PACE UNIVERSITY

Financial Statements

June 30, 2014 and 2013

(With Independent Auditors' Report Thereon)

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

Independent Auditors' Report

The Board of Trustees
Pace University:

We have audited the accompanying financial statements of Pace University (the University), which comprise of the balance sheets as of June 30, 2014 and 2013, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pace University as of June 30, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

KPMG LLP

November 11, 2014

PACE UNIVERSITY

Balance Sheets

June 30, 2014 and 2013

Assets	**2014**	**2013**
Cash and cash equivalents	$ 11,183,992	14,894,949
Short-term investments (note 6)	—	3,526,053
Student accounts receivable (net of allowance for doubtful accounts of $2,412,058 and $2,698,408 in 2014 and 2013, respectively)	7,742,906	7,311,958
Grants and other receivables	4,218,254	4,622,087
Prepaid expenses and other assets	6,691,329	4,856,146
Contributions receivable, net (note 3)	7,740,731	8,956,396
Investments (notes 4, 5, and 6)	159,796,251	139,871,214
Student loans receivable (net of allowance for doubtful accounts of $4,182,148 and $3,921,353 in 2014 and 2013, respectively)	12,882,717	13,146,825
Funds held by bond trustees, at fair value (notes 6 and 9)	101,234,305	11,341,754
Plant assets, net (note 7)	281,647,487	269,309,259
Total assets	$ 593,137,972	477,836,641
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued liabilities (note 17)	$ 46,078,534	36,756,619
Notes payable (note 8)	15,000,000	34,000,000
Deferred revenues and deposits	18,312,485	13,764,323
Long-term debt (notes 9 and 10)	220,599,455	124,539,721
Deferred rental revenue (note 11)	5,665,178	6,609,378
Asset retirement obligations (note 12)	3,448,995	3,458,197
Accrued postretirement health benefits obligation (note 13)	86,837,887	85,162,816
U.S. government grants refundable	12,841,700	12,725,794
Total liabilities	408,784,234	317,016,848
Commitments and contingencies (notes 4, 8, 17, and 20)		
Net assets (note 5):		
Unrestricted:		
General	96,780,366	94,027,400
Accrued postretirement health benefits obligation	(86,837,887)	(85,162,816)
Total unrestricted	9,942,479	8,864,584
Temporarily restricted (note 15)	95,910,910	74,961,052
Permanently restricted (note 15)	78,500,349	76,994,157
Total net assets	184,353,738	160,819,793
Total liabilities and net assets	$ 593,137,972	477,836,641

See accompanying notes to financial statements.

PACE UNIVERSITY

Statements of Activities

Years ended June 30, 2014 and 2013

	2014				2013			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**	**Unrestricted**	**Temporarily restricted**	**Permanently restricted**	**Total**
Revenues:								
Tuition and fees, net (note 16)	$ 250,760,451	—	—	250,760,451	247,238,494	—	—	247,238,494
Government grants and contracts	6,867,895	—	—	6,867,895	8,203,642	—	—	8,203,642
State appropriations	853,563	—	—	853,563	806,235	—	—	806,235
Contributions	1,045,056	6,504,375	1,484,961	9,034,392	912,058	6,826,323	101,837	7,840,218
Investment return appropriated (note 4)	427,047	4,081,236	—	4,508,283	287,982	2,980,232	—	3,268,214
Sales and services of auxiliary enterprises	53,474,811	—	—	53,474,811	49,540,045	—	—	49,540,045
Other sources	9,128,501	—	102	9,128,603	9,461,098	—	124	9,461,222
Net assets released from restrictions	8,789,943	(8,789,943)	—	—	8,238,981	(8,238,981)	—	—
Total revenues	331,347,267	1,795,668	1,485,063	334,627,998	324,688,535	1,567,574	101,961	326,358,070
Expenses (notes 18 and 19):								
Instruction	129,308,433	—	—	129,308,433	125,412,697	—	—	125,412,697
Research	4,644,621	—	—	4,644,621	3,999,298	—	—	3,999,298
Academic support	48,705,995	—	—	48,705,995	46,439,128	—	—	46,439,128
Student services	44,004,726	—	—	44,004,726	42,058,739	—	—	42,058,739
Institutional support	50,347,428	—	—	50,347,428	54,690,550	—	—	54,690,550
Auxiliary enterprises	54,606,406	—	—	54,606,406	49,940,888	—	—	49,940,888
Total expenses	331,617,609	—	—	331,617,609	322,541,300	—	—	322,541,300
Excess (deficiency) of operating revenues over expenses	(270,342)	1,795,668	1,485,063	3,010,389	2,147,235	1,567,574	101,961	3,816,770
Nonoperating activities:								
Realized and unrealized gain in fair value of derivative instrument	—	—	—	—	1,829,896	—	—	1,829,896
Investment return, net (note 4)	1,109,159	19,754,731	—	20,863,890	666,401	12,827,441	—	13,493,842
Effect of underwater endowments (note 4)	693,738	(693,738)	—	—	2,513,472	(2,513,472)	—	—
Changes in postretirement health benefits obligation			—					
other than net periodic cost (note 13)	(239,831)	—	—	(239,831)	5,646,016	—	—	5,646,016
Loss on refunding of long term debt	—	—	—	—	(4,322,084)	—	—	(4,322,084)
Other	(214,829)	93,197	21,129	(100,503)	(256,916)	26,959	26,227	(203,730)
	1,348,237	19,154,190	21,129	20,523,556	6,076,785	10,340,928	26,227	16,443,940
Change in net assets	1,077,895	20,949,858	1,506,192	23,533,945	8,224,020	11,908,502	128,188	20,260,710
Net assets at beginning of year	8,864,584	74,961,052	76,994,157	160,819,793	640,564	63,052,550	76,865,969	140,559,083
Net assets at end of year	$ 9,942,479	95,910,910	78,500,349	184,353,738	8,864,584	74,961,052	76,994,157	160,819,793

See accompanying notes to financial statements.

PACE UNIVERSITY

Statements of Cash Flows

Years ended June 30, 2014 and 2013

		2014	2013
Cash flows from operating activities:			
Change in net assets	$	23,533,945	20,260,710
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Net appreciation in fair value of investments		(23,776,083)	(14,842,284)
Net appreciation in fair value of investments in split interest agreement		(85,749)	—
Investment return on funds held by bond trustee		342,573	19,904
Realized and unrealized gain in fair value of derivative instrument		—	(1,829,896)
Loss on refunding of long-term debt		—	4,322,084
Change in value of split-interest agreements		114,326	53,186
Changes in postretirement health benefits obligation other than net periodic cost		239,831	(5,646,016)
Allowance for student loans receivable		260,795	325,111
Deferred rental revenue		(944,200)	(944,196)
Depreciation		12,123,202	10,351,772
Amortization of bond issuance costs and bond premium		(212,998)	77,120
Revenues restricted for permanent investment and capital		(2,895,033)	(212,059)
Changes in operating assets and liabilities:			
Increase in student accounts receivable, net		(430,948)	(317,738)
Decrease in grants and other receivables		403,833	819,653
Decrease in prepaid expenses and other assets		203,950	1,949,055
Decrease (increase) in contributions receivable, net		713,335	(192,777)
Increase in noncapital accounts payable and accrued liabilities		6,092,596	3,143,773
(Decrease) increase in the asset retirement obligation		(9,202)	79,826
Increase in deferred revenues and deposits		4,548,162	3,334,152
Increase in accrued postretirement health benefits obligation		1,435,240	2,789,853
Increase in U.S. government grants refundable		115,906	175,491
Net cash provided by operating activities		21,773,481	23,716,724
Cash flows from investing activities:			
Decrease (increase) in student loans receivable		3,313	(124,088)
Purchase of plant assets		(24,461,430)	(19,485,249)
Increase in accounts payable and accrued liabilities related to purchase of plant assets		3,189,419	517,454
Short-term investments, net		—	(11,934)
Purchase of investments		(127,185,113)	(16,617,679)
Proceeds from sale of investments		134,647,961	15,970,482
Net cash used in investing activities		(13,805,850)	(19,751,014)
Cash flows from financing activities:			
Revenues restricted for permanent investment and capital		2,895,033	212,059
Decrease in contributions receivable restricted for permanent investment		428,222	2,092,121
Decrease in contributions receivable restricted for capital projects		74,108	5,115
Change in liabilities under split-interest agreements, net		(74,426)	(4,656)
Decrease in notes payable		(19,000,000)	(12,000,000)
Bond issuance costs		(2,127,210)	(1,928,330)
Proceeds from indebtedness		99,996,809	124,445,845
Retirement of indebtedness		—	(109,440,000)
Repayment of indebtedness		(3,636,000)	(1,941,000)
Settlement of derivative instrument		—	(9,541,060)
Increase in funds held by bond trustees		(90,235,124)	(3,125,684)
Net cash used in financing activities		(11,678,588)	(11,225,590)
Net decrease in cash and cash equivalents		(3,710,957)	(7,259,880)
Cash and cash equivalents at beginning of year		14,894,949	22,154,829
Cash and cash equivalents at end of year	$	11,183,992	14,894,949
Supplemental disclosure:			
Interest paid	$	4,167,321	4,522,627

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.

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 partnership acts as an investment vehicle for a significant portion of the University's endowment. The Pace Fund is recorded at net asset value at June 30, 2014.

(2) Summary of Significant Accounting Policies

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

(a) Basis of Presentation

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

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

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

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

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

(b) Cash Equivalents and Short-Term Investments

The University considers all highly liquid debt instruments with 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.

(Continued)

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 transactions and, accordingly, are reported as unrestricted revenue when expenses are incurred in accordance with the contractual terms.

(d) Contributions

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

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

(e) Split-Interest Agreements

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

(f) Plant Assets

Plant assets are stated at cost, except library books and collections, which are recorded at a nominal amount of $1 per volume.

Depreciation of plant assets is computed on a straight-line basis over their estimated useful lives. Depreciable lives of land improvements, buildings, building improvements, and leasehold improvements range from 5 years to 90 years and the depreciable lives of furniture and equipment range from 3 years to 20 years.

(g) Asset Retirement Obligations

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

(h) U.S. Government Grants Refundable

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

(i) Fair Value

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that a reporting entity has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, and alternative investments redeemable at or near the balance sheet date.
- Level 3 inputs are unobservable inputs for the asset or liability and alternative investments not redeemable at or near the balance sheet date.

The University applies the provisions of Accounting Standards Codification (ASC) Topic 820, *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, to 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, 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

Income generated that is unrelated to the University’s exempt purpose is subject to tax. The University believes it did not have any material tax liability nor any significant uncertain tax positions for the years ended June 30, 2014 and 2013. Accordingly, no provision for income taxes has been reflected in the accompanying financial statements.

(k) Operations

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

(l) Accounting Estimates

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

(m) Reclassification

Certain prior year amounts have been reclassified to conform with the current year presentation.

(3) Contributions Receivable

Unconditional promises to give are reported in the financial statements as contributions receivable and as revenue of the appropriate net asset class. Contributions receivable due more than one year from the date of the financial statements are recorded net of a discount to reflect the present value of future cash flows. Contributions receivable are expected to be collected as follows at June 30, 2014 and 2013:

		2014	2013
Amounts expected to be collected in:			
Less than one year	$	3,901,855	4,745,571
One to five years		1,938,160	1,812,927
More than five years		5,047,083	5,516,334
		10,887,098	12,074,832
Less discount to present value, from 0.13% to 5.15%		(1,844,499)	(1,949,973)
Less allowance for uncollectible amounts		(1,301,868)	(1,168,463)
	$	7,740,731	8,956,396

Included in contributions receivable at June 30, 2014 and 2013 are outstanding pledges from three donors, which collectively represent approximately 81% and 73%, 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.

During the year ended June 30, 2014, the University transitioned a significant portion of its investments to the Pace Fund. The University continues to set investment policy, asset allocation and ranges, and monitors performance. The University has delegated the authority for investment decisions of the Pace Fund to Cambridge Associates, which includes asset allocation within approved ranges. The following table summarizes the composition of investments, including the details of underlying investments of the Pace Fund, at June 30, 2014 and 2013:

	Fair value	
	2014	**2013**
Pace Fund:		
Cash and cash equivalents	$ 5,989,102	—
Common stocks	6,394,731	—
Mutual funds:		
International equities	37,959,155	—
Inflation sensitive	2,911,561	—
	40,870,716	—
Exchange traded funds:		
International equities	937,927	—
Fixed Income and Master Limited Partnerships (MLP's)	2,261,399	—
	3,199,326	—
Commingled funds:		
Global equities (a)	28,381,471	—
Alternative investments:		
Diversifiers (b)	11,818,737	—
Global equities (c)	10,502,939	—
Inflation sensitive (d)	4,120,344	—
Long/short equity and credit (e)	17,597,950	—
Private equity (f)	8,619,397	—
Distressed (f)	4,341,622	—
Real assets (f)	1,176,881	—
	58,177,870	—
Pace Fund total	$ 143,013,216	—
Other investments:		
Cash and cash equivalents	183,167	2,586,082
Common stocks	375,715	346,867
Mutual funds:		
Domestic equities	2,031,183	23,098,909
International equities	497,630	10,502,218
Fixed income	12,726,948	18,237,100
	15,255,761	51,838,227

	Fair value	
	2014	**2013**
Equity and fixed income funds:		
Large cap funds (h)	$ —	46,534,190
Small cap fund (i)	—	12,250,480
International equity funds (j)	—	5,311,106
Natural resources index fund (k)	—	2,229,878
	—	66,325,654
Alternative investments:		
Diversifying fund (b)	—	2,701,771
Hedged equity (g)	154,173	—
Private equity (f)	—	7,806,591
Distressed (f)	—	6,392,110
Real assets (f)	—	1,059,771
	154,173	17,960,243
Municipal bonds	814,219	814,141
Other investments total	16,783,035	139,871,214
	$ 159,796,251	139,871,214

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, semi-monthly, and quarterly liquidity. Equity and fixed income funds have daily, weekly, or monthly liquidity. Alternative investments are either nonredeemable or can have limited liquidity. Individual investment holdings within commingled funds, 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 commingled funds, equity and fixed income funds, and alternative investments are reviewed and evaluated by management. Because commingled funds, 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 limited partnerships, limited liability corporations, and trust funds invested in international equities.

(b) Includes investments in limited partnerships and limited liability corporations invested in financial assets in the corporate credit, mortgage-backed securities, asset-backed securities, currency, emerging, equity, and commodity markets.

(c) Includes investments in limited partnerships and limited liability corporations invested in undervalued international companies.

(d) Includes investments in limited liability corporations invested in commodities.

(e) Includes investments in limited partnerships, limited liability corporations, and trust funds invested in equity, debt, currency, undervalued, and credit markets.

(f) Includes investment through limited partnerships in underlying private equity partnerships. The underlying investments are diversified by strategy, fund, and vintage year. The General Partners of the underlying partnerships determine the timing of investments and distributions.

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

(h) Includes investment in funds that invest in large cap common stocks.

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

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

(k) Includes investments in funds that allocate their investments in limited partnerships, which in turn make investments in real estate, as well as oil, gas, and other natural related investments with the objective of obtaining long-term growth in capital. The category also includes related index funds.

Investments include $1,961,712 and $1,714,552 of assets held under split-interest agreements at June 30, 2014 and 2013, 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, $4,544,813 and $3,350,694 of investment return was made available for the years ended June 30, 2014 and 2013, respectively, to support operations of the University. This was offset by investment loss from nonpooled investments, cash and cash equivalents, and short-term investments of $36,530 and $82,480 in fiscal years 2014 and 2013, 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, 2014, the Pace Fund had commitments of $3,144,779 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 Pace Fund contains various redemption restrictions with required notice periods. The following table summarizes the composition of such investments by redemption provision and notice period at June 30, 2014:

	Redemption provision	Notice period	Amount
Commingled funds	Monthly	10 days	$ 5,768,508
		60 days	4,606,633
	Semi-monthly	5 days	5,172,528
	Lock-up		12,833,802
Alternative investments:			
Diversifiers	Monthly	4 days	5,462,862
		90 days	3,216,434
	Quarterly	60 days	3,139,441
Global equities	Lock-up		10,502,939
Inflation sensitive	Lock-up		4,120,344
Long/short equity and credit	Lock-up		17,597,950
Private investments	Illiquid		14,137,900
			$ 86,559,341

The redemption lock-up on certain funds are set to expire in 2015 ($28,498,145), 2016 ($9,388,477), and 2017 ($7,168,413).

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, 2014 and 2013:

	2014			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Dividends and interest on investments (net of expenses of $602,174)	$ 31,708	1,564,382	—	1,596,090
Net appreciation in fair value of investments	1,504,498	22,271,585	—	23,776,083
Effect of underwater endowments	693,738	(693,738)	—	—
Total return on investments	2,229,944	23,142,229	—	25,372,173
Investment return appropriated for operations	427,047	4,081,236	—	4,508,283
Total return on investments, net of amount appropriated for operations	$ 1,802,897	19,060,993	—	20,863,890

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

(5) Endowment Funds

The University's endowment consists of 392 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments (quasi-endowments). As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Relevant Law

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

Pursuant to the investment policy approved by the Board of Trustees of the University, the University appropriates for expenditure or accumulates so much of a donor-restricted endowment fund, as the University deems prudent for the uses, benefits, purposes, and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument, absent explicit donor stipulations to the contrary.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure in a manner consistent with the standards of prudence prescribed by NYPMIFA.

The following tables represent the University's endowment composition by type of fund as of June 30, 2014 and 2013 (excluding contributions receivable):

		2014			
		Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Donor-restricted endowment	$	—	73,612,943	73,916,263	147,529,206
Board-designated endowment		9,752,869	—	—	9,752,869
Total pooled endowment		9,752,869	73,612,943	73,916,263	157,282,075
Nonpooled investments		238,917	2,053,091	222,168	2,514,176
Total investments	$	9,991,786	75,666,034	74,138,431	159,796,251

		2013			
		Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Donor-restricted endowment	$	(693,738)	57,826,264	72,005,076	129,137,602
Board-designated endowment		8,496,672	—	—	8,496,672
Total pooled endowment		7,802,934	57,826,264	72,005,076	137,634,274
Nonpooled investments		225,885	1,818,018	193,037	2,236,940
Total investments	$	8,028,819	59,644,282	72,198,113	139,871,214

Included in donor-restricted endowments at June 30, 2014 and 2013 are $42,607,933 and $39,145,853, respectively, of temporarily restricted net assets expendable only for projects approved by the donor or donor's designee.

Changes in pooled endowment assets for the year ended June 30, 2014 were as follows:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment at June 30, 2013	$	7,802,934	57,826,264	72,005,076	137,634,274
Investment return:					
Investment income		31,708	1,564,382	—	1,596,090
Net appreciation in fair value of investments		1,504,498	22,271,585	—	23,776,083
Effect of underwater endowments		693,738	(693,738)	—	—
Total return on investment		2,229,944	23,142,229	—	25,372,173
Less loss (gain) on nonpooled investments		36,530	(45,628)	—	(9,098)
Total endowment return on investment		2,266,474	23,096,601	—	25,363,075
Contributions		83,437	15,000	1,520,854	1,619,291
Appropriation of endowment assets for expenditure		(463,577)	(4,081,236)	—	(4,544,813)
Other changes, including transfers		63,604	(3,243,689)	390,333	(2,789,752)
Endowment at June 30, 2014	$	9,752,872	73,612,940	73,916,263	157,282,075

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

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

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or NYPMIFA require to retain as a fund for perpetual duration. In accordance with U.S. GAAP, deficiencies of this nature would be reported in temporarily restricted net assets to the extent there are accumulated gains available to absorb such loss, or otherwise unrestricted net assets. At June 30, 2014 and 2013, unrestricted net assets reflected a deficiency of $0 and $693,738, respectively.

(6) Fair Value of Financial Instruments

The carrying amount of student accounts receivable, grants and other receivables, accounts payable and accrued liabilities, and notes payable approximates fair value because of the short maturity of these financial instruments. The estimated fair values, however, involve unobservable inputs considered to be Level 3 in the fair value hierarchy.

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

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

A reasonable estimate of the fair value of loans receivable from students under government loan programs could not be made because the notes are not salable and can only be assigned to the U.S. government or its designees. The fair value of the loans receivable from students under the University's loan programs approximates carrying value. The inputs to the fair value estimate are considered Level 3 in the fair value hierarchy.

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

The carrying amount of long-term debt approximates fair value because these financial instruments bear interest at various rates, which, when averaged, are not significantly different from current market rates for loans with similar maturities and credit quality. The fair value was estimated by evaluation service using market information of the specific bond and other bonds with similar characteristics (such as sector, credit rating, and maturity).

As the sole limited partner of the Pace Fund, the University can request distributions daily, subject to the liquidity of the underlying portfolio. In addition, the University has the right to redeem its entire investment quarterly.

The following tables present financial instruments (underlying investments) of the Pace Fund that are measured at fair value on a recurring basis within the fair value hierarchy as of June 30, 2014:

	June 30, 2014			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets:				
Pace Fund:				
Cash and cash equivalents	$ 5,989,102	—	—	5,989,102
Common stocks	5,878,437	516,294	—	6,394,731
Mutual funds:				
Global equities	37,959,155	—	—	37,959,155
Inflation sensitive	2,911,561	—	—	2,911,561
Exchange traded funds:				
International equities	937,927	—	—	937,927
Fixed income and MLP's	2,261,399	—	—	2,261,399
Commingled Funds:				
Global equities	—	15,547,669	12,833,802	28,381,471
Alternative investments:				
Diversifiers	—	11,818,737	—	11,818,737
Global equities	—	—	10,502,939	10,502,939
Inflation sensitive	—	—	4,120,344	4,120,344
Long/short equity and credit	—	—	17,597,950	17,597,950
Private equity	—	—	8,619,397	8,619,397
Distressed	—	—	4,341,622	4,341,622
Real assets	—	—	1,176,881	1,176,881
Total Pace Fund investments	$ 55,937,581	27,882,700	59,192,935	143,013,216

The following tables present financial instruments of other investments and funds held by bond trustees that are measured at fair value on a recurring basis within the fair value hierarchy as of June 30, 2014:

	June 30, 2014			
	Level 1	**Level 2**	**Level 3**	**Total**
Other investments:				
Cash and cash equivalents	$ 182,899	268	—	183,167
Common stocks	355,449	—	20,266	375,715
Mutual funds:				
Domestic equities	2,031,183	—	—	2,031,183
International equities	497,630	—	—	497,630
Fixed income	12,726,948	—	—	12,726,948
Alternative investments:				
Hedged equity	154,173	—	—	154,173
Municipal bonds	814,219	—	—	814,219
Total other investments	$ 16,762,501	268	20,266	16,783,035
Funds held by bond trustees	$ 101,234,305	—	—	101,234,305

Total investments at June 30, 2014 are comprised of Pace's interest in the Pace Fund of $143,013,216 and other investments of $16,783,035.

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

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

There were no transfers between fair value hierarchy levels in 2014 and 2013.

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 roll-forward of the amounts for the period for investments held in the Pace Fund for commingled funds, hedge funds, and private investments classified within Level 3. The classification of an investment within Level 3 is based upon the significance of the unobservable inputs to the overall fair value measurement. In the following table, hedge funds consist of alternative investments in global equities, inflation sensitive, and long/short equity and credit instruments, while private investments consist of private equity, distressed, and real asset instruments.

Fair Value Measurements using Level 3 Inputs

	Commingled funds	Hedge funds	Private investments	Total
Financial assets:				
Balance at June 30, 2013	$ —	—	—	—
Transfer in from Pace	—	—	14,856,123	14,856,123
Purchases	12,500,000	30,500,000	492,529	43,492,529
Sales	—	—	(1,959,035)	(1,959,035)
Gains (losses):				
Realized	—	—	966,407	966,407
Unrealized	333,802	1,721,233	(218,124)	1,836,911
Balance at June 30, 2014	$ 12,833,802	32,221,233	14,137,900	59,192,935

The following table presents a roll-forward of the amounts for the period for investments in private investments and common stocks held by Pace University. The classification of an investment within Level 3 is based upon the significance of the unobservable inputs to the overall fair value measurement.

Fair Value Measurements using Level 3 Inputs

	Private investments	Common stock	Total
Financial assets:			
Balance at June 30, 2013	$ 15,258,472	20,321	15,278,793
Purchases	353,560	—	353,560
Sales	(2,393,790)	—	(2,393,790)
Gains (losses):			
Realized	984,877	—	984,877
Unrealized	653,004	(55)	652,949
Transfer to Pace Fund	(14,856,123)	—	(14,856,123)
Balance at June 30, 2014	$ —	20,266	20,266

(Continued)

(7) Plant Assets

Plant assets at June 30, 2014 and 2013 consist of the following:

		2014	2013
Land	$	12,659,093	12,659,093
Land improvements		6,181,935	6,181,935
Buildings and building improvements		326,539,231	319,437,877
Construction in progress		22,072,235	13,088,345
Furniture and equipment		77,868,041	73,935,078
Library books		1,050,220	1,053,033
Total		446,370,755	426,355,361
Less accumulated depreciation		(164,723,268)	(157,046,102)
	$	281,647,487	269,309,259

The University capitalized interest of $1,545,351 and $159,062 for years ended June 30, 2014 and 2013, respectively.

Included in buildings and building improvements at June 30, 2014 and 2013 is $16,226,522 relating to a building received in exchange for use of land. See note 11 for a discussion on the Judicial Training Institute.

(8) Notes Payable

On December 31, 2008, the University established a $60,880,000 drawdown note with a financial institution bearing interest at the one-month adjusted LIBOR as defined in the Trust Indenture. The initial term on the drawdown note, as amended, was through October 15, 2013 with a University renewal option through June 25, 2017.

On October 15, 2013, the University replaced the drawdown note with an unsecured one-year line of credit with a seasonal commitment of up to $45,000,000. The line bears interest at LIBOR plus 180 basis points and is subject to annual renewal at the bank's discretion. However, the University has an option to convert the line into a 4-year term loan facility. The University is required to be out of the line for at least 30 consecutive days, twice per year. During 2014 and 2013, interest and fees on borrowings amounted to $138,126 and $365,486, respectively.

On March 31, 2014, the University amended the seasonal commitment from $45,000,000 to $41,500,000. On October 14, 2014, the University entered into a 45-day extension of the commitment through November 28, 2014.

(9) Long-Term Debt

Long-term debt at June 30, 2014 and 2013 consists of the following:

	2014	2013
Dormitory Authority of the State of New York (DASNY or the Authority):		
Revenue Bonds, Pace University issue, $95,840,000, Series 2013A, due serially to 2042 at effective fixed rate of 4% per annum, plus unamortized premium of $8,527,350 and $8,833,721 at June 30, 2014 and 2013, respectively	$ 101,467,350	104,673,721
Revenue Bonds, Pace University issue, $19,670,000, Series 2013B, due serially to 2035, at a variable rate subject to weekly reset in the auction market	19,130,000	19,670,000
Westchester County Local Development Corporation (WCLDC):		
Revenue Bonds, Pace University issue, $85,665,000, Series 2014A, due serially to 2042 at effective fixed rate of 5% per annum through May 2034 increasing to a rate of 5.5% to maturity, less unamortized discount of $587,895 at June 30, 2014	85,077,105	—
Revenue Bonds, Pace University issue, $14,925,000 Series 2014B, due serially to 2044 at a variable rate subject to weekly reset in the auction market	14,925,000	—
Other debt	—	196,000
Total long-term debt	$ 220,599,455	124,539,721

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, 2014, $3,648,191 was included in funds held by bond trustees.

The Series 2013B Bonds (Federally Taxable) were issued on March 7, 2013 to (i) refund a portion of the $38,350,000 outstanding principal amount of DASNY's Pace University Insured Revenue Bonds, Series 2005B, and (ii) pay the Costs of Issuance of the Series 2013B Bonds. At June 30, 2014, $144,868 was included in funds held by bond trustees. These bonds are variable rate securities in which the coupon is reset each week by a remarketing agent. The interest rate was capped in the governing agreements at 22% per annum based on the University's current credit rating. The weighted average interest rate in 2014 for the Series 2013B Bonds was 1.29%. The range of rates in 2014 was 0.8% to 1.9%.

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, 2014, $82,854,641 was included in funds held by bond trustees and consisted of construction funds.

The Series 2014B Bonds (Tax Exempt) were issued on April 3, 2014 to finance (i) the design, renovation, construction, equipping, and/or furnishing of certain of the University's facilities and (ii) fund the costs of issuance, and interest costs during the construction period. The bonds pay variable rate interest, which is based on weekly resets in the auction rate market and the bonds mature in 2044. The weighted average interest rate in 2014 for the Series 2014B Bonds was 1.4%. The range of rates in 2014 was 1.3% to 1.5%. At June 30, 2014, $14,586,605 was included in funds held by bond trustees and consisted of construction funds.

The Series 2013 and 2014 Revenue Bonds are secured by mortgages on certain of the University's properties, security interest in certain fixtures, furnishings, and equipment, and pledges of revenues limited in each year to the greatest amount payable to the Authority in any bond year for the principal.

Interest and fees incurred for the years ended June 30, 2014 and 2013 was $4,369,473 and $4,683,075, respectively. These amounts are net of capitalized interest of $1,545,351 and $159,062.

Financial Covenants DASNY Series 2013 and WCLDC Series 2014

Pursuant to the March 7, 2013 loan agreements related to the DASNY Series 2013 Revenue Bonds and the April 3, 2014 loan agreements related to 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. It shall be an Event of Default under the Master Trust Indenture if the Debt Service Coverage Ratio is less than 1.00 as of any Calculation Date or less than 1.10 for two consecutive years.

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

At June 30, 2014 and 2013, the University was in compliance with financial debt covenant requirements.

(10) Debt Service – Long-Term Debt

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

	Long-term debt to DASNY	Long-term debt to WCLDC	Total
Year ending June 30:			
2015	$ 3,525,000	—	3,525,000
2016	3,635,000	—	3,635,000
2017	3,785,000	—	3,785,000
2018	3,975,000	—	3,975,000
2019	4,130,000	—	4,130,000

(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, 2014 and 2013, $5,665,178 and $6,609,378, respectively, of deferred rental revenue was included in the accompanying balance sheets. For each of the years ended June 30, 2014 and 2013, $944,200 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, 2014 and 2013 amounted to $3,448,995 and $3,458,197, respectively.

(13) Postretirement Benefits Other than Pensions

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

(Continued)

The University reports the funded status of its postretirement plans on its balance sheets. The following provides a summary of this unfunded plan as of June 30, 2014 and 2013:

		2014	2013
Change in benefit obligation:			
Benefit obligation at beginning of year	$	85,162,816	88,018,979
Service cost		524,063	628,510
Interest cost		3,732,884	3,856,595
Plan participant's contributions		606,811	541,002
Actuarial loss (gain)		534,408	(4,500,282)
Benefits paid		(3,944,839)	(3,609,438)
Subsidies received		221,744	227,450
Benefit obligation at end of year		86,837,887	85,162,816
Change in plan assets:			
Employer contribution		3,116,284	2,840,986
Plan participant's contributions		606,811	541,002
Benefits paid		(3,944,839)	(3,609,438)
Subsidies received		221,744	227,450
Fair value of plan assets at end of year		—	—
Accrued postretirement health benefits obligation	$	86,837,887	85,162,816

The net periodic postretirement benefit expense for 2014 and 2013 includes the following components:

		2014	2013
Net periodic benefit cost:			
Service cost	$	524,063	628,510
Interest cost		3,732,884	3,856,595
Amortization of prior service credit		(633,768)	(633,768)
Amortization of net loss		928,345	1,779,502
Total net periodic benefit cost	$	4,551,524	5,630,839

(Continued)

The discount rates for 2014 and 2013 were as follows:

	2014	2013
Benefit obligation weighted average assumptions as of June 30, 2014 and 2013:		
Discount rate	4.25%	4.75%
Benefit cost weighted average assumptions for the years ended June 30, 2014 and 2013:		
Discount rate	4.75%	4.60%

Other changes in postretirement benefit obligations recognized in unrestricted net assets for 2014 and 2013 include the following components:

	2014	2013
Actuarial net loss (gain)	$ 534,408	(4,500,282)
Amortization of prior service credit	633,768	633,768
Amortization of net loss	(928,345)	(1,779,502)
	$ 239,831	(5,646,016)

As of June 30, 2014 and 2013, the items not yet recognized as net periodic postretirement benefit cost are as follows:

	2014	2013
Prior service credit	$ (633,764)	(1,267,532)
Net loss	20,709,361	21,103,298
	$ 20,075,597	19,835,766

The estimated prior service credit and net loss that will be amortized into net periodic benefit cost in 2015 are $(633,764) and $1,361,899, respectively.

For measurement purposes, an 8.0% annual rate of increase in the medical per capita cost of covered healthcare benefits was assumed for pre-age and post-age 65 coverage for the year ended June 30, 2014, decreasing to 4.5% in 2021 and remaining at that level thereafter. The healthcare cost trend rate assumption has a significant effect on the accrual. A 1% increase in the rate translates to an increase in the accumulated postretirement benefit obligation and service and interest cost of $12,430,489 and $652,475, respectively, in 2014. A 1% decrease in the rate translates to a decrease in the accumulated postretirement benefit obligation and service and interest cost of $10,116,701 and $522,713, respectively, in 2014.

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
2015	$	4,016,357	290,043	3,726,314
2016		4,359,556	321,328	4,038,228
2017		4,712,795	350,184	4,362,611
2018		4,975,823	381,479	4,594,344
2019		5,170,061	413,299	4,756,762
2020 through 2024		27,699,659	2,307,900	25,391,759

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

(14) Defined Contribution Retirement Plan

The University has a defined contribution retirement plan established in accordance with Section 403(b) of the Internal Revenue Code of 1986, which covers substantially all full-time employees. Teachers Insurance and Annuity Association and College Retirement Equities Fund (TIAA-CREF), Fidelity Management Trust Company (Fidelity), and T. Rowe Price Trust Company (T. Rowe Price) are the plan's record keepers and custodians. In 2011, the University selected TIAA-CREF as the University's sole 403(b) vendor effective January 1, 2011. Existing accounts with Fidelity and T. Rowe Price continue to be part of the plan, but new contributions can only be made to TIAA-CREF accounts.

The University makes annual plan contributions, which are vested immediately for the benefit of the participants. The University's contributions under the plan for the years ended June 30, 2014 and 2013 amounted to $10,381,332 and $10,132,632, respectively.

(15) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets at June 30, 2014 and 2013 are available to support the following areas:

	2014	2013
Instruction	$ 41,812,690	33,959,909
Research	1,268,930	1,101,337
Academic support	20,502,237	17,613,243
Student activities	1,535,297	1,168,049
Institutional support	3,754,754	5,724,518
Capital projects	4,200,598	216,658
Scholarships	18,346,478	10,009,183
Contributions receivable	3,608,899	4,451,077
Split-interest agreements	881,027	717,078
	$ 95,910,910	74,961,052

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, 2014 and 2013 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 $136,727,532 and $130,396,880 for the years ended June 30, 2014 and 2013, respectively.

(17) Leases

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

	Amount
Year ending June 30:	
2015	$ 22,341,264
2016	22,580,373
2017	23,435,433
2018	15,627,387
2019	15,917,889
2020 and thereafter	243,829,486
	$ 343,731,832

Included in the above is a lease commitment for student housing of $224,329,654 that expires in 2043.

Total rental expense for the years ended June 30, 2014 and 2013 was $30,126,245 and $28,945,917, respectively. Included in accounts payable and accrued liabilities is a deferred rent obligation of $10,996,686 and $7,311,541 at June 30, 2014 and 2013, respectively, which represents the effect of straight-lining the total minimum lease payments over the lease terms.

Beekman Lease

In August of 2012, the University entered into an agreement to lease a residence hall to be constructed at 33 Beekman Street in New York City. Under the agreement, the University will lease the building for 30 years beginning from the date of substantial completion, as defined, which is expected in August 2015. Assuming a lease inception in August 2015, future annual rentals related to this lease would be as follows:

	Amount
Year ending June 30:	
2015	$ —
2016	6,904,348
2017	7,704,624
2018	7,897,239
2019	8,094,670
2020 and thereafter	300,074,938
	$ 330,675,819

(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 $5,591,637 and $4,870,821 for the years ended June 30, 2014 and 2013, respectively. For purposes of reporting fund-raising expenses, the University includes only those fund-raising costs incurred by its development office.

(Continued)

(19) Allocation of Certain Expenses

The University allocates operation and maintenance of plant, depreciation, and interest and other debt-related expenses based upon building square footage and the use of each facility. For the year ended June 30, 2014 (with comparative totals for 2013), 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	$	6,057,205	2,090,925	610,404	120,549,899	129,308,433
Research		461,717	159,383	28,191	3,995,330	4,644,621
Academic support		8,815,821	3,043,190	538,273	36,308,711	48,705,995
Student services		5,513,511	1,903,244	793,436	35,794,535	44,004,726
Institutional support		3,731,456	1,288,085	365,960	44,961,927	50,347,428
Auxiliary enterprises		10,540,015	3,638,375	1,958,335	38,469,681	54,606,406
Total 2014	$	35,119,725	12,123,202	4,294,599	280,080,083	331,617,609
Total 2013	$	32,480,660	10,351,772	5,125,681	274,583,187	322,541,300

(20) Contingency

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

(21) Subsequent Events

In accordance with ASC Subtopic 855-10, *Subsequent Events*, the University evaluated subsequent events after the balance sheet date of June 30, 2014 through November 11, 2014, which was the date the financial statements were issued, and determined that there were no additional matters required to be disclosed.