



PACE UNIVERSITY

Financial Statements

June 30, 2018 and 2017

(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, 2018 and 2017, 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, 2018 and 2017, 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 14, 2018

PACE UNIVERSITY

Balance Sheets

June 30, 2018 and 2017

Assets	2018	2017
Cash and cash equivalents	\$ 2,468,879	5,963,826
Student accounts receivable (net of allowance for doubtful accounts of \$2,919,851 and \$2,712,573, respectively)	9,427,469	5,284,664
Grants and other receivables	3,944,702	4,312,627
Prepaid expenses and other assets	2,536,638	2,886,420
Contributions receivable, net (note 3)	21,561,835	24,414,996
Investments – endowment and other (notes 4 and 5)	185,561,223	172,381,602
Investments – designated for construction (notes 6 and 7)	42,448,731	66,622,980
Student loans receivable (net of allowance for doubtful accounts of \$4,873,268 and \$4,349,776, respectively)	11,880,674	12,958,755
Funds held by bond trustees, at fair value (notes 7 and 10)	1,509,336	1,738,101
Plant assets, net (note 8)	401,995,275	366,228,794
Total assets	\$ 683,334,762	662,792,765
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued liabilities (note 18)	\$ 77,220,998	61,242,366
Notes payable (note 9)	5,000,000	—
Deferred revenues and deposits	25,218,974	25,440,051
Long-term debt (notes 10 and 11)	199,857,750	203,883,330
Deferred rental revenue (note 12)	1,888,393	2,832,589
Asset retirement obligations (note 13)	6,635,277	7,671,826
Accrued postretirement health benefits obligation (note 14)	65,759,242	73,805,483
U.S. government grants refundable	12,603,206	12,861,720
Total liabilities	394,183,840	387,737,365
Commitments and contingencies (notes 4, 9, 11, 18, and 21)		
Net assets:		
Unrestricted:		
General	139,189,059	145,160,793
Accrued postretirement health benefits obligation (note 14)	(65,759,242)	(73,805,483)
Total unrestricted	73,429,817	71,355,310
Temporarily restricted (note 16)	110,028,998	99,306,135
Permanently restricted (note 16)	105,692,107	104,393,955
Total net assets	289,150,922	275,055,400
Total liabilities and net assets	\$ 683,334,762	662,792,765

See accompanying notes to financial statements.

PACE UNIVERSITY

Statements of Activities

Years ended June 30, 2018 and 2017

	2018			2017				
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues:								
Tuition and fees, net (note 17)	\$ 274,968,647	—	—	274,968,647	273,232,768	—	—	273,232,768
Government grants and contracts	9,256,654	—	—	9,256,654	8,791,079	—	—	8,791,079
State appropriations	857,486	—	—	857,486	850,590	—	—	850,590
Contributions	1,938,567	11,335,748	1,293,814	14,568,129	1,596,191	8,458,904	1,252,906	11,308,001
Investment return appropriated (note 4)	1,685,606	5,215,474	—	6,901,080	1,062,012	4,713,050	—	5,775,062
Sales and services of auxiliary enterprises	68,386,237	—	—	68,386,237	66,078,456	—	—	66,078,456
Other sources	6,796,273	—	—	6,796,273	7,564,304	—	405	7,564,709
Net assets released from restrictions	15,942,445	(15,942,445)	—	—	12,406,080	(12,406,080)	—	—
Total revenues	<u>379,831,915</u>	<u>608,777</u>	<u>1,293,814</u>	<u>381,734,506</u>	<u>371,581,480</u>	<u>765,874</u>	<u>1,253,311</u>	<u>373,600,665</u>
Expenses (notes 19 and 20):								
Instruction	138,763,445	—	—	138,763,445	134,710,274	—	—	134,710,274
Research	4,699,676	—	—	4,699,676	4,795,327	—	—	4,795,327
Academic support	54,880,144	—	—	54,880,144	52,002,954	—	—	52,002,954
Student services	48,655,479	—	—	48,655,479	46,766,553	—	—	46,766,553
Institutional support	62,030,959	—	—	62,030,959	56,252,244	—	—	56,252,244
Auxiliary enterprises	73,230,971	—	—	73,230,971	73,656,030	—	—	73,656,030
Total expenses	<u>382,260,674</u>	<u>—</u>	<u>—</u>	<u>382,260,674</u>	<u>368,183,382</u>	<u>—</u>	<u>—</u>	<u>368,183,382</u>
(Deficiency) excess of operating revenues over expenses before gain on sale of plant assets	(2,428,759)	608,777	1,293,814	(526,168)	3,398,098	765,874	1,253,311	5,417,283
Gain on sale of plant assets	—	—	—	—	27,299,839	—	—	27,299,839
(Deficiency) excess of operating revenues over expenses after gain on sale of plant assets	<u>(2,428,759)</u>	<u>608,777</u>	<u>1,293,814</u>	<u>(526,168)</u>	<u>30,697,937</u>	<u>765,874</u>	<u>1,253,311</u>	<u>32,717,122</u>
Nonoperating activities:								
Investment return, net (note 4)	537,484	10,046,341	—	10,583,825	774,142	17,174,607	—	17,948,749
Effect of underwater endowments (note 4)	—	—	—	—	126,013	(126,013)	—	—
Changes in postretirement health benefits obligation other than net periodic cost (note 14)	6,425,058	—	—	6,425,058	4,234,445	—	—	4,234,445
Net periodic benefit costs other than service costs (Note 14 and 20)	(1,665,977)	—	—	(1,665,977)	(2,081,134)	—	—	(2,081,134)
Other	(793,299)	67,745	4,338	(721,216)	(980,659)	137,609	196,857	(646,193)
Change in net assets	<u>2,074,507</u>	<u>10,722,863</u>	<u>1,298,152</u>	<u>14,095,522</u>	<u>32,770,744</u>	<u>17,952,077</u>	<u>1,450,168</u>	<u>52,172,989</u>
Net assets, beginning 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
Net assets, end of year	<u>\$ 73,429,817</u>	<u>110,028,998</u>	<u>105,692,107</u>	<u>289,150,922</u>	<u>71,355,310</u>	<u>99,306,135</u>	<u>104,393,955</u>	<u>275,055,400</u>

See accompanying notes to financial statements.

PACE UNIVERSITY

Statements of Cash Flows

Years ended June 30, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	\$ 14,095,522	52,172,989
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net appreciation in fair value of investments	(14,691,878)	(21,961,684)
Net appreciation in investments designated for construction	(188,846)	(83,954)
Net appreciation in fair value in split-interest agreement investments	(87,138)	(157,509)
Investment return on funds held by bond trustee	(38,445)	(18,917)
Change in value of split-interest agreement liabilities	22,798	(50,151)
Postretirement related changes other than net periodic pension cost	(6,425,058)	(4,234,445)
Provision for (recovery of) doubtful student loans receivable	523,491	(23,228)
Deferred rental revenue	(944,196)	(944,195)
Depreciation	17,823,981	16,272,360
Amortization of asset retirement obligation	487,116	462,149
Gain on sale of plant assets	—	(27,299,839)
Amortization of bond premium and bond issuance costs	(140,580)	(140,580)
Revenues restricted for permanent investment and capital	(5,126,049)	(4,107,111)
Changes in operating assets and liabilities:		
Student accounts receivable, net of allowance	(4,142,805)	1,066,059
Grants and other receivables	367,925	1,400,030
Prepaid expenses and other assets	349,782	54,085
Contributions receivable, net	2,088,520	(542,261)
Noncapital accounts payable and accrued liabilities	11,337,274	5,291,573
Deferred revenues and deposits	(221,077)	1,370,535
Asset retirement obligations	(1,523,665)	(1,177,715)
Accrued postretirement benefit obligation	(1,621,183)	(988,316)
U.S. government grants refundable	(258,514)	208,524
Net cash provided by operating activities	<u>11,686,975</u>	<u>16,568,399</u>
Cash flows from investing activities:		
Decrease (increase) in student loans, net of repayments	554,590	(617,314)
Purchase of plant assets	(53,590,462)	(29,822,844)
Increase (decrease) in capital accounts payables	4,618,560	(484,175)
Proceeds from sale of plant assets	—	66,662,244
Purchase of investments	(94,517,118)	(102,340,967)
Proceeds from sale of investments	120,479,608	40,062,614
Net cash used in investing activities	<u>(22,454,822)</u>	<u>(26,540,442)</u>
Cash flows from financing activities:		
Contributions received for capital projects and permanent investments	5,126,049	4,107,111
Net decrease in contributions receivable for capital projects and permanent investments	764,641	5,701,516
Proceeds from notes payable	5,000,000	—
Repayment of indebtedness	(3,885,000)	(3,700,000)
Decrease in funds held by bond trustees	267,210	175,171
Net cash provided by financing activities	<u>7,272,900</u>	<u>6,283,798</u>
Net decrease in cash and cash equivalents	(3,494,947)	(3,688,245)
Cash and cash equivalents at beginning of year	<u>5,963,826</u>	<u>9,652,071</u>
Cash and cash equivalents at end of year	<u>\$ 2,468,879</u>	<u>5,963,826</u>
Supplemental disclosure:		
Interest paid	\$ 8,048,032	7,896,862

See accompanying notes to financial statements.

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Notes to Financial Statements

June 30, 2018 and 2017

(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, 2018 and 2017. 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.

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Notes to Financial Statements

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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 FASB Accounting Standards Update (ASU) No. 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. See Section (n) below for additional details. The University plans to adopt ASU No. 2016-14 for the year ending June 30, 2019.

(b) Cash Equivalents and Short-Term Investments

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 (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 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

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Notes to Financial Statements

June 30, 2018 and 2017

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 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 re-loaned after collection. These funds are ultimately refundable to the government and, therefore, are also presented in the Balance Sheets as a liability.

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Notes to Financial Statements

June 30, 2018 and 2017

(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, 2018 and 2017. Accordingly, no provision for income taxes has been reflected in the accompanying financial statements.

The Tax Cuts and Jobs Act (the Act) was signed into law on December 22, 2017. The Act contains various provisions affecting not-for-profit entities. Tax-exempt entities are impacted in part by the inclusion of a new excise tax on excess compensation for covered employees and changes to unrelated business income. The Act's provisions may also impact donor incentives for charitable giving. The University's preliminary assessment is that there is no impact on the financial statements as of June 30, 2018, but is currently assessing the overall future impact of the Act on the financial statements.

(l) Operations

The Statements of Activities distinguish 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. Nonoperating activities also include all components of net periodic benefit costs other than the service cost component as a result of the adoption of ASU No. 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. See details in Section (n) below.

(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

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Notes to Financial Statements

June 30, 2018 and 2017

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 ASU No. 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 periodic benefit cost in the statement of activities line item where compensation costs are reported. The University adopted ASU No. 2017-07 for the year ended June 30, 2018, which resulted in the reclassification of all other components of net periodic benefit costs of \$2,081,134 to nonoperating activities previously included in operating activities for the year ended June 30, 2017 (see note 14).

The FASB issued ASU No. 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 No. 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 No. 2016-14 for the year ending June 30, 2019.

The FASB issued ASU No. 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 No. 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.

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Notes to Financial Statements

June 30, 2018 and 2017

The FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, to clarify and improve the scope and the accounting guidance for contributions received and contributions made. The amendments in this ASU should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of ACS Topic 958, *Not-for-Profit Entities*, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. The University plans to adopt ASU No. 2018-08 for the year ending June 30, 2019. The University is continuing to evaluate the impact of adopting this guidance on its financial statements.

(o) Reclassification

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

(3) Contributions Receivable

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

	2018	2017
Amounts expected to be collected in:		
Less than one year	\$ 12,176,280	9,480,690
One to five years	6,633,812	12,869,088
More than five years	5,032,084	5,282,084
	23,842,176	27,631,862
Less discount to present value from 0.21% to 2.92%	(1,839,350)	(2,469,443)
Less allowance for uncollectible amounts	(440,991)	(747,423)
	\$ 21,561,835	24,414,996

Included in contributions receivable at June 30, 2018 and 2017 are outstanding pledges from five donors and six donors, respectively, which collectively represent 82% of total related outstanding gross contributions receivable balances for each of the years.

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Notes to Financial Statements
June 30, 2018 and 2017

(4) Investments and Investment Return

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

	<u>2018</u>	<u>2017</u>
Pace Fund:		
Cash and cash equivalents	\$ 13,174,633	3,952,209
Common stocks	19,149,821	15,796,188
Mutual funds:		
International equities	—	6,481,309
Domestic equities	<u>29,703,532</u>	<u>39,531,878</u>
	<u>29,703,532</u>	<u>46,013,187</u>
Exchange traded funds:		
Domestic equities	31,030,095	39,234,633
Fixed income and Master Limited Partnerships (MLP's)	<u>—</u>	<u>4,565,933</u>
	<u>31,030,095</u>	<u>43,800,566</u>
Commingled funds:		
Global equities (a)	17,441,442	17,525,981
Alternative investments:		
Diversifiers (b)	—	6,497,454
Global equities (c)	—	1,961,153
Long/short equity and credit (d)	9,399,614	3,897,707
Private equity (e)	14,976,472	8,388,139
Secondaries (f)	—	1,276,804
Distressed (e)	1,281,428	2,877,301
Real assets (e)	<u>936,057</u>	<u>1,066,024</u>
	<u>26,593,571</u>	<u>25,964,582</u>
Pace Fund total	<u>137,093,094</u>	<u>153,052,713</u>

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Notes to Financial Statements
June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Other investments:		
Cash and cash equivalents	\$ 3,575,379	5,149,230
Common stocks	706,566	428,281
Mutual funds:		
Domestic equities	2,637,702	2,463,954
International equities	576,031	537,128
Fixed income	<u>9,517,128</u>	<u>9,936,063</u>
	<u>12,730,861</u>	<u>12,937,145</u>
Bonds:		
US treasuries	6,388,624	—
Domestic corporate bonds	17,391,658	—
International corporate bonds	3,330,033	—
Asset-backed securities	1,709,678	—
Commercial mortgage-backed securities	1,821,097	—
Municipal bonds	<u>814,233</u>	<u>814,233</u>
	<u>31,455,323</u>	<u>814,233</u>
Other investments total	<u>48,468,129</u>	<u>19,328,889</u>
	<u>\$ 185,561,223</u>	<u>172,381,602</u>

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

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- (d) Includes investments in limited partnerships and limited liability corporations invested in long stock positions with short sales of stock and stock indexes, multi-strategy portfolios that seek to exploit securities miss-pricings caused by mergers and acquisitions, spin-offs, reorganizations, and bankruptcies
- (e) Includes investment through limited partnerships in underlying private equity partnerships invested in debt securities, buyouts, and natural resources. 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 \$1,862,868 and \$2,037,658 of assets held under split-interest agreements at June 30, 2018 and 2017, 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 4.5% (5% for the year ended June 30, 2017) of the quarterly three-year moving average fair value of the pooled investments. In accordance with the above spending rate, \$5,697,106 and \$5,233,204 of investment return was made available for the years ended June 30, 2018 and 2017, 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 \$1,203,974 and \$541,858 in fiscal years 2018 and 2017, 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, 2018, the Pace Fund had commitments of approximately \$15.7 million 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, 2018. The University maintains sufficient liquidity in its portfolio to cover such calls.

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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, 2018:

	<u>Redemption provision</u>	<u>Notice period</u>	<u>Amount</u>
Commingled funds	Daily	20 Days	\$ 4,502,735
		30 Days	7,189,756
	Quarterly	60 Days	5,748,951
Alternative investments:			
Long/short equity and credit	Monthly	30 Days	2,299,011
Long/short equity and credit	Quarterly	65 Days	3,367,648
Long/short equity and credit	Quarterly	90 Days	3,422,524
Long/short equity and credit	Lock-up		310,431
Private equity partnerships (including distressed and real assets)	Illiquid		<u>17,193,957</u>
			<u>\$ 44,035,013</u>

The redemption lock-up on certain funds totaling \$310,431 is set to expire in December 2018.

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, 2018 and 2017:

	<u>2018</u>		
	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Total</u>
Dividends and interest on investments (net of expenses of \$1,052,773)	\$ 1,285,873	1,507,154	2,793,027
Net appreciation in fair value of investments	<u>937,217</u>	<u>13,754,661</u>	<u>14,691,878</u>
Total investment return	2,223,090	15,261,815	17,484,905
Investment return appropriated for operations	<u>1,685,606</u>	<u>5,215,474</u>	<u>6,901,080</u>
Investment return, net	<u>\$ 537,484</u>	<u>10,046,341</u>	<u>10,583,825</u>

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	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	<u>\$ 648,129</u>	<u>17,300,620</u>	<u>17,948,749</u>

(5) Endowment Funds

The University's endowment consists of 418 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 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. 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.

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

		2018			
		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment	\$	—	81,115,925	90,664,227	171,780,152
Board-designated endowment		10,073,668	—	—	10,073,668
Total pooled endowment		10,073,668	81,115,925	90,664,227	181,853,820
Nonpooled investments		1,443,590	1,821,940	441,873	3,707,403
Total investments	\$	<u>11,517,258</u>	<u>82,937,865</u>	<u>91,106,100</u>	<u>185,561,223</u>

		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	\$	<u>9,570,847</u>	<u>73,644,333</u>	<u>89,166,422</u>	<u>172,381,602</u>

Included in donor-restricted endowments at June 30, 2018 and 2017 are \$42,636,993 and \$40,652,361, respectively, of temporarily restricted net assets expendable only for projects for the Lubin School of Business approved by the donors or the donor's designee. During 2018 and 2017, donors or a donor's designee approved projects totaling approximately \$1.0 million and \$7.2 million, respectively (primarily for capital). Accordingly, such amounts have been transferred out of endowment funds but remains in temporarily restricted net assets until the purpose restrictions are satisfied, which is expected to primarily occur by fiscal year 2019.

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Changes in pooled endowment assets for the year ended June 30, 2018 were as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment at June 30, 2017	\$ 9,455,683	71,512,481	88,911,638	169,879,802
Investment return:				
Investment income	1,285,873	1,507,154	—	2,793,027
Net appreciation in fair value of investments	<u>937,217</u>	<u>13,754,661</u>	<u>—</u>	<u>14,691,878</u>
Total return on investment	2,223,090	15,261,815	—	17,484,905
Less appreciation on funds designated for construction and nonpooled investments	<u>(1,203,974)</u>	<u>(115,463)</u>	<u>—</u>	<u>(1,319,437)</u>
Total endowment return on investment	1,019,116	15,146,352	—	16,165,468
Contributions	20,500	20,000	1,790,557	1,831,057
Appropriation of endowment assets for expenditure	(481,632)	(5,215,474)	—	(5,697,106)
Other changes, including transfers	<u>60,001</u>	<u>(347,434)</u>	<u>(37,968)</u>	<u>(325,401)</u>
Endowment at June 30, 2018	<u>\$ 10,073,668</u>	<u>81,115,925</u>	<u>90,664,227</u>	<u>181,853,820</u>

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

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
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	<u>1,260,028</u>	<u>20,701,656</u>	<u>—</u>	<u>21,961,684</u>
Total return on investment	1,836,154	21,887,657	—	23,723,811

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	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Less appreciation on funds designated for construction and 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	<u>\$ 9,455,683</u>	<u>71,512,481</u>	<u>88,911,638</u>	<u>169,879,802</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. 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, 2018 and June 30, 2017, there was no deficiency in unrestricted net assets.

(6) Investments – Designated for Construction

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, 2018 and 2017, investments designated for construction totaled \$42,448,731 and \$66,622,980, respectively, which includes \$18,698,759 and \$16,183,476 respectively, of cash and cash equivalents. As of June 30, 2017, investments designated for construction includes \$28,152,318 of funds held by bond trustees (primarily consisting of government securities) available from the 2017 sale of plant assets (note 8) previously funded by tax-exempt financing (Series 2013A). These funds were released in 2018 as requisitioned by the University for payments for capital projects. The remaining balance of investments designated for construction primarily includes various fixed-income securities (consisting of certificates of deposits and corporate bonds) with maturities of less than five years.

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(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, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Cash and cash equivalents	\$ 3,575,379	—	—	3,575,379
Common stocks	701,666	4,900	—	706,566
Mutual funds:				
Domestic equities	2,637,702	—	—	2,637,702
International equities	576,031	—	—	576,031
Fixed income	9,517,128	—	—	9,517,128
Bonds	31,455,323	—	—	31,455,323
	<u>\$ 48,463,229</u>	<u>4,900</u>	<u>—</u>	48,468,129
Investments measured at net asset value:				
Pace Fund				<u>137,093,094</u>
Total investments				<u>\$ 185,561,223</u>
Funds held by bond trustees	\$ 1,509,336	—	—	1,509,336
Investments designated for construction	\$ 42,448,731	—	—	42,448,731

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

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
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
	<u>\$ 19,323,989</u>	<u>4,900</u>	<u>—</u>	<u>19,328,889</u>

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	Level 1	Level 2	Level 3	Total
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

There were no transfers between fair value hierarchy levels in 2018 and 2017.

(8) Plant Assets

Plant assets at June 30, 2018 and 2017 consist of the following:

	2018	2017
Land	\$ 12,453,325	12,453,325
Land improvements	1,531,991	4,688,784
Buildings, leaseholds, and improvements	428,515,405	410,815,322
Construction in progress	38,429,606	15,130,739
Furniture and equipment	96,546,403	91,884,343
Library books	769,614	1,024,256
Total	578,246,344	535,996,769
Less accumulated depreciation	(176,251,069)	(169,767,975)
	\$ 401,995,275	366,228,794

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. As of June 30, 2017 the Balance Sheet includes \$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. These funds were held by bond trustees as 106 Fulton was previously funded by a tax-exempt financing (Series 2013A) and were released in fiscal year 2018 as requisitioned by the University for payments for capital projects (see note 6).

Construction in progress primarily consists of amounts expended for the construction of the NY Master-Plan, which was primarily funded by restricted contributions and proceeds received from the sale of 106 Fulton Street, and therefore, no interest was capitalized for the year ended June 30, 2018. The University capitalized interest of \$383,604 for the year ended June 30, 2017.

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Included in buildings, leaseholds, and improvements at June 30, 2018 and 2017 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.

(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 an outstanding balance of \$5.0 million under the line of credit as of June 30, 2018, which was outstanding from June 28, 2018 to when it was subsequently repaid on July 23, 2018. There were no amounts outstanding under the line of credit as of June 30, 2017.

During 2018, interest on this borrowing amounted to \$1,706, and there was no interest in 2017.

(10) Long-Term Debt

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

	2018	2017
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 \$7,301,862 and \$7,608,234 and less unamortized prepaid bond issue costs of \$1,340,194 and \$1,396,426 at June 30, 2018 and 2017, respectively	\$ 85,076,668	88,566,808
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 \$218,884 and \$231,887 unamortized prepaid bond issue costs at June 30, 2018 and 2017, respectively	16,501,116	17,133,113

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	2018	2017
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 \$503,153 and \$524,338 and unamortized prepaid bond issue costs of \$1,590,519 and \$1,657,489 at June 30, 2018 and June 30, 2017, respectively	\$ 83,571,328	83,483,173
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 \$216,362 and \$224,764 unamortized prepaid bond issue costs at June 30, 2018 and 2017, respectively	14,708,638	14,700,236
Total long-term debt	\$ 199,857,750	203,883,330

The University accounts for debt issuance costs in accordance with ASU No. 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. Debt issuance costs of \$3,365,959 and \$3,510,566 are reported as a reduction of long-term debt on the Balance Sheets as of June 30, 2018 and 2017, 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, 2018 and 2017, \$1,240,186 and \$1,206,216, 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, 2018 and 2017, \$184,479 and \$177,763, 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 22.0% per annum based on the University's current credit rating. The weighted average interest rate in 2018 for the Series 2013B Bonds was 3.2%. The range of rates in 2018 was 3.1% to 3.4%.

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, 2018 and June 30, 2017, there were no funds held by bond trustees in the balance sheet related to the Series 2014A.

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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 2018 for the Series 2014B Bonds was 1.8%. The range of rates in 2018 was 1.5% to 2.4%. At June 30, 2018 and 2017, \$84,671 and \$354,122, 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, 2018 and 2017 was \$9,508,411 and \$8,993,933, respectively. The interest and fees for the year ended June 30, 2017 are net of capitalized interest of \$383,604.

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, 2018 and 2017, 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:

	<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:					
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
2023	5,785,000	3,625,954	—	5,045,250	14,456,204

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(12) Judicial Training Institute

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, 2018 and 2017, deferred rental revenue of \$1,888,393 and \$2,832,589, respectively, is included in the Balance Sheets. For each of the years ended June 30, 2018 and 2017, \$944,195 was recognized as rental revenue and is included in other sources in the Statements of Activities.

(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, 2018 and 2017 amounted to \$6,635,277 and \$7,671,826, respectively.

(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.

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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, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 73,805,483	79,028,244
Service cost	375,800	401,407
Interest cost	2,787,877	2,762,070
Participants' contributions	747,016	690,977
Amendments	(3,781,414)	—
Actuarial gain	(3,765,544)	(4,915,381)
Benefits paid	(4,642,874)	(4,403,775)
Subsidies received	232,898	241,941
	<u>65,759,242</u>	<u>73,805,483</u>
Change in plan assets:		
Employer contribution	3,662,960	3,470,857
Plan participants' contributions	747,016	690,977
Benefits paid	(4,642,874)	(4,403,775)
Subsidies received	232,898	241,941
	<u>—</u>	<u>—</u>
Fair value of plan assets at end of year	—	—
Accrued postretirement health benefits obligation	\$ 65,759,242	73,805,483

The amendments in 2018 were the result of medical and prescription co-payment changes and an increase in retiree contribution requirements.

The actuarial gain in 2018 and 2017 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:

	<u>2018</u>	<u>2017</u>
Net periodic benefit cost:		
Service cost	\$ 375,800	401,407
Interest cost	2,787,877	2,762,070
Amortization of prior service credit	(3,185,018)	(3,185,018)
Amortization of net loss	2,063,118	2,504,082
	<u>2,041,777</u>	<u>2,482,541</u>
Total net periodic benefit cost	\$ 2,041,777	2,482,541

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The University adopted ASU No. 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, for the year ended June 30, 2018, which requires companies to present the service cost component of net periodic benefit cost in the statement of activities line item where compensation costs are reported. As a result, all components of net periodic benefit costs other than the service cost component of \$2,081,134 were reclassified to nonoperating activities that previously were included in operating activities for the year ended June 30, 2017.

The discount rates were as follows:

	2018	2017
Benefit obligation weighted average assumptions as of June 30, 2018 and 2017:		
Discount rate	4.25 %	3.85 %
Benefit cost weighted average assumptions for the years ended June 30, 2018 and 2017:		
Discount rate	3.85 %	3.70 %

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

	2018	2017
New prior service credit	\$ (3,781,414)	—
Actuarial net loss	(3,765,544)	(4,915,381)
Amortization of prior service credit	3,185,018	3,185,018
Amortization of net loss	(2,063,118)	(2,504,082)
	\$ (6,425,058)	(4,234,445)

As of June 30, 2018 and 2017, the items not yet recognized as net periodic postretirement benefit cost are as follows:

	2018	2017
Prior service credit	\$ (14,483,077)	(13,886,681)
Net loss	16,576,775	22,405,437
	\$ 2,093,698	8,518,756

The estimated prior service credit and net loss that will be amortized into net periodic benefit cost in 2019 are \$3,996,480 and \$1,312,448, respectively.

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For measurement purposes, a 7.0% (7.5% in 2017) 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, 2018, 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 \$8,849,964 and \$488,827, respectively, in 2018. A 1% decrease in the rate translates to a decrease in the accumulated postretirement benefit obligation and service and interest cost of \$7,134,007 and \$385,537, respectively, in 2018.

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

	<u>Before Medicare subsidy</u>	<u>Medicare subsidy</u>	<u>After Medicare subsidy</u>
2019	\$ 5,076,652	349,730	4,726,922
2020	5,408,029	373,883	5,034,146
2021	3,446,321	—	3,446,321
2022	3,548,523	—	3,548,523
2023	3,637,429	—	3,637,429
2024 through 2028	18,856,128	—	18,856,128

(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 record keepers and custodians. In 2011, the University selected TIAA-CREF as the University's sole 403(b) vendor effective January 1, 2011. Existing accounts with Fidelity and T. Rowe Price continue to be part of the plan, but new contributions can only be made to TIAA-CREF accounts.

The University makes annual plan contributions, which are vested immediately for the benefit of the participants. The University's contributions under the plan for the years ended June 30, 2018 and 2017 amounted to \$11,576,976 and \$11,745,471, respectively.

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(16) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets at June 30, 2018 and 2017 are available to support the following areas:

	<u>2018</u>	<u>2017</u>
Instruction	\$ 20,883,270	19,019,022
Research	558,754	1,068,760
Academic support	15,850,775	14,561,353
Student activities	1,856,472	1,586,338
Institutional support	3,223,211	2,481,681
Capital projects	44,261,776	42,148,699
Scholarships	19,040,483	11,769,536
Contributions receivable	3,143,442	5,502,313
Split-interest agreements	1,210,815	1,168,433
	<u>\$ 110,028,998</u>	<u>99,306,135</u>

Temporarily restricted net assets of \$48,336,993 and \$46,352,361 as of June 30, 2018 and 2017, respectively, are available to support the Lubin School of Business, expendable only for projects approved by the donors or the donor's designee. During fiscal year 2017, \$36,852,361 was re-designated by the donor to be used specifically for capital projects for the Lubin School of Business.

Permanently restricted net assets at June 30, 2018 and 2017 are restricted to investments in perpetuity, the income from which is expendable to support:

	<u>2018</u>	<u>2017</u>
Scholarships	\$ 54,132,331	52,522,474
Instruction	26,687,515	26,596,122
Academic support	19,031,429	18,994,529
Other programs	5,840,832	6,280,830
	<u>\$ 105,692,107</u>	<u>104,393,955</u>

(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 \$192,927,388 and \$178,222,664 for the years ended June 30, 2018 and 2017, respectively.

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(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,		
	2018	52 Broadway	Total
Year ending June 30:			
2019	\$ 35,248,031	—	35,248,031
2020	35,485,159	879,158	36,364,317
2021	36,122,023	1,070,375	37,192,398
2022	31,426,307	1,089,107	32,515,414
2023	18,903,335	1,108,166	20,011,501
2024 and thereafter	466,951,870	15,877,971	482,829,841
	<u>\$ 624,136,725</u>	<u>20,024,777</u>	<u>644,161,502</u>

The University entered into a lease agreement effective September 1, 2018 for space at 52 Broadway, expiring on August 30, 2034. The future annual rentals for 52 Broadway have been noted separately as the lease commencement date was after June 30, 2018.

Included in the above are lease commitments for student housing of \$549,057,335 through 2045.

Total rental expense for the years ended June 30, 2018 and 2017 was \$41,188,010 and \$38,065,479, respectively. Included in accounts payable and accrued liabilities is a deferred rent obligation of \$29,504,572 and \$24,412,423 at June 30, 2018 and 2017, 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 \$6,435,148 and \$6,468,526 for the years ended June 30, 2018 and 2017, respectively. For purposes of reporting fund-raising expenses, the University includes only those fund-raising costs incurred by its development office.

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(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, 2018 (with comparative totals for 2017), the following allocation of expenses was included in the Statements of Activities:

	<u>Allocated expenses</u>				<u>Total per statement of activities Operating</u>	<u>Net periodic benefit costs *</u>
	<u>Operation and maintenance of plant</u>	<u>Depreciation</u>	<u>Interest and other debt-related expenses</u>	<u>Direct expenses</u>		
Instruction	\$ 6,247,337	2,936,418	1,464,945	128,114,745	138,763,445	(886,528)
Research	394,467	185,410	81,364	4,038,435	4,699,676	(10,751)
Academic support	9,653,779	4,537,538	1,832,205	38,856,622	54,880,144	(237,603)
Student services	5,258,555	2,471,663	1,531,023	39,394,238	48,655,479	(207,946)
Institutional support	4,200,919	1,974,546	792,293	55,063,201	62,030,959	(303,419)
Auxiliary enterprises	12,166,118	5,718,406	3,666,001	51,680,446	73,230,971	(19,730)
Total 2018	<u>\$ 37,921,175</u>	<u>17,823,981</u>	<u>9,367,831</u>	<u>317,147,687</u>	<u>382,260,674</u>	<u>(1,665,977)</u>
Total 2017	\$ 35,512,124	16,272,360	8,853,353	307,545,545	368,183,382	(2,081,134)

* Represents net periodic benefit costs other than service cost activities.

(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, 2018 through November 14, 2018, which was the date the financial statements were issued, and determined that there were no additional matters required to be disclosed.