PACE UNIVERSITY

Financial Statements

June 30, 2003 and 2002

(With Independent Auditors' Report Thereon)

345 Park Avenue
New York, NY 10154

Independent Auditors' Report

The Board of Trustees
Pace University:

We have audited the accompanying balance sheets of Pace University as of June 30, 2003 and 2002, and the related statements of changes in unrestricted net assets, changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pace University as of June 30, 2003 and 2002, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

October 31, 2003, except as to
note 7 which is as of
February 18, 2004

PACE UNIVERSITY

Balance Sheets

June 30, 2003 and 2002

Assets		2003	2002
Cash and cash equivalents	$	2,092,343	245,813
Student accounts receivable (net of allowance for doubtful accounts of $1,479,000 in 2003 and 2002)		6,495,453	6,215,715
Grants and other receivables (note 21)		13,656,129	16,435,514
Prepaid expenses and other assets		5,326,689	5,959,966
Contributions receivable, net (note 4)		2,500,546	2,720,666
Investments (notes 3 and 10)		81,591,626	81,813,540
Student loans receivable (net of allowance for doubtful accounts of $1,685,000 and $1,806,000 in 2003 and 2002, respectively)		13,665,103	13,752,455
Funds held by bond trustees (note 7)		11,046,956	11,898,388
Plant assets (notes 5 and 7)		270,411,350	238,606,958
Total assets	$	406,786,195	377,649,015
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued liabilities (notes 12 and 14)	$	24,382,239	26,221,017
Notes payable (note 6)		43,400,000	35,000,000
Deferred revenues and deposits		6,420,550	4,451,692
Liability under split-interest agreements		922,418	914,295
Long-term debt (notes 7 and 8)		81,874,799	83,441,757
Deferred compensation (note 10)		6,674,675	8,142,535
Deferred rental revenue (note 9)		16,051,338	—
Accrued postretirement benefit obligation (note 11)		52,495,150	49,742,786
U.S. Government grants refundable		12,228,854	11,900,662
Total liabilities		244,450,023	219,814,744
Net assets:			
Unrestricted		93,574,847	90,276,232
Temporarily restricted (note 15)		22,378,572	21,858,295
Permanently restricted (note 15)		46,382,753	45,699,744
Total net assets		162,336,172	157,834,271
Total liabilities and net assets	$	406,786,195	377,649,015

See accompanying notes to financial statements.

PACE UNIVERSITY

Statements of Changes in Unrestricted Net Assets

Years ended June 30, 2003 and 2002

	Operating	Nonoperating	Total 2003	Total 2002
Revenues:				
Tuition and fees, net (note 16)	$ 179,520,959	—	179,520,959	166,293,214
State appropriations	1,185,800	—	1,185,800	1,235,981
Contributions (note 17)	700,652	—	700,652	943,646
Investment return (note 3)	657,034	(2,703,388)	(2,046,354)	(1,770,830)
Investment return on funds held by bond trustees	—	353,120	353,120	344,478
Sales and services of auxiliary enterprises	17,152,888	—	17,152,888	16,077,684
Other sources (note 9)	6,035,172	—	6,035,172	4,523,650
Net assets released from restrictions	21,546,274	—	21,546,274	20,895,328
Total revenues	226,798,779	(2,350,268)	224,448,511	208,543,151
Expenses (notes 17 and 19):				
Instruction	94,135,225	2,387,454	96,522,679	92,713,495
Research	2,811,034	44,504	2,855,538	1,922,389
Academic support	31,071,101	1,687,912	32,759,013	30,323,359
Student services	27,900,921	1,232,495	29,133,416	28,583,635
Institutional support	39,305,760	1,183,889	40,489,649	34,881,656
Auxiliary enterprises	20,687,225	3,422,853	24,110,078	23,225,152
Total expenses	215,911,266	9,959,107	225,870,373	211,649,686
Losses and related recoveries (note 21):				
Costs and losses related to events of September 11, 2001	(176,927)	—	(176,927)	(2,859,749)
FEMA aid and insurance recoveries	4,897,404	—	4,897,404	6,115,673
Excess insurance recoveries over costs and losses	4,720,477	—	4,720,477	3,255,924
Transfer for repayment of indebtedness	(1,585,000)	1,585,000	—	—
Increase (decrease) in unrestricted net assets	$ 14,022,990	(10,724,375)	3,298,615	149,389

See accompanying notes to financial statements.

PACE UNIVERSITY

Statements of Changes in Net Assets

Years ended June 30, 2003 and 2002

		2003	2002
Increase in unrestricted net assets	$	3,298,615	149,389
Changes in temporarily restricted net assets:			
Government grants and contracts		8,447,063	8,402,991
Private gifts and grants (note 17)		9,304,640	10,399,886
Investment return (note 3)		4,312,298	(8,045,578)
Change in value of split-interest agreements		2,550	37,797
Net assets released from restrictions		(21,546,274)	(20,895,328)
Increase (decrease) in temporarily restricted net assets		520,277	(10,100,232)
Changes in permanently restricted net assets:			
Contributions (note 17)		601,050	1,370,539
Investment return (note 3)		46,761	(190,468)
Change in value of split-interest agreements		29,429	(49,241)
Interest on student loans, net		5,769	14,341
Increase in permanently restricted net assets		683,009	1,145,171
Increase (decrease) in net assets		4,501,901	(8,805,672)
Net assets at beginning of year		157,834,271	166,639,943
Net assets at end of year	$	162,336,172	157,834,271

See accompanying notes to financial statements.

PACE UNIVERSITY

Statements of Cash Flows

Years ended June 30, 2003 and 2002

		2003	2002
Cash flows from operating activities:			
Increase (decrease) in net assets	$	4,501,901	(8,805,672)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:			
Net (appreciation) depreciation in fair value of investments		(1,061,201)	11,955,956
Change in value of split-interest agreements		31,979	(11,444)
Deferred rental revenue		(157,366)	—
Depreciation		9,959,719	8,806,110
Amortization		135,574	135,574
Write-off of fixed assets		187,668	344,917
Revenues and losses restricted for permanent investment		(653,580)	(1,194,412)
(Increase) decrease in student accounts receivable		(279,738)	1,114,518
Decrease (increase) in government grants and other receivables		2,779,385	(7,243,266)
Decrease (increase) in prepaid expenses and other assets		515,745	(100,813)
Increase in contributions receivable		(101,970)	(48,127)
Decrease in accounts payable and accrued liabilities		(1,838,778)	(1,801,005)
Increase in deferred revenues and deposits		1,968,858	207,069
Increase in accrued postretirement benefit obligation		2,752,364	2,221,238
Increase in U.S. Government grants refundable		328,192	557,544
Net cash provided by operating activities		19,068,752	6,138,187
Cash flows from investing activities:			
Decrease (increase) in student loans receivable		87,352	(1,133,571)
Decrease in deferred compensation		(1,467,860)	(832,341)
Purchase of plant assets		(25,743,075)	(39,826,388)
Purchase of investments		(18,068,372)	(74,734,250)
Proceeds from sale of investments		19,351,487	93,797,667
Net cash used in investing activities		(25,840,468)	(22,728,883)
Cash flows from financing activities:			
Revenues and losses from contributions restricted for permanent investment		653,580	1,194,412
Decrease (increase) in contributions receivable restricted for permanent investment		322,090	(86,841)
Decrease in liabilities under split-interest agreements, net		(23,856)	(40,683)
Increase in notes payable		63,500,000	52,500,000
Repayment of notes payable		(55,100,000)	(37,500,000)
Repayment of indebtedness		(1,585,000)	(1,606,227)
Decrease in funds held by bond trustees		851,432	2,175,572
Net cash provided by financing activities		8,618,246	16,636,233
Net increase in cash and cash equivalents		1,846,530	45,537
Cash and cash equivalents at beginning of year		245,813	200,276
Cash and cash equivalents at end of year	$	2,092,343	245,813
Supplemental disclosure:			
Interest paid	$	5,403,666	5,501,743
Building received in exchange for use of land		16,208,704	—
Increase in deferred rental revenue		16,208,704	—

See accompanying notes to financial statements.

(1) Nature of Operations

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

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

(2) Summary of Significant Accounting Policies

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

(a) Basis of Presentation

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

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

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

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

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

(b) Contributions

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

(Continued)

Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. The University reports contributions of plant assets as increases in unrestricted net assets unless the donor places restrictions on their use. Contributions to be received after one year are discounted at a risk-free 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.

(c) Cash Equivalents

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

(d) Plant Assets

Plant assets are stated as follows:

- Land, land improvements, and buildings – at cost.
- Equipment – at cost.
- Library books – at nominal amount of $1 per volume.

Depreciation of plant assets is computed on a straight-line basis over their estimated useful lives. No depreciation is computed in the year assets are acquired and a full year's depreciation is computed in the year of disposition. Depreciable lives of land improvements, buildings, and building improvements range from 16 years to 92 years and the depreciable life of equipment is 10 years.

(e) U.S. Government Grants Refundable

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

(f) Split-Interest Agreements

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

(Continued)

(g) ***Operations***

The statements of changes in unrestricted net assets 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 (see note 3), investment return on funds held by bond trustees, gain or loss on fixed asset disposal, if any, and depreciation. Fixed asset disposals resulting from the events of September 11, 2001 are recorded in operations as required by generally accepted accounting principles.

(h) ***Accounting Estimates***

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(i) ***Other Significant Accounting Policies***

Other significant accounting policies are set forth in the following notes.

(3) Investments and Investment Return

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

The following tabulation summarizes the composition of investments at June 30, 2003 and 2002:

	2003		2002	
	Cost	**Fair value**	**Cost**	**Fair value**
Cash and cash equivalents	$ 2,101,523	2,200,884	1,720,225	1,769,630
Cash and cash equivalents – deferred compensation	4,184,611	4,236,718	4,297,442	4,343,299
Common stocks	18,004,470	18,364,579	24,926,541	22,245,174
Mutual funds:				
Equity	29,180,588	24,697,023	27,937,592	22,538,876
Fixed income	18,340,726	19,604,170	17,197,389	17,884,799
Mutual funds – deferred compensation	2,421,640	2,530,596	3,800,012	3,795,310
Alternative investments	8,177,500	8,502,411	7,471,450	7,381,187
U.S. Government bonds	640,521	634,520	951,854	979,970
Collateralized mortgage obligations – deferred compensation of $96,563 in 2002	6,497	194	103,549	97,256
Municipal bonds	780,007	820,531	776,443	778,039
	$ 83,838,083	81,591,626	89,182,497	81,813,540

Investments include $2,203,135 and $2,156,297 of assets held under split-interest agreements at June 30, 2003 and 2002, respectively.

Alternative investments consist of two hedge funds. These alternative investments are less liquid than the University's other investments.

During the year ended June 30, 2002, the University withdrew $15 million from its investment portfolio to finance a portion of the construction of certain capital projects.

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 three-year moving average fair value of the pooled investments. In accordance with the above spending rate, $3,332,015 and $3,777,553 of investment return was made available for the years ended June 30, 2003 and 2002, respectively, to support operations of the University. In addition, the University also utilized investment return of $240,076 in fiscal 2003 and recognized negative investment return of $47,247 in fiscal 2002 on short-term and other nonpooled investments to support operations.

(Continued)

The following summarizes the University's total investment return (excluding investment return on assets held under split-interest and deferred compensation arrangements) and its classification in the financial statements for the years ended June 30, 2003 and 2002:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
2003:					
Dividends and interest on investments (net of expenses of $465,045)	$	342,960	898,886	9,658	1,251,504
Net appreciation in fair value of investments		(2,389,314)	3,413,412	37,103	1,061,201
Total return on investments		(2,046,354)	4,312,298	46,761	2,312,705
Investment return appropriated in operations		657,034	2,915,058	—	3,572,092
Utilization of prior years' accumulated investment return	$	(2,703,388)	1,397,240	46,761	(1,259,387)
2002:					
Dividends and interest on investments (net of expenses of $499,425)	$	516,751	1,401,012	31,317	1,949,080
Net depreciation in fair value of investments		(2,287,581)	(9,446,590)	(221,785)	(11,955,956)
Total return on investments		(1,770,830)	(8,045,578)	(190,468)	(10,006,876)
Investment return appropriated in operations		1,356,291	2,374,015	—	3,730,306
Utilization of prior years' accumulated investment return	$	(3,127,121)	(10,419,593)	(190,468)	(13,737,182)

(4) Contributions Receivable

Unconditional promises to give are reported in the financial statements as contributions receivable and as revenue of the appropriate net asset class. Contributions receivable due more than one year from the date of the financial statements are recorded net of a discount to reflect the present value of future cash flows. Contributions receivable consist of the following at June 30, 2003 and 2002:

		2003	2002
Amounts expected to be collected in:			
Less than one year	$	745,380	455,350
One to five years		2,448,704	3,091,293
		3,194,084	3,546,643
Less discount to present value, at 6.5%		(504,943)	(616,062)
Less allowance for uncollectible amounts		(188,595)	(209,915)
	$	2,500,546	2,720,666

(5) Plant Assets

Plant assets at June 30, 2003 and 2002 consist of the following:

		2003	2002
Land	$	11,285,092	11,285,092
Land improvements		5,789,449	5,784,728
Buildings and building improvements		270,126,754	233,937,618
Equipment		75,702,939	70,243,331
Library books		887,571	886,959
Total		363,791,805	322,137,728
Less accumulated depreciation		(93,380,455)	(83,530,770)
	$	270,411,350	238,606,958

Included in buildings and building improvements is $16,208,704 relating to the building received in exchange for use of land. See note 9 for discussion on Judicial Training Institute.

(6) Notes Payable

To meet its short-term working capital needs, the University entered into a two-tranche $50,000,000 secured line of credit which expires on August 29, 2003. Tranche A is for $35,000,000 and interest is based on the prime/fed funds rate of the banking institution or LIBOR plus 0.75%. Tranche B is for $15,000,000 and interest is based on the prime/fed funds rate of the banking institution or LIBOR plus 1.25%. At June 30, 2003, $35,000,000 and $8,400,000 were outstanding under Tranche A and Tranche B, respectively, of the line of credit at an average interest rate of 2.7%. At June 30, 2002, $35,000,000 was outstanding under Tranche A of the line of credit at an average interest rate of 2.7%.

On July 16, 2003, Tranche B was increased to $25,000,000. In addition, the line of credit was renewed through November 28, 2003.

The above line of credit is secured by certain investments of the University. Interest incurred for the years ended June 30, 2003 and 2002 was $802,761 and $806,726, of which $377,699 and $769,760 has been capitalized in plant assets, respectively.

(7) Long-Term Debt

Long-term debt at June 30, 2003 and 2002 consists of the following:

	2003	2002
Long-term leases of the Dormitory Authority of the State of New York (DASNY) (a):		
Revenue Bonds, Pace University issue, $26,075,000, Series 2000, due serially to 2029 at interest rates ranging from 4.75% to 5.88% per annum, net of unamortized original issue premium of $245,038 and $254,463, at June 30, 2003 and 2002, respectively	$ 25,520,039	25,939,463
Revenue Bonds, Pace University issue, $60,000,000, Series 1997, due serially to 2026 at interest rates ranging from 5% to 5.75% per annum, net of unamortized original issue discount of $631,739 and $659,206 at June 30, 2003 and 2002, respectively	54,928,260	55,975,794
Bonds payable to the U.S. Department of Housing and Urban Development (HUD) (b):		
Bonds issued to Briarcliff College assumed by Pace University as a result of a purchase agreement in 1977 with Briarcliff College maturing in annual installments ranging from $42,000 to $101,000 through 2016:		
1954 issue, $224,000, at 3.6%	24,000	37,000
1961 issue, $548,000, at 3.5%	223,000	243,000
1966 issue, $1,115,000, at 3%	577,000	609,000
Bonds issued to the College of White Plains assumed by Pace University as a result of a consolidation in 1975 with the College of White Plains, maturing in annual installments ranging from $20,000 to $45,000 through 2016 with interest at 3%	602,500	637,500
Total long-term debt	$ 81,874,799	83,441,757

(a) The Series 2000 Revenue Bonds payable to the Dormitory Authority of the State of New York (the Authority or DASNY) were issued to finance the acquisition and renovation of a 15-story building located in lower Manhattan. The 76,000 square-foot building is being used by the University for student and staff housing and other related activities. The Series 2000 Revenue Bonds are secured by tuition and fees in an amount equal to the interest, principal, and sinking fund installments required in a given year. Under the Series 2000 bond agreement, the University maintains a debt service reserve fund on deposit with a trustee. At June 30, 2003 and 2002, $3,153,151 and $3,146,458, respectively, of debt service reserve funds and $29,021 and $516,947, respectively, of construction and rebate funds were included in funds held by bond trustees, at fair value.

The Series 1997 Revenue Bonds payable to the Authority were issued to finance various projects and retire other indebtedness of the University as follows: retirement of the credit agreement with The Chase Manhattan Bank used to initially finance the construction of the Goldstein Center; expansion of instructional space at the law school on the White Plains campus; technology initiatives, including various acquisitions of equipment and installation of networks and connections; renovation and repair projects (including preservation and enhancement) to extend the useful lives of various facilities; acquisition of property adjacent to the White Plains campus; and retirement of the remaining principal outstanding on the Series 1985 Revenue Bonds. The Series 1997 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 by the Authority in any bond year for the principal. Under the Series 1997 bond agreement, the University maintains a debt service reserve fund on deposit with a trustee. At June 30, 2003 and 2002, $7,251,326 and $7,174,711, respectively, of debt service reserve funds and $581,457 and $1,028,272, respectively, of building and equipment reserve funds were included in funds held by bond trustees, at fair value.

(b) The bond issues are secured by first mortgages on the dormitory facilities and liens on and pledges of the net revenues derived from the operation of the facilities.

Interest incurred for the years ended June 30, 2003 and 2002 was $4,736,479 and $4,830,591, respectively, of which $1,120,133 was capitalized in plant assets, on June 30, 2002. None was capitalized in 2003.

Pursuant to the March 1, 2000 and December 4, 1996 loan agreements related to the DASNY Series 2000 Revenue Bonds and DASNY Series 1997 Revenue Bonds, respectively, the University is required to adhere to financial covenants outlined in these agreements, one of which is the Expendable Net Assets Maintenance Requirement that requires the University to maintain expendable net assets (unrestricted and temporarily restricted net assets, exclusive of plant equity, and inclusive of postretirement benefit obligation) at a market value equal to at least 50% of outstanding long-term indebtedness.

The University advised both its Bond Insurer and DASNY that it failed to achieve the Expendable Net Assets Maintenance Requirement for the fiscal year ended June 30, 2003 in that the ratio is approximately (.05) rather than the .50 required under the 2000 and 1996 loan agreements. The University requested that the Bond Insurer waive any possible event of default arising under the 2000 and 1996 agreements which could result from the 2003 Expendable Net Assets Maintenance Requirement Covenant Violation should the Market Conditions Exception, identified as a recourse for noncompliance, be deemed not applicable.

The Bond Insurer agreed that the Expendable Net Assets Maintenance Requirement Covenant Violation was waived for fiscal year ended June 30, 2003 and fiscal year ending June 30, 2004 and would not be used as a basis for an event of default under the 2000 and 1996 agreements provided that the University paid the Bond Insurer required waiver fees. The waiver fees were paid and waivers were received on January 9, 2004 and February 18, 2004 and are limited to the University's fiscal year ended June 30, 2003 and fiscal year ending June 30, 2004, respectively, and its Expendable Net Assets Maintenance Requirement for such period.

(8) Debt Service – Long-Term Debt

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

		Long-term leases to DASNY	Bonds payable to HUD	Total
June 30, 2004:				
Principal	$	1,640,000	119,000	1,759,000
Interest, reserves, and fees		4,593,868	52,050	4,645,918
	$	6,233,868	171,050	6,404,918
June 30, 2005:				
Principal	$	1,715,000	93,000	1,808,000
Interest, reserves, and fees		4,511,868	47,665	4,559,533
	$	6,226,868	140,665	6,367,533
June 30, 2006:				
Principal	$	1,805,000	94,000	1,899,000
Interest, reserves, and fees		4,426,118	44,765	4,470,883
	$	6,231,118	138,765	6,369,883
June 30, 2007:				
Principal	$	1,895,000	102,000	1,997,000
Interest, reserves, and fees		4,334,063	41,760	4,375,823
	$	6,229,063	143,760	6,372,823
June 30, 2008:				
Principal	$	2,010,000	104,000	2,114,000
Interest		4,225,043	38,580	4,263,623
	$	6,235,043	142,580	6,377,623

(9) Judicial Training Institute

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

On April 23, 2003, the City of White Plains issued a certificate of occupancy evidencing completion of the judicial training facility and the University recorded the value ($16,208,704) of the building and a corresponding deferred rental revenue. The deferred rental revenue will be recognized on a straight-line basis over the life of the land lease, May 1, 2003 through June 30, 2020. For the year ended June 30, 2003, $157,366 was recognized as rental revenue.

(10) Retirement and Deferred Compensation Plans

The University has defined contribution retirement annuity plans with Teachers' Insurance and Annuity Association of America and College Retirement Equities Fund, Fidelity Investments, and T. Rowe Price which cover substantially all full-time employees. The University makes annual plan contributions which are vested immediately for the benefit of the participants. The University's contributions under the plan for the years ended June 30, 2003 and 2002 amounted to $6,078,528 and $5,533,191, respectively.

The University offered a deferred compensation plan to substantially all full-time employees. Amounts deferred are invested by the University in consultation with the participant. Such amounts consist of cash and cash equivalents and mutual funds and are included in investments ($6,767,314 in 2003 and $8,235,172 in 2002) in the accompanying balance sheets and continue to be the assets of the University subject to claims of its creditors. Contributions to this plan have been limited since the enactment of the Tax Reform Act of 1986.

(11) Postretirement Benefits Other than Pensions

The University sponsors a plan to provide certain health care and life insurance benefits for 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.

Information with respect to this unfunded plan as of and for the years ended June 30, 2003 and 2002 is as follows:

		2003	2002
Change in benefit obligation:			
Benefit obligation at beginning of year	$	44,858,864	44,233,205
Service cost		1,276,538	1,191,501
Interest cost		3,416,574	3,005,001
Benefits paid		(1,605,351)	(1,631,029)
Plan amendments		(7,484,562)	—
Actuarial loss (gain)		11,354,130	(1,939,814)
Benefit obligation at end of year	$	51,816,193	44,858,864
Funded status	$	(51,816,193)	(44,858,864)
Prior service cost		(9,652,578)	(2,425,336)
Unrecognized net loss (gain)		8,973,621	(2,458,586)
Accrued postretirement benefit obligation	$	(52,495,150)	(49,742,786)

The net periodic postretirement benefit expense for 2003 and 2002 includes the following components:

		2003	2002
Service cost	$	1,276,538	1,191,501
Interest cost		3,416,574	3,005,001
Amortization of prior service cost		(257,320)	(257,320)
Amortization of net gain		(78,077)	(86,915)
Net periodic postretirement benefit expense	$	4,357,715	3,852,267

For measurement purposes, for 2003 and 2002, a 7% annual rate of increase in the per capita cost of covered health care benefits was assumed for pre-age and post-age 65 coverage, decreasing to 5% by fiscal year 2007 and remaining at that level. The health care 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 of $6,736,105 in 2003 ($5,383,064 in 2002) and an increase in the service and interest cost of $361,358 in 2003 ($638,676 in 2002). A 1% decrease in the rate translates to a decrease in the accumulated postretirement benefit obligation of $5,699,781 in 2003 ($4,485,886 in 2002) and a decrease in the service and interest cost of $924,490 in 2003 ($530,650 in 2002).

The weighted average discount rate used in determining the accumulated postretirement benefit obligation was 6.25% and 7.25% as of June 30, 2003 and 2002, respectively.

During 2003, the plan was amended to reflect an increase in the medical co-payment of $5 effective January 1, 2004 and subsequent increases of $5 every four years. The plan was further amended to reflect a three tier drug co-payment of $10/$20/$30 with increases of $5 every five years. Retiree cost sharing will now be required as follows: a) Employees hired prior to January 1, 1996, and who retire after August 31, 2005, will contribute at the same cost share dollar amount as immediately prior to retirement; and b) Employees hired after December 31, 1995, but before October 1, 2000, and retire with more than 25 years of service will also be subject to the same cost share dollar amount as immediately prior to retirement. The 2003 amendments reduced the medical plan liabilities by $7,484,562. In accordance with the 2001 plan amendment, postretirement welfare benefit coverage for employees hired after October 1, 2000 have been eliminated.

(12) Faculty Retirement Incentive Plan

During fiscal 2000, the University offered an early retirement incentive plan (the Plan) to qualified faculty. Under the Plan, qualified faculty had the option of (1) electing to receive one and one-half years of base salary at the last full-time salary prior to retirement paid over eighteen months immediately following retirement, or (2) teaching an annual one half of the normal course load compensated at the rate of 75% of regular annual base salary and continuation of benefits for three years. At June 30, 2003 and 2002, the present value (discounted at 6.5%) of the amounts due under the Plan was $693,000 and $1,292,000, respectively, and is included in accounts payable and accrued liabilities in the accompanying balance sheets.

(13) Commitments

Leases

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

	Amount
Year ending June 30:	
2004	$ 7,935,509
2005	5,321,721
2006	5,337,985
2007	5,710,177
2008	6,285,375
2009 and thereafter	68,689,178
	$ 99,279,945

Total rental expense for the years ended June 30, 2003 and 2002 was $8,986,120 and $8,888,587, respectively.

(14) Self-Insurance

Effective January 1, 1993, the University established a self-insurance plan for employee medical benefits, exclusive of those benefits provided by Health Maintenance Organizations (HMOs). Under the provisions of this plan, insurance carriers provide claims processing and administrative functions, as well as stop-loss coverage for claims (on a calendar year basis) in excess of $6,801,309 for the years ended December 31, 2003 and 2002. The expense for this program for the years ended June 30, 2003 and 2002 was approximately $5,349,738 and $5,561,985, respectively. A liability for claims incurred but not reported of approximately $829,000 and $1,233,000 as of June 30, 2003 and 2002, respectively, is included in accounts payable and accrued liabilities in the accompanying balance sheets.

(15) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets at June 30, 2003 and 2002 are principally available to support the Lubin School of Business and academic chairs. Certain temporarily restricted net assets available to support the Lubin School of Business are expendable only for projects approved by the donor's designee.

Permanently restricted net assets at June 30, 2003 and 2002 are restricted to investment in perpetuity, with investment return principally available to support scholarships and fellowships and academic chairs.

(16) Scholarships and Fellowships

Tuition and fees are presented net of amounts awarded to students to defray their cost of attending the University. The amount awarded totaled $38,236,630 and $34,038,646 for the years ended June 30, 2003 and 2002, respectively.

(17) Expenses

Expenses are reported in the statements of changes in unrestricted net assets in categories recommended by the National Association of College and University Business Officers. The University's primary program services are instruction and research. Expenses reported as academic support, student services, and auxiliary enterprises are incurred in support of these primary program services. Institutional support includes fund-raising expenses of $2,616,069 and $3,032,838 for the years ended June 30, 2003 and 2002, respectively. For purposes of reporting fund-raising expenses, the University includes only those fund-raising costs incurred by its institutional advancement office. Contributions and private gifts and grants for the years ended June 30, 2003 and 2002 were $10,606,342 and $12,714,071, respectively.

(18) Fair Value of Financial Instruments

The carrying amount of cash, student accounts receivable, grants and other receivables, accounts payable and accrued liabilities, and notes payable approximates fair value because of the short maturity of these financial instruments. The fair value of investments and contributions is disclosed in notes 3 and 4, respectively.

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

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

(19) Allocation of Certain Expenses

The University allocates operation and maintenance of plant, depreciation, and interest expenses based upon building square footage and the use of each facility. For the year ended June 30, 2003 (with comparative totals for 2002), the following allocation of expenses was included in the accompanying statements of changes in unrestricted net assets:

	Allocated expenses				Total per statement of changes in unrestricted net assets
	Operation and maintenance of plant	Depreciation	Interest and other debt-related	Direct expenses	
Instruction	$ 5,542,090	2,387,454	807,347	87,785,788	96,522,679
Research	103,308	44,504	15,049	2,692,677	2,855,538
Academic support	3,925,325	1,690,974	571,825	26,570,889	32,759,013
Student services	2,861,040	1,232,495	416,784	24,623,097	29,133,416
Institutional support	2,742,521	1,181,439	824,580	35,741,109	40,489,649
Auxiliary enterprises	7,945,604	3,422,853	2,718,224	10,023,397	24,110,078
Total 2003	$ 23,119,888	9,959,719	5,353,809	187,436,957	225,870,373
Total 2002	$ 19,706,810	8,806,110	3,938,976	179,197,790	211,649,686

(20) Contingency

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

(21) Impact of September 11, 2001 Events

As a result of the September 11, 2001 attack on the World Trade Center, the leased space and all equipment, furniture, and fixtures where the University's World Trade Institute (WTI) operated were totally destroyed.

The University has insurance policies covering loss of physical property, as well as business interruption. During the fiscal years ended June 30, 2003 and 2002, the University recorded insurance recoveries totaling $250,000 and $6,115,673, respectively. Additionally, during 2003 the University recorded Federal Emergency Management Agency (FEMA) aid of $4,647,404 for the build out of the WTI. During fiscal 2003, the University collected $5,875,547 ($4,000,000 in 2002) of FEMA aid and insurance recoveries. At June 30, 2003 and 2002, FEMA aid and insurance recovery receivables in the amount of $1,137,530 and $2,115,673, respectively, have been recorded and is included in grants and other receivables in the accompanying balance sheets. Costs and losses incurred during the fiscal years ended June 30, 2003 and 2002 related to the events of September 11, 2001 amounted to $176,927 and $2,859,749, respectively. No amounts for business income interruption have been recorded in the accompanying financial statements.