KPMG

PACE UNIVERSITY

Financial Statements

June 30, 2017 and 2016

(With Independent Auditors' Report Thereon)

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

Independent Auditors' Report

The Board of Trustees
Pace University:

We have audited the accompanying financial statements of Pace University (the University), which comprise the balance sheets as of June 30, 2017 and 2016, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pace University as of June 30, 2017 and 2016, 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 13, 2017

PACE UNIVERSITY

Balance Sheets

June 30, 2017 and 2016

Assets		**2017**	**2016**
Cash and cash equivalents	$	5,963,826	9,652,071
Student accounts receivable (net of allowance for doubtful accounts of $2,712,573 and $2,962,120, respectively)		5,284,664	6,350,723
Grants and other receivables		4,312,627	5,712,657
Prepaid expenses and other assets		2,886,420	2,940,505
Contributions receivable, net (note 3)		24,414,996	29,574,251
Investments – endowment and other (notes 4 and 5)		172,381,602	154,523,082
Investments – designated for construction (notes 6 and 7)		66,622,980	—
Student loans receivable (net of allowance for doubtful accounts of $4,349,776 and $4,373,004, respectively)		12,958,755	12,318,213
Funds held by bond trustees, at fair value (notes 7 and 10)		1,738,101	1,894,355
Plant assets, net (note 8)		366,228,794	392,040,715
Total assets	$	662,792,765	615,006,572
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued liabilities (note 18)	$	61,242,366	56,485,119
Deferred revenues and deposits		25,440,051	24,069,516
Long-term debt (notes 10 and 11)		203,883,330	207,723,910
Deferred rental revenue (note 12)		2,832,589	3,776,784
Asset retirement obligations (note 13)		7,671,826	8,387,392
Accrued postretirement health benefits obligation (note 14)		73,805,483	79,028,244
U.S. government grants refundable		12,861,720	12,653,196
Total liabilities		387,737,365	392,124,161
Commitments and contingencies (notes 4, 9, 10, 18, and 21)			
Net assets:			
Unrestricted:			
General		145,160,793	117,612,810
Accrued postretirement health benefits obligation (note 14)		(73,805,483)	(79,028,244)
Total unrestricted		71,355,310	38,584,566
Temporarily restricted (note 16)		99,306,135	81,354,058
Permanently restricted (note 16)		104,393,955	102,943,787
Total net assets		275,055,400	222,882,411
Total liabilities and net assets	$	662,792,765	615,006,572

See accompanying notes to financial statements.

PACE UNIVERSITY

Statements of Activities

Years ended June 30, 2017 and 2016

	2017				2016			
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues:								
Tuition and fees, net (note 17)	$ 273,232,768	—	—	273,232,768	269,716,886	—	—	269,716,886
Government grants and contracts	8,791,079	—	—	8,791,079	9,561,702	—	—	9,561,702
State appropriations	850,590	—	—	850,590	847,527	—	—	847,527
Contributions	1,596,191	8,458,904	1,252,906	11,308,001	1,178,841	11,287,362	23,545,539	36,011,742
Investment return appropriated (note 4)	1,062,012	4,713,050	—	5,775,062	458,211	4,195,358	—	4,653,569
Sales and services of auxiliary enterprises	66,078,456	—	—	66,078,456	65,564,545	—	—	65,564,545
Other sources	7,564,304	—	405	7,564,709	7,813,683	—	729	7,814,412
Net assets released from restrictions	12,406,080	(12,406,080)	—	—	14,514,956	(14,514,956)	—	—
Total revenues	371,581,480	765,874	1,253,311	373,600,665	369,656,351	967,764	23,546,268	394,170,383
Expenses (notes 19 and 20):								
Instruction	135,790,479	—	—	135,790,479	129,217,401	—	—	129,217,401
Research	4,811,391	—	—	4,811,391	5,575,263	—	—	5,575,263
Academic support	52,299,509	—	—	52,299,509	49,531,272	—	—	49,531,272
Student services	47,022,158	—	—	47,022,158	46,469,126	—	—	46,469,126
Institutional support	56,658,149	—	—	56,658,149	55,889,960	—	—	55,889,960
Auxiliary enterprises	73,682,830	—	—	73,682,830	69,315,002	—	—	69,315,002
Total expenses	370,264,516	—	—	370,264,516	355,998,024	—	—	355,998,024
Excess of operating revenues over expenses before gain (loss) on sale of plant assets	1,316,964	765,874	1,253,311	3,336,149	13,658,327	967,764	23,546,268	38,172,359
Gain (loss) on sales of plant assets (note 8)	27,299,839	—	—	27,299,839	(436,258)	—	—	(436,258)
Excess of operating revenues over expenses	28,616,803	765,874	1,253,311	30,635,988	13,222,069	967,764	23,546,268	37,736,101
Nonoperating activities:								
Investment return, net (note 4)	774,142	17,174,607	—	17,948,749	(854,241)	(10,552,215)	—	(11,406,456)
Effect of underwater endowments (note 4)	126,013	(126,013)	—	—	(123,638)	123,638	—	—
Changes in postretirement health benefits obligation other than net periodic cost (note 14)	4,234,445	—	—	4,234,445	(10,192,421)	—	—	(10,192,421)
Other	(980,659)	137,609	196,857	(646,193)	(1,399,597)	(10,041)	(17,053)	(1,426,691)
	4,153,941	17,186,203	196,857	21,537,001	(12,569,897)	(10,438,618)	(17,053)	(23,025,568)
Change in net assets	32,770,744	17,952,077	1,450,168	52,172,989	652,172	(9,470,854)	23,529,215	14,710,533
Net assets, beginning of year	38,584,566	81,354,058	102,943,787	222,882,411	37,932,394	90,824,912	79,414,572	208,171,878
Net assets, end of year	$ 71,355,310	99,306,135	104,393,955	275,055,400	38,584,566	81,354,058	102,943,787	222,882,411

See accompanying notes to financial statements.

PACE UNIVERSITY

Statements of Cash Flows

Years ended June 30, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Change in net assets	$ 52,172,989	14,710,533
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net (appreciation) depreciation in fair value of investments	(21,961,684)	7,642,606
Net appreciation in investments designated for construction	(83,954)	—
Net (appreciation) depreciation in fair value in split-interest agreement investments	(157,509)	61,088
Investment return on funds held by bond trustee	(18,917)	(141,161)
Change in value of split-interest agreement liabilities	(50,151)	(16,895)
Postretirement related changes other than net periodic pension cost	(4,234,445)	10,192,421
(Recovery of) provision for doubtful student loans receivable	(23,228)	144,755
Deferred rental revenue	(944,195)	(944,198)
Depreciation	16,272,360	14,490,631
Amortization of asset retirement obligation	462,149	744,080
(Gain) loss on sale of plant assets	(27,299,839)	436,258
Amortization of bond premium and bond issuance costs	(140,580)	(140,579)
Revenues restricted for permanent investment and capital	(4,107,111)	(25,416,512)
Changes in operating assets and liabilities:		
Student accounts receivable	1,066,059	(326,794)
Grants and other receivables	1,400,030	(1,183,664)
Prepaid expenses and other assets	54,085	(275,296)
Contributions receivable, net	(542,261)	(2,628,255)
Noncapital accounts payable and accrued liabilities	5,291,573	6,405,498
Deferred revenues and deposits	1,370,535	409,443
Asset retirement obligations	(1,177,715)	(421,380)
Accrued postretirement benefit obligation	(988,316)	(1,529,336)
U.S. government grants refundable	208,524	(438,040)
Net cash provided by operating activities	16,568,399	21,775,203
Cash flows from investing activities:		
Increase in student loans, net of repayments	(617,314)	(337,279)
Purchase of plant assets	(29,822,844)	(55,761,537)
Decrease in capital accounts payables	(484,175)	(6,873,285)
Proceeds from sale of plant assets	66,662,244	10,349,342
Purchase of investments	(102,340,967)	(5,976,871)
Proceeds from sale of investments	40,062,614	2,831,384
Net cash used in investing activities	(26,540,442)	(55,768,246)
Cash flows from financing activities:		
Contributions received for capital projects and permanent investments	4,107,111	25,416,512
Net decrease (increase) in contributions receivable for capital projects and permanent investments	5,701,516	(16,029,829)
Repayment of notes payable	—	(5,000,000)
Retirement of indebtedness	—	(1,570,000)
Repayment of indebtedness	(3,700,000)	(3,555,000)
Decrease in funds held by bond trustees	175,171	31,924,804
Net cash provided by financing activities	6,283,798	31,186,487
Net decrease in cash and cash equivalents	(3,688,245)	(2,806,556)
Cash and cash equivalents at beginning of year	9,652,071	12,458,627
Cash and cash equivalents at end of year	$ 5,963,826	9,652,071
Supplemental disclosure:		
Interest paid	$ 7,896,862	7,894,970
Supplemental schedule for noncash investing activities:		
Increase in plant assets relating to additional asset retirement obligation	$ —	5,036,056
Increase in plant assets relating to additional deferred revenue	—	1,892,014

See accompanying notes to financial statements.

(1) Nature of Operations

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

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

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, 2017 and 2016. As the sole limited partner of the Pace Fund, the University continues to have access to investments on a daily basis, subject to the liquidity of the portfolio. In addition, the University has the right to redeem the entire investment portfolio included in the Pace Fund on a quarterly basis.

(2) Summary of Significant Accounting Policies

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

(a) Basis of Presentation

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

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

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

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

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

(b) Cash Equivalents and Short-Term Investments

The University considers all highly liquid 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 or for the purpose of investments – designated for construction (see note 6).

(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 their contractual terms.

(d) Contributions

Contributions, including unconditional promises to give (pledges), are reported as revenue in the period received or pledged. Contributions with purpose or time restrictions are reported as increases in temporarily restricted net assets and are released 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. Contributions of long-lived assets and for their purchase or construction are reported as temporarily restricted net assets and are released to unrestricted net assets when 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 included in other sources in the Statements of Activities.

(f) Investments

Investments are reported at fair value based upon quoted market prices or net asset values. The University applies the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 820, *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, to investments in alternative investments that do not have readily determinable fair values. This guidance allows, as a practical expedient, for the estimation of the fair value of investments in investment companies for which the investment does not have a readily determinable fair value, using net asset value per share or its equivalent, as reported by the University's external investment managers.

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 maintains a significant portion of its 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.

(g) Plant Assets

Plant assets are stated at cost, except for library books and art 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.

(h) 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.

(i) 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 are included in student loans receivable in the Balance Sheets. Such amounts may be reloaned after collection. These funds are ultimately refundable to the government and, therefore, are presented in the Balance Sheets as a liability.

(j) Fair Value

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

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

(k) 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, 2017 and 2016. Accordingly, no provision for income taxes has been reflected in the accompanying financial statements.

(l) Operations

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 of Trustees, investment return on funds held by bond trustees, changes in postretirement health benefits obligation other than net periodic cost, and other nonrecurring transactions.

(m) 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, 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.

(n) New Accounting Pronouncements

The FASB issued Accounting Standards Update (ASU) 2015-03, *Simplifying the Presentation of Debt Issuance Costs,* which requires debt issuance costs related to a debt liability to be presented on the balance sheet as a direct deduction from the debt liability. The University adopted ASU 2015-03 for the year ended June 30, 2017, which resulted in the reclassification of debt issuance costs as a reduction of long-term debt of $3,655,172 previously included in prepaid expenses and other assets on the Balance Sheet as of June 30, 2016.

The FASB issued ASU 2014-15, *Presentation of Financial Statements–Going Concern,* which specifies that, in connection with preparing financial statements for each annual and interim reporting period, an entity's management should evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern for a period of one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued when applicable). The University adopted ASU 2014-15 for the year ended June 30, 2017. 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.

The FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities,* which, among other things, changes how not-for-profit entities report net asset classes, expenses and liquidity in their financial statements. The significant requirements of the new ASU include the reduction of the number of net asset classes presented from three to two, with the new classifications entitled with donor restrictions and without donor restrictions; the presentation of expenses by their function as well as their natural classification in one location; quantitative and qualitative information about the management of liquid resources and the availability of financial assets to meet cash needs within one year of the balance sheet date; and retaining the option to present operating cash flows in the statement of cash flows using either the direct or indirect method. ASU 2016-14 is effective for annual periods in fiscal years beginning after December 15, 2017 and is to be applied retrospectively in the year of adoption. Early application is permitted. The University plans to adopt ASU 2016-14 for the year ending June 30, 2019.

The FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, which includes criteria on how entities recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This ASU is effective for the University for annual periods in fiscal years beginning after December 15, 2017. The ASU requires retrospective adoption. The University plans to adopt this ASU for the year ending June 30, 2019 and does not expect that the provisions of this ASU will have a significant effect on the University's current method of revenue recognition.

The FASB issued ASU 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, which requires companies to present the service cost component of net benefit cost in the statement of activity line item where compensation costs are reported. All other components of net benefit costs will be presented outside operating income. The ASU is effective for the University for annual periods beginning after December 15, 2017. Early adoption is permitted. The University plans to adopt this ASU for the year ending June 30, 2018.

The FASB issued ASU 2016-02, *Leases,* which requires that lessees recognize most leases on the balance sheet with the recognition of a right-of-use asset and a lease liability and with required expanded quantitative and qualitative disclosures. While leases will continue to be classified as either finance or operating, the classification will impact the expense recognition of such leases over their term. This ASU is effective for the University in fiscal years beginning after December 15, 2018 and requires retrospective adoption with early adoption permitted. Because of the significance of the University's operating leases, management expects that the adoption of this ASU will have a significant impact on the Balance Sheet (including the recognition of the right-of-use assets and liabilities), but does not believe the adoption will have a significant effect on the University's Statements of Activities or Cash Flows. The University plans to adopt this ASU for the year ending June 30, 2020.

(o) Reclassification

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

(Continued)

(3) Contributions Receivable

Contributions receivable as expected to be collected, are as follows at June 30:

	2017	2016
Amounts expected to be collected in:		
Less than one year	$ 9,480,690	9,568,285
One to five years	12,869,088	18,142,071
More than five years	5,282,084	5,547,084
	27,631,862	33,257,440
Less discount to present value from 0.21% to 5.03%	(2,469,443)	(2,775,562)
Less allowance for uncollectible amounts	(747,423)	(907,627)
	$ 24,414,996	29,574,251

Included in contributions receivable at June 30, 2017 and 2016 are outstanding pledges from six donors and five donors, respectively, which collectively represent 82% and 85%, respectively, of total related outstanding gross contributions receivable balances.

(4) Investments and Investment Return

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

	2017	2016
Pace Fund:		
Cash and cash equivalents	$ 3,952,209	7,046,535
Common stocks	15,796,188	4,326,256
Mutual funds:		
International equities	6,481,309	4,299,289
Domestic equities	39,531,878	29,207,566
	46,013,187	33,506,855
Exchange traded funds:		
Domestic equities	39,234,633	32,271,152
Fixed income and Master Limited Partnerships (MLP’s)	4,565,933	3,377,287
	43,800,566	35,648,439
Commingled funds:		
Global equities (a)	17,525,981	22,439,271

		2017	2016
Alternative investments:			
Diversifiers (b)	$	6,497,454	4,391,382
Global equities (c)		1,961,153	8,502,089
Long/short equity and credit (d)		3,897,707	6,830,108
Private equity (e)		8,388,139	9,056,871
Secondaries (f)		1,276,804	—
Distressed (e)		2,877,301	2,014,928
Real assets (e)		1,066,024	977,011
		25,964,582	31,772,389
Pace Fund total		153,052,713	134,739,745
Other investments:			
Cash and cash equivalents		5,149,230	6,048,688
Common stocks		428,281	275,251
Mutual funds:			
Domestic equities		2,463,954	2,106,659
International equities		537,128	453,331
Fixed income		9,936,063	10,085,175
		12,937,145	12,645,165
Municipal bonds		814,233	814,233
Other investments total		19,328,889	19,783,337
	$	172,381,602	154,523,082

Commingled funds and alternative investments of the Pace Fund represent limited partnerships, limited liability corporations, trusts, and similar interests that follow a variety of investment strategies. Terms and conditions of investments, including liquidity provisions, are different for each fund. Commingled funds have monthly and semi-monthly liquidity. Alternative investments are either nonredeemable or can have limited liquidity. Individual investment holdings within commingled funds and alternative investments may be invested in both publicly traded securities and less liquid securities. The net asset values of commingled funds and alternative investments are reviewed and evaluated by management. Because commingled funds and alternative investments do not have readily determinable 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 public U.S. equities and international equities

(b) Includes investments in limited partnerships and limited liability corporations invested in financial assets in the corporate credit, mortgage-backed securities, structured credit, event-driven equities, quantitative strategies, volatility, developed fixed income markets, currency, emerging, long/short equities, distressed investments, and merger arbitrage

(c) Includes investments in limited partnerships and limited liability corporations invested in international companies that are perceived to be undervalued

(d) Includes investments in limited partnerships, limited liability corporations, and trust funds invested in domestic and foreign equities, debt, currency, undervalued, and credit markets

(e) Includes investment through limited partnerships in underlying private equity partnerships. The underlying investments are diversified by strategy, fund, and vintage year.

(f) Includes purchase of limited partnership interest in a private equity fund from an existing limited partnership seeking an early exit from the fund

Investments include $2,037,658 and $1,891,838 of assets held under split-interest agreements at June 30, 2017 and 2016, 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, $5,233,204 and $4,640,340 of investment return was made available for the years ended June 30, 2017 and 2016, 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 $541,858 and $13,229 in fiscal years 2017 and 2016, 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, 2017, the Pace Fund had commitments of approximately $13 million for which capital calls had not been exercised. This amount has not been recorded as a liability in the 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, 2017:

	Redemption provision	Notice period	Amount
Commingled funds	Monthly	20 Days	$ 4,562,701
		30 Days	7,027,318
		60 Days	5,935,962
Alternative investments:			
Diversifiers	Quarterly	65 Days	3,223,377
	Quarterly	90 Days	3,274,077
Global equities	Semiannual	45 Days	1,961,153
Long/short equity and credit	Quarterly	60 Days	1,566,234
	Quarterly	90 Days	702,753
	Lock-up		1,628,720
Private equity partnerships (including distressed and real assets)	Illiquid		13,608,268
			$ 43,490,563

The redemption lock-up on certain funds are set to expire in 2018 ($1,628,720).

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, 2017 and 2016:

	2017		
	Unrestricted	Temporarily restricted	Total
Dividends and interest on investments (net of expenses of $987,274)	$ 576,126	1,186,001	1,762,127
Net appreciation in fair value of investments	1,260,028	20,701,656	21,961,684
Total investment return	1,836,154	21,887,657	23,723,811
Investment return appropriated for operations	1,062,012	4,713,050	5,775,062
Effect of underwater endowments	126,013	(126,013)	—
Investment return, net	$ 774,142	17,174,607	17,948,749

		2016		
		Unrestricted	Temporarily restricted	Total
Dividends and interest on investments (net of expenses of $966,003)	$	71,135	818,584	889,719
Net depreciation in fair value of investments		(467,165)	(7,175,441)	(7,642,606)
Total investment return		(396,030)	(6,356,857)	(6,752,887)
Investment return appropriated for operations		458,211	4,195,358	4,653,569
Effect of underwater endowments		(123,638)	123,638	—
Investment return, net	$	(854,241)	(10,552,215)	(11,406,456)

(5) Endowment Funds

The University's endowment consists of 409 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments (quasi-endowments). As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

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 (excluding contributions receivable):

	2017			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Donor-restricted endowment	$ —	71,512,481	88,911,638	160,424,119
Board-designated endowment	9,455,683	—	—	9,455,683
Total pooled endowment	9,455,683	71,512,481	88,911,638	169,879,802
Nonpooled investments	115,164	2,131,852	254,784	2,501,800
Total investments	$ 9,570,847	73,644,333	89,166,422	172,381,602

	2016			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Donor-restricted endowment	$ (126,013)	61,810,652	81,910,952	143,595,591
Board-designated endowment	8,589,936	—	—	8,589,936
Total pooled endowment	8,463,923	61,810,652	81,910,952	152,185,527
Nonpooled investments	153,784	1,971,065	212,706	2,337,555
Total investments	$ 8,617,707	63,781,717	82,123,658	154,523,082

Included in donor-restricted endowments at June 30, 2017 and 2016 are $40,652,361 and $41,637,670, respectively, of temporarily restricted net assets expendable only for projects for the Lubin School of Business, approved by the donor or the donor's designee. During 2017, the donor or donor's designee approved projects totaling approximately $7.2 million (primarily for capital). Accordingly, such amount has been transferred out of endowment funds but remains in temporarily restricted net assets until the purpose restrictions are satisfied, which is expected to occur by fiscal 2019.

Changes in pooled endowment assets for the year ended June 30, 2017 were as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment at June 30, 2016	$ 8,463,923	61,810,652	81,910,952	152,185,527
Investment return:				
Investment income	576,126	1,186,001	—	1,762,127
Net appreciation in fair value of investments	1,260,028	20,701,656	—	21,961,684
Total return on investment	1,836,154	21,887,657	—	23,723,811
Less gain on nonpooled investments	(541,858)	(57,045)	—	(598,903)
Total endowment return on investment	1,294,296	21,830,612	—	23,124,908
Contributions	20,500	20,000	7,076,435	7,116,935
Appropriation of endowment assets for expenditure	(520,154)	(4,713,050)	—	(5,233,204)
Effect of underwater endowments	126,013	(126,013)	—	—
Other changes, including transfers	71,105	(7,309,720)	(75,749)	(7,314,364)
Endowment at June 30, 2017	$ 9,455,683	71,512,481	88,911,638	169,879,802

Changes in pooled endowment assets for the year ended June 30, 2016 were as follows:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment at June 30, 2015	$	9,558,329	72,178,756	74,918,117	156,655,202
Investment return:					
Investment income		71,135	818,584	—	889,719
Net depreciation in fair value of investments		(467,165)	(7,175,441)	—	(7,642,606)
Total return on investment		(396,030)	(6,356,857)	—	(6,752,887)
Less (gain) loss on nonpooled investments		(13,229)	17,448	—	4,219
Total endowment return on investment		(409,259)	(6,339,409)	—	(6,748,668)
Contributions		24,500	20,000	6,922,319	6,966,819
Appropriation of endowment assets for expenditure		(444,982)	(4,195,358)	—	(4,640,340)
Effect of underwater endowments		(123,638)	123,638	—	—
Other changes, including transfers		(141,027)	23,025	70,516	(47,486)
Endowment at June 30, 2016	$	8,463,923	61,810,652	81,910,952	152,185,527

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. In accordance with GAAP, such deficiencies 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, 2017, there was no deficiency in unrestricted net assets. At June 30, 2016, unrestricted net assets reflected a deficiency $126,013.

(6) Investments – Designated for Construction

During 2017, the Board of Trustees 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 and the Dyson College of Arts and Sciences, 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. As of June 30, 2017, there is $66,622,980 in investments designated for construction, which includes $16,183,476 of cash and cash equivalents, $28,152,318 of funds held by bond trustees (primarily consisting of government securities), and the remaining balance in various fixed-income securities (consisting of certificates of deposits and corporate bonds) with maturities of less than five years. The amounts of funds from bond trustees were available from the sale of a plant asset previously funded by a tax-exempt financing (Series 2013A). These funds are released as requisitioned by the University for payments for capital projects.

(7) Fair Value of Financial Instruments

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 following table presents financial instruments (underlying investments) that are measured at fair value and at net asset value as of June 30, 2017:

	Level 1	Level 2	Level 3	Total
Investments:				
Cash and cash equivalents	$ 5,149,230	—	—	5,149,230
Common stocks	423,381	4,900	—	428,281
Mutual funds:				
Domestic equities	2,463,954	—	—	2,463,954
International equities	537,128	—	—	537,128
Fixed income	9,936,063	—	—	9,936,063
Municipal bonds	814,233	—	—	814,233
	$ 19,323,989	4,900	—	19,328,889
Investments measured at net asset value:				
Pace Fund				153,052,713
Total investments				$ 172,381,602
Funds held by bond trustees	$ 1,738,101	—	—	1,738,101
Investments designated for construction*	$ 66,622,980	—	—	66,622,980

* Includes $28,152,318 of funds held by trustees from the proceeds of a sale of a plant asset that was previously funded by a tax-exempt financing (see notes 6 and 8).

The following table presents financial instruments (underlying investments) that are measured at fair value and at net asset value as of June 30, 2016

	Level 1	Level 2	Level 3	Total
Investments:				
Cash and cash equivalents	$ 6,048,688	—	—	6,048,688
Common stocks	275,251	—	—	275,251
Mutual funds:				
Domestic equities	2,106,659	—	—	2,106,659
International equities	453,331	—	—	453,331
Fixed income	10,085,175	—	—	10,085,175
Municipal bonds	814,233	—	—	814,233
	$ 19,783,337	—	—	19,783,337
Investments measured at net asset value:				
Pace Fund				134,739,745
Total investments				$ 154,523,082
Funds held by bond trustees	$ 1,894,355	—	—	1,894,355

There were no transfers between fair value hierarchy levels in 2017 and 2016.

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.

(8) Plant Assets

Plant assets at June 30, 2017 and 2016 consist of the following:

	2017	2016
Land	$ 12,453,325	12,680,242
Land improvements	4,688,784	4,735,009
Buildings, leaseholds, and improvements	410,815,322	412,204,128
Construction in progress	15,130,739	56,507,039
Furniture and equipment	91,884,343	82,390,993
Library books	1,024,256	1,024,255
Total	535,996,769	569,541,666
Less accumulated depreciation	(169,767,975)	(177,500,951)
	$ 366,228,794	392,040,715

The University capitalized interest of $383,604 and $2,393,980 for the years ended June 30, 2017 and 2016, respectively. Included in buildings, leaseholds and improvements at June 30, 2017 and 2016 is $16,226,522 relating to a training facility received in exchange for use of land. See note 12 for a discussion on the Judicial Training Institute. Construction in progress primarily consists of amounts funded for the construction of new facilities from the proceeds of the Series 2014A and B Bonds. See note 10, *Long-Term Debt*.

During the year ended June 30, 2017, the University sold its Briarcliff Campus and 106 Fulton Street student housing facility for a sale price of $17.4 and $51.1 million, respectively. These sales resulted in operating gains from the Briarcliff Campus and 106 Fulton Street of $7.3 and $20.0 million, respectively. There is $28,152,318 from the proceeds from the sale of 106 Fulton Street in funds held by bond trustees classified within investments designated for construction in the Balance Sheet as of June 30, 2017. These fund are held by bond trustees as 106 Fulton was previously funded by a tax-exempt financing (Series 2013A) and such amounts will only be released as requisitioned by the University for payments for capital projects (see note 6).

During the year ended June 30, 2016, the University sold its graduate center facility in White Plains, NY for a sale price of $10.8 million in connection with the University's Pleasantville Master-Plan. This sale resulted in an operating loss on sale of $436,258. As part of the sale, the University initiated a legal defeasance where $1.6 million portion of the outstanding Dormitory Authority of the State of New York (DASNY or the Authority) Series 2013A (tax-exempt) Bonds was placed in escrow in order to pay the bondholders upon their original maturity. The University also funded $397,391 of interest costs (a 2016 nonoperating charge) in escrow to sufficiently cover the related interest costs. The defeasance resulted in the University's legal release of the bond obligation and therefore $1.6 million of the DASNY Series 2013A Bonds was extinguished.

(9) Line of Credit

The University has established an unsecured one-year line of credit with a seasonal commitment of up to $40,000,000. The line bears interest at LIBOR plus 200 basis points and is subject to annual renewal at the lender's discretion. However, the University has an option to convert the line into a 4-year term loan facility. The University is required to maintain a zero balance on the line for at least 30 consecutive days, twice per year. The University had no outstanding balance under the line of credit as of June 30, 2017 and 2016.

During 2017, there was no interest on the line of credit borrowed and in 2016, interest on borrowings amounted to $8,501.

(10) Long-Term Debt

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

		2017	2016*
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 $7,608,234 and $7,914,606 and less unamortized prepaid bond issue costs of $1,396,426 and $1,452,658 at June 30, 2017 and 2016, respectively	$	88,566,808	91,901,948
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 $231,887 and $244,890 unamortized prepaid bond issue costs at June 30, 2017 and 2016, respectively		17,133,113	17,735,110
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 $524,338 and $545,524 and unamortized prepaid bond issue costs of $1,657,489 and $1,724,458 at June 30, 2017 and June 30, 2016, respectively		83,483,173	83,395,018
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 $224,764 and $233,166 unamortized prepaid bond issue costs at June 30, 2017 and 2016, respectively		14,700,236	14,691,834
Total long-term debt	$	203,883,330	207,723,910

*Certain amounts reclassified to conform to 2017 presentation

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, 2017 and

2016, $1,206,216 and $1,189,254, respectively, of unexpended funds from these bonds was included in funds held by bond trustees in the Balance Sheets.

The Series 2013B Bonds (federally taxable) were issued on March 7, 2013 to (i) refund a portion of $38,350,000 outstanding principal amount of DASNY's Pace University Insured Revenue Bonds, Series 2005B and (ii) pay the costs of issuance of the Series 2013B Bonds. At June 30, 2017 and 2016, $177,763 and $150,123, respectively, was included in funds held by bond trustees in the Balance Sheets. These bonds are variable rate securities in which the coupon is reset each week by a remarketing agent. The interest rate was capped in the governing agreements at 22% per annum based on the University's current credit rating. The weighted average interest rate in 2017 for the Series 2013B Bonds was 2.3%. The range of rates in 2017 was 1.8% to 3.0%.

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, 2017, there were no funds held by bond trustees in the balance sheet related to the Series 2014A Bonds and as of June 30, 2016, $7,154 of construction funds was included in funds held by bond trustees in the Balance Sheet.

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 2017 for the Series 2014B Bonds was 1.35%. The range of rates in 2017 was 1.00% to 1.70%. At June 30, 2017 and 2016, $354,122 and $547,824, respectively, was included in funds held by bond trustees in the Balance Sheets and consisted of construction funds.

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

Interest and fees incurred for the years ended June 30, 2017 and 2016 was $8,993,933 and $6,969,529, respectively. These amounts are net of capitalized interest of $383,604 and $2,393,980.

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, 2017 and 2016, the University was in compliance with its financial debt covenant requirements.

(11) Debt Service – Long-Term Debt

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

	DASNY Bonds		WCLDC Bonds		
	Principal	**Interest**	**Principal**	**Interest**	**Total**
Year ending June 30:					
2018	3,885,000	4,583,810	—	5,045,250	13,514,060
2019	4,040,000	4,428,051	—	5,045,250	13,513,301
2020	4,235,000	4,234,162	—	5,046,175	13,515,337
2021	4,415,000	4,062,590	—	5,044,325	13,521,915
2022	5,560,000	3,848,782	—	5,045,250	14,454,032

(12) Judicial Training Institute

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

The University recorded the cost of the training facility of $16,208,704 as deferred rental revenue. The deferred rental revenue is recognized on a straight-line basis over the life of the related lease, May 1, 2003 through June 30, 2020. At June 30, 2017 and 2016, deferred rental revenue of $2,832,589 and $3,776,784, respectively, is included in the Balance Sheets. For each of the years ended June 30, 2017 and 2016, $944,195 was recognized as rental revenue and is included in other sources in the Statements of Activities.

(Continued)

(13) 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, 2017 and 2016 amounted to $7,671,826 and $8,387,392, respectively. During the year ended June 30, 2016, the University increased the asset retirement obligation by approximately $5.0 million for updated estimates for asbestos removal in certain facility areas.

(14) Postretirement Benefits Other than Pensions

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

The University reports the funded status of its postretirement plans on the Balance Sheets. The following table provides a summary of this unfunded plan as of June 30, 2017 and 2016:

		2017	2016
Change in benefit obligation:			
Benefit obligation at beginning of year	$	79,028,244	70,365,159
Service cost		401,407	383,463
Interest cost		2,762,070	3,111,731
Participants' contributions		690,977	642,538
Actuarial (gain) loss		(4,915,381)	9,082,838
Benefits paid		(4,403,775)	(4,780,852)
Subsidies received		241,941	223,367
Benefit obligation at end of year		73,805,483	79,028,244
Change in plan assets:			
Employer contribution		3,470,857	3,914,947
Plan participants' contributions		690,977	642,538
Benefits paid		(4,403,775)	(4,780,852)
Subsidies received		241,941	223,367
Fair value of plan assets at end of year		—	—
Accrued postretirement health benefits obligation	$	73,805,483	79,028,244

The actuarial gain and loss primarily resulted from changes in the discount rate and mortality assumptions used when computing the actuarial valuation of the benefit obligation.

The net periodic postretirement benefit expense includes the following components:

		2017	2016
Net periodic benefit cost:			
Service cost	$	401,407	383,463
Interest cost		2,762,070	3,111,731
Amortization of prior service credit		(3,185,018)	(3,185,018)
Amortization of net loss		2,504,082	2,075,435
Total net periodic benefit cost	$	2,482,541	2,385,611

The discount rates were as follows:

	2017	2016
Benefit obligation weighted average assumptions as of June 30, 2017 and 2016:		
Discount rate	3.85 %	3.70 %
Benefit cost weighted average assumptions for the years ended June 30, 2017 and 2016:		
Discount rate	3.70 %	4.45 %

Other changes in postretirement benefit obligations recognized in unrestricted net assets include the following components:

		2017	2016
Actuarial net (loss) gain		(4,915,381)	9,082,838
Amortization of prior service credit		3,185,018	3,185,018
Amortization of net loss		(2,504,082)	(2,075,435)
	$	(4,234,445)	10,192,421

As of June 30, 2017 and 2016, the items not yet recognized as net periodic postretirement benefit cost are as follows:

		2017	2016
Prior service credit	$	(13,886,681)	(17,071,699)
Net loss		22,405,437	29,824,900
	$	8,518,756	12,753,201

The estimated prior service credit and net loss that will be amortized into net periodic benefit cost in 2018 are $3,185,018 and $1,901,885, respectively.

For measurement purposes, a 7.5% (8.0% in 2016) 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, 2017, decreasing to 4.5% in 2023 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 $10,343,101 and $508,466, respectively, in 2017. A 1% decrease in the rate translates to a decrease in the accumulated postretirement benefit obligation and service and interest cost of $8,320,831 and $398,522, respectively, in 2017.

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
2018	$	4,842,191	384,069	4,458,122
2019		5,241,762	427,587	4,814,175
2020		5,513,028	452,964	5,060,064
2021		3,576,706	—	3,576,706
2022		3,663,660	—	3,663,660
2023 through 2027		19,201,290	—	19,201,290

(15) 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 recordkeepers 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.

(Continued)

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, 2017 and 2016 amounted to $11,745,471 and $10,975,619, respectively.

(16) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets at June 30, 2017 and 2016 are available to support the following areas:

	2017	2016
Instruction	$ 19,019,022	31,849,673
Research	1,068,760	1,069,263
Academic support	14,561,353	22,528,985
Student activities	1,586,338	1,394,283
Institutional support	2,481,681	2,558,265
Capital projects	42,148,699	5,139,982
Scholarships	11,769,536	10,668,229
Contributions receivable	5,502,313	5,090,538
Split-interest agreements	1,168,433	1,054,840
	$ 99,306,135	81,354,058

Temporarily restricted net assets of $46,352,361 and $41,637,670 as of June 30, 2017 and 2016, respectively, are available to support the Lubin School of Business, expendable only for projects approved by the donor or the donor's designee. During fiscal year 2017, $36,852,361 was redesignated by the donor to be used specifically for capital projects for the Lubin School of Business. Such amount was reported primarily in instruction and academic support as of June 30, 2016.

Permanently restricted net assets at June 30, 2017 and 2016 are restricted to investments in perpetuity, the income from which is expendable to support:

	2017	2016
Scholarships	$ 52,522,474	51,526,759
Instruction	26,596,122	26,390,182
Academic support	18,994,529	18,947,489
Other programs	6,280,830	6,079,357
	$ 104,393,955	102,943,787

(17) Scholarships and Fellowships

Tuition and fees are presented net of amounts awarded to students to defray their cost of attending the University. The amount awarded totaled $178,222,664 and $165,043,420 for the years ended June 30, 2017 and 2016, respectively.

(18) Leases

The University leases office, student housing, and classroom space under several operating lease agreements expiring at various dates through 2045. The minimum annual rentals in connection with such leases are as follows:

		Active leases as of June 30, 2017	55 John Street	Total
Year(s) ending June 30:				
2018	$	25,492,355	8,392,511	33,884,866
2019		26,949,228	7,869,711	34,818,939
2020		27,028,962	8,027,105	35,056,067
2021		27,505,284	8,187,648	35,692,932
2022		22,870,960	8,126,255	30,997,215
2023 and thereafter		485,855,205	—	485,855,205
	$	615,701,994	40,603,230	656,305,224

The University renewed its lease agreement effective August 1, 2017 for a five-year lease term expiring on May 22, 2022 for student housing at 55 John Street. The future annual rentals for 55 John Street have been noted separately as the lease renewal commenced after June 30, 2017.

Included in the above are lease commitments for student housing of $571,287,909 through 2045.

Total rental expense for the years ended June 30, 2017 and 2016 was $38,065,479 and $34,980,954, respectively. Included in accounts payable and accrued liabilities is a deferred rent obligation of $24,412,423 and $19,170,368 at June 30, 2017 and 2016, respectively, which represents the effect of straight-line effect of the total minimum lease payments over the lease terms.

(19) Expenses

Expenses are reported in the Statements of Activities in categories recommended by the National Association of College and University Business Officers. The University's primary program services are instruction and research. Expenses reported as academic support, student services, institutional support, and auxiliary enterprises are incurred in support of these primary program services. Institutional support includes fund-raising expenses of $6,468,526 and $5,614,857 for the years ended June 30, 2017 and 2016, respectively. For purposes of reporting fund-raising expenses, the University includes only those fund-raising costs incurred by its development office.

(20) Allocation of Certain Expenses

The University allocates operation and maintenance of plant and depreciation based upon square footage. Interest and other debt-related expenses are allocated based on the related plant debt assignment. For the year ended June 30, 2017 (with comparative totals for 2016), the following allocation of expenses was included in the Statements of Activities:

		Allocated expenses				
		Operation and maintenance of plant	Depreciation	Interest and other debt-related expenses	Direct expenses	Total per statement of activities
Instruction	$	5,707,495	2,612,933	1,363,750	126,106,301	135,790,479
Research		397,273	181,875	80,113	4,152,130	4,811,391
Academic support		8,476,870	3,880,772	1,645,206	38,296,661	52,299,509
Student services		4,924,350	2,254,403	1,451,899	38,391,506	47,022,158
Institutional support		2,945,813	1,348,614	613,123	51,750,599	56,658,149
Auxiliary enterprises		13,092,329	5,993,763	3,699,262	50,897,476	73,682,830
Total 2017	$	35,544,130	16,272,360	8,853,353	309,594,673	370,264,516
Total 2016	$	35,813,511	14,490,631	6,837,450	298,856,432	355,998,024

(21) Contingency

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

(22) Subsequent Events

In accordance with ASC Subtopic 855-10, *Subsequent Events*, the University evaluated subsequent events after the balance sheet date of June 30, 2017 through November 13, 2017, which was the date the financial statements were issued, and determined that there were no additional matters required to be disclosed.