 |
|---|---|---|
| Benefit obligation weighted average assumptions as of June 30, 2019 and 2018: | | |
| Discount rate | 3.50 % | 4.25 % |
| Benefit cost weighted average assumptions for the years ended June 30, 2019 and 2018: | | |
| Discount rate | 4.25 % | 3.85 % |

Other changes in postretirement benefit obligations recognized in net assets without donor restriction include the following components:

| | | 2019 | 2018 |
|---|---|---|---|
| New prior service cost(credit) | $ | 732,278 | (3,781,414) |
| Actuarial net loss(gain) | | 2,731,791 | (3,765,544) |
| Amortization of prior service credit | | 3,909,814 | 3,185,018 |
| Amortization of net loss | | (940,135) | (2,063,118) |
| | $ | 6,433,748 | (6,425,058) |

As of June 30, 2019 and 2018, the items not yet recognized as net periodic postretirement benefit cost are as follows:

| | | 2019 | 2018 |
|---|---|---|---|
| Prior service credit | $ | (9,840,984) | (14,483,077) |
| Net loss | | 18,368,430 | 16,576,775 |
| | $ | 8,527,446 | 2,093,698 |

The estimated prior service credit and net loss that will be amortized into net periodic benefit cost in 2020 are $3,821,712 and $1,659,696, respectively.

For measurement purposes, a 7.0% 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 years ended June 30, 2019 and 2018, decreasing to 4.50% in 2024 and remaining at that level thereafter. The healthcare cost trend rate assumption has a significant effect on the accrual. A 1.0% increase in the rate translates to an increase in the accumulated postretirement benefit obligation and service and interest cost of $9,397,880 and $400,762, respectively, in 2019. A 1.0% decrease in the rate translates to a decrease in the accumulated postretirement benefit obligation and service and interest cost of $7,574,607 and $318,989, respectively, in 2019.

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 |
|---|---|---|---|
| 2020 | 5,356,024 | (309,517) | 5,046,507 |
| 2021 | 3,353,857 | — | 3,353,857 |
| 2022 | 3,424,652 | — | 3,424,652 |
| 2023 | 3,530,165 | — | 3,530,165 |
| 2024 | 3,599,005 | — | 3,599,005 |
| 2025 through 2029 | 18,291,122 | — | 18,291,122 |

The Plan does not include Medicare subsidy after 2020.


(Continued)

### (15) Defined-Contribution Retirement Plan

The University has a defined-contribution retirement plan established in accordance with Section 403(b) of the IRC 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 record keepers and custodians. In 2011, the University selected TIAA-CREF as the University's sole 403(b) vendor effective January 1, 2011. Existing accounts with Fidelity and T. Rowe Price continue to be part of the plan, but new contributions can only be made to TIAA-CREF accounts.

The University makes annual plan contributions, which are vested immediately for the benefit of the participants. The University's contributions under the plan for the years ended June 30, 2019 and 2018 amounted to $11,745,471 and $11,576,976, respectively.

### (16) Net Assets With Donor Restrictions

Net assets with donor restrictions at June 30, 2019 and 2018 are available to support the following areas:

| | | 2019 | 2018 |
|---|---|---|---|
| Instruction | $ | 45,776,149 | 47,570,785 |
| Research | | 1,224,510 | 1,219,933 |
| Academic support | | 38,490,106 | 34,882,204 |
| Student activities | | 3,135,435 | 3,047,209 |
| Institutional support | | 9,504,991 | 6,394,735 |
| Capital projects | | 36,262,695 | 44,652,109 |
| Scholarships | | 77,232,266 | 73,172,814 |
| Contributions receivable | | 3,681,802 | 3,143,442 |
| Split-interest agreements | | 1,672,110 | 1,637,874 |
| | $ | 216,980,064 | 215,721,105 |

Net assets of $45,419,294 and $48,336,993 as of June 30, 2019 and 2018, respectively, are available to support the Lubin School of Business, expendable only for projects approved by the donors or the donors' designee.

### (17) 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 $201,483,977 and $192,927,388 for the years ended June 30, 2019 and 2018, respectively.

## (18) Leases

The University leases office, student housing, and classroom space under several operating lease agreements expiring at various dates through 2049. The minimum annual rentals in connection with such leases are as follows:

| | Active leases as of June 30, 2019 |
|---|---|
| Year ending June 30: | |
| 2020 | $ 34,561,963 |
| 2021 | 35,120,044 |
| 2022 | 34,989,223 |
| 2023 | 25,359,515 |
| 2024 | 25,340,669 |
| 2025 and thereafter | 690,352,552 |
| | $ 845,723,966 |

Included in the above are lease commitments for student housing of $527,003,610 through 2049.

Total rental expense for the years ended June 30, 2019 and 2018 was $41,994,783 and $41,188,010, respectively. Deferred rent obligation was $35,174,496 and $29,504,572 at June 30, 2019 and 2018, respectively, which represents the effect of straight-line of the total minimum lease payments over the lease terms.

## (19) 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 $6,364,592 and $6,435,148 for the years ended June 30, 2019 and 2018, respectively. For purposes of reporting fund-raising expenses, the University includes only those fund-raising costs incurred by its development office.

## (20) Allocation of Certain Expenses

Expenses are presented by functional classification in accordance with the overall mission of the University on the Statements of Activities. With the adoption of ASU 2016-14, each functional classification displays all expenses related to the underlying operation by natural classification as detailed below for the years ended June 30, 2019 and 2018.

| | 2019 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Compensation and fringe benefits | Supplies, services, and other* | Professional fees | Utilities and plant contracts** | Depreciation | Interest and other debt-related expenses | Total per statement of activities Operating |
| Instruction | $ 117,091,992 | 9,238,958 | 2,387,568 | 6,055,883 | 3,159,865 | 1,433,945 | 139,368,211 |
| Research | 1,313,109 | 825,649 | 965,150 | 350,053 | 199,519 | 80,121 | 3,733,601 |
| Academic support | 30,915,302 | 6,983,096 | 1,040,614 | 8,632,486 | 4,882,822 | 1,811,981 | 54,266,301 |
| Student services | 28,387,402 | 7,870,504 | 2,389,237 | 4,913,089 | 2,659,745 | 1,485,818 | 47,705,795 |
| Institutional support | 37,096,930 | 5,487,787 | 5,233,430 | 10,593,037 | 2,124,799 | 800,176 | 61,336,159 |
| Auxiliary enterprises | 2,757,249 | 19,369,952 | 374,706 | 43,132,368 | 6,153,548 | 3,553,471 | 75,341,294 |
| Total 2019 | $ 217,561,984 | 49,775,946 | 12,390,705 | 73,676,916 | 19,180,298 | 9,165,512 | 381,751,361 |

| | 2018 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Compensation and fringe benefits | Supplies, services, and other* | Professional fees | Utilities and plant contracts** | Depreciation | Interest and other debt-related expenses | Total per statement of activities Operating |
| Instruction | $ 116,019,214 | 10,513,487 | 2,124,885 | 5,704,496 | 2,936,418 | 1,464,945 | 138,763,445 |
| Research | 1,706,814 | 945,264 | 1,449,849 | 330,975 | 185,410 | 81,364 | 4,699,676 |
| Academic support | 31,137,880 | 8,340,301 | 891,042 | 8,141,178 | 4,537,538 | 1,832,205 | 54,880,144 |
| Student services | 28,652,408 | 8,512,727 | 2,755,684 | 4,731,974 | 2,471,663 | 1,531,023 | 48,655,479 |
| Institutional support | 37,345,082 | 5,345,685 | 6,672,824 | 9,900,529 | 1,974,546 | 792,293 | 62,030,959 |
| Auxiliary enterprises | 2,674,913 | 18,061,728 | 1,048,303 | 42,061,620 | 5,718,406 | 3,666,001 | 73,230,971 |
| Total 2018 | $ 217,536,311 | 51,719,192 | 14,942,587 | 70,870,772 | 17,823,981 | 9,367,831 | 382,260,674 |

* Supplies, services and other primarily consists of student meal plans, technology service contracts, travel, marketing and publications, and graduate student assistantships.

** Utilities and plant contracts primarily consists of leased property expenses, and janitorial and security service contracts.

**(21) 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.

**(22) Subsequent Events**

In accordance with ASC Subtopic 855-10, *Subsequent Events*, the University evaluated subsequent events after the balance sheet date of June 30, 2019 through November 20, 2019, which was the date the financial statements were issued, and determined that there were no additional matters required to be disclosed.