KPMG

PACE UNIVERSITY

Financial Statements

June 30, 2010 and 2009

(With Independent Auditors' Report Thereon)

KPMG LLP
345 Park Avenue
New York, NY 10154

Independent Auditors' Report

The Board of Trustees
Pace University:

We have audited the accompanying balance sheets of Pace University (the University) as of June 30, 2010 and 2009, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pace University as of June 30, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

November 11, 2010

PACE UNIVERSITY

Balance Sheets

June 30, 2010 and 2009

Assets		**2010**	**2009**
Cash and cash equivalents	$	1,836,531	12,258,477
Short-term investments (note 6)		7,321,657	25,410,390
Student accounts receivable (net of allowance for doubtful accounts of $1,720,231 and $1,974,593 in 2010 and 2009, respectively)		4,213,647	5,701,636
Grants and other receivables		6,599,564	7,459,672
Prepaid expenses and other assets		8,019,161	8,744,734
Contributions receivable, net (note 3)		16,258,152	19,696,634
Investments (notes 4, 5, and 6)		104,579,683	95,198,783
Student loans receivable (net of allowance for doubtful accounts of $3,250,775 and $3,127,644 in 2010 and 2009, respectively)		13,679,816	13,864,122
Funds held by bond trustees, at fair value (notes 6 and 9)		14,163,367	12,969,294
Plant assets, net (note 7)		256,264,477	255,387,920
Total assets	$	432,936,055	456,691,662
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued liabilities (note 17)	$	28,915,519	29,263,260
Notes payable (note 8)		34,000,000	58,000,000
Fair value of derivative instrument (notes 6 and 9)		7,566,865	4,371,159
Deferred revenues and deposits		10,034,354	9,211,184
Long-term debt (notes 9 and 10)		122,521,035	126,143,056
Deferred rental revenue (note 11)		9,441,966	10,386,162
Asset retirement obligations (note 12)		3,463,323	3,493,479
Accrued postretirement benefit obligation (note 13)		74,669,821	59,626,574
U.S. government grants refundable		12,506,154	12,333,492
Total liabilities		303,119,037	312,828,366
Commitments and contingencies (notes 4, 8, 17, and 20)			
Net assets:			
Unrestricted:			
General		77,012,272	79,595,715
Accrued postretirement benefit obligation (note 13)		(74,669,821)	(59,626,574)
Total unrestricted		2,342,451	19,969,141
Temporarily restricted (note 15)		53,689,798	51,106,123
Permanently restricted (note 15)		73,784,769	72,788,032
Total net assets		129,817,018	143,863,296
Total liabilities and net assets	$	432,936,055	456,691,662

See accompanying notes to financial statements.

PACE UNIVERSITY

Statements of Activities

Years ended June 30, 2010 and 2009

	2010				2009			
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues:								
Tuition and fees, net (note 16)	$ 206,926,232	—	—	206,926,232	211,088,222	—	—	211,088,222
Government grants and contracts	9,743,592	—	—	9,743,592	9,269,853	—	—	9,269,853
State appropriations	1,040,023	—	—	1,040,023	1,081,481	—	—	1,081,481
Contributions	1,130,831	4,325,418	951,022	6,407,271	1,415,917	3,633,502	2,076,289	7,125,708
Investment return appropriated (note 4)	1,129,449	2,269,554	—	3,399,003	607,733	2,125,560	—	2,733,293
Sales and services of auxiliary enterprises	40,123,388	—	—	40,123,388	36,547,715	—	—	36,547,715
Other sources	6,398,669	—	2,920	6,401,589	6,437,433	—	2,504	6,439,937
Net assets released from restrictions	7,911,655	(7,911,655)	—	—	9,433,696	(9,433,696)	—	—
Total revenues	274,403,839	(1,316,683)	953,942	274,041,098	275,882,050	(3,674,634)	2,078,793	274,286,209
Expenses (notes 18 and 19):								
Instruction	112,499,784	—	—	112,499,784	110,531,668	—	—	110,531,668
Research	2,709,858	—	—	2,709,858	2,041,287	—	—	2,041,287
Academic support	42,715,317	—	—	42,715,317	42,091,936	—	—	42,091,936
Student services	37,397,974	—	—	37,397,974	38,373,736	—	—	38,373,736
Institutional support	39,666,345	—	—	39,666,345	42,517,212	—	—	42,517,212
Auxiliary enterprises	42,058,124	—	—	42,058,124	42,630,275	—	—	42,630,275
Total expenses	277,047,402	—	—	277,047,402	278,186,114	—	—	278,186,114
(Deficiency) excess of operating revenues over expenses	(2,643,563)	(1,316,683)	953,942	(3,006,304)	(2,304,064)	(3,674,634)	2,078,793	(3,899,905)
Nonoperating activities:								
Unrealized depreciation in fair value of derivative instrument (note 9)	(3,195,706)	—	—	(3,195,706)	(2,883,923)	—	—	(2,883,923)
Change in value of split-interest agreements	—	30,608	42,795	73,403	—	(38,996)	(81,465)	(120,461)
Investment return, net (note 4)	281,565	5,682,814	—	5,964,379	(2,247,661)	(27,520,024)	—	(29,767,685)
Effect of underwater endowments (note 4)	1,813,064	(1,813,064)	—	—	(8,399,404)	8,399,404	—	—
Investment return on funds held by bond trustees	19,537	—	—	19,537	143,414	—	—	143,414
Pension-related changes other than net periodic pension cost (note 13)	(13,901,587)	—	—	(13,901,587)	(4,260,729)	—	—	(4,260,729)
Write-off of unamortized debt issuance costs	—	—	—	—	(716,285)	—	—	(716,285)
	(14,983,127)	3,900,358	42,795	(11,039,974)	(18,364,588)	(19,159,616)	(81,465)	(37,605,669)
Change in net assets	(17,626,690)	2,583,675	996,737	(14,046,278)	(20,668,652)	(22,834,250)	1,997,328	(41,505,574)
Net assets at beginning of year	19,969,141	51,106,123	72,788,032	143,863,296	40,637,793	73,940,373	70,790,704	185,368,870
Net assets at end of year	$ 2,342,451	53,689,798	73,784,769	129,817,018	19,969,141	51,106,123	72,788,032	143,863,296

See accompanying notes to financial statements.

PACE UNIVERSITY

Statements of Cash Flows

Years ended June 30, 2010 and 2009

	2010	2009
Cash flows from operating activities:		
Change in net assets	$ (14,046,278)	(41,505,574)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net (appreciation) depreciation in fair value of investments	(7,804,548)	28,451,384
Investment return on funds held by bond trustee	(19,537)	(143,414)
Change in fair value of derivative instrument	3,195,706	2,883,923
Change in value of split-interest agreements	73,403	(120,461)
Pension-related changes other than net periodic pension cost	13,901,587	4,260,729
Allowance for student loans receivable	123,131	266,359
Deferred rental revenue	(944,196)	(944,196)
Depreciation	10,496,311	11,275,066
Amortization and write-off of unamortized debt issuance costs	262,997	1,184,185
Disposals and write-off of plant assets	174,798	14,457
Revenues restricted for permanent investment	(953,942)	(2,078,793)
Changes in operating assets and liabilities:		
Decrease in student accounts receivable, net	1,487,989	381,292
Decrease in grants and other receivables	860,108	1,236,498
Decrease (increase) in prepaid expenses and other assets	441,902	(270,341)
(Increase) decrease in contributions receivable, net	(126,437)	282,686
(Decrease) increase in accounts payable and accrued liabilities	(350,963)	776,099
Increase in deferred revenues and deposits	823,170	639,714
Increase in accrued postretirement benefit obligation	1,141,660	118,351
Increase (decrease) in U.S. government grants refundable	172,662	(180,713)
Net cash provided by operating activities	8,909,523	6,527,251
Cash flows from investing activities:		
Decrease in student loans receivable	61,175	161,598
Purchase of plant assets	(11,547,666)	(5,411,365)
Short-term investments, net	18,088,733	13,211,699
Purchase of investments	(28,706,320)	(21,190,114)
Proceeds from sale of investments	27,129,968	20,423,106
Net cash provided by investing activities	5,025,890	7,194,924
Cash flows from financing activities:		
Revenues and losses from contributions restricted for permanent investment	953,942	2,076,289
Decrease in contributions receivable restricted for permanent investment	2,721,977	1,861,041
Decrease in contributions receivable restricted for capital projects	842,942	330,242
Change in liabilities under split-interest agreements, net	(70,181)	83,817
(Decrease) increase in notes payable	(24,000,000)	58,000,000
Repayment of indebtedness	(3,631,503)	(64,917,774)
Increase in funds held by bond trustees	(1,174,536)	(1,288,012)
Net cash used in financing activities	(24,357,359)	(3,854,397)
Net (decrease) increase in cash and cash equivalents	(10,421,946)	9,867,778
Cash and cash equivalents at beginning of year	12,258,477	2,390,699
Cash and cash equivalents at end of year	$ 1,836,531	12,258,477
Supplemental disclosure:		
Interest paid	$ 8,151,458	11,504,743

See accompanying notes to financial statements.

(1) Nature of Operations

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

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

(2) Summary of Significant Accounting Policies

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

(a) Basis of Presentation

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

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

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

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

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

(b) Cash Equivalents and Short-Term Investments

The University considers all highly liquid debt instruments with maturities of three months or less at the time of purchase to be cash equivalents, except for those that are purchased by the University's investment managers as part of their long-term investment strategies.

The University classifies book overdrafts as an operating activity in the statements of cash flows.

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

(c) Government Grants and Contracts

Government grants and contracts are treated as exchange contracts and, accordingly, are reported as unrestricted revenue when expenses are incurred in accordance with contractual terms.

(d) Contributions

Contributions, including unconditional promises to give (pledges), are reported as revenues in the period received or pledged. Contributions with purpose or time restrictions are reported as increases in temporarily restricted net assets and are reclassified to unrestricted net assets when the purpose or time restrictions are met. Contributions subject to donor-imposed stipulations that the corpus be maintained permanently are recognized as increases in permanently restricted net assets.

Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. The University reports contributions of plant assets as increases in unrestricted net assets unless the donor places restrictions on their use. Contributions of cash or other assets that must be used to acquire or construct long-lived assets are reported as temporarily restricted net assets until the assets are placed in service. Contributions to be received after one year are discounted at a risk-adjusted rate. Amortization of the discount is recorded as additional contribution revenue in accordance with the donor-imposed restrictions, if any, on the contribution. An allowance is recorded for uncollectible contributions based on management's judgment, past collection experience, and other relevant factors.

(e) Split-Interest Agreements

The University's split-interest agreements with donors consist primarily of irrevocable charitable remainder trusts, for which the University serves as trustee, and charitable gift annuities. Assets associated with such split-interest agreements are included in investments. Contributions are recognized at the date the trusts are established or when funds are transferred from the donor to the University after recording liabilities for the present value of the estimated future payments to be made to the donors and/or other beneficiaries. The liabilities are adjusted annually for changes in the value of the assets, accretion of the discount, and other changes in the estimates of future benefits. Such adjustments are reflected as change in value of split-interest agreements in the accompanying financial statements.

(f) Plant Assets

Plant assets are stated as follows:

- Land and land improvements – at cost.
- Buildings, building improvements, and leasehold improvements – at cost.
- Furniture and equipment – at cost.
- Library books and collections – at nominal amount of $1 per volume.

(Continued)

Depreciation of plant assets is computed on a straight-line basis over their estimated useful lives. Depreciable lives of land improvements, buildings, building improvements, and leasehold improvements range from 5 years to 90 years and the depreciable lives of furniture and equipment range from 2 years to 20 years.

(g) Asset Retirement Obligations

Upon acquisition, and when reasonably estimable, the University recognizes the fair value of the liability related to the legal obligation to perform asset retirement activity on tangible long-lived assets.

(h) U.S. Government Grants Refundable

Funds provided by the U.S. Government under the Federal Perkins and Nursing Student Loan programs are loaned to qualified students and may be reloaned after collection. These funds are ultimately refundable to the Government and are presented in the accompanying balance sheets as a liability.

(i) Fair Value

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that a reporting entity has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

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

Most investments classified in Levels 2 and 3 consist of shares or units in investment funds as opposed to direct interests in the funds' underlying holdings, which may be marketable. Because the net asset value reported by each fund is used as a practical expedient to estimate fair value of the University's interest therein, its classification in Level 2 or 3 is based on the University's ability to redeem its interest at or near June 30. If the interest can be redeemed in the near term, the investment is classified as Level 2. The classification of investments in the fair value hierarchy is not necessarily an indication of the risks, liquidity, or degree of difficulty in estimating the fair value of each investment's underlying assets and liabilities.

(j) Accounting for Uncertainty in Income Taxes

The University recognizes the benefit of tax positions when it is more-likely-than-not that the position will be sustainable based on the merits of the position.

(k) Operations

The statement of activities distinguishes between operating and nonoperating activities. Nonoperating activities principally include investment return in excess of (or less than) amounts authorized for spending by the University's board of trustees, investment return on funds held by bond trustees, unrealized appreciation (depreciation) in fair value of derivative instruments, pension-related changes other than net periodic pension cost, and other nonrecurring transactions.

(l) Accounting Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates made in the preparation of these financial statements include the fair value of hedge funds and alternative investments, fair value of derivative instrument, accrued postretirement benefit obligation, allowance for student accounts and loans receivable, allowance for uncollectible contributions receivable, useful lives of plant assets, and asset retirement obligation. Actual results could differ from those estimates.

(m) Reclassifications

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

(3) Contributions Receivable

Unconditional promises to give are reported in the financial statements as contributions receivable and as revenue of the appropriate net asset class. Contributions receivable due more than one year from the date of the financial statements are recorded net of a discount to reflect the present value of future cash flows. Contributions receivable consist of the following at June 30, 2010 and 2009:

	2010	2009
Amounts expected to be collected in:		
Less than one year	$ 5,332,476	5,576,256
One to five years	7,383,748	11,241,375
More than five years	7,964,525	7,975,577
	20,680,749	24,793,208
Less discount to present value, from 1.26% to 5.15%	(3,611,925)	(3,947,057)
Less allowance for uncollectible amounts	(810,672)	(1,149,517)
	$ 16,258,152	19,696,634

Included in contributions receivable at June 30, 2010 and 2009 are outstanding pledges from four donors, which collectively represent approximately 77% and 78%, respectively, of total outstanding gross contributions receivable.

(4) Investments and Investment Return

Investments are carried at fair value based upon quoted market prices or net asset values provided by the University's external investment managers, if no quoted market prices exist.

The University invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the balance sheets.

The following table summarizes the composition of investments at June 30, 2010 and 2009:

	Fair value	
	2010	**2009**
Cash and cash equivalents	$ 2,185,760	4,602,831
Common stocks	825,761	616,141
Mutual funds	3,197,845	3,126,017
Equity and fixed income funds:		
Multi-strategy equity funds (a)	41,525,024	37,742,940
Small cap fund (b)	3,569,531	3,053,800
International equity funds (c)	13,274,210	9,827,416
Fixed income funds (d)	18,563,022	12,334,031
	76,931,787	62,958,187
Alternative investments:		
Hedged equity (e)	9,056,812	8,640,198
Private equity (f)	4,673,212	3,383,854
Distressed (g)	6,207,924	4,907,012
Real assets (h)	295,752	4,401,391
Absolute return (i)	327,846	1,728,858
	20,561,546	23,061,313
U.S. government bonds	79,014	73,252
Municipal bonds	797,970	761,042
	$ 104,579,683	95,198,783

Equity and fixed income funds and alternative investments represent limited partnerships and similar interests held by the University that follow a variety of investment strategies. Terms and conditions of these investments, including liquidity provisions, are different for each fund. Equity and fixed income funds have monthly liquidity, whereas alternative investments are either non-redeemable or can have limited liquidity. Individual investment holdings within equity and fixed income funds and alternative investments may be invested in both publicly traded securities and less liquid securities. The net asset values of equity and fixed income funds and alternative investments are reviewed and evaluated by management. Because equity and fixed income funds and alternative investments do not have readily determinable market values, the estimated value is subject to uncertainty and, therefore, may differ significantly from the values that would have been used had a ready market for those securities existed.

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

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

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

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

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

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

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

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

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

Investments include $1,304,467 and $1,209,572 of assets held under split-interest agreements at June 30, 2010 and 2009, respectively.

The University maintains an investment pool for certain investments. The pool is managed to achieve the maximum prudent long-term total return. The University's board of trustees has authorized a policy designed to preserve the value of these investments in real terms (after inflation) and provide a predictable flow of funds to support operations. This policy permits the use of total return (dividend and interest income and investment gains) at a rate (spending rate) of 5% of the quarterly three-year moving average fair value of the pooled investments. In accordance with the above spending rate, $2,552,602 and $2,417,771 of investment return was made available for the years ended June 30, 2010 and 2009, respectively, to support operations of the University. In addition, the University also utilized investment return from nonpooled investments, cash and cash equivalents and short term investments of $846,401 and $315,522 in fiscal years 2010 and 2009, respectively.

Under the terms of certain limited partnership agreements, the University is obligated to periodically advance additional funding for its limited partnership investments. At June 30, 2010, the University had commitments of $6,884,129 for which capital calls had not been exercised. This amount has not been recorded as a liability in the accompanying balance sheets. The University maintains sufficient liquidity in its portfolio to cover such calls.

The University's hedge funds and alternative investments contain various redemption restrictions with required notice periods. The following table summarizes the composition of such investments by redemption provision and notice period at June 30, 2010:

	Redemption provision	**Notice period**		**Amount**
Equity and fixed income funds				
	Monthly	5 days	$	65,956,405
		30 days		10,975,382
			$	76,931,787
Alternative investments:				
	Quarterly	90 days		9,056,812
	Lock-up	N/A	$	11,504,734
			$	20,561,546

The following summarizes the University's total investment return (excluding investment return on assets held under split-interest arrangements) and its classification in the financial statements for the years ended June 30, 2010 and 2009:

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

	2009			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Dividends and interest on investments (net of expenses of $389,315)	$ 579,525	837,467	—	1,416,992
Net depreciation in fair value of investments	(2,219,453)	(26,231,931)	—	(28,451,384)
Effect of underwater endowments	(8,399,404)	8,399,404	—	—
Total loss on investments	(10,039,332)	(16,995,060)	—	(27,034,392)
Investment return appropriated for operations	607,733	2,125,560	—	2,733,293
Total loss on investments net of amount appropriated for operations	$ (10,647,065)	(19,120,620)	—	(29,767,685)

(Continued)

(5) Endowment Funds

The University's endowment consists of approximately 360 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments (quasi endowments). As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Trustees of the University has interpreted the Uniform Management of Institutional Funds Act (UMIFA) and the New York State Trust Laws as requiring the preservation of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the University classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations of investment returns to the permanent endowment made in accordance with the direction of the applicable donor gift instrument, when applicable. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets to the extent the donor-restricted income earned on such endowments to a particular purpose or time, and in all other cases is classified as unrestricted net assets. Such amounts recorded as temporarily restricted net assets are released from restriction when the donor stipulated purpose has been fulfilled and/or the required time period has elapsed.

In 2006, the Uniform Law Commission approved the model act, Uniform Prudent Management of Institutional Funds Act (UPMIFA), which serves as a guideline to states to use in enacting legislation. Among UPMIFA's most significant changes is the elimination of UMIFA's important concept of historic dollar value threshold, the amount below which an organization could not spend from the fund in favor of a more robust set of guidelines about what constitutes prudent spending. On September 17, 2010, the State of New York enacted the *New York Prudent Management of Institutional Funds Act* (NYPMIFA). Per NYPMIFA, the portion of a donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until appropriated for expenditure. The University is currently evaluating the impact of NYPMIFA on the classification, management, and accounting for its endowment funds. The University does not expect it to have a significant effect on its financial position.

The following represents the University's endowment composition by type of fund as of June 30, 2010 and 2009 (excluding contributions receivable):

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

	2009			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Donor-restricted endowment	$ (8,399,404)	34,577,964	60,398,108	86,576,668
Board-designated endowment	6,413,126	—	—	6,413,126
Total pooled endowment	(1,986,278)	34,577,964	60,398,108	92,989,794
Nonpooled investments	614,957	1,471,851	122,181	2,208,989
Total investments	$ (1,371,321)	36,049,815	60,520,289	95,198,783

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

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

(Continued)

Changes in pooled endowment assets for the year ended June 30, 2009 were as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment at June 30, 2008	$ 8,660,787	53,718,926	56,456,434	118,836,147
Investment return:				
Investment income	579,525	837,467	—	1,416,992
Net depreciation in fair value of investments	(2,219,453)	(26,231,931)	—	(28,451,384)
Effect of underwater endowments	(8,399,404)	8,399,404	—	—
Total investment return	(10,039,332)	(16,995,060)	—	(27,034,392)
Less investment return on nonpooled investments	(315,522)	66,054	—	(249,468)
Total endowment investment return	(10,354,854)	(16,929,006)	—	(27,283,860)
Contributions	—	—	3,855,278	3,855,278
Appropriation of endowment assets for expenditure	(292,211)	(2,125,560)	—	(2,417,771)
Other changes, including transfers	—	(86,396)	86,396	—
Endowment at June 30, 2009	$ (1,986,278)	34,577,964	60,398,108	92,989,794

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UMIFA require to retain as a fund for perpetual duration. In accordance with GAAP, deficiencies of this nature would be reported in temporarily restricted net assets to the extent there are accumulated gains available to absorb such loss, or otherwise unrestricted net assets. There was a deficiency as of June 30, 2010 and 2009 of $6,586,340 and $8,399,404, respectively.

(6) Fair Value of Financial Instruments

The carrying amount of cash and cash equivalents, student accounts receivable, grants and other receivables, accounts payable and accrued liabilities, and notes payable approximates fair value because of the short maturity of these financial instruments. The fair value of investments is disclosed in note 3 and below. Contributions receivable are stated at their present value, which approximates fair value.

A reasonable estimate of the fair value of loans receivable from students under government loan programs could not be made because the notes are not salable and can only be assigned to the U.S. Government or its designees. The fair value of the loans receivable from students under the University's loan programs approximates carrying value.

The carrying amount of long-term debt approximates fair value because these financial instruments bear interest at various rates, which, when averaged, are not significantly different from current market rates for loans with similar maturities and credit quality.

The fair value of the derivative instrument is based upon inputs from current valuation information priced with observable market assumptions and appropriate valuation adjustments for credit risk. The valuation model adjusts each semiannual net cash flow by a credit spread depending on whether a net payment is due to the counterparty or due to the University. If the net payment was due to the counterparty, the rate used to adjust the net cash flow was a proxy curve for the University (a composite curve comprising U.S. dollar-denominated fair market curves with applicable ratings), minus the risk-free rate (LIBOR or the swap curve). If the net payment was due from the counterparty, the rate used to adjust the net cash flow was from the counterparty's 10-year credit default swap. The net cash flow for each payment was adjusted using the aforementioned rates (the credit adjustment) discounted for the appropriate time period from the valuation date via continuous compounding. The University has evaluated the valuation methodologies used to develop the fair values in order to determine whether such valuations are representative of an exit price. The University considered both its credit risk and counterparty credit risk in determining fair value and appropriate adjustments.

The following table presents financial instruments that are measured at fair value on a recurring basis within the fair value hierarchy as of June 30, 2010 and 2009:

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

	June 30, 2009			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets:				
Short-term investments	$ 20,065,808	—	5,344,582	25,410,390
Cash and cash equivalents	718,096	3,856,467	28,268	4,602,831
Common stocks	606,162	—	9,979	616,141
Mutual funds	3,126,017	—	—	3,126,017
Equity and fixed income funds:				
Multi-strategy equity funds	—	37,742,940	—	37,742,940
Small cap fund	—	3,053,800	—	3,053,800
International equity funds	—	9,827,416	—	9,827,416
Fixed income funds	—	12,334,031	—	12,334,031
Alternative investments:				
Hedged equity	—	—	8,640,198	8,640,198
Private equity	—	—	3,383,854	3,383,854
Distressed	—	—	4,907,012	4,907,012
Real assets	—	—	4,401,391	4,401,391
Absolute return	—	—	1,728,858	1,728,858
U.S. government bonds	73,252	—	—	73,252
Municipal bonds	761,042	—	—	761,042
Total investments	5,284,569	66,814,654	23,099,560	95,198,783
Funds held by bond trustee	12,969,294	—	—	12,969,294
Total assets	$ 38,319,671	66,814,654	28,444,142	133,578,467
Liabilities:				
Fair value of derivative instrument	$ —	4,371,159	—	4,371,159

While the University believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The following table presents a reconciliation for all Level 3 assets measured at fair value for the period July 1, 2009 to June 30, 2010.

		Level 3 assets
Financial assets:		
Balance at July 1, 2008	$	37,890,186
Transfers		39,487,712
Net depreciation in fair value		(10,231,122)
Purchases		12,992,359
Sales		(51,694,993)
Balance at June 30, 2009		28,444,142
Net depreciation in fair value		(1,899,581)
Transfers to Level 2		(8,640,198)
Purchases		881,956
Sales		(7,270,677)
Balance at June 30, 2010	$	11,515,642

(7) Plant Assets

Plant assets at June 30, 2010 and 2009 consist of the following:

		2010	2009
Land	$	11,285,093	11,285,093
Land improvements		6,181,935	6,181,935
Buildings and building improvements		294,043,329	293,323,478
Construction in progress		10,007,636	2,288,929
Furniture and equipment		70,722,386	67,826,901
Library books		943,169	961,665
Total		393,183,548	381,868,001
Less accumulated depreciation		(136,919,071)	(126,480,081)
	$	256,264,477	255,387,920

Included in buildings and building improvements at June 30, 2010 and 2009 is $16,226,522 relating to a building received in exchange for use of land. See note 11 for a discussion on the Judicial Training Institute. Additionally, included in furniture and equipment at June 30 2009 is telephone equipment under capital leases of $1,862,573.

(Continued)

(8) Notes Payable

On December 31, 2008, the University established a $60,880,000 drawdown note with a financial institution bearing interest at the one-month adjusted London Interbank Offered Rate (LIBOR) as defined in the Trust Indenture. The initial term on the drawdown note is through July 1, 2013 with a University renewal option through July 1, 2017. The amount of the drawdown note decreases annually throughout the initial and option terms (available amounts reduced to $55,465,000 and $48,240,000 on July 1, 2012 and July 1, 2016, respectively). The University is required to be out of the line for at least one 7-day period each year. The outstanding balance and unused portion under this facility as of June 30, 2010 were $34,000,000 and $25,665,000, respectively. The outstanding balance and unused portion under this facility as of June 30, 2009 were $58,000,000 and $2,880,000, respectively. During 2010 and 2009, interest and fees on borrowings under this facility amounted to $654,561 and $347,627, respectively. The range of interest rates in the amounts outstanding in 2010 and 2009 was 2.2% – 2.4% and 2.3% – 2.5%, respectively.

(9) Long-Term Debt

Long-term debt at June 30, 2010 and 2009 consists of the following:

	2010	2009
Long-term debt of the Dormitory Authority of the State of New York (DASNY or the Authority):		
Revenue Bonds, Pace University issue, $73,975,000, Series 2005A, due serially to 2029 at a variable rate subject to weekly reset in the auction market	$ 73,675,000	73,975,000
Revenue Bonds, Pace University issue, $42,500,000, Series 2005B, due serially to 2035, at a variable rate subject to weekly reset in the auction market	40,950,000	41,750,000
Revenue Bonds, Pace University issue, $26,075,000, Series 2000, due serially to 2029 at interest rates ranging from 4.75% to 5.88% per annum, plus unamortized original issue premium	1,921,541	2,499,812
Revenue Bonds, Pace University issue, $60,000,000, Series 1997, due serially to 2026 at interest rates ranging from 5.00% to 5.75% per annum, net of unamortized original issue discount	5,264,494	6,806,741
Other debt	710,000	1,111,503
Total long-term debt	$ 122,521,035	126,143,056

The Series 2005A insured revenue bonds were issued on June 1, 2005 to (i) refund a portion of the DASNY Pace University Insured Revenue Bonds, Series 1997 and Series 2000, (ii) fund the debt service reserve fund for the Series 2005A bonds, and (iii) pay the costs of issuance of the Series 2005A bonds. At June 30, 2010 and 2009, $4,807,168 and $4,208,950, respectively, of debt service reserve funds were included in funds held by bond trustees. These bonds are variable rate securities in which the coupon is reset each week by a remarketing agent. The interest rate is capped in the governing agreements at 15.0%.

The weighted average interest rate in 2010 and 2009 for Series 2005A was 3.5% and 5.4%, respectively. The range of rates in 2010 and 2009 was 2.4% – 4.1% and 3.8% – 10.6%, respectively.

In May 2005, the University entered into a floating-to-fixed-rate swap agreement (the Derivative Instrument) as a hedge on a portion of its DASNY Series 2005A insured revenue bonds. Under the Derivative Instrument, on a monthly settlement, the University receives 59.000% of one-month LIBOR plus 32 basis points (0.530% and 0.510% at June 30, 2010 and 2009, respectively) and pays a fixed rate of 3.428% effective October 15, 2009 (3.303% prior to that date) on the remaining notional amount ($73,675,000 and $73,975,000 as of June 30, 2010 and 2009, respectively) through June 2029. The University has the option to terminate the Derivative Instrument at its discretion. A payment will either be received or paid by the University depending on the long-term interest rate environment at the time of termination. The counterparty has the option to terminate the Derivative Instrument if the University is downgraded below certain ratings. The fair value of the Derivative Instrument was a liability of $7,566,865 and $4,371,159 at June 30, 2010 and 2009, respectively, and is reflected in the accompanying balance sheets as fair value of Derivative Instrument. The accompanying 2010 and 2009 statements of activities reflect the unrealized depreciation in fair value of Derivative Instrument of $3,195,706 and $2,883,923, respectively.

The Series 2005B insured revenue bonds were issued to fund the cost of a surety bond for the debt service reserve fund for the Series 2005B bonds, pay the cost of issuance of the Series 2005B bonds, and refinance certain indebtedness of the University incurred to pay for various capital improvement projects. At June 30, 2010 and 2009, $1,025,044 and $1,070,520, respectively, of debt service funds were included in funds held by bond trustees. Similar to Series 2005A, these bonds are variable rate securities that are subject to a weekly remarketing process with a cap of 20.0%. The weighted average interest rate in 2010 and 2009 for Series 2005B was 4.6% and 7.7%, respectively. The range of rates in 2010 and 2009 was 3.9% – 5.8% and 5.9% – 11.0%, respectively.

On July 28, 2008, the University was notified by the Trustee for the Series 2005 Insured Revenue Bonds that it was required to deposit collateral with the Trustee, as a result of a rating agency’s downgrade of the bond insurer’s financial strength rating on June 19, 2008. Collateral in the amount of $2,769,250 is required to be deposited with the Trustee in semi-annual payments of $276,925 over a five-year period to fund the Debt Service Reserve Fund, replacing the Surety Bond. The first of the 10 payments was made to the Trustee on August 14, 2008 (for $276,925). The ongoing semi-annual payments are made in each January and July. As of June 30, 2010 and 2009, $1,384,625 and $553,850, respectively, was deposited with the Trustee, and is included in funds held by bond trustees in the accompanying balance sheets.

The Series 2000 Revenue Bonds payable to the Authority were issued to finance the acquisition and renovation of a 15-story building located in lower Manhattan. The 76,000-square-foot building is being used by the University for student and staff housing and other related activities. Under the Series 2000 bond agreement, the University maintains a debt service reserve fund on deposit with a trustee. At June 30, 2010 and 2009, $1,374,671 and $1,372,492, respectively, of debt service reserve funds were included in funds held by bond trustees.

The Series 1997 Revenue Bonds payable to the Authority were issued to finance various projects and retire other indebtedness of the University. Under the Series 1997 bond agreement, the University maintains a debt service reserve fund on deposit with a trustee. At June 30, 2010 and 2009, $3,858,406 and $3,838,294, respectively, of debt service reserve funds and $1,650,745 and $1,834,026, respectively, of building and equipment reserve funds were included in funds held by bond trustees.

The Series 1997, 2000, 2005A, and 2005B Revenue Bonds are secured by mortgages on certain of the University's properties, security interest in certain fixtures, furnishings, and equipment, and pledges of revenues limited in each year to the greatest amount payable to the Authority in any bond year for the principal.

Interest and fees incurred for the years ended June 30, 2010 and 2009 was $7,518,848 and $11,003,851, respectively.

Financial Covenants DASNY Series 2005

Pursuant to the June 1, 2005 loan agreements related to the DASNY Series 2005 insured revenue bonds, the University is required to adhere to certain financial covenants regarding Maximum Annual Debt Service, as defined, and the maintenance of Unrestricted Investments, as defined, and limiting the University's right to incur any additional indebtedness without consent from DASNY and the bond insurer.

The University must maintain debt service (interest on all outstanding indebtedness and principal on all outstanding long-term indebtedness) at or below 6% of annual Unrestricted Gross Revenues, as defined.

The University must maintain a level of Unrestricted Investments, as defined (as adjusted for market fluctuation) divided by Outstanding Indebtedness, as defined, equal to (i) at least 27.5% as of each June 30 and December 31 occurring from January 1, 2008 through December 31, 2010; and (ii) at least 30.0% as of each June 30 and December 31 occurring subsequent to December 31, 2010. Unrestricted Investments, as defined, for the years ended June 30, 2010 and 2009 were:

		2010	2009
Investments and short-term investments	$	111,901,340	120,609,173
Permanently restricted net assets		(73,784,769)	(72,788,032)
Contributions receivable – permanently restricted		9,115,421	11,837,398
Market fluctuation adjustment		4,396,544	2,592,284
Total unrestricted investments	$	51,628,536	62,250,823

(10) Debt Service – Long-Term Debt

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

	Long-term debt to DASNY	Bonds payable to HUD	Total
Year ending June 30:			
2011	$ 3,985,000	144,000	4,129,000
2012	4,200,000	89,000	4,289,000
2013	4,395,000	91,000	4,486,000
2014	4,650,000	92,000	4,742,000
2015	4,825,000	93,000	4,918,000

(11) Judicial Training Institute

On April 5, 2000, the University entered into a loan agreement with the Authority for the issuance of up to $17,500,000 State Judicial Institute at Pace University Insured Lease Revenue Bonds, Series 2000 (the Bonds) dated July 1, 2000. In July 2000, bonds with a face value of $16,105,000 plus accrued interest were issued. Proceeds from the Bonds were used to finance the construction of a judicial training facility on the University's White Plains campus to serve as the New York State Judicial Training Institute (the Institute). The Institute was established to serve as a statewide center for continuing education, training, and research for all judges and justices of the Unified Court System (the System). The bonds are due serially through 2020 at interest rates ranging from 4.5% to 5.5% per annum with interest payable every October 1 and principal, sinking fund installments, and interest payable every April 1. These bonds are solely payable from certain revenues, funds, and assets pledged by the System as security for the payment thereof, including certain rental payments to be made by the System to the University pursuant to an agreement of sublease, also dated April 5, 2000, in amounts sufficient to pay the principal, sinking fund installments, and interest on the bonds. Payments to be made under the sublease have been assigned to the Authority pursuant to an assignment of sublease and rent agreement, dated April 5, 2000, between the University and the Authority that requires the System to make payments to the Authority by March 31 of each year. The loan agreement between the Authority and the University is without recourse to the University and the University's obligation thereunder on account of payments due on the Series 2000 Bonds are payable solely from the aforesaid rental payments as received under the sublease with the System. The obligation of the System to make payments of rent under the sublease is subject to annual appropriations by the State of New York for such purpose. The bond proceeds and related obligation are not included in the accompanying financial statements.

The University recorded the value $16,208,704 of the building as deferred rental revenue. The deferred rental revenue will be recognized on a straight-line basis over the life of the land lease, May 1, 2003 through June 30, 2020. At June 30, 2010 and 2009, $9,441,966 and $10,386,162, respectively, of deferred rental revenue was included in the accompanying balance sheets. For each of the years ended June 30, 2010 and 2009, $944,196 was recognized as rental revenue and is included in other sources in the accompanying statements of activities.

(12) Asset Retirement Obligations

The University has recorded conditional asset retirement obligations primarily for removal and/or abatement of certain building asbestos. Asset retirement obligations at June 30, 2010 and 2009 amounted to $3,463,323 and $3,493,479, respectively.

(13) Postretirement Benefits Other than Pensions

The University sponsors a plan to provide certain healthcare and life insurance benefits for qualified retirees. The University's employees may become eligible for these benefits if they retire while working for the University. Benefits and eligibility may be modified from time to time. In accordance with the 2001 plan amendment, postretirement healthcare and life insurance benefits coverage for employees hired after October 1, 2000 has been eliminated.

The University reports the funded status of its postretirement plans on its balance sheets. The following provides a summary of this unfunded plan as of June 30, 2010 and 2009:

		2010	2009
Change in benefit obligation:			
Benefit obligation at beginning of year	$	59,626,574	55,247,494
Service cost		578,090	539,874
Interest cost		4,173,733	3,985,652
Plan participant's contributions		425,150	140,000
Actuarial loss		12,492,534	2,578,457
Benefits paid		(2,760,013)	(3,003,454)
Subsidies paid		133,753	138,551
Benefit obligation at end of year		74,669,821	59,626,574
Change in plan assets:			
Employer contribution		2,201,110	2,724,903
Plan participant's contributions		425,150	140,000
Benefits paid		(2,760,013)	(3,003,454)
Subsidies received		133,753	138,551
Fair value of plan assets at end of year		—	—
Accrued postretirement benefit obligation	$	74,669,821	59,626,574

The net periodic postretirement benefit expense for 2010 and 2009 includes the following components:

		2010	2009
Net periodic benefit cost:			
Service cost	$	578,090	539,874
Interest cost		4,173,733	3,985,652
Amortization of prior service credit		(1,726,954)	(1,726,954)
Amortization of net loss		317,901	44,682
Total net periodic benefit cost	$	3,342,770	2,843,254

The discount rates for 2010 and 2009 were as follows:

	2010	2009
Benefit obligation weighted average assumptions as of June 30, 2010 and 2009:		
Discount rate	5.50%	7.00%
Benefit cost weighted average assumptions for the years ended June 30, 2010 and 2009:		
Discount rate	7.00%	7.25%

Other changes in postretirement benefit obligations recognized in unrestricted net assets for 2010 and 2009 include the following components:

		2010	2009
Actuarial net loss	$	12,492,534	2,578,457
Amortization of prior service cost		1,726,954	1,726,954
Amortization of net loss		(317,901)	(44,682)
	$	13,901,587	4,260,729

As of June 30, 2010 and 2009, the items not yet recognized as net periodic postretirement benefit cost are as follows:

		2010	2009
Prior service credit	$	(5,158,941)	(6,885,895)
Net loss		19,541,336	7,366,703
	$	14,382,395	480,808

The estimated prior service credit and net loss that will be amortized into net periodic benefit cost in 2011 are $(1,726,954) and $1,311,005, respectively.

(Continued)

For measurement purposes, an 8.00% annual rate of increase in the medical per capita cost of covered healthcare benefits was assumed for pre-age and post-age 65 coverage for the year ended June 30, 2010, decreasing to 4.50% in 2017 and remaining at that level thereafter. The healthcare cost trend rate assumption has a significant effect on the accrual. A 1.00% increase in the rate translates to an increase in the accumulated postretirement benefit obligation and service and interest cost of $9,765,785 and $607,304, respectively, in 2010. A 1.00% decrease in the rate translates to a decrease in the accumulated postretirement benefit obligation and service and interest cost of $8,044,410 and $499,904, respectively, in 2010.

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
2011	$	3,993,050	311,983	3,681,067
2012		4,314,301	346,704	3,967,597
2013		4,560,539	384,017	4,176,522
2014		4,801,023	419,056	4,381,967
2015		4,924,670	431,582	4,493,088
2016 through 2020		27,131,940	2,482,156	24,649,784

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 is reflected assuming that the University will continue to provide a prescription drug benefit to plan participants that is at least actuarially equivalent to Medicare Part D.

The recently approved healthcare reform law could have significant accounting consequences for entities in diverse industries. Specifically, there are several provisions in the new law that might affect the University's measurement of its postretirement healthcare benefits obligation. It is too early at this stage to measure the impact of some of these provisions on University's obligations, especially since related regulations on how such provisions would be applied have yet to be drafted. The University will continue to monitor developments, interpretations, and guidance relating to the law.

(14) Defined Contribution Retirement Plans

The University has defined contribution retirement plans with Teachers' Insurance and Annuity Association of America and College Retirement Equities Fund, Fidelity Investments, and T. Rowe Price, which cover substantially all full-time employees. 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, 2010 and 2009 amounted to $8,492,863 and $8,085,923, respectively.

(15) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets at June 30, 2010 and 2009 are available to support the following areas:

	2010	2009
Instruction	$ 18,178,030	15,015,587
Research	178,035	632,800
Academic support	14,988,660	15,612,334
Student activities	655,143	578,588
Institutional support	5,096,813	4,427,580
Capital projects	3,054,489	1,924,951
Scholarships	4,141,545	4,609,907
Contributions receivable	6,718,779	7,662,993
Split-interest agreements	678,304	641,383
	$ 53,689,798	51,106,123

Certain temporarily restricted net assets available to support the Lubin School of Business are expendable only for projects approved by the donor’s designee.

Permanently restricted net assets at June 30, 2010 and 2009 are restricted to investment in perpetuity, with investment return principally available to support scholarships and fellowships, academic programs, academic chairs, and capital improvements.

(16) Scholarships and Fellowships

Tuition and fees are presented net of amounts awarded to students to defray their cost of attending the University. The amount awarded totaled $114,576,505 and $83,946,704 for the years ended June 30, 2010 and 2009, respectively.

(17) Operating Leases

The University leases office, student housing, and classroom space under several lease agreements expiring at various dates through October 31, 2021. The minimum annual rentals in connection with such leases are as follows:

	Amount
Year ending June 30:	
2011	$ 17,035,071
2012	15,530,554
2013	12,262,406
2014	12,273,629
2015	12,273,629
2016 and thereafter	45,817,002
	$ 115,192,291

Total rental expense for the years ended June 30, 2010 and 2009 was $22,036,991 and $21,531,525, respectively. Included in accounts payable and accrued liabilities is a deferred rent obligation of $4,183,705 and $3,913,450 at June 30, 2010 and 2009, respectively, which represents straight-lining the total minimum lease payments over the lease terms.

(18) Expenses

Expenses are reported in the statements of activities in categories recommended by the National Association of College and University Business Officers. The University's primary program services are instruction and research. Expenses reported as academic support, student services, and auxiliary enterprises are incurred in support of these primary program services. Institutional support includes fund-raising expenses of $3,538,652 and $3,585,477 for the years ended June 30, 2010 and 2009, respectively. For purposes of reporting fund-raising expenses, the University includes only those fund-raising costs incurred by its Philanthropy office.

(19) Allocation of Certain Expenses

The University allocates operation and maintenance of plant, depreciation, and interest and other debt-related expenses based upon building square footage and the use of each facility. For the year ended June 30, 2010 (with comparative totals for 2009), the following allocation of expenses was included in the accompanying statements of activities:

	Allocated expenses				
	Operation and maintenance of plant	Depreciation	Interest and other debt-related expenses	Direct expenses	Total per statement of activities
Instruction	$ 5,139,209	1,812,465	1,175,684	104,372,426	112,499,784
Research	391,742	138,157	50,169	2,129,790	2,709,858
Academic support	7,479,746	2,637,911	957,912	31,639,748	42,715,317
Student services	4,677,916	1,649,778	1,641,525	29,428,755	37,397,974
Institutional support	3,096,270	1,091,973	1,059,279	34,418,823	39,666,345
Auxiliary enterprises	8,977,210	3,166,027	3,582,014	26,332,873	42,058,124
Total 2010	$ 29,762,093	10,496,311	8,466,583	228,322,415	277,047,402
Total 2009	$ 29,551,871	11,275,066	11,644,981	225,714,196	278,186,114

(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.

(Continued)

(21) Subsequent Events

In accordance with ASC Subtopic 855-10, *Subsequent Events*, which was adopted in 2009, the University evaluated subsequent events after the balance sheet date of June 30, 2010 through November 11, 2010, which was the date the financial statements were issued and determined that there were no additional matters that are required to be disclosed.