



PACE UNIVERSITY

Financial Statements

June 30, 2023 and 2022

(With Independent Auditors' Report Thereon)



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

Independent Auditors' Report

The Board of Trustees
Pace University:

Opinion

We have audited the financial statements of Pace University (the University), which comprise the balance sheets as of June 30, 2023 and 2022, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the University as of June 30, 2023 and 2022, and the results of its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the University and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the University's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.



In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 University's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the University's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

KPMG LLP

New York, New York
November 13, 2023

PACE UNIVERSITY

Balance Sheets

June 30, 2023 and 2022

Assets	2023	2022
Cash and cash equivalents	\$ 6,301,536	8,466,550
Student accounts receivable,(net of allowance for doubtful accounts of \$3,400,000)	9,556,744	12,552,599
Grants and other receivables	13,006,965	2,906,709
Prepaid expenses and other assets	6,252,919	4,487,391
Contributions receivable, net (note 4)	31,732,005	7,929,337
Investments – endowment and other (notes 5 and 6)	236,967,839	215,165,066
Investments – designated for construction (note 7)	57,858,062	47,725,589
Student loans receivable, net (net of allowance for doubtful accounts of \$819,123 and \$2,336,201, respectively)	3,507,666	4,443,358
Funds held by bond trustees, at fair value (note 11)	1,650,467	1,529,178
Right of use assets (notes 2(l) and 17)	433,537,083	328,389,540
Plant assets, net (note 9)	<u>499,685,923</u>	<u>459,811,430</u>
Total assets	<u>\$ 1,300,057,209</u>	<u>1,093,406,747</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued liabilities	\$ 64,193,971	48,298,705
Deferred revenues and deposits	24,702,230	16,593,216
Long-term debt (notes 11 and 12)	175,119,850	181,045,430
Operating lease liabilities (notes 2(l) and 17)	523,111,466	396,245,181
Asset retirement obligations	7,257,719	6,871,344
Accrued postretirement health benefits obligation (note 13)	36,670,872	40,310,713
U.S. government grants refundable	<u>6,460,423</u>	<u>7,443,347</u>
Total liabilities	<u>837,516,531</u>	<u>696,807,936</u>
Net assets (note 15):		
Net assets without donor restrictions:		
General	230,639,137	212,177,610
Accrued postretirement health benefits obligation	<u>(36,670,872)</u>	<u>(40,310,713)</u>
Total net assets without donor restrictions	<u>193,968,265</u>	<u>171,866,897</u>
Net assets with donor restrictions:		
Purpose and/or time restricted	135,553,889	96,272,161
Endowment fund corpus	<u>133,018,524</u>	<u>128,459,753</u>
Total net assets with donor restrictions	<u>268,572,413</u>	<u>224,731,914</u>
Total net assets	<u>462,540,678</u>	<u>396,598,811</u>
Total liabilities and net assets	<u>\$ 1,300,057,209</u>	<u>1,093,406,747</u>

See accompanying notes to financial statements.

PACE UNIVERSITY

Statements of Activities

Years ended June 30, 2023 and 2022

	2023			2022		
	Without donor restrictions	With donor restrictions	Total	Without donor restrictions	With donor restrictions	Total
Revenues:						
Tuition and fees, net (note 16)	\$ 315,425,891	—	315,425,891	291,876,050	—	291,876,050
Government grants and contracts	14,962,404	—	14,962,404	14,338,234	—	14,338,234
State appropriations	917,726	—	917,726	951,415	—	951,415
Contributions	6,084,676	31,531,462	37,616,138	2,090,612	10,852,868	12,943,480
Investment return appropriated	3,344,902	7,141,171	10,486,073	611,023	7,130,939	7,741,962
Sales and services of auxiliary enterprises	73,707,134	—	73,707,134	65,843,904	—	65,843,904
Other sources	6,630,986	—	6,630,986	3,503,140	—	3,503,140
Net assets released from restrictions	13,719,368	(13,719,368)	—	47,721,953	(47,721,953)	—
Total revenues	<u>434,793,087</u>	<u>24,953,265</u>	<u>459,746,352</u>	<u>426,936,331</u>	<u>(29,738,146)</u>	<u>397,198,185</u>
Expenses:						
Instruction	147,118,842	—	147,118,842	136,593,665	—	136,593,665
Research	4,351,188	—	4,351,188	3,723,028	—	3,723,028
Academic support	63,780,464	—	63,780,464	55,674,758	—	55,674,758
Student services	44,796,767	—	44,796,767	40,361,299	—	40,361,299
Institutional support	73,146,321	—	73,146,321	64,459,839	—	64,459,839
Auxiliary enterprises	82,257,773	—	82,257,773	79,355,092	—	79,355,092
Student scholarship – CARES Act	—	—	—	4,792,373	—	4,792,373
Total expenses	<u>415,451,355</u>	<u>—</u>	<u>415,451,355</u>	<u>384,960,054</u>	<u>—</u>	<u>384,960,054</u>
Excess (deficiency) of operating revenues over expenses	<u>19,341,732</u>	<u>24,953,265</u>	<u>44,294,997</u>	<u>41,976,277</u>	<u>(29,738,146)</u>	<u>12,238,131</u>
Nonoperating activities:						
Investment return, net	1,124,622	18,699,846	19,824,468	(2,050,235)	(31,383,852)	(33,434,087)
Changes in postretirement health benefits obligation other than net periodic cost	580,304	—	580,304	10,831,708	—	10,831,708
Net periodic benefit costs other than service costs	935,615	—	935,615	2,184,508	—	2,184,508
Other	119,095	187,388	306,483	2,708	(208,967)	(206,259)
Nonoperating activities, net	<u>2,759,636</u>	<u>18,887,234</u>	<u>21,646,870</u>	<u>10,968,689</u>	<u>(31,592,819)</u>	<u>(20,624,130)</u>
Changes in net assets	<u>22,101,368</u>	<u>43,840,499</u>	<u>65,941,867</u>	<u>52,944,966</u>	<u>(61,330,965)</u>	<u>(8,385,999)</u>
Net assets at beginning of year	<u>171,866,897</u>	<u>224,731,914</u>	<u>396,598,811</u>	<u>118,921,931</u>	<u>286,062,879</u>	<u>404,984,810</u>
Net assets, end of year	<u>\$ 193,968,265</u>	<u>268,572,413</u>	<u>462,540,678</u>	<u>171,866,897</u>	<u>224,731,914</u>	<u>396,598,811</u>

See accompanying notes to financial statements.

PACE UNIVERSITY

Statements of Cash Flows

Years ended June 30, 2023 and 2022

	2023	2022
Cash flows from operating activities:		
Changes in net assets	\$ 65,941,867	(8,385,999)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Net (appreciation) depreciation in fair value of investments	(25,616,305)	26,832,420
Net depreciation in investments designated for construction	220,584	200
Net (appreciation) depreciation in fair value in split-interest agreement investments	(125,077)	206,217
Investment return on funds held by bond trustee	(119,095)	(2,708)
Change in value of split-interest agreement liabilities	(51,134)	14,463
Postretirement related changes other than net periodic pension cost	(580,304)	(10,831,708)
Provision for doubtful student loans receivable	(1,517,078)	(2,564,944)
Depreciation	19,142,400	19,150,134
Amortization of asset retirement obligation	386,376	366,524
Amortization of bond premium, net of bond discount accretion	(285,188)	(285,186)
Amortization of bond issuance costs	144,608	144,606
Reduction in the carrying amount of the right-of-use asset-operating leases	19,361,019	10,969,834
Revenues restricted for permanent investment and capital	(5,656,154)	(5,884,184)
Cash received from lease incentives	9,991,439	—
Present value adjustment and allowance for uncollectible amounts for contribution receivable	3,325,379	—
Changes in operating assets and liabilities:		
Student accounts receivable	2,995,855	2,179,163
Grants and other receivables	(10,100,256)	585,408
Prepaid expenses and other assets	(1,765,528)	(163,813)
Contributions receivable	(24,374,268)	4,048,801
Noncapital accounts payable and accrued liabilities	(910,594)	(11,977,707)
Deferred revenues and deposits	8,109,014	6,957,557
Lease liabilities	(7,633,717)	(4,932,294)
Asset retirement obligation	—	(60,414)
Accrued postretirement benefit obligation	(3,059,537)	(4,373,118)
U.S. government grants refundable	(982,924)	(1,872,261)
Net cash provided by operating activities	46,841,382	20,120,991
Cash flows from investing activities:		
Repayment of student loans, net of issuance	2,452,770	3,878,849
Purchase of plant assets	(42,159,899)	(35,321,912)
Decrease in capital accounts payable	—	(3,856,897)
Purchase of investments	(119,116,490)	(108,137,339)
Proceeds from sale of investments	112,702,042	80,027,931
Net cash used in investing activities	(46,121,577)	(63,409,368)
Cash flows from financing activities:		
Contributions received for capital projects and permanent investments	5,656,154	5,884,184
Net increase in contribution receivable for permanent investments and capital projects	(2,753,779)	(772,326)
Repayment of indebtedness	(5,785,000)	(5,560,000)
(Decrease) increase in funds held by bond trustees	(2,194)	6,685
Net cash used in financing activities	(2,884,819)	(441,457)
Net decrease in cash and cash equivalents	(2,165,014)	(43,729,834)
Cash and cash equivalents at beginning of year	8,466,550	52,196,384
Cash and cash equivalents at end of year	\$ 6,301,536	8,466,550
Supplemental disclosure:		
Interest paid	\$ 7,413,830	6,775,954
Right-of-use asset obtained in exchange for operating lease liabilities at commencement	124,508,562	—
Lease incentives included in operating lease right-of-use assets	(1,749,622)	—
Increase in capital accounts payable	16,856,994	—

See accompanying notes to financial statements.

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Notes to Financial Statements

June 30, 2023 and 2022

(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 students, 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, 2023 and 2022. 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.

Current Environment

In March 2020, the World Health Organization declared the novel coronavirus (COVID-19) a pandemic. The University continues to adhere to updated health and safety guidelines of New York State and the requirements of the Centers for Disease Control and Prevention (CDC). The University continues to offer a hybrid model-learning environment with classes both in-person and via virtual system. While in-person operations have increased for the 2022-23 academic year due to changes in CDC requirements, faculty and staff continue to work both remotely and in-person to ensure essential operations. The University will continue to monitor the mix between remote and in-person learning based on any uncertainty the progression of the virus if any, and any future governmental directive.

In conjunction with the public health and economic impacts of COVID-19, U.S. Congress passed the Coronavirus Aid, Relief, and Economic Security (CARES), the Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA), and the Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA) in 2020 and 2021 where the University received both institutional support and allotments for direct emergency aid to student. In addition, U.S. Congress passed the American Rescue Plan Act (ARP) on March 11, 2021. The ARP Act Higher Education Emergency Fund (HEERF III) included further provisions to provide financial support to colleges and universities. The University's total HEERF III allocation was \$23,076,452 with \$11,566,796 allotted for student aid and \$11,509,656 allotted for institutional aid. As of June 30, 2022, all student and institutional aid allotment had been disbursed.

The University continues to monitor the course of the pandemic and is prepared to take additional measures to protect the health of the University community and promote the continuity of its academic mission.

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Notes to Financial Statements

June 30, 2023 and 2022

(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.

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 Statements 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.

(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.

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.

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.

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Notes to Financial Statements

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(c) 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, and funds held by bond trustees.

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 uninvested cash balances. The SIPC insurance does not protect against market losses on investments.

(d) 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 University'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.

(e) 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.

(f) 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 what 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.

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(g) 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.

(h) 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.

(i) Investments – Endowment and Other

Endowment investments are reported at fair value with changes in fair value reported as investment return in the Statements 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.

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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 Sheets 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.

(j) 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.

(k) 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 loaned again after collection. These funds are ultimately refundable to the government and, therefore, are also presented in the Balance Sheets as a liability. Effective June 30, 2018, the Federal Perkins program was terminated by the U.S. government. As of June 30, 2023, the University has refunded \$7,703,545 of the Federal Perkins Program to the U.S. government due to the termination of the Federal Perkins Program.

(l) Operating Lease Accounting

In accordance with Accounting Standards Update ASU 2016 – *Leases*, the University recognizes the rights and obligations arising from lease contracts assets and liabilities on the Balance Sheet. When an arrangement at its inception is determined to be a lease, the University determines if it is an operating lease or a finance lease. For operating leases, at lease commencement, the University records a ROU asset and corresponding lease liability. ROU assets represent the University's right to control the use of the leased asset during the lease and are recognized in an amount equal to the lease liability. Lease liabilities represent the present value of the future lease payments over the expected lease term which includes options to extend or terminate the lease when it is reasonably certain those options will be exercised. The present value of the lease liability is determined using the University's incremental borrowing rate at lease inception. Over the lease term, the University uses the effective interest rate method to account for the lease liability as lease payments are made and the ROU asset is amortized into expenses in a manner that results in a straight-line expense recognition in the Statements of Activities. A ROU asset and lease liability is not recognized for leases with an initial term of 12 months

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June 30, 2023 and 2022

or less. As of June 30, 2023 and 2022, the University has determined that all of its leases identified under these criteria are operating leases.

Rent incentives in the initial years of certain leases give rise to deferred rent are recorded net of ROU on the Balance Sheets reflect the cumulative excess of rental expense on a straight-line basis over cash payments.

(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 are 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 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 their 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 Sheets. 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 Statements 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

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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 Statements of Activities.

(p) Operations, Expense Recognition, and Allocation

The Statements 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 Statements of Activities, and these functional classifications have been reconciled by their natural expense classifications in note 19. 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 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 basis 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.

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- *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). There were no tax provisions for fiscal years ended in 2023 and 2022.

(s) Related Parties

Members of the Board of Trustees, officers, and employees are subject to the University's conflict of interest policies, under which business and financial relationships must be disclosed and are subject to review and approval. Disclosures about the University's related-party transactions, including with affiliated institutions, are described in notes 1 and 5.

(t) Recently Issued Accounting Pronouncements Not Yet Adopted

The FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which requires credit losses to be recognized on most financial assets carried at amortized cost (such as accounts and loan receivable from students) and certain other instruments. The allowance is deducted from the amortized cost basis of a financial asset so that the balance sheet reflects the net amount an entity expects to collect. Credit losses will be estimated over the entire contractual term of the related instrument from the date of the initial recognition. Whereas current standards require recognition of those losses when it is probable a loss has been incurred, ASU No. 2016-13 requires recognition when losses are expected. ASU No. 2016-13 is effective for the University for fiscal years beginning after December 15, 2022. The University is currently evaluating the impact of this guidance on the financial statements.

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(3) Liquidity and Availability

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

	<u>2023</u>	<u>2022</u>
Total assets	\$ 1,300,057,209	1,093,406,747
Less:		
Cash and cash equivalents not available within one year	(1,079,011)	(1,454,764)
Student accounts receivable not available within one year	(4,396,102)	(5,774,196)
Grants and other receivables not available within one year	(4,085,985)	(450,747)
Prepaid expenses and other assets	(6,252,919)	(4,487,391)
Contributions receivables not available within one year	(23,929,763)	(5,902,704)
Investments – endowment and other	(236,924,826)	(214,730,134)
Student loans receivable	(3,507,666)	(4,443,358)
Funds held by bond trustees	(1,650,467)	(1,529,178)
Right of use assets	(433,537,083)	(328,389,540)
Plant assets	<u>(499,685,923)</u>	<u>(459,811,430)</u>
	85,007,464	66,433,305
Available lines of credit	40,000,000	40,000,000
Investment return appropriated for spending in the following year	<u>8,152,000</u>	<u>7,200,000</u>
Total assets and other resources available within one year	<u>\$ 133,159,464</u>	<u>113,633,305</u>

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 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 reappropriate resources from the Board-designated endowment funds of \$13,073,161 and \$11,850,933, as of June 30, 2023 and 2022, respectively.

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 the entire amount is available as of June 30, 2023 and 2022, respectively.

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(4) Contributions Receivable

	<u>2023</u>	<u>2022</u>
Amounts expected to be collected in:		
Less than one year	\$ 7,624,096	2,480,172
One to five years	24,231,979	2,247,856
More than five years	<u>5,000,000</u>	<u>5,000,000</u>
	36,856,075	9,728,028
Less unamortized discount at rates from 0.15% to 4.66%	(4,383,525)	(1,478,505)
Less allowance for uncollectible amounts	<u>(740,545)</u>	<u>(320,186)</u>
	<u>\$ 31,732,005</u>	<u>7,929,337</u>

Included in contributions receivable at both June 30, 2023 and 2022 are outstanding pledges from four donors, which collectively represent approximately 90% and 65% 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:

	<u>2023</u>	<u>2022</u>
Pace Fund:		
Cash and cash equivalents	\$ 4,206,630	3,399,891
Common stocks	24,127,285	28,985,481
Mutual funds:		
Domestic equities	107,712,501	89,786,614
Exchange-traded funds:		
Domestic equities	<u>11,271,067</u>	<u>9,599,557</u>
Total exchange-traded funds	<u>11,271,067</u>	<u>9,599,557</u>
Commingled funds:		
Global equities (a)	40,285,210	36,388,712

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	<u>2023</u>	<u>2022</u>
Alternative investments:		
Long/short equity and credit (b)	\$ 2,427,965	2,030,582
Private equity (c)	38,296,414	36,203,991
Distressed (c)	124,184	113,948
Real assets (c)	<u>2,841,549</u>	<u>1,959,738</u>
Total alternative investments	<u>43,690,112</u>	<u>40,308,259</u>
Pace Fund total	<u>231,292,805</u>	<u>208,468,514</u>
Other investments:		
Cash and cash equivalents	141,733	1,211,284
Common stocks	555,132	769,845
Mutual funds:		
Domestic equities	1,786,142	1,625,681
International equities	290,926	238,792
Fixed income	<u>112,146</u>	<u>110,027</u>
Total mutual funds	<u>2,189,214</u>	<u>1,974,500</u>
Bonds:		
Domestic corporate bonds	1,929,524	1,900,289
Municipal bonds	<u>859,431</u>	<u>840,634</u>
Total bonds	<u>2,788,955</u>	<u>2,740,923</u>
Total other investments	<u>5,675,034</u>	<u>6,696,552</u>
Total investments	<u>\$ 236,967,839</u>	<u>215,165,066</u>

- (a) Includes investments in index funds, limited partnerships, limited liability corporations, and trust funds invested in public U.S. equities, international equities, and long/short positions in credit instruments, including bonds, loans, derivatives, and other debt securities.
- (b) Includes investments in limited partnerships and limited liability corporations invested in foreign-developed market equities and long/short positions in credit instruments, including bonds, loans, derivatives, and other debt securities.
- (c) Includes investment through limited partnerships in underlying private equity partnerships invested in debt securities, buyouts, real estate, venture capital, secondary markets, 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

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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, 2023, the Pace Fund had commitments of \$28,686,251 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, 2023. The University maintains sufficient liquidity in its portfolio to cover such calls.

The current endowment spending appropriation is 4.0% 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 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, \$7,637,154 and \$7,620,452 of investment return was made available for the years ended June 30, 2023 and 2022, 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 \$2,848,919 and \$121,510 in fiscal years 2023 and 2022, respectively.

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The Pace Fund contains various redemption restrictions with required notice periods. The following tables summarize the composition of such investments by redemption provision and notice period at June 30:

2023			
	Redemption provision	Notice period	Amount
Commingled funds	Daily	2 days	\$ 14,122,778
	Monthly	31 days	22,023,227
	Quarterly	60 days	4,139,205
Alternative investments:			
US Equity	Quarterly	45 days	2,427,965
Private equity partnerships (including distressed and real assets)	Illiquid		41,262,147
			<u>\$ 83,975,322</u>

2022			
	Redemption provision	Notice period	Amount
Commingled funds	Daily	2 days	\$ 13,909,724
	Monthly	31 days	18,353,114
	Quarterly	60 days	4,125,874
Alternative investments:			
Long/short equity and credit	Lockup		18
US Equity	Quarterly	45 days	2,030,564
Private equity partnerships (including distressed and real assets)	Illiquid		38,277,677
			<u>\$ 76,696,971</u>

(6) Endowment Funds

The University's endowment consists of 456 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.

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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):

	2023		
	Without donor restriction	With donor restriction	Total
Donor-restricted endowment	\$ —	219,331,215	219,331,215
Board-designated endowment	13,073,161	—	13,073,161
Total pooled endowment	13,073,161	219,331,215	232,404,376
Non-pooled investments	1,977,236	2,586,227	4,563,463
Total investments	\$ 15,050,397	221,917,442	236,967,839
	2022		
	Without donor restriction	With donor restriction	Total
Donor-restricted endowment	\$ —	198,585,885	198,585,885
Board-designated endowment	11,850,933	—	11,850,933
Total pooled endowment	11,850,933	198,585,885	210,436,818
Non-pooled investments	2,340,119	2,388,129	4,728,248
Total investments	\$ 14,191,052	200,974,014	215,165,066

Non-pooled (nonendowment) 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 \$2,043,917 of assets held under split-interest agreements, \$1,929,524 of a corporate bond, \$555,132 of corporate stocks, and \$34,890 of cash equivalents at June 30, 2023. Non-pooled investments include \$1,935,978 of assets held under split-interest agreements, \$1,900,289 of a corporate bond, \$769,845 of corporate stocks, and \$122,136 of cash equivalents at

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June 30, 2022. The changes in split-interest agreements during the year ended June 30, 2023 and 2022 include investment returns of \$166,155 and \$(180,953), respectively, and payment to beneficiaries of \$47,125 and \$37,739, respectively.

Included in donor-restricted endowments at June 30, 2023 and 2022 are \$13,588,905 and \$12,594,094, respectively, of net assets expendable only for projects for the Lubin School of Business approved by the donors or the donors' designee.

Changes in endowment assets for the year ended June 30, 2023 were as follows:

	Without donor restriction	With donor restriction	Total
Endowment at June 30, 2022	\$ 11,850,933	198,585,885	210,436,818
Investment return:			
Investment income	2,918,135	1,790,372	4,708,507
Net appreciation in fair value of investments	1,551,389	24,050,644	25,602,033
Total return on investment	4,469,524	25,841,016	30,310,540
Less appreciation on funds designated for construction and nonpooled investments	(2,848,919)	(144,351)	(2,993,270)
Total endowment return on investment	1,620,605	25,696,665	27,317,270
Contributions	97,606	2,156,868	2,254,474
Appropriation of endowment assets for expenditure	(495,983)	(7,141,171)	(7,637,154)
Other changes, including transfers	—	32,968	32,968
Endowment at June 30, 2023	\$ 13,073,161	219,331,215	232,404,376

Changes in endowment assets for the year ended June 30, 2022 were as follows:

	Without donor restriction	With donor restriction	Total
Endowment at June 30, 2021	\$ 13,895,168	236,719,979	250,615,147
Investment return:			
Investment income	297,373	899,096	1,196,469
Net appreciation in fair value of investments	(1,736,585)	(25,155,426)	(26,892,011)
Total return on investment	(1,439,212)	(24,256,330)	(25,695,542)

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	<u>Without donor restriction</u>	<u>With donor restriction</u>	<u>Total</u>
Less appreciation on funds designated for construction and nonpooled investments	\$ (121,510)	106,031	(15,479)
Total endowment return on investment	(1,560,722)	(24,150,299)	(25,711,021)
Contributions	6,000	6,341,980	6,347,980
Appropriation of endowment assets for expenditure	(489,513)	(7,130,939)	(7,620,452)
Other changes, including transfers	—	(13,194,836)	(13,194,836)
Endowment at June 30, 2022	<u>\$ 11,850,933</u>	<u>198,585,885</u>	<u>210,436,818</u>

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, 2023, 8 funds had deficiencies. The combined market value of these funds was \$3,914,229 and original gift value was \$4,102,708, leaving a deficiency of \$188,479. At June 30, 2022, 18 funds had deficiencies. The combined market value of these funds was \$13,249,005 and original gift value of \$14,788,049, leaving a deficiency of \$1,539,043.

(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, 2023 and 2022, investments designated for construction totaled \$57,858,062 and \$47,725,589, respectively. These investments include \$48,710,435 and \$41,818,093 of cash and cash equivalents as of June 30, 2023 and 2022, respectively, with the remaining balance invested in fixed-income securities (consisting of corporate bonds) with maturities of less than one year.

(8) Fair Value of Financial Instruments

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

		2023			
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:					
Cash and cash equivalents	\$	141,733	—	—	141,733
Common stocks		550,233	4,899	—	555,132

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					2023			
					<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds:								
Domestic equities	\$	1,786,142	—	—				1,786,142
International equities		290,926	—	—				290,926
Fixed income		112,146	—	—				112,146
Bonds		2,788,955	—	—				2,788,955
	\$	<u>5,670,135</u>	<u>4,899</u>	<u>—</u>				5,675,034
Investments measured at net asset value:								
Pace Fund								<u>231,292,805</u>
Total investments								\$ <u>236,967,839</u>
Funds held by bond trustees (note 11)	\$	1,650,467	—	—				1,650,467
Investments designated for construction (note 7)		57,858,062	—	—				57,858,062
					2022			
					<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:								
Cash and cash equivalents	\$	1,211,284	—	—				1,211,284
Common stocks		764,946	4,899	—				769,845
Mutual funds:								
Domestic equities		1,625,681	—	—				1,625,681
International equities		238,792	—	—				238,792
Fixed income		110,027	—	—				110,027
Bonds		2,740,923	—	—				2,740,923
	\$	<u>6,691,653</u>	<u>4,899</u>	<u>—</u>				6,696,552
Investments measured at net asset value:								
Pace Fund								<u>208,468,514</u>
Total investments								\$ <u>215,165,066</u>
Funds held by bond trustees (note 11)	\$	1,529,178	—	—				1,529,178
Investments designated for construction (note 7)		47,725,589	—	—				47,725,589

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There were no transfers between fair value hierarchy levels in 2023 and 2022.

(9) Plant Assets

Plant assets at June 30, 2023 and 2022 consist of the following:

	<u>2023</u>	<u>2022</u>
Land	\$ 12,453,325	12,453,325
Land improvements	1,508,920	1,508,920
Buildings, leaseholds, and improvements	563,390,492	557,929,080
Construction in progress	64,889,863	18,371,081
Furniture and equipment	121,637,838	114,957,072
Library books	<u>769,612</u>	<u>769,614</u>
Total	764,650,050	705,989,092
Less accumulated depreciation	<u>(264,964,127)</u>	<u>(246,177,662)</u>
	<u>\$ 499,685,923</u>	<u>459,811,430</u>

At June 30, 2023, construction commitments were approximately \$31.5 million.

Construction in progress primarily consists of amounts expended for the construction of the NY Master-Plan, which was partially funded by restricted contributions and excess operating cash, and therefore, no interest was capitalized for the years ended June 30, 2023 and 2022.

Included in buildings, leaseholds, and improvements as of June 30, 2023 and 2022 is \$16,226,522 relating to the Judicial Institute building (the Center) with accumulated depreciation of \$3,606,004 and \$3,425,441, respectively. The Center was constructed on the University's property and financed by \$16,105,000 Lease Revenue Bonds (the Bonds). The Center was leased to the Unified Court System (the System) as their continuing education training site and the Bonds were assigned to the System solely payable from rental payments by the System to the University. As a result of the assignment, the Bond payment were without recourse to the University and therefore the Bond proceeds and related obligation were not included in the financial statements.

(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 four-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. There were no amounts outstanding under the line of credit as of June 30, 2023 and 2022.

There was no interest on borrowing from the line of credit in fiscal year 2023 and 2022.

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(11) Long-Term Debt

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

	2023	2022
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 \$5,770,002 and \$6,076,376 and less unamortized prepaid bond issue costs of \$1,059,034 and \$1,115,267 at June 30, 2023 and 2022, respectively	\$ 63,470,969	68,701,109
Revenue Bonds, Pace University issue, \$19,670,000, Series 2013B, due serially to 2035, at a variable rate subject to weekly reset, less \$153,869 and \$166,872 unamortized prepaid bond issue costs at June 30, 2023 and 2022, respectively	12,886,131	13,678,128
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 \$397,226 and \$418,412 and unamortized prepaid bond issue costs of \$1,272,416 and \$1,339,385 at June 30, 2023 and 2022, respectively	83,995,358	83,907,203
Revenue Bonds, Pace University issue, \$14,925,000 Series 2014B, due serially to 2044 at a variable rate subject to weekly reset, less \$157,607 and \$166,010 unamortized prepaid bond issue costs at June 30, 2023 and 2022, respectively	14,767,392	14,758,990
Total long-term debt	\$ 175,119,850	181,045,430

Debt issuance costs of \$2,642,926 and \$2,787,534 are reported as a reduction of long-term debt on the Balance Sheets at June 30, 2023 and 2022, 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, 2023 and 2022, \$1,339,209 and \$1,340,326, respectively, of unexpended funds from these bonds was included in funds held by bond trustees in the Balance Sheets. These amounts were held in cash equivalents and invested in fixed-income securities (consisting of U.S. Treasury notes) with maturities of less than one year.

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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, 2023 and 2022, \$232,299 and \$161,680, respectively, was included in funds held by bond trustees in the Balance Sheets. These amounts were held in cash equivalents and invested in fixed-income securities (consisting of U.S. Treasury notes) with maturities of less than one year. 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 2023 for the Series 2013B Bonds was 4.2%. The range of rates in 2023 was 2.1% to 5.7%.

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, 2023 and 2022, there were no funds held by bond trustees in the Balance Sheets 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 and the bonds mature in 2044. The weighted average interest rate in 2023 for the Series 2014B Bonds was 3.1%. The range of rates in 2023 was 1.0% to 5.1%. At June 30, 2023 and 2022, \$78,959 and \$27,172, respectively, was included in funds held by bond trustees in the balance sheets and consisted of construction funds. These amounts were held in cash equivalents.

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, 2023 and 2022 were \$8,771,767 and \$8,088,959, 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, 2023 and 2022, the University was in compliance with its financial debt covenant requirements.

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(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:

	<u>DASNY Bonds</u>		<u>WCLDC Bonds</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
Year ending June 30:					
2024	\$ 6,070,000	3,345,756	—	5,046,175	14,461,931
2025	6,370,000	3,048,740	—	5,044,325	14,463,065
2026	6,685,000	2,738,551	—	5,045,250	14,468,801
2027	7,015,000	2,412,990	—	5,045,250	14,473,240
2028	7,355,000	2,072,356	—	5,046,175	14,473,531
2029 and thereafter	38,305,000	10,748,053	100,590,000	49,161,069	198,804,122

(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, 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, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 40,310,713	55,515,539
Service cost	74,893	139,898
Interest cost	1,857,243	1,430,929
Participants' contributions	611,892	596,354
Actuarial loss (gain) (A)	(3,373,162)	(14,447,145)
Benefits paid	(2,810,707)	(2,924,862)
Benefit obligation at end of year	<u>36,670,872</u>	<u>40,310,713</u>

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	<u>2023</u>	<u>2022</u>
Change in plan assets:		
Employer contribution	\$ 2,198,815	2,328,508
Plan participants' contributions	611,892	596,354
Benefits paid	<u>(2,810,707)</u>	<u>(2,924,862)</u>
Fair value of plan assets at end of year	<u>—</u>	<u>—</u>
Accrued postretirement health benefits obligation	<u>\$ 36,670,872</u>	<u>40,310,713</u>

(A) The actuarial gain in 2023 of \$3,373,162 was, primarily, the result of a year-end discount rate change from 4.80% to 5.45%. The actuarial gain in 2022 of \$14,447,145 was, primarily, the result of a year-end discount rate change from 2.85% to 4.80% resulting in a \$10.1 million gain and a decrease in claims resulting in a \$4.9 million savings.

The net periodic postretirement benefit credit includes the following components:

	<u>2023</u>	<u>2022</u>
Net periodic benefit cost (credit):		
Service cost	\$ 74,893	139,898
Interest cost	1,857,243	1,430,929
Amortization of prior service credit	(2,792,858)	(4,215,364)
Amortization of net loss	<u>—</u>	<u>599,927</u>
Total net periodic benefit credit	<u>\$ (860,722)</u>	<u>(2,044,610)</u>

The discount rates were as follows:

	<u>2023</u>	<u>2022</u>
Benefit obligation weighted average assumptions as of June 30, 2023 and 2022:		
Discount rate	5.45 %	4.80 %
Benefit cost weighted average assumptions for the years ended June 30, 2023 and 2022:		
Discount rate	4.80	2.85

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

	<u>2023</u>	<u>2022</u>
Actuarial net loss	\$ (3,373,162)	(14,447,145)
Amortization of prior service credit	2,792,858	4,215,364
Recognition of net (loss)/gain	<u>—</u>	<u>(599,927)</u>
	<u>\$ (580,304)</u>	<u>(10,831,708)</u>

As of June 30, 2023 and 2022, the items not yet recognized as net periodic postretirement benefit cost are as follows:

	<u>2023</u>	<u>2022</u>
Prior service credit	\$ (164,179)	(2,957,037)
Net loss/(gain)	<u>(5,246,096)</u>	<u>(1,872,934)</u>
	<u>\$ (5,410,275)</u>	<u>(4,829,971)</u>

The estimated prior service credit and net loss that will be amortized into net periodic benefit cost in 2024 are \$(164,179) and \$(250,239), respectively.

For measurement purposes, a 7.0% annual rate of increase in the medical per capita cost of covered healthcare benefits was assumed for the year ended June 30, 2023 and then decreasing to 4.5% by 2028 and remaining at that level thereafter. A 6.5% annual rate of increase was assumed for the year ended June 30, 2022 and then decreasing to 4.50% by 2026 and remaining at that level thereafter. The healthcare cost trend rate assumption has a significant effect on the accrual.

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

2024	\$ 2,953,698
2025	2,969,385
2026	2,935,427
2027	2,962,008
2028	2,828,492
2029 through 2033	13,368,511

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(14) 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.

On May 12, 2022, the plan administrator was notified by T. Rowe Price that they would not be able to comply with certain lifetime income requirement disclosure to participants. As a result, the plan administrator voted to terminate participant's accounts in the T. Rowe Price Fund by providing the participants to either transfer the assets into TIAA-CREF accounts or withdraw amounts in accordance with Internal Revenue Service regulations.

The University has made 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, 2023 and 2022 amounted to \$11,586,833 and \$11,374,237, respectively. In response to the COVID-19 pandemic, the University suspended the employer matching contributions to the defined-contribution retirement plan effective June 1, 2020. Effective April 1, 2021, the University reinstated the employer matching contribution and on July 1, 2021, fully reimbursed the plan participants for amounts previously suspended by contributing \$9.1 million to the plan.

(15) Net Assets with Donor Restrictions

Net assets with donor restrictions at June 30, 2023 and 2022 are available to support the following areas:

	<u>2023</u>	<u>2022</u>
Instruction	\$ 62,768,585	56,995,204
Research	2,023,310	1,879,389
Academic support	47,542,189	44,380,302
Student activities	4,913,819	4,589,686
Institutional support	13,185,224	11,728,629
Capital projects	4,428,574	4,846,889
Scholarships	111,063,294	95,315,587
Contributions receivable	20,728,062	3,226,628
Split-interest agreements	1,919,356	1,769,600
	<u>\$ 268,572,413</u>	<u>224,731,914</u>

Net assets of \$13,588,905 and \$12,594,094 as of June 30, 2023 and 2022, respectively, are available to support the Lubin School of Business, expendable only for projects approved by the donors or the donors' designee.

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Notes to Financial Statements

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(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 \$224,885,069 and \$214,515,973 for the years ended June 30, 2023 and 2022, respectively.

(17) Leases

The University is a lessee for numerous operating leases, primarily related to real estate. The vast majority of the University's operating leases have remaining lease terms of 22 years or less, some of which include options to extend the leases, and some of which include options to terminate the leases. The University generally does not include renewal or termination options in the assessment of the leases unless extension or termination for certain assets is deemed to be reasonably certain. The accounting for some of the leases may require judgment, which includes determining whether a contract contains a lease, determining the incremental borrowing rates to utilize in the net present value calculation of lease payments for lease agreements, which do not provide an implicit rate, and assessing the likelihood of renewal or termination options. The University also has lease agreements with lease and non-lease components, which are generally accounted for as a single lease component.

The following table summarizes the maturity of the Universities operating lease liabilities as of June 30, 2023:

	Active leases
Year ending June 30:	
2024	\$ 39,911,612
2025	41,884,743
2026	43,233,591
2027	35,799,475
2028	36,003,281
2029 and thereafter	863,951,656
Total	1,060,784,358
Less interest	537,672,892
	\$ 523,111,466

Lease costs and other related information for the year ended June 30, 2023 and 2022, respectively were as follows:

	2023	2022
Lease cost:		
Operating lease cost	\$ 45,975,867	41,543,533

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	2023	2022
Other information:		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 34,248,595	35,510,993
Weighted average remaining lease term (years):		
Operating leases	22.79	23.13
Weighted average discount rate:		
Operating leases	6.13 %	5.65 %

On January 1, 2020, the University entered into a lease agreement for a building to be constructed at 15 Beekman Street, New York, NY (the New Lease). The New Lease includes the construction of two components, an educational unit and a dormitory unit (collectively, the Units). The educational unit was delivered on December 5, 2022 and was recorded as a right to use asset of \$100,356,785 and an operating lease liability of \$116,107,883 on the Balance Sheet as of June 30, 2023. The dormitory unit did not meet the criteria to be recognized in 2023 and will be recognized in 2024 upon delivery (see note 21, *Subsequent Events* for details). The total expected lease payments for the dormitory lease under the terms of the lease agreement upon delivery are as follows:

Years after delivery:	
2024	\$ 5,685,706
2025	6,344,731
2026	6,503,350
2027	6,665,933
2028	6,832,582
2029 and thereafter	240,278,111
	\$ 272,310,413

The estimated present value of the lease payments under the New Lease for the dormitory unit using the University's estimated incremental borrowing rate as of June 30, 2023 is approximately \$97,365,579.

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Notes to Financial Statements

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(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 \$7,231,280 and \$6,097,903 for the years ended June 30, 2023 and 2022, respectively. For purposes of reporting fund-raising expenses, the University includes only those fundraising costs incurred by its development office.

(19) 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 No. 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, 2023 and 2022.

	2023						
	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	\$ 115,386,109	17,830,973	1,760,455	7,626,703	3,153,621	1,360,981	147,118,842
Research	1,815,246	754,674	1,038,134	466,769	199,125	77,240	4,351,188
Academic support	37,547,107	5,646,483	3,018,383	10,929,185	4,873,174	1,766,132	63,780,464
Student services	25,880,383	6,974,115	1,782,403	6,127,164	2,654,489	1,378,213	44,796,767
Institutional support	40,656,411	9,353,846	6,606,480	13,645,676	2,120,602	763,306	73,146,321
Auxiliary enterprises	2,868,177	21,326,827	338,859	48,297,205	6,141,389	3,285,316	82,257,773
Total	<u>\$ 224,153,433</u>	<u>61,886,918</u>	<u>14,544,714</u>	<u>87,092,702</u>	<u>19,142,400</u>	<u>8,631,188</u>	<u>415,451,355</u>

	2022						
	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	\$ 110,126,830	9,065,226	5,772,673	7,220,392	3,154,896	1,253,648	136,593,665
Research	1,324,652	589,441	1,119,045	419,487	199,205	71,198	3,723,028
Academic support	33,078,334	5,090,112	1,168,014	9,834,384	4,875,143	1,628,771	55,674,758
Student services	23,163,569	11,054,813	1,569,957	5,441,579	2,655,562	1,268,192	45,153,672
Institutional support	37,071,169	6,280,391	6,371,770	11,911,077	2,121,457	703,975	64,459,839
Auxiliary enterprises	2,441,104	20,281,009	181,249	47,285,265	6,143,871	3,022,594	79,355,092
Total	<u>\$ 207,205,658</u>	<u>52,360,992</u>	<u>16,182,708</u>	<u>82,112,184</u>	<u>19,150,134</u>	<u>7,948,378</u>	<u>384,960,054</u>

* Supplies, services, and other primarily consists of student meal plans, technology service contracts, travel, marketing and publications, graduate student assistantships, and, for 2022, awards to students under the CARES Act.

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

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(20) Contingency

The University is involved in various legal proceedings and claims arising in the normal course of business. Management of the University does not expect the ultimate resolution of these actions to have a material adverse effect on the University's financial position.

(21) Subsequent Events

The dormitory unit of the New Lease was delivered in fiscal 2024 on August 1, 2023 and was recorded as a right to use assets of \$96,357,807 and as operating lease liability of \$96,597,343 on the Balance Sheet.

In accordance with ASC Subtopic 855-10, *Subsequent Events*, the University evaluated subsequent events after the balance sheet date of June 30, 2023 through November 13, 2023, which was the date the financial statements were issued, and determined that there were no additional matters required to be disclosed.