PACE UNIVERSITY

Financial Statements

June 30, 2008 and 2007

(With Independent Auditors' Report Thereon)

KPMG LLP
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 (the University) as of June 30, 2008 and 2007, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

As discussed in note 11 to the financial statements, the University adopted the provisions of Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, as of June 30, 2007.

KPMG LLP

November 14, 2008

PACE UNIVERSITY

Balance Sheets

June 30, 2008 and 2007

Assets	**2008**	**2007**
Cash and cash equivalents	$ 2,390,699	4,167,250
Short-term investments (notes 2 and 21)	38,622,089	32,822,808
Student accounts receivable (net of allowance for doubtful accounts of $2,262,832 and $2,418,141 in 2008 and 2007, respectively)	6,082,928	5,892,897
Grants and other receivables	8,696,170	17,142,829
Prepaid expenses and other assets	9,486,915	10,867,283
Contributions receivable, net (note 4)	22,168,099	25,695,541
Fair value of derivative instrument (notes 7 and 21)	—	2,435,695
Investments (notes 3 and 10)	122,883,159	128,773,585
Student loans receivable (net of allowance for doubtful accounts of $2,861,285 and $2,052,926 in 2008 and 2007, respectively)	14,292,079	15,450,393
Funds held by bond trustees, at fair value (note 7)	11,537,868	9,473,482
Plant assets (notes 5 and 7)	261,266,078	269,109,817
Total assets	$ 497,426,084	521,831,580
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued liabilities (notes 13 and 14)	$ 27,621,971	41,066,198
Notes payable (note 6)	—	750,562
Fair value of derivative instrument (notes 7 and 21)	1,487,236	—
Deferred revenues and deposits	8,571,470	8,444,534
Liability under split-interest agreements	630,925	672,725
Long-term debt (notes 7 and 8)	191,051,348	192,021,482
Deferred compensation (note 10)	270,909	3,379,253
Deferred rental revenue (note 9)	11,330,358	12,274,554
Asset retirement obligations (note 12)	3,331,298	3,145,593
Accrued postretirement benefit obligation (note 11)	55,247,494	59,433,640
U.S. government grants refundable	12,514,205	13,042,252
Total liabilities	312,057,214	334,230,793
Commitments and contingencies (notes 13, 20, and 21)		
Net assets:		
Unrestricted	40,637,793	43,466,042
Temporarily restricted (note 15)	73,940,373	74,810,797
Permanently restricted (note 15)	70,790,704	69,323,948
Total net assets	185,368,870	187,600,787
Total liabilities and net assets	$ 497,426,084	521,831,580

See accompanying notes to financial statements.

PACE UNIVERSITY

Statements of Changes in Unrestricted Net Assets

Years ended June 30, 2008 and 2007

	Operating	Nonoperating	Total 2008	Total 2007
Revenues:				
Tuition and fees, net (note 16)	$ 202,491,590	—	202,491,590	203,192,850
Government grants and contracts	7,870,453	—	7,870,453	6,855,764
State appropriations	1,388,076	—	1,388,076	1,333,838
Contributions	1,178,379	—	1,178,379	1,706,067
Investment return (note 3)	1,893,118	(754,403)	1,138,715	3,951,288
Investment return on funds held by bond trustees	—	435,452	435,452	378,845
Sales and services of auxiliary enterprises	30,243,213	—	30,243,213	26,899,643
Other sources	9,562,803	—	9,562,803	9,273,924
Net assets released from restrictions	8,674,370	—	8,674,370	10,808,698
Total revenues	263,302,002	(318,951)	262,983,051	264,400,917
Expenses (notes 17 and 19):				
Instruction	108,394,210	—	108,394,210	115,492,408
Research	2,420,618	—	2,420,618	2,245,638
Academic support	35,761,162	—	35,761,162	36,978,171
Student services	33,371,589	—	33,371,589	35,231,481
Institutional support	49,074,090	—	49,074,090	56,489,505
Auxiliary enterprises	37,801,776	—	37,801,776	33,908,092
Total expenses	266,823,445	—	266,823,445	280,345,295
Deficiency of revenues over expenses	(3,521,443)	(318,951)	(3,840,394)	(15,944,378)
Unrealized depreciation in fair value of derivative instrument (note 7)	—	(3,922,931)	(3,922,931)	(309,930)
Pension-related changes other than net periodic pension cost (note 11)	—	4,935,076	4,935,076	—
Write-off of plant assets (note 5)	—	—	—	(5,199,506)
Loss on termination of lease (note 13)	—	—	—	(4,213,965)
(Decrease) increase in unrestricted net assets before effect of adoption of SFAS No. 158	(3,521,443)	693,194	(2,828,249)	(25,667,779)
Effects of adoption of SFAS No. 158 (note 11)	—	—	—	(1,155,155)
(Decrease) increase in unrestricted net assets	$ (3,521,443)	693,194	(2,828,249)	(26,822,934)

See accompanying notes to financial statements.

PACE UNIVERSITY

Statements of Changes in Net Assets

Years ended June 30, 2008 and 2007

	2008	2007
Decrease in unrestricted net assets	$ (2,828,249)	(26,822,934)
Changes in temporarily restricted net assets:		
Private gifts and grants	10,736,760	12,536,612
Investment return (note 3)	(2,938,525)	17,789,974
Change in value of split-interest agreements	5,711	197,989
Net assets released from restrictions	(8,674,370)	(10,808,698)
(Decrease) increase in temporarily restricted net assets	(870,424)	19,715,877
Changes in permanently restricted net assets:		
Contributions	1,534,185	2,306,820
Investment return (note 3)	(18,179)	44,774
Change in value of split-interest agreements	(50,065)	36,819
Interest on student loans, net of fees	815	(23,811)
Increase in permanently restricted net assets	1,466,756	2,364,602
Decrease in net assets	(2,231,917)	(4,742,455)
Net assets at beginning of year	187,600,787	192,343,242
Net assets at end of year	$ 185,368,870	187,600,787

See accompanying notes to financial statements.

PACE UNIVERSITY

Statements of Cash Flows

Years ended June 30, 2008 and 2007

		2008	2007
Cash flows from operating activities:			
Decrease in net assets	$	(2,231,917)	(4,742,455)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:			
Effect of adoption of SFAS No. 158		—	1,155,155
Gain from demutualization		(713,407)	—
Net depreciation (appreciation) in fair value of investments		4,319,472	(18,490,307)
Investment return on funds held by bond trustee		(435,452)	(378,845)
Change in fair value of derivative instrument		3,922,931	309,930
Change in value of split-interest agreements		(44,354)	(234,808)
Pension-related changes other than net periodic pension cost		(4,935,076)	—
Allowance for student loans receivable		808,359	13,000
Deferred rental revenue		(944,196)	(944,196)
Depreciation		11,634,337	13,207,868
Amortization		503,991	227,341
Write-off of plant assets		609,153	6,726,854
Revenues and losses restricted for permanent investment		(1,537,104)	(2,285,900)
Contributions restricted for capital projects		—	(47,000)
(Increase) decrease in student accounts receivable		(190,031)	3,908,198
Decrease in government grants and other receivables		8,446,659	2,468,513
Decrease (increase) in prepaid expenses and other assets		1,071,565	(2,329,368)
Decrease (increase) in contributions receivable, net		325,986	(60,856)
Decrease (increase) in accounts payable and accrued liabilities		(13,735,798)	3,963,316
Increase (decrease) in deferred revenues and deposits		126,936	(981,110)
Decrease in deferred compensation		(3,108,344)	(2,597,609)
Increase in accrued postretirement benefit obligation		748,930	1,441,432
Decrease in U.S. government grants refundable		(528,047)	(89,742)
Net cash provided by operating activities		4,114,593	239,411
Cash flows from investing activities:			
Decrease (increase) in student loans receivable		349,955	(763,243)
Purchase of plant assets		(4,399,751)	(8,443,356)
Short-term investments, net		(5,799,281)	(32,583,070)
Purchase of investments		(24,451,599)	(12,304,978)
Proceeds from sale of investments		27,027,531	12,724,917
Net cash used in investing activities		(7,273,145)	(41,369,730)
Cash flows from financing activities:			
Revenues and losses from contributions restricted for permanent investment		1,537,104	2,285,900
Decrease in contributions receivable restricted for permanent investment		2,513,731	1,979,864
Revenues and losses from contributions restricted for capital projects		—	47,000
Decrease in contributions receivable restricted for capital projects		687,725	628,854
Change in liabilities under split-interest agreements, net		2,554	234,562
Increase in notes payable		—	42,241,688
Repayment of notes payable		(750,562)	(64,390,948)
Increase in bond issuance costs		—	(767,598)
Proceeds from long-term debt		—	62,000,000
Repayment of indebtedness		(979,617)	(1,061,292)
Increase in funds held by bond trustees		(1,628,934)	(60,296)
Net cash provided by financing activities		1,382,001	43,137,734
Net (decrease) increase in cash and cash equivalents		(1,776,551)	2,007,415
Cash and cash equivalents at beginning of year		4,167,250	2,159,835
Cash and cash equivalents at end of year	$	2,390,699	4,167,250
Supplemental disclosure:			
Interest paid	$	11,182,367	8,084,992

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 (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. 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.

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Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. The University reports contributions of plant assets as increases in unrestricted net assets unless the donor places restrictions on their use. Contributions of cash or other assets that must be used to acquire or construct long-lived assets are reported as temporarily restricted net assets until the assets are placed in service. Contributions to be received after one year are discounted at a risk-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) Government Grants and Contracts

Government grants and contracts are treated as exchange contracts and, accordingly, are reported as unrestricted revenue when expenses are incurred in accordance with contractual terms.

(d) Cash Equivalents and Short-Term Investments

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

The University classifies book overdrafts as an operating activity in the statement of cash flows.

Short-term investments are reported at fair value and represent the University's operating cash that has been invested in the Commonfund's Short Term Fund (the Short Term Fund, see notes 2(m) and 21).

(e) Plant Assets

Plant assets are stated as follows:

- Land and land improvements – at cost.
- Buildings, building improvements, and leasehold improvements – at cost.
- Furniture and 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, building improvements, and leasehold improvements range from 5 years to 90 years and the depreciable lives of furniture and equipment range from 2 years to 20 years.

(f) 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.

(g) 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.

(h) Operations

The statement of changes in unrestricted net assets for 2008 distinguishes between operating and nonoperating activities. Nonoperating activities principally include investment return in excess of (or less than) amounts authorized for spending by the University's board of trustees, investment return on funds held by bond trustees, unrealized appreciation (depreciation) in fair value of derivative instruments, pension-related changes other than net periodic pension cost and other nonrecurring transactions.

(i) Accounting Estimates

The preparation of financial statements in conformity with U.S. 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.

(j) Asset Retirement Obligations

On July 1, 2005, the University adopted FASB Interpretation No. 47 (FIN 47), *Accounting for Conditional Asset Retirement Obligations – an Interpretation of FASB Statement No. 143*. 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.

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(k) Accounting for Uncertainty in Income Taxes

In June 2006, the FASB issued Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109*. FIN 48 addresses the accounting for uncertainties in income taxes recognized in an organization's financial statements and prescribes a threshold of more-likely than-not for recognition and de-recognition of tax positions taken or expected to be taken in a tax return. FIN 48 also provides related guidance on measurement, classification, interest and penalties, and disclosures. There was no significant impact to the University's financial statements as a result of the adoption of FIN 48.

(l) New Accounting Pronouncements

In September 2006, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value, and requires expanded disclosures about fair value measurements. SFAS 157 is effective for reporting periods beginning after November 15, 2007. The impact of adoption of SFAS 157 is currently being evaluated by the University. SFAS 157 will require additional disclosures regarding the inputs used to develop the fair value measurements, and the impacts of certain measurements on the financial statements.

In August 2008, FASB Staff Position No. FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and Enhanced Disclosures for All Endowment Funds* (the FSP), was issued, and its guidance is effective for fiscal years ending after December 15, 2008. A key component of the FSP is a requirement to classify the portion of a donor-restricted endowment fund that is not classified as permanently restricted net assets as temporarily restricted net assets until appropriated for expenditure. New York State has not yet adopted UPMIFA. However, for the year ending June 30, 2009, the University will have to adopt the disclosure requirements of the FSP.

(m) Reclassifications

Certain reclassifications have been made to prior year amounts to conform to the current year presentation. The University reclassified $32,822,808 of cash and cash equivalents to short-term investments and $5,138,479 of book overdrafts to accounts payable and accrued liabilities in the accompanying June 30, 2007 balance sheet. Accordingly, reclassifications were made to the statement of cash flows for 2007.

(n) 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 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 sheet.

The following table summarizes the composition of investments at June 30, 2008 and 2007:

		Fair value	
		2008	**2007**
Cash and cash equivalents	$	1,293,304	10,063,143
Common stocks		1,334,078	769,937
Mutual funds		4,818,595	5,344,262
Hedge funds		76,087,093	69,767,684
Alternative investments		37,890,187	41,314,140
U.S. government bonds		676,146	724,847
Municipal bonds		783,756	789,572
	$	122,883,159	128,773,585

Alternative investments represent limited partnerships and similar interests held by the University that follow a variety of investment strategies. Terms and conditions of these investments, including liquidity provisions, are different for each fund. Individual investment holdings within the alternative investments may be invested in both publicly traded securities and less liquid securities, which are valued by the investment managers after considering pertinent factors. The estimated fair value of alternative investments is reviewed and evaluated by management. Because 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.

Investments include $1,658,957 and $2,378,524 of assets held under split-interest agreements at June 30, 2008 and 2007, respectively.

The University maintains an investment pool for certain investments. The pool is managed to achieve the maximum prudent long-term total return. The University's board of trustees has authorized a policy designed to preserve the value of these investments in real terms (after inflation) and provide a predictable flow of funds to support operations. This policy permits the use of total return (dividend and interest income and investment gains) at a rate (spending rate) of 5% of the quarterly three-year moving average fair value of the pooled investments. In accordance with the above spending rate, $3,826,974 and $3,396,191, of investment return was made available for the years ended June 30, 2008 and 2007, respectively, to support operations of the University. In addition, the University also utilized investment return from nonpooled investments of $1,426,234 and $2,158,630 in fiscal years 2008 and 2007, 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, 2008, the University had commitments of $9,521,704 for which capital calls had not been exercised. This amount has not been recorded as a liability in the accompanying balance sheet. The University maintains sufficient liquidity in its portfolio to cover such calls.

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, 2008 and 2007:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
2008:					
Dividends and interest on investments (net of expenses of $371,841)	$	1,704,309	795,070	2,104	2,501,483
Net depreciation in fair value of investments		(565,594)	(3,733,595)	(20,283)	(4,319,472)
Total return on investments		1,138,715	(2,938,525)	(18,179)	(1,817,989)
Investment return appropriated for operations		1,893,118	3,360,090	—	5,253,208
Excess of investment return appropriated for operations over total return on investments	$	(754,403)	(6,298,615)	(18,179)	(7,071,197)

	Unrestricted	Temporarily restricted	Permanently restricted	Total
2007:				
Dividends and interest on investments (net of expenses of $292,306)	$ 2,141,489	1,151,349	2,891	3,295,729
Net appreciation in fair value of investments	1,809,799	16,638,625	41,883	18,490,307
Total return on investments	3,951,288	17,789,974	44,774	21,786,036
Investment return appropriated for operations	2,597,678	2,957,143	—	5,554,821
Excess of total return on investments over investment return appropriated for operations	$ 1,353,610	14,832,831	44,774	16,231,215

(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, 2008 and 2007:

	2008	2007
Amounts expected to be collected in:		
Less than one year	$ 5,225,783	6,345,934
One to five years	14,469,976	19,053,546
More than five years	8,444,314	8,645,740
	28,140,073	34,045,220
Less discount to present value, from 2.46% to 5.15%	(5,120,756)	(6,608,636)
Less allowance for uncollectible amounts	(851,218)	(1,741,043)
	$ 22,168,099	25,695,541

Included in contributions receivable at June 30, 2008 are outstanding pledges from four donors, which collectively represent approximately 79% of total outstanding gross contributions receivable. Included in contributions receivable at June 30, 2007 are outstanding pledges from four donors, which collectively represent approximately 75% of total outstanding gross contributions receivable.

(5) Plant Assets

Plant assets at June 30, 2008 and 2007 consist of the following:

		2008	2007
Land	$	11,285,093	11,285,093
Land improvements		6,181,935	6,181,935
Buildings and building improvements		292,315,606	290,681,894
Furniture and equipment		65,754,096	64,447,257
Library books		965,417	932,111
Total		376,502,147	373,528,290
Less accumulated depreciation		(115,236,069)	(104,418,473)
	$	261,266,078	269,109,817

During 2007, the University engaged a third-party appraisal company to perform, under the University's supervision, a physical inventory of its furniture and equipment. As a result of such physical inventory, the University recorded a write-off of furniture and equipment of approximately $5.2 million, which is reported as a nonoperating charge in the accompanying statement of changes in unrestricted net assets for the year ended June 30, 2007. As further discussed in note 13, in 2007, the University wrote off $1.5 million of leasehold improvements relating to the termination of a lease.

Included in buildings and building improvements at June 30, 2008 and 2007 is $16,226,522 relating to a building received in exchange for use of land. See note 9 for a discussion on the Judicial Training Institute. Buildings and building improvements at June 30, 2008 and 2007 also include $974,743 of asset retirement costs capitalized under FIN 47. Additionally, included in furniture and equipment at June 30, 2008 and 2007 is telephone equipment under capital leases of $3,798,524.

(6) Notes Payable

During 2007, the University had use of a $25 million unsecured working capital line of credit, which expired June 30, 2007. During 2007, interest on borrowings under this facility amounted to $331,285.

The University had a revolving financing agreement with Sallie Mae, Inc., to fund its School as Lender Program, a program designed to provide financial assistance in the form of loans to graduate students (Student Loans). The University ceased awarding School-As-Lender loans to new students as of the Spring 2007 semester. All outstanding amounts were secured by Student Loans owned by the University. Under this agreement, the University sold and Sallie Mae, Inc. was obligated to purchase all the Student Loans owned by the University within 90 days from the date the Student Loans were made. The proceeds from the sale of the Student Loans were applied to any outstanding principal balance under the revolving finance agreement. Under the University's semester schedule, no principal outstanding under the revolving financing agreement should exceed 180 days.

The outstanding balance under this agreement was $750,562 as of June 30, 2007. Interest expense for the years ended June 30, 2008 and 2007 was $18,073 and $537,190, respectively. Student Loans issued under this program of $336,699 were outstanding at June 30, 2007, securing the outstanding principal balance under the revolving finance agreement. The unused portion under this line of credit at June 30, 2008 and 2007 was $30,000,000 and $29,249,438, respectively. This line of credit was discontinued subsequent to June 30, 2008.

(7) Long-Term Debt

Long-term debt at June 30, 2008 and 2007 consists of the following:

	2008	2007
Long-term debt of the Dormitory Authority of the State of New York (DASNY or the Authority) (a):		
Revenue Bonds, Pace University issue, $73,975,000, Series 2005A, due serially to 2029 at a variable rate subject to weekly reset in the auction market	$ 73,975,000	73,975,000
Revenue Bonds, Pace University issue, $42,500,000, Series 2005B, due serially to 2035, at a variable rate subject to weekly reset in the auction market	42,500,000	42,500,000
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, plus unamortized original issue premium	2,503,083	2,506,353
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	8,253,988	8,241,235
Unsecured long-term taxable notes payable, due serially to 2037 at a variable interest rate (b)	62,000,000	62,000,000
Other debt	1,819,277	2,798,894
Total long-term debt	$ 191,051,348	192,021,482

(a) The Series 2005A insured revenue bonds were issued on June 1, 2005 to (i) refund a portion of the DASNY Pace University Insured Revenue Bonds, Series 1997 and Series 2000, (ii) fund the debt service reserve fund for the Series 2005A bonds, and (iii) pay the costs of issuance of the Series 2005A bonds. At June 30, 2008 and 2007, $3,911,557 and $4,110,422, respectively, of debt service reserve funds were included in funds held by bond trustees. These bonds are auction rate securities in which the coupon is reset each week by a Dutch auction process. In the event of a failed auction, the holders of the securities must keep them until the next auction, and the interest rate rises to the cap specified in the governing agreements of 15%. The weighted average interest rate in 2008 and 2007 for Series 2005A was 4.8% and 3.6%, respectively. The range of rates in 2008 and 2007 was 3.3-9.3% and 3.3-3.9%, respectively.

In May 2005, the University entered into a floating-to-fixed-rate swap agreement (the Derivative Instrument) as a hedge on a portion of its DASNY Series 2005A insured revenue bonds. Under the Derivative Instrument, on a monthly settlement the University receives 59% of one-month London Interbank Offered Rate (LIBOR) plus 32 basis points (1.77% at June 30, 2008) and pays a fixed rate of 3.303% on the notional amount ($73,975,000 as of June 30, 2008 and 2007) through June 2029. The University has the option to terminate the Derivative Instrument at its discretion. A payment will either be received or paid by the University depending on the long-term interest rate environment at the time of termination. The counterparty has the option to terminate the Derivative Instrument if the bonds' insurer is downgraded below certain ratings (see note 21). The fair value of the Derivative Instrument was a liability of $1,487,236 and an asset of $2,435,695 at June 30, 2008 and 2007, respectively, and is reflected in the accompanying balance sheets as fair value of derivative instrument. The accompanying 2008 and 2007 statements of changes in unrestricted net assets reflect the unrealized depreciation in fair value of derivative instrument of $3,922,931 and $309,930, respectively.

The Series 2005B insured revenue bonds were issued to fund the cost of a surety bond for the debt service reserve fund for the Series 2005 bonds, pay the cost of issuance of the Series 2005B bonds, and refinance certain indebtedness of the University incurred to pay for various capital improvement projects. At June 30, 2008 and 2007, $1,025,268 and $235,346, respectively, of debt service funds were included in funds held by bond trustees. Similar to Series 2005A, these bonds are auction rate securities that are subject to a weekly auction process with a cap of 20%. The weighted average interest rate in 2008 and 2007 for Series 2005B was 6.8% and 5.3%, respectively. The range of rates in 2008 and 2007 was 5.0-14.0% and 5.3-5.3%, respectively.

The Series 2000 Revenue Bonds payable to the Authority 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. Under the Series 2000 bond agreement, the University maintains a debt service reserve fund on deposit with a trustee. At June 30, 2008 and 2007, $815,174 and $824,339, respectively, of debt service reserve funds were included in funds held by bond trustees.

The Series 1997 Revenue Bonds payable to the Authority were issued to finance various projects and retire other indebtedness of the University. Under the Series 1997 bond agreement, the University maintains a debt service reserve fund on deposit with a trustee. At June 30, 2008 and 2007, $3,863,847 and $2,453,550, respectively, of debt service reserve funds and $1,802,142 and $1,727,565, respectively, of building and equipment reserve funds were included in funds held by bond trustees.

The Series 1997, 2000, 2005A, and 2005B Revenue Bonds are secured by mortgages on certain of the University's properties, security interest in certain fixtures, furnishings, and equipment, and pledges of revenues limited in each year to the greatest amount payable to the Authority in any bond year for the principal.

(b) To support its operations and repay an outstanding line of credit, during 2006 the University issued a series of unsecured long-term taxable notes aggregating $62 million. The notes bear interest at the one-month adjusted LIBOR as defined in the Trust Indenture and mature on July 1, 2037. For the 12 monthly settlements in 2008, the University paid a rate of One-Month LIBOR plus 200 basis points. Over the next nine years (through July 1, 2017), the premium to LIBOR can fluctuate within a range of 150 to 250 basis points depending on the rating on the University's long-term debt. The applicable margin will then change after July 1, 2017 per the Trust Indenture. The notes may be redeemed, at a premium ranging from 100.5-102.0%, from July 1, 2012 through June 30, 2017. The weighted average interest rate in 2008 and 2007 was 6.3% and 7.3%, respectively. The range of rates in 2008 and 2007 was 4.5-7.8% and 6.8-7.3%, respectively.

Interest incurred for the years ended June 30, 2008 and 2007 was $11,898,055 and $8,090,264, respectively.

Financial Covenants DASNY Series 2005

Pursuant to the June 1, 2005 loan agreements related to the DASNY Series 2005 insured revenue bonds, the University is required to adhere to certain financial covenants regarding Maximum Annual Debt Service, as defined, and the maintenance of Unrestricted Investments, as defined, and limiting the University's right to incur any additional indebtedness without consent from DASNY and the bond insurer.

The University must maintain debt service (interest on all outstanding indebtedness and principal on all outstanding long-term indebtedness) at or below 6% of annual Unrestricted Gross Revenues, as defined.

The University must maintain a level of Unrestricted Investments, as defined (as adjusted for market fluctuation) divided by Outstanding Indebtedness, as defined, equal to (i) at least 25% as of each June 30 and December 31 through December 31, 2007; (ii) at least 27.5% as of each June 30 and December 31 occurring from January 1, 2008 through December 31, 2009; and (iii) at least 30% as of each June 30 and December 31 occurring subsequent to December 31, 2009. Unrestricted investments, as defined, for the years ended June 30, 2008 and 2007 were:

		2008	**2007**
Investments	$	122,883,159	128,773,585
Permanently restricted net assets		(70,790,704)	(69,323,948)
Contributions receivable – permanently restricted		13,698,439	16,212,170
Total unrestricted investments	$	65,790,894	75,661,807

(8) Debt Service – Long-Term Debt

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

	Long-term debt to DASNY	Bonds payable to HUD	Taxable notes and capital lease obligations	Total
Year ending June 30:				
2009	$ 2,210,000	105,000	1,717,450	4,032,450
2010	3,230,000	108,000	1,508,503	4,846,503
2011	3,985,000	144,000	1,305,000	5,434,000
2012	4,200,000	89,000	1,400,000	5,689,000
2013	4,395,000	91,000	1,495,000	5,981,000

(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.

The University recorded the value $16,208,704 of the building as deferred rental revenue. The deferred rental revenue will be recognized on a straight-line basis over the life of the land lease, May 1, 2003 through June 30, 2020. At June 30, 2008 and 2007, $11,330,358 and $12,274,554, respectively, of deferred rental revenue was included in the accompanying balance sheets. For each of the years ended June 30, 2008 and 2007, $944,196 was recognized as rental revenue and is included in other sources in the accompanying statement of changes in unrestricted net assets.

(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, 2008 and 2007 amounted to $7,743,118 and $7,911,606, 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 ($321,249 in 2008 and $3,406,753 in 2007) in the accompanying balance sheets and continue to be the assets of the University subject to claims of its creditors. The University's liability under the plan at June 30, 2008 and 2007 amounted to $270,909 and $3,379,253, respectively, and is reflected in the accompanying balance sheets. 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 healthcare and life insurance benefits for qualified retirees. The University's employees may become eligible for these benefits if they retire while working for the University. Benefits and eligibility may be modified from time to time. In accordance with the 2001 plan amendment, postretirement healthcare and life insurance benefits coverage for employees hired after October 1, 2000 has been eliminated.

Effective June 30, 2007, the University adopted SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, which requires that the funded status of such plans be fully reflected on the balance sheet. The following provides a summary of this unfunded plan as of June 30, 2008 and 2007:

	2008	2007
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 59,433,640	55,832,624
Service cost	700,729	714,264
Interest cost	3,711,128	3,786,788
Plan participant's contributions	107,729	7,158
Amendments	—	(5,070,140)
Actuarial (gain) loss	(6,110,730)	6,456,002
Benefits paid	(2,738,836)	(2,293,056)
Subsidies paid	143,834	—
Benefit obligation at end of year	55,247,494	59,433,640
Change in plan assets:		
Employer contribution	2,487,273	2,285,898
Plan participant's contributions	107,729	7,158
Benefits paid	(2,738,836)	(2,293,056)
Subsidies paid	143,834	—
Fair value of plan assets at end of year	—	—
Accrued postretirement benefit obligation	$ 55,247,494	59,433,640

The net periodic postretirement benefit expense for 2008 and 2007 includes the following components:

	2008	2007
Net periodic benefit cost:		
Service cost	$ 700,729	714,264
Interest cost	3,711,128	3,786,788
Amortization of prior service credit	(1,726,954)	(1,093,724)
Amortization of net loss	551,300	320,002
Net periodic benefit cost	$ 3,236,203	3,727,330

(Continued)

As of June 30, 2008 and 2007, the items not yet recognized as net periodic postretirement benefit cost are as follows:

		2008	2007
Prior service credit	$	(8,612,849)	(10,339,803)
Net loss		4,832,928	11,494,958
	$	(3,779,921)	1,155,155

The total of $1,155,155 appeared on the fiscal year 2007 statement of changes in unrestricted net assets as the effect of adoption of SFAS No. 158, decreasing unrestricted net assets.

The estimated prior service credit and net loss that will be amortized into net periodic benefit cost in 2009 are $(1,726,954) and $0, respectively.

For measurement purposes, an 8.25% 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, 2008, decreasing to 4.5% in 2014 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 $6,526,827 and $624,502, respectively, in 2008. A 1% decrease in the rate translates to a decrease in the accumulated postretirement benefit obligation and service and interest cost of $5,393,833 and $501,144, respectively, in 2008.

	2008	2007
Benefit obligation weighted average assumptions as of June 30, 2008 and 2007:		
Discount rate	7.25%	6.40%
Benefit cost weighted average assumptions for the years ended June 30, 2008 and 2007:		
Discount rate	6.40	6.50

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

		Before Medicare subsidy	Medicare subsidy	After Medicare subsidy
2009	$	3,507,592	329,874	3,177,718
2010		3,838,229	366,548	3,471,681
2011		4,079,671	405,590	3,674,081
2012		4,302,404	442,119	3,860,285
2013		4,489,191	483,474	4,005,717
2014 through 2018		24,715,192	2,838,136	21,877,056

(Continued)

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

(12) Asset Retirement Obligations

As discussed in note 2, effective July 1, 2005, the University adopted the provisions of FIN 47. Upon implementation of FIN 47, the University recorded conditional asset retirement obligations primarily for removal and/or abatement of certain building asbestos. Asset retirement obligations at June 30, 2008 and 2007 amounted to $3,331,298 and $3,145,593, respectively.

(13) Operating Leases

The University leases office, student housing, 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:	
2009	$ 20,467,575
2010	16,462,131
2011	16,755,759
2012	15,279,606
2013	12,262,406
2014 and thereafter	70,364,260
	$ 151,591,737

Total rental expense for the years ended June 30, 2008 and 2007 was $15,673,171 and $14,023,270, respectively. Included in accounts payable and accrued liabilities is a deferred rent obligation of $3,555,196 and $3,325,296 at June 30, 2008 and 2007, respectively, which represents straight-lining the total minimum lease payments over the lease terms.

On June 14, 2007, the University entered into a lease termination agreement with one of its landlords and incurred a loss of $4.2 million, consisting of the amount due to the landlord upon termination of $2.7 million and the write-off of unamortized leasehold improvements of $1.5 million. The loss is reported in the accompanying 2007 statement of changes in unrestricted net assets as loss on termination of lease.

(Continued)

(14) Self-Insurance

For the year ended June 30, 2007, the University had 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 provided claims processing and administrative functions, as well as stop-loss coverage for claims (on a calendar-year basis) in excess of $11,739,919 for the year ended December 31, 2007. The expense for this program for the year ended June 30, 2007 was approximately $8,593,000. A liability for claims incurred but not reported of approximately $1,157,000 as of June 30, 2007 is included in accounts payable and accrued liabilities in the accompanying 2007 balance sheet. The University discontinued its program effective June 30, 2007. The University has a fully insured medical plan with Oxford Health Plans, a United HealthCare company effective July 1, 2007.

(15) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets at June 30, 2008 and 2007 are available to support the following areas:

		2008	2007
Instruction	$	26,906,980	23,468,994
Research		1,260,595	1,609,047
Academic support		22,055,508	21,778,783
Student activities		285,701	367,354
Institutional support		4,832,933	10,656,192
Capital projects		2,185,459	1,807,310
Scholarships		7,260,793	5,378,644
Contributions receivable		8,459,932	9,057,712
Split-interest agreements		692,472	686,761
	$	73,940,373	74,810,797

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, 2008 and 2007 are restricted to investment in perpetuity, with investment return principally available to support scholarships and fellowships, academic programs, academic chairs, and capital improvements.

(16) Scholarships and Fellowships

Tuition and fees are presented net of amounts awarded to students to defray their cost of attending the University. The amount awarded totaled $69,642,787 and $55,600,216 for the years ended June 30, 2008 and 2007, 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 $3,943,099 and $4,414,271 for the years ended June 30, 2008 and 2007, respectively. For purposes of reporting fund-raising expenses, the University includes only those fund-raising costs incurred by its Philanthropy office.

(18) Fair Value of Financial Instruments

The carrying amount of cash and cash equivalents, 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 receivable 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 the University's 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 and other debt-related expenses based upon building square footage and the use of each facility. For the year ended June 30, 2008 (with comparative totals for 2007), the following allocation of expenses was included in the accompanying statements of changes in unrestricted net assets:

	Allocated expenses				
	Operation and maintenance of plant	Depreciation	Interest and other debt-related expenses	Direct expenses	Total per statement of changes in unrestricted net assets
Instruction	$ 6,694,017	2,788,878	1,509,264	97,402,051	108,394,210
Research	124,781	51,986	14,999	2,228,852	2,420,618
Academic support	4,741,206	1,975,293	583,905	28,460,758	35,761,162
Student services	3,455,709	1,439,726	1,869,743	26,606,411	33,371,589
Institutional support	3,312,555	1,380,085	4,434,920	39,946,530	49,074,090
Auxiliary enterprises	9,597,102	3,998,369	3,532,701	20,673,604	37,801,776
Total 2008	$ 27,925,370	11,634,337	11,945,532	215,318,206	266,823,445
Total 2007	$ 30,661,744	13,207,868	8,960,365	227,515,318	280,345,295

(20) Contingency

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

(21) Subsequent Events

On July 28, 2008, the University was notified by the Trustee for the Series 2005 Insured Revenue Bonds that it was required to deposit collateral with the Trustee, as a result of a rating agency's downgrade of the its bond insurer's financial strength rating on June 19, 2008. This collateral is required to be deposited with the Trustee in semi-annual payments over a five-year period to fund the Debt Service Reserve Fund, replacing the Surety Bond. The total payment is $2,769,250 and the first of the 10 payments was made to the Trustee on August 14, 2008 ($276,925). The ongoing semi-annual payments will be made in each January and July.

On November 7, 2008, the University's bond insurer was further downgraded by the rating agency. The counterparty has notified the University of its election not to terminate the Derivative Instrument provided the University posts collateral equivalent to the fair value of the Derivative Instrument (to the extent it is a liability). Management is in the process of evaluating the affects of this proposal.

Effective September 29, 2008, the Trustee of the Short Term Fund announced its decision to terminate and liquidate the Short Term Fund. No additional contributions to the Short Term Fund will be accepted. Under the liquidation plan, investors in the Short Term Fund will be allowed to withdraw balances based on their proportional interest in the Short Term Fund as assets mature or are sold. At June 30, 2008 and 2007, $38,622,089 and $32,822,808, respectively, of investments in the Short Term Fund were included in short term investments in the accompanying balance sheets. As of November 7, 2008, the University's investment in the Short Term Fund was $21,370,815. The value of the liquidation proceeds received by the University is not expected to vary significantly from the fair value carried on the University's books based on the current net asset value of the Short Term Fund. However, the realization of this value will depend upon market conditions including the liquidity of the Short Term Fund's assets during the liquidation period.