



PACE UNIVERSITY

Financial Statements

June 30, 2022 and 2021

(With Independent Auditors' Report Thereon)



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

Independent Auditors' Report

The Board of Trustees
Pace University:

Opinion

We have audited the financial statements of Pace University (the University), which comprise the balance sheets as of June 30, 2022 and 2021, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Pace University as of June 30, 2022 and 2021, 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.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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



In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the University's ability to continue as a going concern for a reasonable period of time.

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

KPMG LLP

New York, New York
November 17, 2022

PACE UNIVERSITY

Balance Sheets

June 30, 2022 and 2021

Assets	2022	2021
Cash and cash equivalents	\$ 8,466,550	52,196,384
Student accounts receivable, net (net of allowance for doubtful accounts of \$3,400,000 and \$4,500,000, respectively)	12,552,599	14,731,762
Grants and other receivables	2,906,709	3,492,117
Prepaid expenses and other assets	4,487,391	4,323,578
Contributions receivable, net (note 4)	7,929,337	11,205,812
Investments – endowment and other (notes 5 and 6)	215,165,066	255,310,657
Investments – designated for construction (note 7)	47,725,589	6,509,427
Student loans receivable, net (net of allowance for doubtful accounts of \$2,336,201 and \$4,901,146, respectively)	4,443,358	5,757,263
Funds held by bond trustees, at fair value (note 11)	1,529,178	1,533,155
Right of use assets (notes 2(m) and 17)	328,389,540	339,359,374
Plant assets, net (note 9)	459,811,430	443,639,652
Total assets	<u>\$ 1,093,406,747</u>	<u>1,138,059,181</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued liabilities	\$ 48,298,705	64,118,846
Deferred revenues and deposits	16,593,216	9,635,659
Long-term debt (notes 11 and 12)	181,045,430	186,746,010
Operating lease liabilities (notes 2(m) and 17)	396,245,181	401,177,475
Asset retirement obligations	6,871,344	6,565,234
Accrued postretirement health benefits obligation (note 13)	40,310,713	55,515,539
U.S. government grants refundable	7,443,347	9,315,608
Total liabilities	<u>696,807,936</u>	<u>733,074,371</u>
Net assets (note 15):		
Net assets without donor restrictions:		
General	212,177,610	174,437,470
Accrued postretirement health benefits obligation	<u>(40,310,713)</u>	<u>(55,515,539)</u>
Total net assets without donor restrictions	<u>171,866,897</u>	<u>118,921,931</u>
Net assets with donor restrictions:		
Purpose and/or time restricted	96,272,161	162,977,910
Endowment fund corpus	<u>128,459,753</u>	<u>123,084,969</u>
Total net assets with donor restrictions	<u>224,731,914</u>	<u>286,062,879</u>
Total net assets	<u>396,598,811</u>	<u>404,984,810</u>
Total liabilities and net assets	<u>\$ 1,093,406,747</u>	<u>1,138,059,181</u>

See accompanying notes to financial statements.

PACE UNIVERSITY

Statements of Activities

Years ended June 30, 2022 and 2021

	2022			2021		
	Without donor restrictions	With donor restrictions	Total	Without donor restrictions	With donor restrictions	Total
Revenues:						
Tuition and fees, net (note 16)	\$ 291,876,050	—	291,876,050	283,088,763	—	283,088,763
Government grants and contracts	14,338,234	—	14,338,234	44,387,948	—	44,387,948
State appropriations	951,415	—	951,415	919,006	—	919,006
Contributions	2,090,612	10,852,868	12,943,480	2,311,680	14,142,503	16,454,183
Investment return appropriated	611,023	7,130,939	7,741,962	733,322	5,964,718	6,698,040
Sales and services of auxiliary enterprises	65,843,904	—	65,843,904	41,368,216	—	41,368,216
Other sources	3,503,140	—	3,503,140	3,055,146	—	3,055,146
Net assets released from restrictions	47,721,953	(47,721,953)	—	13,289,543	(13,289,543)	—
Total revenues	<u>426,936,331</u>	<u>(29,738,146)</u>	<u>397,198,185</u>	<u>389,153,624</u>	<u>6,817,678</u>	<u>395,971,302</u>
Expenses:						
Instruction	136,593,665	—	136,593,665	134,563,226	—	134,563,226
Research	3,723,028	—	3,723,028	3,499,576	—	3,499,576
Academic support	55,674,758	—	55,674,758	53,685,863	—	53,685,863
Student services	40,361,299	—	40,361,299	37,266,731	—	37,266,731
Institutional support	64,459,839	—	64,459,839	59,861,799	—	59,861,799
Auxiliary enterprises	79,355,092	—	79,355,092	68,789,749	—	68,789,749
Student scholarship – CARES Act	4,792,373	—	4,792,373	14,413,655	—	14,413,655
Total expenses	<u>384,960,054</u>	<u>—</u>	<u>384,960,054</u>	<u>372,080,599</u>	<u>—</u>	<u>372,080,599</u>
Excess (deficiency) of operating revenues over expenses	<u>41,976,277</u>	<u>(29,738,146)</u>	<u>12,238,131</u>	<u>17,073,025</u>	<u>6,817,678</u>	<u>23,890,703</u>
Nonoperating activities:						
Investment return, net	(2,050,235)	(31,383,852)	(33,434,087)	3,338,560	54,581,185	57,919,745
Changes in postretirement health benefits obligation other than net periodic cost	10,831,708	—	10,831,708	2,165,701	—	2,165,701
Net periodic benefit costs other than service costs	2,184,508	—	2,184,508	3,073,968	—	3,073,968
Other	2,708	(208,967)	(206,259)	3,706	380,680	384,386
Nonoperating activities, net	<u>10,968,689</u>	<u>(31,592,819)</u>	<u>(20,624,130)</u>	<u>8,581,935</u>	<u>54,961,865</u>	<u>63,543,800</u>
Changes in net assets	<u>52,944,966</u>	<u>(61,330,965)</u>	<u>(8,385,999)</u>	<u>25,654,960</u>	<u>61,779,543</u>	<u>87,434,503</u>
Net assets at beginning of year	<u>118,921,931</u>	<u>286,062,879</u>	<u>404,984,810</u>	<u>93,266,971</u>	<u>224,283,336</u>	<u>317,550,307</u>
Net assets, end of year	<u>\$ 171,866,897</u>	<u>224,731,914</u>	<u>396,598,811</u>	<u>118,921,931</u>	<u>286,062,879</u>	<u>404,984,810</u>

See accompanying notes to financial statements.

PACE UNIVERSITY
Statements of Cash Flows
Years ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Changes in net assets	\$ (8,385,999)	87,434,503
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Net depreciation (appreciation) in fair value of investments	26,832,420	(62,581,254)
Net depreciation in investments designated for construction	200	—
Net depreciation (appreciation) in fair value in split-interest agreement investments	206,217	(405,300)
Investment return on funds held by bond trustee	(2,708)	(3,706)
Change in value of split-interest agreement liabilities	14,463	32,359
Postretirement related changes other than net periodic pension cost	(10,831,708)	(2,165,701)
Provision for doubtful student loans receivable	(2,564,944)	(170,826)
Depreciation	19,150,134	18,963,922
Amortization of asset retirement obligation	366,524	345,784
Amortization of bond premium, net of bond discount accretion	(285,186)	(285,186)
Amortization of bond issuance costs	144,606	144,606
Reduction in the carrying amount of the right-of-use asset-operating leases	10,969,834	19,287,962
Revenues restricted for permanent investment and capital	(5,884,184)	(11,726,479)
Changes in operating assets and liabilities:		
Student accounts receivable, net of allowance	2,179,163	(1,491,413)
Grants and other receivables	585,408	(442,392)
Prepaid expenses and other assets	(163,813)	374,716
Contributions receivable, net	4,048,801	(3,424,324)
Noncapital accounts payable and accrued liabilities	(11,977,707)	15,008,698
Deferred revenues and deposits	6,957,557	(9,309,843)
Deferred rent obligation	—	287,937
Decrease in lease liabilities	(4,932,294)	(12,534,168)
Asset retirement obligation	(60,414)	—
Accrued postretirement benefit obligation	(4,373,118)	(4,616,945)
U.S. government grants refundable	(1,872,261)	(1,446,184)
Net cash provided by operating activities	<u>20,120,991</u>	<u>31,276,766</u>
Cash flows from investing activities:		
Repayment of student loans, net of issuance	3,878,849	1,749,704
Purchase of plant assets	(35,321,912)	(32,426,613)
Decrease in capital accounts payable	(3,856,897)	—
Purchase of investments	(108,137,339)	(47,065,953)
Proceeds from sale of investments	80,027,931	55,434,581
Net cash used in investing activities	<u>(63,409,368)</u>	<u>(22,308,281)</u>
Cash flows from financing activities:		
Contributions received for capital projects and permanent investments	5,884,184	11,726,479
Net (increase) decrease in contribution receivable for permanent investments and capital projects	(772,326)	13,165,018
Repayment of indebtedness	(5,560,000)	(4,415,000)
Increase (decrease) in funds held by bond trustees	6,685	(90,628)
Net cash (used in) provided by financing activities	<u>(441,457)</u>	<u>20,385,869</u>
Net (decrease) increase in cash and cash equivalents	(43,729,834)	29,354,354
Cash and cash equivalents at beginning of year	<u>52,196,384</u>	<u>22,842,030</u>
Cash and cash equivalents at end of year	<u>\$ 8,466,550</u>	<u>52,196,384</u>
Supplemental disclosure:		
Interest paid	\$ 6,775,954	7,076,082
Right-of use asset obtained in exchange for operating lease liabilities upon adoption of ASU 842	—	358,647,336
Deferred rent liability and lease incentives included in operating lease right-of-use assets	—	(55,064,307)
Increase in capital accounts payable	—	3,530,682

See accompanying notes to financial statements.

PACE UNIVERSITY

Notes to Financial Statements

June 30, 2022 and 2021

(1) Nature of Operations

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

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

Pace University Fund, LP (Pace Fund) is a limited partnership, which commenced operations on December 4, 2013, in which the University is the sole limited partner, and Cambridge Associates Resources, LLC is the general partner. The Pace Fund acts as an investment vehicle for a significant portion of the University's endowment and is recorded at its net asset value at June 30, 2022 and 2021. As the sole limited partner of the Pace Fund, the University continues to have access to investments on a daily basis, subject to the liquidity of the portfolio. In addition, the University has the right to redeem the entire investment portfolio included in the Pace Fund on a quarterly basis.

Current Environment

In March 2020, the World Health Organization declared the novel coronavirus (COVID-19) a pandemic. The University continues to adhere to the health and safety guidelines of New York State and the requirements of the Centers for Disease Control and Prevention (CDC). The University has reinstated its in-person on campus operations. For the 2021-22 academic year, the University offered a hybrid model-learning environment with classes offered in-person and via virtual system, with faculty and staff working both remotely and in-person to ensure continuity of essential operations. Given the change in the classroom and working environment due to the effects of COVID-19, the University will continue to monitor the mix between remote and in-person learning bases on any uncertainty the progression of the virus, if any, and any future governmental emergency directive.

In conjunction with the public health and economic impacts of COVID-19, U.S. Congress passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act on March 27, 2020. The CARES Act Higher Education Emergency Fund (HEERF I) included provisions to provide financial support to colleges and universities with 90% of these funds going directly to the institutions. Colleges and universities were mandated to use at least 50% of their allotment for direct emergency aid to students. The University's total CARES Act allocation received was \$8,562,106, in two separate tranches, \$4,281,053 received on April 28, 2020 and \$4,281,053 received on May 11, 2020. The first tranche was disbursed to eligible students in fiscal year 2020. A portion of the of the second tranche (\$3,358,179) was disbursed as financial aid to students during fiscal year 2021 and the remaining balance of \$922,874 was applied to institutional support. On December 27, 2020, the U.S. Congress passed the Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA). The CARES Act Higher Education Relief Fund (HEERF II) included provisions to provide direct emergency aid to students and for institutional aid. The University's

PACE UNIVERSITY

Notes to Financial Statements

June 30, 2022 and 2021

total HEERF II allocation was \$12,938,858 with \$4,281,053 allotted for student aid and \$8,657,805 allotted for institutional support. As of June 30, 2021, the direct student aid allotment was fully disbursed to students and the institutional support was fully applied to institutional aid. On March 11, 2021, the U.S. Congress passed the American Rescue Plan Act (ARP). The ARP Act Higher Education Emergency Fund (HEERF III) included provisions to provide financial support to colleges and universities. The University's total HEERF III allocation was \$23,076,452 with \$11,566,796 allotted for student aid and \$11,509,656 allotted for institutional aid. As of June 30, 2021 \$6,774,423 of the student aid allotment was disbursed with the remaining balance of \$4,792,373 disbursed in fiscal year 2022. As of June 30, 2022 all of the student aid allotment and institutional aid allotment had been disbursed.

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

(2) Summary of Significant Accounting Policies

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

(a) Basis of Presentation

The University's financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles promulgated in the United States of America (U.S. GAAP) for not-for-profit entities. Net assets are presented either as net assets without donor restrictions or as net assets with donor restrictions.

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

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

PACE UNIVERSITY

Notes to Financial Statements

June 30, 2022 and 2021

(b) Accounting Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, the University's management evaluates the estimates and assumptions based on historical experiences and various other factors and circumstances. University management believes that the estimates and assumptions are reasonable; however, the actual results could differ from those estimates.

Estimates made in the preparation of these financial statements include the fair value of investments, accrued postretirement benefit obligation, allowance for student accounts and loans receivable, allowance for uncollectible contributions receivable, useful lives of plant assets, and asset retirement obligation.

Management has evaluated the University's ability to continue as a going concern and has determined that there are no conditions or events that raise substantial doubt about the University's ability to continue as a going concern for a period of one year after the date that these financial statements were issued.

(c) Recently Adopted Accounting Pronouncements

The University adopted ASU 2016-02, *Leases* on a modified retrospective basis effective July 1, 2020. ASU 2016-02 requires recognition of rights and obligations arising from lease contracts assets and liabilities on the Balance Sheet and also requires expanded qualitative and quantitative disclosures. The University's right-of-use (ROU) assets and lease liabilities for operating leases at adoption were \$358,647,336 and \$413,711,644, respectively.

(d) Cash and Cash Equivalents

The University considers all highly liquid instruments with original maturities of three months or less at the time of purchase to be cash equivalents, except for those that are purchased by the University's investment managers as part of their long-term investment strategies or for the purpose of investments-designated for construction, and funds held by bond trustees.

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

PACE UNIVERSITY

Notes to Financial Statements

June 30, 2022 and 2021

(e) Student Tuition and Fees

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

(f) Student Accounts Receivable

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

(g) Government Grants and Contracts

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

(h) Contributions

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

Contributions of assets other than cash are recorded at their estimated fair value. Contributions of long-lived assets and their purchase or construction are reported in net assets with donor restrictions and are released to net assets without donor restrictions when the assets are placed in service. Contributions with restrictions whose donor-imposed restrictions were met during the fiscal year, including contributions for assets placed in service, are recorded in net assets without donor

PACE UNIVERSITY

Notes to Financial Statements

June 30, 2022 and 2021

restrictions. Contributions that are expected to be collected in less than a year are reported at net realizable value. Contributions that are expected to be collected in more than one year are reported at fair value at the date of promise. The fair value is computed using present value techniques applied to anticipated cash flows. Amortization of the resulting discount is recognized as additional contribution revenue in accordance with the donor-imposed restrictions, if any. The allowance for uncollectible contributions is determined based on management's evaluation of the collectibility of individual promises and historical trends. The allowance is adjusted for promises to give that remain uncollectible more than a year after their due date.

(i) Prepaid Expenses and Other Assets

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

(j) Investments – Endowment and Other

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

- Donor-restricted perpetual endowments are contributions restricted by donors to investment in perpetuity with only investment income and appreciation being used to support the University's activities (no purpose restrictions).
- Purpose-restricted endowments are contributions restricted by donors to investment in perpetuity with investment income for a purpose specified by the donor. The donor may either require the investment income and appreciation to be reinvested in the fund or may permit the University to spend those amounts in accordance with the donor's restricted purpose.

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

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

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

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

PACE UNIVERSITY

Notes to Financial Statements

June 30, 2022 and 2021

(k) Investments – Designated for Construction

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

(l) Student Loans Receivable

Funds provided by the U.S. government under the Federal Perkins and Nursing Student Loan programs are loaned to qualified students. Such amounts may be loaned again after collection. These funds are ultimately refundable to the government and, therefore, are also presented in the Balance Sheets as a liability. Effective June 30, 2018, the Federal Perkins program was terminated by the U.S. government. As of June 30, 2022 the University has refunded \$6,580,748 of the Federal Perkins Program to the U.S. Government due to the termination of the Federal Perkins Program.

(m) Operating Lease Accounting

The University determines if an arrangement is a lease or a service contract at inception. Where an arrangement is a lease, the University determines if it is an operating lease or a finance lease. For operating leases, at lease commencement, the University records a ROU asset and corresponding lease liability. ROU assets represent the University's right to control the use of the leased asset during the lease and are recognized in an amount equal to the lease liability. Lease liabilities represent the present value of the future lease payments over the expected lease term which includes options to extend or terminate the lease when it is reasonably certain those options will be exercised. The present value of the lease liability is determined using the University's incremental borrowing rate at lease inception. Over the lease term, the University uses the effective interest rate method to account for the lease liability as lease payments are made and the ROU asset is amortized into expenses in a manner that results in a straight-line expense recognition in the Statements of Activities. A ROU asset and lease liability is not recognized for leases with an initial term of 12 months or less. As of June 30, 2022 and 2021, the University has determined that all of its leases identified under these criteria are operating leases.

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

(n) Plant Assets

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

PACE UNIVERSITY

Notes to Financial Statements

June 30, 2022 and 2021

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

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

(o) Split-Interest Agreements

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

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

(p) Asset Retirement Obligations

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

(q) Operations, Expense Recognition, and Allocation

The Statements of Activities distinguishes between operating and nonoperating activities. Nonoperating activities principally include investment return in excess of (or less than) amounts authorized for spending by the University's Board, investment return on funds held by bond trustees, and changes in postretirement health benefits obligation, including components of net periodic benefit costs other than the service cost component.

PACE UNIVERSITY

Notes to Financial Statements

June 30, 2022 and 2021

The cost of providing the University's programs and other activities is summarized on the functional basis in the Statements of Activities, and these functional classifications have been reconciled by their natural expense classifications in note 19. Expenses that can be identified with a specific program or support service are charged directly to that program or support service. Costs common to multiple functions have been allocated among the various functions benefitted using a reasonable allocation method that is consistently applied as follows:

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

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

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

(r) Fair Value

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

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

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

Quoted prices for similar assets or liabilities in active markets;

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

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

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

PACE UNIVERSITY

Notes to Financial Statements

June 30, 2022 and 2021

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

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

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

(s) Tax Status

The University is principally exempt from federal income taxation under Section 501(c) (3) of the IRC, though is subject to tax on income unrelated to its exempt purposes (unless that income is otherwise excluded by the IRC). There were no tax provisions fiscal years ended in 2022 and 2021.

(t) Related Parties

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

PACE UNIVERSITY

Notes to Financial Statements

June 30, 2022 and 2021

(3) Liquidity and Availability

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

	2022	2021
Total assets	\$ 1,093,406,747	1,138,059,181
Less:		
Cash and cash equivalents not available within one year	(1,454,764)	(2,190,292)
Student accounts receivable not available within one year	(5,774,196)	(6,776,610)
Grants and other receivables not available within one year	(450,747)	(541,305)
Prepaid expenses and other assets	(4,487,391)	(4,323,578)
Contributions receivables not available within one year	(5,902,704)	(7,983,206)
Investments – endowment and other	(214,730,134)	(255,310,357)
Student loans receivable	(4,443,358)	(5,757,263)
Funds held by bond trustees	(1,529,178)	(1,533,155)
Right of use assets	(328,389,540)	(339,359,374)
Plant assets	(459,811,430)	(443,639,652)
	66,433,305	70,644,389
	2022	2021
Available lines of credit	\$ 40,000,000	40,000,000
Investment return appropriated for spending in the following year	7,200,000	7,400,000
Total assets and other resources available within one year	\$ 113,633,305	118,044,389

In addition to the financial assets available within one year, current year operating revenues including tuition, sales and services of auxiliary enterprises, and other income will fund annual expenditures. The above table excludes donor-restricted and board-designated endowment funds because it is the University management's intention to invest those resources for the long-term support of the University. However, in the case of cash needs or changes to the University's strategic plan of operation, the Board may reappropriate resources from the Board-designated endowment funds of \$11,850,933 and \$13,895,168, as of June 30, 2022 and 2021, respectively.

As part of the University's liquidity management, excess cash resulting from the use and needs of cash within the academic year is invested in short term investments consisting primarily in money market funds and U.S. Government and Government Agency issues. The University maintains an unsecured one-year line of credit with a seasonal commitment of up to \$40 million, of which the entire amount is available as of June 30, 2022 and 2021, respectively.

PACE UNIVERSITY
Notes to Financial Statements
June 30, 2022 and 2021

(4) Contributions Receivable

	2022	2021
Amounts expected to be collected in:		
Less than one year	\$ 2,480,172	3,989,668
One to five years	2,247,856	3,957,819
More than five years	5,000,000	5,000,000
	9,728,028	12,947,487
Less unamortized discount at rates from 0.15% to 3.04%	(1,478,505)	(1,447,584)
Less allowance for uncollectible amounts	(320,186)	(294,091)
	\$ 7,929,337	11,205,812

Included in contributions receivable at June 30, 2022 and 2021 are outstanding pledges from four and nine donors, respectively, which collectively represent approximately 65% and 76% of total related outstanding gross contributions receivable balance for each of the years.

PACE UNIVERSITY
Notes to Financial Statements
June 30, 2022 and 2021

(5) Investments and Investment Return

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

	<u>2022</u>	<u>2021</u>
Pace Fund:		
Cash and cash equivalents	\$ 3,399,891	10,025,653
Common stocks	28,985,481	38,339,683
Mutual funds:		
Domestic equities	89,786,614	100,711,642
Exchange-traded funds:		
Domestic equities	<u>9,599,557</u>	<u>10,282,284</u>
Total exchange-traded funds	<u>9,599,557</u>	<u>10,282,284</u>
Commingled funds:		
Global equities (a)	36,388,712	42,359,188
Alternative investments:		
Long/short equity and credit (b)	2,030,582	142,482
Private equity (c)	36,203,991	32,965,074
Distressed (c)	113,948	165,242
Real assets (c)	<u>1,959,738</u>	<u>834,573</u>
Total alternative investments	<u>40,308,259</u>	<u>34,107,371</u>
Pace Fund total	<u>208,468,514</u>	<u>235,825,821</u>
Other investments:		
Cash and cash equivalents	1,211,284	2,679,005
Common stocks	769,845	594,539
Mutual funds:		
Domestic equities	1,625,681	2,146,076
International equities	238,792	313,308
Fixed income	<u>110,027</u>	<u>124,899</u>
Total mutual funds	<u>1,974,500</u>	<u>2,584,283</u>

PACE UNIVERSITY

Notes to Financial Statements

June 30, 2022 and 2021

	2022	2021
Bonds:		
U.S. Treasuries	\$ —	3,988,588
Domestic corporate bonds	1,900,289	5,701,026
International corporate bonds	—	768,142
Commercial mortgage-backed securities	—	2,329,511
Municipal bonds	840,634	839,742
Total bonds	2,740,923	13,627,009
Total other investments	6,696,552	19,484,836
Total investments	\$ 215,165,066	255,310,657

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

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

The University has an investment policy specific to its endowment fund, which is monitored by the Investment Committee of the Board. The investment policy describes the objective for the fund and sets ranges for asset allocation. The object of the endowment fund is to earn the highest possible total return consistent with a level of risk suitable for these assets. At a minimum, long-term rates of return should be equal to an amount sufficient to maintain the purchasing power of the endowment fund assets, to provide necessary capital to fund the spending policy, and to cover the costs of managing the endowment fund investments. The desired minimum rate of return is equal to the Consumer Price Index plus 500 basis points on an annualized basis. Actual returns in any given year may vary from this amount. In light of this return requirement, the portfolio is constructed using a total return approach with a significant portion of the funds invested to seek growth of principal over time. The assets are invested for the long term, and a higher short term volatility in these assets is expected and accepted. The University limits its investments in commingled funds and so-called alternative investments. Commingled funds and alternative investments of the Pace Fund represent limited partnerships, limited liability corporations, trusts, and similar interests that follow a variety of investment strategies. Terms and conditions of investments, including liquidity provisions, are different for each fund. Commingled funds have monthly and semi-monthly liquidity. Alternative investments are either nonredeemable or can have limited liquidity. Individual investment holdings within

PACE UNIVERSITY

Notes to Financial Statements

June 30, 2022 and 2021

commingled funds and alternative investments may be invested in both publicly traded securities and less liquid securities. The net asset values of commingled funds and alternative investments are reviewed and evaluated by management. Because commingled funds and alternative investments do not have readily determinable fair values, the estimated value is subject to uncertainty and, therefore, may differ significantly from the values that would have been used had a ready market for those securities existed.

Under the terms of certain limited partnership agreements, the University is obligated to periodically advance additional funding for its limited partnership investments. At June 30, 2022, the Pace Fund had commitments of \$26,630,456 for which capital calls had not been exercised. This amount has not been recorded as a liability in the Balance Sheet as of June 30, 2022. The University maintains sufficient liquidity in its portfolio to cover such calls.

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

In accordance with the above spending rate, \$7,620,452 and \$6,392,560 of investment return was made available for the years ended June 30, 2022 and 2021, respectively, to support operations of the University.

There was an investment gain from nonpooled investments, cash and cash equivalents, and investments designated for construction of \$121,510 and \$305,480 in fiscal years 2022 and 2021, respectively.

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

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

PACE UNIVERSITY

Notes to Financial Statements

June 30, 2022 and 2021

The lockup on certain funds totaling \$18 does not expire until underlying investments are liquidated.

	2021		
	Redemption provision	Notice period	Amount
Commingled funds	Daily	2 days 15 days	\$ 15,011,734 18,307,096
	Quarterly	60 days	9,040,358
Alternative investments:			
Long/short equity and credit	Lockup		142,482
Private equity partnerships (including distressed and real assets)	Illiquid		33,964,889
			\$ 76,466,559

The lockup on certain funds totaling \$142,482 does not expire until underlying investments are liquidated.

(6) Endowment Funds

The University's endowment consists of 446 individual funds established either by donors (referred to as donor-restricted funds) or by resources set aside by the Board to function as endowments (referred to as board-designated endowment funds). Donor-restricted endowment funds are both those that provide a perpetual source of support for the University's activities and those that are restricted by donors for investments to be made for specific purposes as required by U.S. GAAP. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Relevant Law

The University's management and investment of donor-restricted endowment funds is subject to the provisions of the New York Prudent Management of Institutional Funds Act (NYPMIFA). Pursuant to the investment policy approved by the Board of Trustees of the University, the University appropriates for expenditure or accumulates as much of a donor-restricted endowment fund, as the University deems prudent for the uses, benefits, purposes, and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument, absent explicit donor stipulations to the contrary. In making its determination to appropriate or accumulate, the University must act in good faith, with the care that an ordinary prudent person in a like position would exercise under similar circumstances considering all relevant factors at the time.

PACE UNIVERSITY

Notes to Financial Statements

June 30, 2022 and 2021

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

	2022		
	Without donor restriction	With donor restriction	Total
Donor-restricted endowment	\$ —	198,585,885	198,585,885
Board-designated endowment	11,850,933	—	11,850,933
Total pooled endowment	11,850,933	198,585,885	210,436,818
Non-pooled investments	2,340,119	2,388,129	4,728,248
Total investments	\$ 14,191,052	200,974,014	215,165,066

	2021		
	Without donor restriction	With donor restriction	Total
Donor-restricted endowment	\$ —	236,719,979	236,719,979
Board-designated endowment	13,895,168	—	13,895,168
Total pooled endowment	13,895,168	236,719,979	250,615,147
Non-pooled investments	1,905,488	2,790,022	4,695,510
Total investments	\$ 15,800,656	239,510,001	255,310,657

Non-pooled (nonendowment) investments are investments that are not subject to the provisions of the NYPMIFA and are classified as either net assets with donor restrictions or net assets without donor restrictions based on whether the assets have any donor-imposed restrictions at time of receipt by the University. Non-pooled investments include \$1,935,978 of assets held under split-interest agreements, \$1,900,289 of a corporate bond, \$769,845 of corporate stocks, and \$122,136 of cash equivalents at June 30, 2022. Non-pooled investments include \$2,157,336 of assets held under split-interest agreements, \$1,900,289 of a corporate bond, \$594,539 of corporate stocks, and \$43,346 of cash equivalents at June 30, 2021. The changes in split-interest agreements during the year ended June 30, 2022 and 2021 include investment returns of (\$180,953) and \$427,262, respectively, and payment to beneficiaries of \$37,739 and \$35,309, respectively.

Included in donor-restricted endowments at June 30, 2022 and 2021 are \$12,594,094 and \$46,071,145, respectively, of net assets expendable only for projects for the Lubin School of Business approved by the donors or the donors' designee.

PACE UNIVERSITY
Notes to Financial Statements
June 30, 2022 and 2021

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

	<u>Without donor restriction</u>	<u>With donor restriction</u>	<u>Total</u>
Endowment at June 30, 2021	\$ 13,895,168	236,719,979	250,615,147
Investment return:			
Investment income	297,373	899,096	1,196,469
Net appreciation in fair value of investments	<u>(1,736,585)</u>	<u>(25,155,426)</u>	<u>(26,892,011)</u>
Total return on investment	(1,439,212)	(24,256,330)	(25,695,542)
Less appreciation on funds designated for construction and nonpooled investments	<u>(121,510)</u>	<u>106,031</u>	<u>(15,479)</u>
Total endowment return on investment	(1,560,722)	(24,150,299)	(25,711,021)
Contributions	6,000	6,341,980	6,347,980
Appropriation of endowment assets for expenditure	(489,513)	(7,130,939)	(7,620,452)
Other changes, including transfers	<u>—</u>	<u>(13,194,836)</u>	<u>(13,194,836)</u>
Endowment at June 30, 2022	<u>\$ 11,850,933</u>	<u>198,585,885</u>	<u>210,436,818</u>

PACE UNIVERSITY
Notes to Financial Statements
June 30, 2022 and 2021

Changes in endowment assets for the year ended June 30, 2021 were as follows:

	<u>Without donor restriction</u>	<u>With donor restriction</u>	<u>Total</u>
Endowment at June 30, 2020	\$ 10,564,236	183,262,816	193,827,052
Investment return:			
Investment income	140,031	1,143,829	1,283,860
Net appreciation in fair value of investments	<u>3,931,851</u>	<u>59,402,074</u>	<u>63,333,925</u>
Total return on investment	4,071,882	60,545,903	64,617,785
Less appreciation on funds designated for construction and nonpooled investments	<u>(305,481)</u>	<u>(221,293)</u>	<u>(526,774)</u>
Total endowment return on investment	3,766,401	60,324,610	64,091,011
Contributions	24,000	14,575,339	14,599,339
Appropriation of endowment assets for expenditure	(427,842)	(5,964,718)	(6,392,560)
Other changes, including transfers	<u>(31,627)</u>	<u>(15,478,068)</u>	<u>(15,509,695)</u>
Endowment at June 30, 2021	<u>\$ 13,895,168</u>	<u>236,719,979</u>	<u>250,615,147</u>

Funds with Deficiencies

The fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the NYPMIFA requirement to retain as a fund for perpetual duration. Deficiencies of this nature would be reported in net assets with donor restrictions. At June 30, 2022, 18 funds had deficiencies. The combined market value of these funds was \$13,249,005 and original gift value of \$14,788,049, leaving a deficiency of \$1,539,043. At June 30, 2021, there were no funds with deficiencies.

(7) Investments – Designated for Construction

The Board designated these investments primarily for the construction of the NY Master-Plan. Funds held by bond trustees were released in 2018 as requisitioned by the University for payments for capital projects. As of June 30, 2022 and 2021, investments designated for construction totaled \$47,725,589 and \$6,509,427, respectively. These investments include \$41,818,093 and \$6,509,427 of cash and cash equivalents as of June 30, 2022 and 2021, respectively, with the remaining balance invested in fixed-income securities (consisting of corporate bonds) with maturities of less than five years.

PACE UNIVERSITY
Notes to Financial Statements
June 30, 2022 and 2021

(8) Fair Value of Financial Instruments

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

		2022			
		Level 1	Level 2	Level 3	Total
Investments:					
Cash and cash equivalents	\$	1,211,284	—	—	1,211,284
Common stocks		764,946	4,899	—	769,845
Mutual funds:					
Domestic equities		1,625,681	—	—	1,625,681
International equities		238,792	—	—	238,792
Fixed income		110,027	—	—	110,027
Bonds		2,740,923	—	—	2,740,923
	\$	<u>6,691,653</u>	<u>4,899</u>	<u>—</u>	6,696,552
Investments measured at net asset value:					
Pace Fund					<u>208,468,514</u>
Total investments					\$ <u>215,165,066</u>
Funds held by bond trustees (note 11)	\$	1,529,178	—	—	1,529,178
Investments designated for construction (note 7)		47,725,589	—	—	47,725,589

PACE UNIVERSITY

Notes to Financial Statements

June 30, 2022 and 2021

		2021			
		Level 1	Level 2	Level 3	Total
Investments:					
Cash and cash equivalents	\$	2,679,005	—	—	2,679,005
Common stocks		589,640	4,899	—	594,539
Mutual funds:					
Domestic equities		2,146,076	—	—	2,146,076
International equities		313,308	—	—	313,308
Fixed income		124,899	—	—	124,899
Bonds		6,728,619	6,898,390	—	13,627,009
	\$	12,581,547	6,903,289	—	19,484,836
Investments measured at net asset value:					
Pace Fund					235,825,821
Total investments				\$	255,310,657
Funds held by bond trustees (note 11)	\$	1,533,155	—	—	1,533,155
Investments designated for construction (note 7)		6,509,427	—	—	6,509,427

There were no transfers between fair value hierarchy levels in 2022 and 2021.

(9) Plant Assets

Plant assets at June 30, 2022 and 2021 consist of the following:

	2022	2021
Land	\$ 12,453,325	12,453,325
Land improvements	1,508,920	1,508,920
Buildings, leaseholds, and improvements	557,929,080	510,983,357
Construction in progress	18,371,081	36,840,117
Furniture and equipment	114,957,072	110,077,809
Library books	769,614	769,614
Total	705,989,092	672,633,142
Less accumulated depreciation	(246,177,662)	(228,993,490)
	\$ 459,811,430	443,639,652

PACE UNIVERSITY

Notes to Financial Statements

June 30, 2022 and 2021

At June 30, 2022, construction commitments were approximately \$15.8 million.

Construction in progress primarily consists of amounts expended for the construction of the NY Master-Plan, which was partially funded by restricted contributions and excess operating cash, and therefore, no interest was capitalized for the years ended June 30, 2022 and 2021.

Included in buildings, leaseholds, and improvements as of June 30, 2022 and 2021 is \$16,226,522 relating to the Judicial Institute building (the Center) with accumulated depreciation of \$3,425,441 and \$3,245,144, respectively. The Center was constructed on the University's property and financed by \$16,105,000 Lease Revenue Bonds (the Bonds). The Center was leased to the Unified Court System (the System) as their continuing education training site and the Bonds were assigned to the System solely payable from rental payments by the System to the University. As a result of the assignment, the Bond payment were without recourse to the University and therefore the Bond proceeds and related obligation were not included in the financial statements.

(10) Line of Credit

The University has established an unsecured one-year line of credit with a seasonal commitment of up to \$40,000,000. The line bears interest at LIBOR plus 200 basis points and is subject to annual renewal at the lender's discretion. However, the University has an option to convert the line into a four-year term loan facility. The University is required to maintain a zero balance on the line for at least 30 consecutive days, twice per year. There were no amounts outstanding under the line of credit as of June 30, 2022 and 2021.

There was no interest on borrowing from the line of credit in fiscal year 2022 and 2021.

(11) Long-Term Debt

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

	2022	2021
Dormitory Authority of the State of New York (DASNY or the Authority):		
Revenue Bonds, Pace University issue, \$95,840,000, Series 2013A, due serially to 2042 at an effective fixed rate of 4% per annum, plus unamortized premium of \$6,076,376 and \$6,382,747 and less unamortized prepaid bond issue costs of \$1,115,267 and \$1,171,498 at June 30, 2022 and 2021, respectively	\$ 68,701,109	73,741,249
Revenue Bonds, Pace University issue, \$19,670,000, Series 2013B, due serially to 2035, at a variable rate subject to weekly reset in the auction market, less \$166,872 and \$179,875 unamortized prepaid bond issue costs at June 30, 2022 and 2021, respectively	13,678,128	14,435,125

PACE UNIVERSITY

Notes to Financial Statements

June 30, 2022 and 2021

	2022	2021
Westchester County Local Development Corporation (WCLDC):		
Revenue Bonds, Pace University issue, \$85,665,000, Series 2014A, due serially to 2042 at an effective fixed rate of 5% per annum through May 2034 increasing to a rate of 5.5% to maturity, less unamortized discount of \$418,412 and \$439,597 and unamortized prepaid bond issue costs of \$1,339,385 and \$1,389,612 at June 30, 2022 and 2021, respectively	\$ 83,907,203	83,835,791
Revenue Bonds, Pace University issue, \$14,925,000 Series 2014B, due serially to 2044 at a variable rate subject to weekly reset in the auction market, less \$166,010 and \$191,155 unamortized prepaid bond issue costs at June 30, 2022 and 2021, respectively	<u>14,758,990</u>	<u>14,733,845</u>
Total long-term debt	<u>\$ 181,045,430</u>	<u>186,746,010</u>

Debt issuance costs of \$2,787,533 and \$2,932,140 are reported as a reduction of long-term debt on the Balance Sheets at June 30, 2022 and 2021, respectively.

The Series 2013A Bonds (tax-exempt) were issued on March 7, 2013 to (i) finance the acquisition, renovation, construction, equipping, and/or furnishing of certain of the University's facilities, (ii) refund a portion of the \$70,900,000 outstanding principal amount of DASNY's Pace University Insured Revenue Bonds, Series 2005A, (iii) fund the cost of terminating an interest rate swap agreement associated with the Series 2005A Bonds, and (iv) pay the costs of issuance of the Series 2013A Bonds. At June 30, 2022 and 2021, \$1,340,326 and \$1,342,485, respectively, of unexpended funds from these bonds was included in funds held by bond trustees in the Balance Sheets. These amounts were held in cash equivalents and invested in fixed-income securities (consisting of U.S. Treasury notes) with maturities of less than one year.

The Series 2013B Bonds (federally taxable) were issued on March 7, 2013 to (i) refund a portion of \$38,350,000 outstanding principal amount of DASNY's Pace University Insured Revenue Bonds, Series 2005B and (ii) pay the costs of issuance of the Series 2013B Bonds. At June 30, 2022 and 2021, \$161,680 and \$174,764, respectively, was included in funds held by bond trustees in the Balance Sheets. These amounts were held in cash equivalents and invested in fixed-income securities (consisting of U.S. Treasury notes) with maturities of less than one year. These bonds are variable rate securities in which the coupon is reset each week by a remarketing agent. The interest rate was capped in the governing agreements at 22.0% per annum based on the University's current credit rating. The weighted average interest rate in 2022 for the Series 2013B Bonds was 0.6%. The range of rates in 2022 was 0.4% to 1.4%.

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, 2022 and 2021, there were no funds held by bond trustees in the Balance Sheets related to the Series 2014A.

PACE UNIVERSITY

Notes to Financial Statements

June 30, 2022 and 2021

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 2022 for the Series 2014B Bonds was 0.5%. The range of rates in 2022 was 0.3% to 1.3%. At June 30, 2022 and 2021, \$27,172 and \$15,906, respectively, was included in funds held by bond trustees in the balance sheets and consisted of construction funds. These amounts were held in cash equivalents.

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

Interest and fees incurred for the years ended June 30, 2022 and 2021 were \$8,088,959 and \$8,393,152, respectively.

Financial Covenants DASNY Series 2013 and WCLDC Series 2014

Pursuant to the loan agreements related to the DASNY Series 2013 Revenue Bonds and the WCLDC Series 2014 Revenue Bonds, the University is required to adhere to certain financial covenants, including a Debt Service Coverage Ratio, determined by dividing the Operating Income Available for Debt Service by Annual Debt Service, as defined. A Debt Service Coverage Ratio less than 1.00 as of any Calculation Date or less than 1.10 for two consecutive years constitutes an Event of Default under the Master Trust Indentures.

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

At June 30, 2022 and 2021, the University was in compliance with its financial debt covenant requirements.

(12) Debt Service – Long-Term Debt

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

	<u>DASNY Bonds</u>		<u>WCLDC Bonds</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
Year ending June 30:					
2023	\$ 5,785,000	3,625,954	—	5,045,250	14,456,204
2024	6,070,000	3,345,756	—	5,046,175	14,461,931
2025	6,370,000	3,048,740	—	5,044,325	14,463,065
2026	6,685,000	2,738,551	—	5,045,250	14,468,801
2027	7,015,000	2,412,990	—	5,045,250	14,473,240
2028 and thereafter	45,660,000	12,820,408	100,590,000	54,207,244	213,277,652

PACE UNIVERSITY

Notes to Financial Statements

June 30, 2022 and 2021

(13) Postretirement Benefits Other than Pensions

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

The University reports the funded status of its postretirement plans on the Balance Sheets. The following table provides a summary of this unfunded plan as of June 30, 2022 and 2021:

	2022	2021
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 55,515,539	62,298,185
Service cost	139,898	229,142
Interest cost	1,430,929	1,524,934
Participants' contributions	596,354	687,524
Actuarial loss (gain) (A)	(14,447,145)	(6,764,603)
Benefits paid	(2,924,862)	(2,658,084)
Subsidies received	—	198,441
	<u>40,310,713</u>	<u>55,515,539</u>
Benefit obligation at end of year		
Change in plan assets:		
Employer contribution	2,328,508	1,772,119
Plan participants' contributions	596,354	687,524
Benefits paid	(2,924,862)	(2,658,084)
Subsidies received	—	198,441
	<u>—</u>	<u>—</u>
Fair value of plan assets at end of year		
Accrued postretirement health benefits obligation	\$ 40,310,713	55,515,539

(A) The actuarial gain in 2022 of \$14,447,145 was, primarily, the result of a year-end discount rate change from 2.85% to 4.80% resulting in a \$10.1M gain and a decrease in claims resulting in a \$4.9M savings offset by a \$.5M loss due to demographic changes. The actuarial gain in 2021 of \$6,764,603 was, primarily, the result of a year-end discount rate change from 2.7% to 2.85% resulting in a \$1.1M gain and a decrease in claims resulting in a \$5.4M savings.

PACE UNIVERSITY
Notes to Financial Statements
June 30, 2022 and 2021

The net periodic postretirement benefit credit includes the following components:

	<u>2022</u>	<u>2021</u>
Net periodic benefit cost (credit):		
Service cost	\$ 139,898	229,142
Interest cost	1,430,929	1,524,934
Amortization of prior service credit	(4,215,364)	(6,253,772)
Amortization of net loss	599,927	1,654,870
Total net periodic benefit credit	<u>\$ (2,044,610)</u>	<u>(2,844,826)</u>

The discount rates were as follows:

	<u>2022</u>	<u>2021</u>
Benefit obligation weighted average assumptions as of June 30, 2022 and 2021:		
Discount rate	4.80 %	2.85 %
Benefit cost weighted average assumptions for the years ended June 30, 2022 and 2021:		
Discount rate	2.85	2.70

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

	<u>2022</u>	<u>2021</u>
Actuarial net loss	\$ (14,447,145)	(6,764,603)
Amortization of prior service credit	4,215,364	6,253,772
Recognition of net (loss)/gain	(599,927)	(1,654,870)
	<u>\$ (10,831,708)</u>	<u>(2,165,701)</u>

As of June 30, 2022 and 2021, the items not yet recognized as net periodic postretirement benefit cost are as follows:

	<u>2022</u>	<u>2021</u>
Prior service credit	\$ (2,957,037)	(7,172,401)
Net loss/(gain)	(1,872,934)	13,174,138
	<u>\$ (4,829,971)</u>	<u>6,001,737</u>

PACE UNIVERSITY

Notes to Financial Statements

June 30, 2022 and 2021

The estimated prior service credit and net loss that will be amortized into net periodic benefit cost in 2022 are \$(2,792,858) and \$0, respectively.

For measurement purposes, a 6.5% for pre-age 65 and 4.5% for post-age 65 annual rate of increase in the medical per capita cost of covered healthcare benefits was assumed for the year ended June 30, 2022. A 6% annual rate of increase was assumed for the year ended June 30, 2021, respectively, and then decreasing to 4.50% in 2026 and remaining at that level thereafter. The healthcare cost trend rate assumption has a significant effect on the accrual.

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

2023	\$	2,968,296
2024		2,957,141
2025		2,958,694
2026		2,917,818
2027		2,930,435
2028 through 2032		13,511,567

(14) Defined-Contribution Retirement Plan

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

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

The University has made annual plan contributions, which are vested immediately for the benefit of the participants. The University's contributions under the plan for the years ended June 30, 2022 and 2021 amounted to \$11,374,237 and \$11,921,750, respectively. In response to the COVID-19 pandemic, the University suspended the employer matching contributions to the defined-contribution retirement plan effective June 1, 2020. Effective April 1, 2021, the University reinstated the employer matching contribution and on July 1, 2021 fully reimbursed the plan participants for amounts previously suspended by contributing \$9.1 million to the plan.

PACE UNIVERSITY
Notes to Financial Statements
June 30, 2022 and 2021

(15) Net Assets with Donor Restrictions

Net assets with donor restrictions at June 30, 2022 and 2021 are available to support the following areas:

	<u>2022</u>	<u>2021</u>
Instruction	\$ 56,995,204	61,598,540
Research	1,879,389	2,157,382
Academic support	44,380,302	52,557,265
Student activities	4,589,686	5,148,036
Institutional support	11,728,629	15,054,681
Capital projects	4,846,889	37,727,250
Scholarships	95,315,587	104,948,178
Contributions receivable	3,226,628	4,865,240
Split-interest agreements	1,769,600	2,006,307
	<u>\$ 224,731,914</u>	<u>286,062,879</u>

Net assets of \$12,594,094 and \$46,071,145 as of June 30, 2022 and 2021, respectively, are available to support the Lubin School of Business, expendable only for projects approved by the donors or the donors' designee.

(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 \$214,515,973 and \$202,241,534 for the years ended June 30, 2022 and 2021, respectively.

(17) Leases

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

PACE UNIVERSITY
Notes to Financial Statements
June 30, 2022 and 2021

The following table summarizes the maturity of the Universities operating lease liabilities as of June 30, 2022:

	<u>Active leases</u>
Year ending June 30:	
2023	\$ 34,111,345
2024	25,560,961
2025	26,158,333
2026	27,134,002
2027	27,665,916
2028 and thereafter	<u>609,412,749</u>
Total	750,043,306
Less interest	<u>353,798,125</u>
	<u>\$ 396,245,181</u>

Lease costs and other related information for the year ended June 30, 2022 and 2021, respectively were as follows:

	<u>2022</u>	<u>2021</u>
Lease cost:		
Operating lease cost	\$ 41,543,533	41,798,729
Other information:		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	4,932,294	12,534,168
Weighted average remaining lease term (years):		
Operating leases	23.13	22.87
Weighted average discount rate:		
Operating leases	5.65 %	5.64 %

PACE UNIVERSITY

Notes to Financial Statements

June 30, 2022 and 2021

On January 1, 2020, the University entered into a lease agreement for a building to be constructed at 15 Beekman Street, New York, NY (the New Lease). The New Lease includes the construction of two components, an educational unit and a dormitory unit (collectively, the Units). The New Lease did not meet the criteria to be recognized in 2022 and will be recognized in a future period. The total expected lease payments under the terms of the lease agreement upon delivery are as follows:

Years after delivery:		
First	\$	13,473,240
Second		13,810,071
Third		14,155,323
Fourth		14,509,206
Fifth		14,871,936
Thereafter		520,691,880
	\$	591,511,656

The estimated present value of the lease payments under the New Lease using the University's estimated incremental borrowing rate as of June 30, 2022 is approximately \$252 million.

(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 \$6,097,903 and \$5,908,045 for the years ended June 30, 2022 and 2021, respectively. For purposes of reporting fund-raising expenses, the University includes only those fundraising costs incurred by its development office.

(19) Allocation of Certain Expenses

Expenses are presented by functional classification in accordance with the overall mission of the University on the Statements of Activities. With the adoption of ASU No. 2016-14, each functional classification displays all expenses related to the underlying operation by natural classification as detailed below for the years ended June 30, 2022 and 2021.

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

PACE UNIVERSITY
Notes to Financial Statements
June 30, 2022 and 2021

	2021					Interest and other debt-related expenses	Total per statement of activities operating
	Compensation and fringe benefits	Supplies, services, and other*	Professional fees	Utilities and plant contracts**	Depreciation		
Instruction	\$ 111,366,558	9,327,242	2,917,211	6,528,789	3,124,218	1,299,208	134,563,226
Research	1,409,695	328,066	1,087,223	403,898	197,268	73,426	3,499,576
Academic support	31,127,364	1,869,584	4,668,024	9,519,147	4,827,738	1,674,006	53,685,863
Student services	23,392,250	17,461,147	1,567,673	5,305,658	2,629,740	1,323,918	51,680,386
Institutional support	35,237,566	6,886,482	4,652,734	10,260,920	2,100,829	723,268	59,861,799
Auxiliary enterprises	2,310,102	12,418,181	1,001,466	43,817,125	6,084,129	3,158,746	68,789,749
Total	\$ 204,843,535	48,290,702	15,894,331	75,835,537	18,963,922	8,252,572	372,080,599

* Supplies, services, and other primarily consists of student meal plans, technology service contracts, travel, marketing and publications, graduate student assistantships, and, for 2022 and 2021, awards to students under the CARES Act.

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

(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, 2022 through November 17, 2022, which was the date the financial statements were issued, and determined that there were no additional matters required to be disclosed.