

CHATHAM UNIVERSITY  
Pittsburgh, Pennsylvania

Consolidated Financial Statements  
and  
Supplemental Financial Information  
For the years ended June 30, 2015 and 2014  
  
and Independent Auditors' Report Thereon



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## INDEPENDENT AUDITORS' REPORT

Board of Trustees  
Chatham University  
Pittsburgh, Pennsylvania

### ***Report on the Consolidated Financial Statements***

We have audited the accompanying consolidated financial statements of Chatham University (University), which comprise the consolidated statements of financial position as of June 30, 2015 and 2014, and the related consolidated statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Consolidated Financial Statements***

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

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

### ***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the University as of June 30, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2015, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

*Schneider Downs & Co., Inc.*

Pittsburgh, Pennsylvania  
October 23, 2015

CHATHAM UNIVERSITY  
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	June 30	
	2015	2014
<b>ASSETS</b>		
Cash and cash equivalents	\$ 6,458,539	\$ 3,688,114
Cash and cash equivalents held for debt service payments	2,559,375	2,559,375
	9,017,914	6,247,489
Student accounts receivable (net of allowance of \$1,598,000 and \$1,468,000 as June 30, 2015 and 2014, respectively)	1,115,952	989,669
Other receivables	2,043,967	3,350,993
Prepaid expenses and other assets	458,678	348,165
Contributions receivable, net	4,507,534	4,967,147
Loans receivable (net of allowance of \$269,500 and \$268,000 as of June 30, 2015 and 2014, respectively)	637,458	750,938
Deferred compensation deposits	864,992	779,608
Investments	83,921,042	84,726,717
Assets held in trust by others	4,277,814	4,349,393
	106,845,351	106,510,119
<b>LAND, BUILDINGS AND EQUIPMENT</b>		
Land	10,059,927	9,853,427
Buildings and improvements	127,857,414	122,532,312
Equipment, furniture and vehicles	24,150,117	22,480,922
Building under capital lease	3,144,406	3,144,406
	165,211,864	158,011,067
Less - Accumulated depreciation	(66,776,374)	(61,492,093)
	98,435,490	96,518,974
Construction-in-progress	17,519,740	7,320,825
	115,955,230	103,839,799
DEFERRED BOND FINANCING COSTS, net	554,652	505,770
Total Assets	\$ 223,355,233	\$ 210,855,688
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable	\$ 3,945,116	\$ 2,658,595
Accrued liabilities and other	4,196,452	4,005,448
Student deposits and deferred revenues	3,948,104	5,182,080
Capital lease obligations	4,120,100	4,001,198
Bonds and notes payable	63,789,651	54,154,028
Advances from federal government for student loans	1,511,474	1,511,474
Total Liabilities	81,510,897	71,512,823
<b>NET ASSETS</b>		
Unrestricted:		
Designated for endowment	16,546,264	17,873,276
Undesignated	33,125,328	30,386,616
Temporarily restricted	33,285,510	32,514,919
Permanently restricted	58,887,234	58,568,054
Total Net Assets	141,844,336	139,342,865
Total Liabilities And Net Assets	\$ 223,355,233	\$ 210,855,688

See notes to consolidated financial statements.

CHATHAM UNIVERSITY

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS  
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	2015			Total
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	
<b>REVENUES AND OTHER ADDITIONS</b>				
Tuition and fees	\$ 47,979,668	\$ -	\$ -	\$ 47,979,668
Scholarships	(9,081,511)	-	-	(9,081,511)
	<u>38,898,157</u>	<u>-</u>	<u>-</u>	<u>38,898,157</u>
Auxiliary enterprises revenues	8,339,459	-	-	8,339,459
Federal and state grants and contracts	119,919	989,459	-	1,109,378
Private gifts and grants	1,639,000	3,132,585	390,759	5,162,344
Interest on student loans receivable	1,178	43,064	-	44,242
Investment income, net of investment expense of \$121,000 and \$81,000, respectively	268,586	1,171,897	-	1,440,483
Net unrealized and realized gains (losses) on investments	324,435	757,786	(71,579)	1,010,642
	<u>49,590,734</u>	<u>6,094,791</u>	<u>319,180</u>	<u>56,004,705</u>
<b>NET ASSETS RELEASED FROM RESTRICTIONS:</b>				
Operations	1,525,444	(1,525,444)	-	-
Capital	3,798,756	(3,798,756)	-	-
	<u>54,914,934</u>	<u>770,591</u>	<u>319,180</u>	<u>56,004,705</u>
<b>EXPENSES AND OTHER DEDUCTIONS</b>				
Educational and student services:				
Instruction	19,663,053	-	-	19,663,053
Library	1,693,546	-	-	1,693,546
Student services	11,767,975	-	-	11,767,975
Public service	1,133,961	-	-	1,133,961
	<u>34,258,535</u>	<u>-</u>	<u>-</u>	<u>34,258,535</u>
Total Education And Student Services	34,258,535	-	-	34,258,535
Administrative and general	14,490,128	-	-	14,490,128
Auxiliary enterprises expenses	4,754,571	-	-	4,754,571
	<u>53,503,234</u>	<u>-</u>	<u>-</u>	<u>53,503,234</u>
Total Expenses And Other Deductions	53,503,234	-	-	53,503,234
Changes In Net Assets	1,411,700	770,591	319,180	2,501,471
<b>NET ASSETS</b>				
Beginning of year	48,259,892	32,514,919	58,568,054	139,342,865
End of year	<u>\$ 49,671,592</u>	<u>\$ 33,285,510</u>	<u>\$ 58,887,234</u>	<u>\$ 141,844,336</u>

## 2014

<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
\$ 46,311,050	\$ -	\$ -	\$ 46,311,050
(8,847,666)	-	-	(8,847,666)
<u>37,463,384</u>	<u>-</u>	<u>-</u>	<u>37,463,384</u>
8,210,031	-	-	8,210,031
119,970	3,549,004	-	3,668,974
854,461	2,311,416	15,727,198	18,893,075
598	43,156	-	43,754
333,361	633,470	-	966,831
<u>2,056,514</u>	<u>8,498,464</u>	<u>461,117</u>	<u>11,016,095</u>
49,038,319	15,035,510	16,188,315	80,262,144
3,214,060	(3,214,060)	-	-
<u>15,996,115</u>	<u>(15,996,115)</u>	<u>-</u>	<u>-</u>
68,248,494	(4,174,665)	16,188,315	80,262,144
18,341,704	-	-	18,341,704
1,690,042	-	-	1,690,042
11,805,604	-	-	11,805,604
<u>1,042,499</u>	<u>-</u>	<u>-</u>	<u>1,042,499</u>
32,879,849	-	-	32,879,849
15,096,531	-	-	15,096,531
<u>4,837,392</u>	<u>-</u>	<u>-</u>	<u>4,837,392</u>
<u>52,813,772</u>	<u>-</u>	<u>-</u>	<u>52,813,772</u>
15,434,722	(4,174,665)	16,188,315	27,448,372
<u>32,825,170</u>	<u>36,689,584</u>	<u>42,379,739</u>	<u>111,894,493</u>
<u>\$ 48,259,892</u>	<u>\$ 32,514,919</u>	<u>\$ 58,568,054</u>	<u>\$ 139,342,865</u>

See notes to consolidated financial statements.

CHATHAM UNIVERSITY

CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Changes in net assets	\$ 2,501,471	\$ 27,448,372
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	5,130,656	4,635,672
Net unrealized and realized gains on investments	(1,082,221)	(10,554,978)
Change in value of assets held in trust by others	71,579	(461,117)
Contributions restricted for long-term investments	(1,465,759)	(15,727,198)
Changes in assets and liabilities:		
Student accounts receivable, net	(126,283)	(77,622)
Contributions receivable	459,613	1,478,312
Other receivables	1,307,026	(2,222,372)
Prepaid expenses and other assets	(110,513)	(164,272)
Loans receivable	113,480	90,475
Deferred compensation deposits	(85,384)	55,886
Accounts payable and accrued liabilities and other	1,368,945	(1,334,043)
Student deposits and deferred revenues	(1,233,976)	328,612
Net Cash Provided By Operating Activities	<u>6,848,634</u>	<u>3,495,727</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Construction or acquisition of land, buildings and equipment, net of construction payables	(15,304,125)	(12,466,475)
Proceeds from sale of investments	8,420,579	387,771
Purchase of investments	(6,532,683)	(11,209,905)
Net Cash Used In Investing Activities	<u>(13,416,229)</u>	<u>(23,288,609)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from contributions restricted for long-term investment	390,759	15,727,198
Proceeds from issuance of debt	11,147,268	35,598
Payments on long-term debt	(1,436,456)	(1,376,784)
Payments on capital lease obligations	(763,551)	(621,612)
Net Cash Provided By Financing Activities	<u>9,338,020</u>	<u>13,764,400</u>
Net Increase (Decrease) In Cash And Cash Equivalents	2,770,425	(6,028,482)
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	<u>6,247,489</u>	<u>12,275,971</u>
End of year	<u>\$ 9,017,914</u>	<u>\$ 6,247,489</u>

See notes to consolidated financial statements.

	<u>2015</u>	<u>2014</u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Cash paid during the year for interest	\$ <u>2,525,144</u>	\$ <u>2,728,140</u>
<b>SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING ACTIVITIES</b>		
Gift of building, land and collections	\$ <u>1,075,000</u>	<u>-</u>
<b>SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES</b>		
Capital lease obligations incurred for purchases of equipment	\$ <u>763,551</u>	\$ <u>611,260</u>

See notes to consolidated financial statements.

CHATHAM UNIVERSITY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Chatham University is a nonprofit educational institution organized under the laws of Pennsylvania.

On October 1, 2013, Chatham University established Chatham Investments LLC as a wholly owned subsidiary. Chatham University accounts for its investment in Chatham Investments LLC on the equity method of accounting. Chatham Investments LLC contributed capital for a 1% ownership interest in a joint venture, Eden Hall Solar, LLC. On March 6, 2015, Chatham Investments LLC contributed capital for a 1% interest in a joint venture, Common Orchard South Solar, LLC. The joint ventures are responsible to invest, construct, operate and manage renewable energy systems and other sustainable property at the Eden Hall Campus.

In addition, the University executed a lease agreement with both of the joint ventures. Eden Hall Solar, LLC will lease University property to install an electricity grid-connected photovoltaic power plant, which will be located on the Eden Hall Campus. The term of the lease shall expire on January 1, 2020 with annual rent payments of \$1.00. Common Orchard South Solar, LLC will lease University property to install a Photovoltaic and Thermal Power Plant which will be located on the Eden Hall Campus. The term of the lease shall expire on September 1, 2021 with annual rent payments of \$1.00.

Finally, the University executed a power purchase agreement with both of the joint ventures. The University agreed to purchase all actual net electrical energy generated by the power plant constructed with Eden Hall Solar, LLC for a term commencing October 1, 2013 and expiring December 31, 2019. There are no minimum purchase commitments within the power purchase agreement. The University agreed to purchase all actual net electrical energy generated by the power plant constructed with Common Orchard South Solar, LLC for a term commencing March 6, 2015 and expiring September 1, 2021. There are no minimum purchase commitments within the power purchase agreement.

The consolidated financial statements include the financial position and results of operations of Chatham University and Chatham Investments LLC and are hereinafter referred to as the "University." All material intercompany transactions have been eliminated in consolidation. At June 30, 2015 and 2014, the University has an outstanding receivable of approximately \$328,000 due from Eden Hall Solar, LLC, and an outstanding receivable of approximately \$532,000 at June 30, 2015 due from Common Orchard South Solar, LLC. These amounts are included in other receivables in the accompanying consolidated statements of financial position.

A summary of significant accounting policies consistently applied by management in the preparation of the accompanying consolidated financial statements follows:

**Basis of Accounting** - The consolidated financial statements of the University are prepared using the accrual method of accounting in accordance with GAAP.

**Use of Estimates** - The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Net Assets** - The University classifies and reports net assets, revenues and expenses, and gains and losses based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the University and changes therein are classified and reported as follows:

CHATHAM UNIVERSITY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Unrestricted Net Assets - Net assets that are not subject to donor-imposed stipulations, including contractual obligations imposed by federal, state and local governmental agencies.

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

Permanently Restricted Net Assets - Net assets that are subject to donor-imposed restrictions that they be maintained permanently by the University. Generally, the donors of these assets permit the University to use all or part of the income earned on related investments for general or specific purposes.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or by law. Expirations of temporary restrictions on net assets are reported as reclassifications to unrestricted net assets.

Expiration of Donor-Imposed Restrictions - The University follows the policy of reporting donor-imposed restricted contributions and endowment income whose restrictions are met in the same fiscal year as received as temporarily restricted support and then released. It is also the University's policy to account for donated long-lived assets, and those acquired with gifts of cash restricted for such acquisitions, as unrestricted assets when placed in service.

Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenues of the temporarily restricted net asset class, and a reclassification to unrestricted net assets is made to reflect the satisfaction or expiration of such restrictions.

Cash and Cash Equivalents - For purposes of the consolidated statements of cash flows, the University considers all cash balances and short-term highly liquid investments with original maturities of three months or less to be cash equivalents. The University maintains at various financial institutions, cash and cash equivalents that may exceed federally insured amounts at times.

Student Accounts Receivable - Student accounts receivable are reported at their outstanding principal balance adjusted for any charge-offs and net of the allowance for doubtful accounts. Management's periodic evaluation of the adequacy of the allowance is based on the University's experience, adverse conditions that might affect the borrower's ability to pay, and current economic conditions.

Contributions Receivable - Contributions receivable are recorded as revenue when an unconditional promise to give is received. These amounts, less an appropriate allowance for uncollectible amounts, are recorded at their estimated fair value as determined by the present value of estimated future cash flows. The discount on these amounts is computed using an appropriate discount rate commensurate with the risks involved. The discount rate used in 2015 and 2014 for new contributions was 4.00%. Amortization of the discount is included in contribution revenue, in accordance with donor-imposed restrictions, if any. An allowance for uncollectible contributions receivable is provided based upon management's judgment, including such factors as past collection experience, missed payments or modification of payment terms, and creditworthiness of the donor.

CHATHAM UNIVERSITY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments - Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value, with realized and unrealized gains and losses included in the statement of activities. Investments received by gift are recorded at fair value on the date of donation. Investment securities, in general, are exposed to various risks such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, changes in values of investment securities will occur in the near term, and it is reasonably possible that such changes could materially affect the amounts reported in the consolidated statements of financial position.

Investments for which there is no ready market are valued at fair value as estimated by management. In estimating fair value, management takes into consideration valuations reported to the University by the investment partnerships, the nature of the investments, current market conditions and other factors that the University considers relevant. The University's interests in limited partnerships such as private equity, hedge funds, and real estate funds are generally reported at the University's ownership interests in the funds reported by the fund managers, unless it is probable that all or a portion of the investment will be sold for an amount different from the estimated fair value. As of June 30, 2015 and 2014, the University had no plans to sell investments at amounts different from the estimated fair value of investments in limited partnerships. Because of inherent uncertainty of valuation in the absence of readily ascertainable market values, the estimated values of those investments may differ from the values that would have been used had a ready market existed for such investments or if the investments were realized, and the differences could be material. Such investments are, by their nature, generally considered to be long-term investments and are not intended to be liquidated on a short-term basis.

Interest and dividends from investments are included in investment income and are recognized when earned. Realized gains and losses on the sale of securities are recognized using the specific identification method at the time of the sale or redemption.

Assets Held in Trust by Others - The University has certain assets that consist of charitable gift annuities and unitrusts in the form of trusts held by a third party. For annuities and unitrusts, assets are invested and payments are made in accordance with the respective agreements. Revenue is recognized at the date the agreement is established, net of the liability for the present value of the estimated future payments.

For trusts held by a third party, the University has the irrevocable right, under the terms of the trust, to receive the income earned on the trust assets held in perpetuity but never receives the assets held in the trust. Assets are recorded at the fair value unless facts indicate that the fair value of the beneficial interest differs from the fair value of the assets contributed. Contribution revenue for the perpetual trusts held by third parties is recognized when the University is notified of the trust's existence or the date on which the trust becomes irrevocable.

Land, Buildings and Equipment - Land, buildings and equipment are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The University capitalizes interest expense on the construction of assets to the extent of borrowings related to the construction. Capitalized interest for the year ended June 30, 2015 was approximately \$170,000. There was no capitalized interest for the year ended June 30, 2014. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, which are 20 to 40 years for buildings and improvements; 7 years for equipment and furniture; and 4 years for vehicles. Gifts of long-lived assets are recorded as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. The University releases temporarily restricted contributions for asset acquisitions when the asset is placed into service.

CHATHAM UNIVERSITY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The University reviews the carrying amount of land, buildings and equipment for impairment whenever events or changes in circumstances indicate that the related carrying amounts may not be recoverable. Recoverability of long-lived assets is measured by a comparison of the carrying amount of an asset to future net undiscounted flows expected to be generated by the asset. If these comparisons indicate that an asset is not recoverable, the impairment loss recognized is the amount by which the carrying amount of the asset exceeds the related estimated fair value. A fair value determination is made based upon undiscounted cash flows, appraisals and comparable sales of similar property. Based upon management's analysis, there were no impairment losses recorded for the years ended June 30, 2015 and 2014.

Collections - The University's collections include paintings, prints, photographs, sculptures, drawings and watercolors, and decorative arts. These items are held for educational, research and scientific purposes. Each of the items is cataloged, preserved and cared for, and activities verifying their existence and assessing their condition are performed continuously. Purchases of collection items are recorded as operating expenditures in the year in which the items are acquired. Contributed collection items maintained and held by the University are not reflected in the consolidated financial statements. Contributed collection items intended for sale by the University are recorded as an asset at their estimated net realizable value.

Student Deposits and Deferred Revenues - At June 30, 2015 and 2014, student deposits and deferred revenues includes student deposits, deferred rental payments, deferred tuition payments, and deferred summer camp payments. The University recognizes revenue to the extent that the services are provided.

Advances from Federal Government for Student Loans - Advances from the federal government under the Federal Perkins Loan program are distributable to the federal government upon termination of the program, and thus, are reflected as a liability on the statement of financial position.

Self-Insured Liabilities - The University is self-insured for health insurance benefits. An individual stop-loss policy provides protection to the University for individual claims that exceed \$75,000 through December 31, 2014 and \$100,000 per claim beginning January 1, 2015, per claim and an aggregate stop-loss policy provides protection to the University for aggregate claims under the plan exceeding approximately \$2.2 million based on current enrollment in the plan. The University accrues an estimate for claims incurred but not reported during the year.

Fair Value Measurements - The University follows the Codification topic Fair Value Measurement and Disclosures, which establishes a framework for measuring fair value and expands disclosures related to fair value measurements. The University has applied the provisions of the Fair Value Measurements and Disclosures topic to its recurring measurements (See Note 3.)

Deferred Bond Financing Costs - Deferred bond financing costs represent the cost of issuing the variable rate demand bonds and are amortized over the life of the bonds using a method that approximates the interest method.

Recent Accounting Pronouncements - In April 2015, the FASB issued ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs. ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts, and not recorded as separate assets. This update is effective for fiscal years beginning after December 15, 2015, and is to be applied on a retrospective basis. The University is currently evaluating the impact of adopting this new accounting guidance on its consolidated financial statements.

CHATHAM UNIVERSITY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In May 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2015-07 Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent). This ASU removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share as a practical expedient. Currently, investments valued using the practical expedient are categorized within the fair value hierarchy on the basis of whether the investment is redeemable with the investee at net asset value on the measurement date, never redeemable with the investee at net asset value, or redeemable with the investee at net asset value at a future date. The ASU also removes the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. Rather, those disclosures are limited to investments for which the entity has elected to measure the fair value using that practical expedient. This ASU is effective for nonpublic entities for fiscal years beginning after December 15, 2015 and interim periods within those fiscal years. A reporting entity should apply amendments retrospectively to all periods presented. Early application is permitted. Management adopted the provisions of this ASU for the year ended June 30, 2015.

Subsequent Events - The administration of the University has evaluated subsequent events through October 23, 2015, the date on which the consolidated financial statements were available to be issued.

NOTE 2 - INVESTMENTS

Investments stated at fair value as of June 30 consist of the following:

	<u>2015</u>	<u>2014</u>
Cash and cash equivalents	\$ 1,691,968	\$ 2,066,091
Fixed income	3,903,114	7,889,043
Equities	6,354,136	6,716,014
Commingled funds	25,201,300	21,525,441
International funds	11,828,981	11,200,794
Hedge funds	10,753,003	12,796,480
Limited partnerships	15,984,059	16,489,933
Commodity mutual fund	2,192,424	3,092,109
Real estate investment fund	<u>6,012,057</u>	<u>2,950,812</u>
Total investments	83,921,042	84,726,717
Assets held in trust by others	<u>4,277,814</u>	<u>4,349,393</u>
Total market value of investments	<u>\$ 88,198,856</u>	<u>\$ 89,076,110</u>

As of June 30, 2015, the University has outstanding commitments to fund partnership investments with additional capital of approximately \$5,648,000.

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NOTE 2 - INVESTMENTS (Continued)

Investments at June 30 are composed of the following:

	<u>2015</u>	<u>2014</u>
Endowment	\$ 83,627,290	\$ 84,389,716
Assets held in trust by others	4,277,814	4,349,393
Annuity trust agreements	<u>293,752</u>	<u>337,001</u>
	<u>\$ 88,198,856</u>	<u>\$ 89,076,110</u>

The investment return, net of investment expenses, for June 30 is summarized in the following schedule:

	<u>2015</u>	<u>2014</u>
Dividends and interest	\$ 1,440,483	\$ 966,831
Net realized (loss) gain	(1,355,116)	102,492
Net unrealized gain	2,437,337	10,452,486
Net unrealized (loss) gain on assets held in trust by others	<u>(71,579)</u>	<u>461,117</u>
	<u>\$ 2,451,125</u>	<u>\$ 11,982,926</u>

NOTE 3 - FAIR VALUE MEASUREMENT

The University follows the Codification topic Fair Value Measurement and Disclosures, which defines fair value, establishes a framework for its measurement and expands disclosures about fair value measurement.

The Fair Value Measurement and Disclosures topic defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The topic requires disclosures that categorize assets and liabilities measured at fair value into three different levels, depending on the assumptions used in the valuation. Level 1 provides the most reliable measure of fair value, while Level 3 generally requires significant administration judgment. Financial assets and liabilities are classified in their entirety based on the lowest level of input significant to the fair value measurement. The Fair Value Measurement hierarchy is defined as follows:

Level 1 - Valuations are based on unadjusted quoted prices in an active market for identical assets or liabilities.

Level 2 - Valuations are based on quoted prices for similar assets or liabilities in active markets, or quoted prices in markets that are not active for which significant inputs are observable, either directly or indirectly.

Level 3 - Valuations are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. Inputs reflect the administration's best estimate of what market participants would use in valuing the asset or liability at the measurement date.

CHATHAM UNIVERSITY  
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NOTE 3 - FAIR VALUE MEASUREMENT (Continued)

The University's financial instruments consist primarily of cash and cash equivalents, student accounts receivable, contributions receivable, loans receivable, investments, assets held in trust by others, accounts payable, notes payable and bonds payable. The carrying amount of cash and cash equivalents, student accounts receivable, contributions receivable, loans receivable and accounts payable approximate their fair value due to the short-term nature of such financial instruments. The carrying amount of notes payable and bonds payable approximates fair value due to the interest rates on the notes compared to the current credit market.

Set forth by level and within the fair value hierarchy, the University's investments at fair value as of June 30 are as follows:

	2015			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 1,691,968	\$ -	\$ -	\$ 1,691,968
Fixed income	3,903,114	-	-	3,903,114
Equities	6,354,136	-	-	6,354,136
International funds	11,828,981	-	-	11,828,981
Commodity mutual fund	2,192,424	-	-	2,192,424
Assets held in trust by others	-	4,277,814	-	4,277,814
Total investments in the fair value hierarchy	25,970,623	4,277,814	-	30,248,437
Investments measured at net asset value (a)	-	-	-	57,950,419
Investments at fair value	<u>\$ 25,970,623</u>	<u>\$ 4,277,814</u>	<u>\$ -</u>	<u>\$ 88,198,856</u>
	2014			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 2,066,091	\$ -	\$ -	\$ 2,066,091
Fixed income	7,889,043	-	-	7,889,043
Equities	6,716,014	-	-	6,716,014
International funds	11,200,794	-	-	11,200,794
Commodity mutual fund	3,092,109	-	-	3,092,109
Assets held in trust by others	-	4,349,393	-	4,349,393
Total investments in the fair value hierarchy	30,964,051	4,349,393	-	35,313,444
Investments measured at net asset value (a)	-	-	-	53,762,666
Investments at fair value	<u>\$ 30,964,051</u>	<u>\$ 4,349,393</u>	<u>\$ -</u>	<u>\$ 89,076,110</u>

(a) In accordance with the University's adoption of ASU 2015-07 and Codification Subtopic 820-10, certain investments were measured at NAV per share (or its equivalent) as a practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of fair value hierarchy line items presented in the statements of financial position.

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NOTE 3 - FAIR VALUE MEASUREMENT (Continued)

The valuation of the University's investments in limited partnerships requires significant judgment due to the absence of quoted market prices, inherent lack of liquidity, heavy reliance on significant unobservable inputs, and the long-term nature of such investments. Limited partnership investments are valued initially at their transaction value, and subsequently adjusted to reflect expected exit values at the measurement date by utilizing assumptions that market participants would normally use to estimate a fair market value. These valuation adjustments include, but are not limited to, material changes in an organization's operations and or financial performance, subsequent or anticipated rounds of equity financings, specific rights or terms associated with the investment (e.g., conversion features, liquidation preferences or restrictions), expected exit timing and strategy, industry valuations or comparable public companies, changes in economic conditions, and changes in legal or regulatory environments.

Investments measured at net asset value primarily consist of the University's ownership in alternative investments and hedge funds. The valuation of alternative investments requires significant judgment due to the absence of quoted market prices, inherent lack of liquidity, heavy reliance on significant unobservable inputs, and the long-term nature of such investments. These investments are valued initially at their transaction value, and subsequently adjusted to reflect expected exit values at the measurement date by utilizing assumptions that market participants would normally use to estimate a fair market value. These valuation adjustments include, but are not limited to, material changes in an organization's operations and or financial performance, subsequent or anticipated rounds of equity financings, specific rights or terms associated with the investment (e.g., conversion features, liquidation preferences or restrictions), expected exit timing and strategy, industry valuations or comparable public companies, changes in economic conditions, and changes in legal or regulatory environments. The University's interest in alternative investments contains some liquidity constraints, which are outlined in the table below. Depending on the investment, some of them are not easily transferrable and typically achieve liquidity over an extended period of time when and if the fund managers return invested capital or distribute proceeds realized from the underlying assets. In addition to annual distributions received from the alternative investment funds for the year ended June 30, 2015, withdrawals and distributions on approximately \$41,966,360 of the outstanding investment balances can be received by the University based upon written notice as described below.

The following redemption table clarifies the nature and risk of the University's investments and liquidity for investments, including alternative investments, measured using net asset value:

Category	Fair Value as of June 30		Unfunded Commitments	Redemption Frequency	Redemption Notice
	2015	2014			
Limited partnerships	\$ 15,989,059	\$ 16,489,933	\$ 5,648,000	None permitted upon final closing of the fund until liquidation of the funds	N/A
Hedge funds	10,753,003	12,796,480	-	Quarterly - Annually	30 - 90 days
Real estate investment fund	6,012,057	2,950,812	-	Daily	None
Commingled funds	25,201,300	21,525,441	-	Daily	None
	\$ <u>57,950,419</u>	\$ <u>53,762,666</u>	\$ <u>5,648,000</u>		

Realized gains and unrealized appreciation and depreciation are included in net unrealized and realized gains (losses) on investments in the accompanying consolidated statements of activities and changes in net assets. Unrealized appreciation, net, on investments measured at NAV, relates to investments held as of June 30, 2015 and 2014.

CHATHAM UNIVERSITY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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NOTE 4 - CONTRIBUTIONS RECEIVABLE

The majority of the University's contributions receivable are due from individual donors and foundations. Contributions receivable include approximately \$370,000 and \$1,246,000 from Board members as of June 30, 2015 and 2014, respectively. Contributions receivable at June 30 are as follows:

	<u>2015</u>	<u>2014</u>
Gross contributions outstanding	\$ 4,800,511	\$ 5,318,142
Less - unamortized discount	158,419	216,437
Less - allowance	<u>134,558</u>	<u>134,558</u>
	<u>\$ 4,507,534</u>	<u>\$ 4,967,147</u>
Amounts due in:		
Less than one year	\$ 3,450,344	\$ 2,972,149
One to five years	950,167	1,945,993
More than five years	<u>400,000</u>	<u>400,000</u>
	<u>\$ 4,800,511</u>	<u>\$ 5,318,142</u>

Total fundraising expense, representing the cost of the institutional advancement department and the comprehensive campaign, for the years ended June 30, 2015 and 2014 was \$1,441,000 and \$1,392,000, respectively, and is included in administrative and general expenses in the consolidated statement of activities and changes in net assets.

NOTE 5 - LINE-OF-CREDIT PAYABLE

The University has available a \$2,000,000 demand line-of-credit agreement with a bank. The agreement is secured by certain real property, due on demand and bears interest at the bank's prime lending rate (3.25% at June 30, 2015 and 2014). There were no borrowings outstanding at June 30, 2015 and 2014.

In April 2013, the University entered into a loan agreement with a bank providing for a \$12,000,000 revolving line of credit and a \$5,000,000 open-end mortgage note to finance the payment project costs incurred in connection with the construction of Phase I-A of the Eden Hall Campus. The agreement is secured by the furniture, fixtures and other personal property of the Eden Hall Campus and bears interest at the bank's prime lending rate (3.25% at June 30, 2014). The revolving line of credit is due on demand, and the open-end mortgage note is due on May 1, 2020. There were \$35,598 in borrowings outstanding under this agreement at June 30, 2014. Subsequent to June 30, 2014, this agreement was cancelled and the outstanding borrowings were converted into term note as part of the financing for construction of Phase I-B of the Eden Hall Campus (see Note 6).

CHATHAM UNIVERSITY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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NOTE 6 - BONDS AND NOTES PAYABLE

The bonds and notes payable balance at June 30 consists of the following:

	<u>2015</u>	<u>2014</u>
Series A of 2008	\$ 10,000,000	\$ 10,000,000
Series B of 2008	7,229,502	7,757,588
Series A of 2012	33,230,000	34,115,000
Phase I-B construction loan	11,182,866	35,598
Mortgage loans payable	593,392	616,762
	<u>62,235,760</u>	<u>52,524,948</u>
Plus - Unamortized premium	1,553,891	1,629,080
	<u>\$ 63,789,651</u>	<u>\$ 54,154,028</u>

Scheduled principal repayments are as follows:

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Total</u>
2016	\$ 1,641,350
2017	2,084,880
2018	2,203,368
2019	2,300,151
2020	2,399,520
Thereafter	<u>51,606,491</u>
Plus - Unamortized premium	<u>1,553,891</u>
	<u>\$ 63,789,651</u>

a. Series A of 2008

On September 29, 2008, McKeesport Industrial Development Authority issued \$10,000,000 aggregate principal of its Tax-Exempt Revenue Note Series A of 2008 on behalf of the University. The Series A of 2008 Note was used by the University for the financing of the acquisition of the building and land adjacent to the University's Shadyside Campus and its subsequent partial renovation, financing the acquisition of the apartments for student residence adjacent to the University's Shadyside Campus, financing various capital facilities existing on the University's Shadyside Campus, financing renovations to the University's Eden Hall Campus, and payment of all or a portion of the costs incurred in connection with such financing. The Series A of 2008 Note bears an interest rate of 2.89%. Interest payments are required monthly. Principal payments are required monthly, with the first payment due on August 1, 2024, and the final payment due on January 1, 2033.

Interest expense on the Series A of 2008 Notes for the years ended June 30, 2015 and 2014 was \$370,194 and \$447,000, respectively.

CHATHAM UNIVERSITY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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NOTE 6 - BONDS AND NOTES PAYABLE (Continued)

The Series A of 2008 Notes are secured by facilities of the University. The University is subject to certain nonfinancial covenants and is required to make full and timely payment of the principal of and interest on all indebtedness of the University, whether now existing or hereafter arising, and comply with all covenants and agreements set forth in agreements evidencing indebtedness of the University.

b. Series B of 2008

On September 29, 2008, McKeesport Industrial Development Authority issued \$10,000,000 aggregate principal of its Taxable Revenue Note Series B of 2008 on behalf of the University. The Series B of 2008 Note was used by the University for the financing of the acquisition of the building and land adjacent to the University's Shadyside campus and its subsequent partial renovation, financing the acquisition of the apartments for student residence adjacent to the University's Shadyside campus, financing various capital facilities existing on the University's Shadyside campus, financing renovations to the University's Eden Hall Farm campus, and payment of all or a portion of the costs incurred in connection with such financing. The Series B of 2008 Note bears an interest rate of 4.32%. Interest payments are required monthly. Principal payments are required monthly. The final payment is due on May 1, 2025.

Interest expense on the Series B of 2008 Notes for the years ended June 30, 2015 and 2014 was \$424,426 and \$535,479, respectively.

The Series B of 2008 Notes are secured by facilities of the University. The University is subject to certain nonfinancial covenants and is required to make full and timely payment of the principal of and interest on all indebtedness of the University, whether now existing or hereafter arising, and comply with all covenants and agreements set forth in agreements evidencing indebtedness of the University.

c. Series A of 2012

On February 29, 2012, Allegheny County Higher Education Building Authority issued \$35,870,000 aggregate principal of its University Revenue Bonds Series A of 2012 on behalf of the University for the purpose of current refunding of the 1998 Series A Bonds and 2002 Series A Bonds, and the current and advance refunding of the 2002 Series A Bonds. The Series A of 2012 Bonds bear interest at rates ranging from 2.0% to 5.0%. Interest payments are required semiannually. Principal payments are required on September 1 of each year, with the final payment due on September 1, 2035.

Interest expense on the Series A of 2012 Bonds for the years ended June 30, 2015 and 2014 was \$1,670,000 and \$1,691,975, respectively.

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NOTE 6 - BONDS AND NOTES PAYABLE (Continued)

The University is subject to certain financial and reporting covenants and is required to maintain a debt service reserve fund equal to the maximum annual debt service due in any fiscal year on the Series A of 2012 Bonds. Included in cash and cash equivalents at June 30, 2015 was \$2,559,375 to satisfy the debt service fund requirement.

d. Phase I-B construction loan

On July 16, 2014, Allegheny County Higher Education Building Authority issued \$18,000,000 aggregate principal of its Taxable Revenue Note Series of 2014 on behalf of the University. The Series of 2014 Note will be used by the University for the financing of the construction of Phase I-B of Eden Hall Campus. The Series of 2014 Note bears interest at 3.22%. Interest-only payments are required monthly from August 1, 2014 through July 31, 2016. Starting on September 1, 2016, principal and interest payments are required monthly, with the final payment due on August 1, 2026.

As part of the issuance of this loan agreement, the financing for construction of the Phase I-A was cancelled and outstanding borrowings were included in the principal balance for the Phase I-B agreement. There were \$11,182,866 in borrowings outstanding under this agreement at June 30, 2015. Approximately, \$170,000 of interest related to the outstanding borrowings was capitalized during the year ended June 30, 2015.

The Series of 2014 Note is secured by facilities of the University. The University is subject to certain nonfinancial covenants and is required to make full and timely payment of the principal of and interest on all indebtedness of the University, whether now existing or hereafter arising, and comply with all covenants and agreements set forth in agreements evidencing indebtedness of the University.

- e. During the 2012 fiscal year, the University entered into three mortgage loan agreements for a total of \$676,000 payable in monthly installments ranging from \$1,136 to \$1,662, included interest at rates from 4.625% to 5.00%, through November 2031. These loans are secured by first-lien mortgages on the real property and improvements on the properties acquired by the loan proceeds. The cost of the property acquired totaled \$937,287 and has a net book value of \$877,785 and \$894,786 at June 30, 2015 and 2014, respectively.

NOTE 7 - RETIREMENT PLANS

The University sponsors a defined contribution retirement plan. Full-time employees over 21 years of age are eligible to participate in the plan immediately. After an employee has been employed for one year or an employee has a 403(b) plan already established, the University will match the employee's contribution from 5% to 10% of the employee's base compensation. Participation in the defined contribution retirement plan is mandatory for all employees at the 2% contribution level with a 5% match. Contributions of 4% receive a 9% match effective January 1, 2009. Maximum match is 10% on employee contributions of 5%. In addition, the University contributes to a union-administered defined contribution retirement plan for certain hourly employees, which is funded based upon hours worked. Pension expense charged to operations for these plans was approximately \$1,671,000 and \$1,661,000 for the years ended June 30, 2015 and 2014, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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NOTE 7 - RETIREMENT PLANS (Continued)

The University also sponsors deferred compensation plans in accordance with Sections 457(b) and 457(f) of the Internal Revenue Code of 1986 (IRC). Benefits are payable under these plans equal to the fair value of the underlying investments. Amounts payable under these plans, included in accrued liabilities in the accompanying consolidated statements of financial position, and the related fair value of assets held by the University are approximately \$865,000 and \$780,000 as of June 30, 2015 and 2014, respectively, related to these plans.

NOTE 8 - LEASES

The University has various lease agreements primarily involving the rental of property, vehicles and office equipment. These leases are non-cancelable and expire on various dates through the year 2018.

Future minimum rental payments under the operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of June 30, 2015 are: 2016, \$251,000; 2017, \$240,000; 2018, \$239,000; 2019, \$239,000; and 2020, \$203,000.

Rent expense for the years ended June 30, 2015 and 2014 was \$522,000 and \$605,000, respectively.

On June 1, 2007, the University entered into a capital lease agreement involving the rental of an apartment building. This lease is non-cancelable and runs through the year 2022. Lease payments are adjusted annually by a percentage increase or decrease in the Bureau of Labor Statistics Consumer Price Index. Net rent will not decrease below \$205,600 per year. At the end of the lease term, the University is obligated to purchase the building at its fair market value at that time. Assets recorded under the capital lease agreement totaled \$3,144,406 as of both June 30, 2015 and 2014, and accumulated depreciation totaled \$746,795 and \$668,185 as of June 30, 2015 and 2014, respectively.

On October 1, 2011, the University entered into three capital lease agreements involving the rental of computer and network resources. These leases are non-cancelable and run through the year 2016. Amounts are payable in quarterly installments for computers from \$8,203 to \$21,531 and payable in annual installments for network resources at \$173,754. Assets recorded under the capital lease agreements totaled \$1,125,642 as of both June 30, 2015 and 2014, and accumulated depreciation totaled \$868,045 and \$630,684 as of June 30, 2015 and 2014, respectively.

On August 1, 2012 and October 1, 2012, the University entered into seven capital lease agreements involving the rental of computer and network resources. These leases are non-cancelable and run through the year 2017. Amounts are payable in quarterly installments for computers from \$1,235 to \$12,526 and payable in annual installments for network resources from \$3,018 to \$29,205. Assets recorded under the capital lease agreements totaled \$417,222 as of June 30, 2015 and 2014, and accumulated depreciation totaled \$265,563 and \$159,338 as of June 30, 2015 and 2014, respectively.

On October 1, 2013, March 1, 2014, and June 1, 2014, the University entered into five capital lease agreements involving the rental of computer and network resources. These leases are non-cancelable and run through the year 2019. Amounts are payable in quarterly installments for computers from \$3,477 to \$17,289 and payable in annual installments for network resources from \$23,805 to \$39,852. Assets recorded under the capital lease agreements totaled \$611,260 as of June 30, 2015 and 2014 and accumulated depreciation totaled \$236,970 and \$78,990 as of June 30, 2015 and 2014, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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NOTE 8 - LEASES (Continued)

During the year ended June 30, 2015, the University entered into seven capital lease agreements involving the rental of computer and network resources. These leases are non-cancelable and run through the year 2020. Amounts are payable in quarterly installments from \$3,971 to \$13,834. Assets recorded under the capital lease agreements totaled \$882,453 as of June 30, 2015 and accumulated depreciation totaled \$99,101 as of June 30, 2015.

Total obligations under all capital lease agreements are as follows:

Fiscal Year	Amounts
<u>Ending June 30</u>	
2016	\$ 947,609
2017	657,383
2018	509,307
2019	415,451
2020	327,220
Thereafter	<u>2,337,694</u>
	5,194,664
Less - Amounts representing interest	<u>1,074,564</u>
Present value of minimum lease	<u>\$ 4,120,100</u>

NOTE 9 - RESTRICTED NET ASSET BALANCES

The temporarily restricted net assets source of restrictions at June 30 are as follows:

	<u>2015</u>	<u>2014</u>
Temporarily restricted net assets:		
Gifts and other unexpended revenues available for Scholarships, instruction, construction of Eden Hall Campus, and other programs	\$ 8,490,670	\$ 7,654,588
Realized and unrealized endowment gains restricted primarily for scholarships and professorships	24,501,088	24,523,330
Annuity and trust agreements	<u>293,752</u>	<u>337,001</u>
	<u>\$ 33,285,510</u>	<u>\$ 32,514,919</u>

CHATHAM UNIVERSITY  
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NOTE 9 - RESTRICTED NET ASSET BALANCES (Continued)

The permanently restricted net assets source of restrictions at June 30 are as follows:

	2015	2014
Permanently restricted net assets:		
Scholarships	\$ 19,943,545	\$ 19,909,688
Professorships and other	14,069,181	13,770,807
Falk School of Sustainability	15,000,000	15,000,000
Eden Hall Campus	8,310,000	8,310,000
Library	670,539	670,539
Awards	472,895	472,422
General operations	421,074	434,598
	\$ 58,887,234	\$ 58,568,054

NOTE 10 - ENDOWMENT

The University's endowment consists of various investment funds established primarily for the support of its mission. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law - The Board of Trustees has elected to be governed by the Commonwealth of Pennsylvania's Act 141 (Act 141). Act 141 permits election of a total return policy that allows a nonprofit to choose to treat a percentage of the average market value of the endowment's permanently restricted investments as income each year. However, the long-term preservation of the real value of the assets must be taken into consideration when the Board elects the amount. On an annual basis, the Board of Trustees must elect, in writing, a spending rate of between 2% and 7%. For the year ended June 30, 2015, the University utilized a 7.0% spending rate, based on a three-year average of historical endowment market values. The last fiscal year used to determine the transfer for the fiscal year ended June 30, 2015 was the fiscal year ended June 30, 2014.

The University classifies as permanently restricted net assets the original value of gifts donated to the endowment and the original value of subsequent gifts to the endowment. The undistributed amounts earned are included in temporarily restricted net assets. In accordance with Act 141, the University has adopted a written investment policy, of which a section specifically relates to the endowment. The University considers the following factors in making a determination to set a spending rate:

1. Protecting the corpus of the endowment fund
2. Preserving the spending power of the assets

CHATHAM UNIVERSITY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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NOTE 10 - ENDOWMENT (Continued)

3. Obtaining maximum investment return with reasonable risk and operational consideration
4. Complying with applicable laws

Endowment fund net assets as of June 30 comprise the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
June 30, 2015	\$ <u>16,546,264</u>	\$ <u>21,075,358</u>	\$ <u>50,577,234</u>	\$ <u>88,198,856</u>
June 30, 2014	\$ <u>17,873,276</u>	\$ <u>20,944,780</u>	\$ <u>50,258,054</u>	\$ <u>89,076,110</u>

The following represents the change in board-designated and donor-restricted endowment funds by net asset type for the years ended June 30:

	<u>Unrestricted Designated</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2013	\$ 18,559,972	\$ 14,608,170	\$ 34,069,739	\$ 67,237,881
Investment return:				
Investment income	214,722	748,555	-	963,277
Net unrealized appreciation	(26,145)	7,762,782	461,117	8,197,754
Contributions	-	-	15,727,198	15,727,198
Appropriation of endowment assets for expenditures	2,174,727	(2,174,727)	-	-
Spend	<u>(3,050,000)</u>	<u>-</u>	<u>-</u>	<u>(3,050,000)</u>
Endowment net assets, June 30, 2014	17,873,276	20,944,780	50,258,054	89,076,110
Investment return:				
Investment income	267,560	1,171,897	-	1,439,457
Net unrealized appreciation	20,426	1,303,308	(71,579)	1,252,155
Contributions	-	-	390,759	390,759
Appropriation of endowment assets for expenditures	2,344,627	(2,344,627)	-	-
Spend	<u>(3,959,625)</u>	<u>-</u>	<u>-</u>	<u>(3,959,625)</u>
Endowment net assets, June 30, 2015	\$ <u>16,546,264</u>	\$ <u>21,075,358</u>	\$ <u>50,577,234</u>	\$ <u>88,198,856</u>

CHATHAM UNIVERSITY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014

NOTE 10 - ENDOWMENT (Continued)

Return Objectives and Risk Parameters - The University had adopted investment and spending policies for endowment assets that attempt to provide a reasonable stream of funding to programs supported by its endowment while seeking to enhance the purchasing power of the endowment assets through long-term growth. Endowment assets include those assets of donor-restricted funds that the University must hold in perpetuity or for a donor-specified period. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that achieves its objective to attain a total return (yield plus capital appreciation) adequate to at least preserve the fund's value in real (i.e., inflation-adjusted) terms while providing a dependable source of income for the University for current operations.

Strategies Employed for Achieving Objectives - To satisfy its long-term rate-of-return objectives, the University relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The University targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints. Investment managers, at the discretion of the Investment Committee of the Board of Trustees, are given guidelines as to the percentage range that can be committed to a particular investment category.

Spending Policy and Investment Objectives Related to Spending Policy - As permitted by Act 141, the University annually transfers between 5% and 7%, based on a three-year average of historical endowment market values to unrestricted net assets, for use in current and future operations. In 2015 and 2014, the spendable return approximated \$2,345,000 and \$2,175,000, respectively, and was transferred to board-designated endowment. The University satisfied its spending provisions of individual endowment agreements, including "must" or "shall" provisions, through the use of unrestricted operating funds in the years assets appropriated were not drawn. The University believes that this spending policy is consistent with the Commonwealth of Pennsylvania's guidelines and with the University's objective to maintain the purchasing power of the endowment assets held in perpetuity, as well as to provide additional real growth through new gifts and investment return. At June 30, 2015 and 2014, the aggregate fair market value of certain endowment funds was less than the original corpus by \$979,000 and \$839,000, respectively.

NOTE 11 - PELL GRANTS AND PENNSYLVANIA HIGHER EDUCATION ASSISTANCE  
AGENCY PROGRAMS

Activity of the Pell Grant and Pennsylvania Higher Education Assistance Agency (PHEAA) programs is not reflected in the University's consolidated financial statements because the amounts represent direct grants to students. Students received \$1,081,976 and \$1,091,454 from the Federal Pell Grant and \$847,081 and \$958,971 from PHEAA programs in fiscal years 2015 and 2014, respectively.

NOTE 12 - COMMITMENTS AND CONTINGENCIES

In October 2008, the University signed a consent decree agreement with the U.S. Department of Justice under the Americans with Disabilities Act to improve accessibility of the University's facilities. The terms of the agreement call for specified improvements to be made over five years. The total estimated costs under the agreement approximated \$2,000,000, and were incurred ratably over the term of the agreement. As of June 30, 2014, the University satisfied the terms of the agreement and had no outstanding commitment under the terms of this agreement.

CHATHAM UNIVERSITY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014

NOTE 12 - COMMITMENTS AND CONTINGENCIES (Continued)

The University is involved in claims and legal actions arising in the normal course of operations. In the opinion of the administration, after consultation of legal counsel, the ultimate disposition of these matters will not have a material adverse effect on the University's financial position or results of operations.

Amounts received and expended by the University under various federal and state programs are subject to audit by governmental entities. In the opinion of the administration, audit adjustments, if any, will not have a significant effect on the financial position of the University.

NOTE 13 - CONDITIONAL ASSET RETIREMENT OBLIGATIONS

The Accounting for Conditional Asset Retirement Obligations topic of the Codification requires an entity to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be estimated.

The University recorded a conditional asset retirement obligation related to asbestos contained in certain campus buildings. The University has established a conditional asset retirement obligation of approximately \$515,000 and \$488,000 as of June 30, 2015 and 2014, respectively, based on the current estimate of the scope of the asbestos abatement that will be required during the planned renovations. The actual cost for the abatement could vary from this estimate.

NOTE 14 - INCOME TAXES

The University is exempt from federal income taxes under Section 501(c)(3) of the IRC and has further been determined to be a nonprivate foundation under Sections 509(a)(1) and 170(b)(1)(A)(ii) of the IRC. Accordingly, no provision for taxes has been made in the accompanying consolidated financial statements. The University is also exempt from state income tax under applicable state statutes.

Chatham Investments LLC has been organized as an LLC, which is not subject to federal or state income taxes. However, the taxable income or loss from the renewable energy management activities of Chatham Investments LLC is included in the income tax return of the University. Accordingly, any income from Chatham Investments LLC that is unrelated to the exempt purposes of the University is treated as unrelated business income on the University's tax return.

The University follows the Codification topic on Income Taxes. The topic prescribes a minimum recognition threshold and measurement methodology that a tax position taken or expected to be taken in a tax return is required to meet before being recognized in consolidated financial statements. The University's consolidated statements of financial position at June 30, 2015 and 2014 do not include any liabilities associated with uncertain tax positions; further, the University has no unrecognized tax benefits. The University is no longer subject to examination of its tax returns for years before 2012.

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COMPLIANCE AND INTERNAL CONTROL REPORT



INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Trustees  
Chatham University  
Pittsburgh, Pennsylvania

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Chatham University (University), which comprise the consolidated statement of financial position as of June 30, 2015, and the related consolidated statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 23, 2015.

***Internal Control Over Financial Reporting***

In planning and performing our audit of the consolidated financial statements, we considered the University's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's consolidated financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses might exist that have not been identified.

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the University's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

***Purpose of this Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Schneider Downs & Co., Inc.*

Pittsburgh, Pennsylvania  
October 23, 2015

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS



CHATHAM UNIVERSITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2015

Federal/Pass-Through Grantor Program Title	Federal CFDA Number	Amount Expended
STUDENT FINANCIAL ASSISTANCE (SFA) CLUSTER: Direct Awards		
U.S. Department of Education:		
Federal Pell Grant Program	84.063	\$ 1,081,976
Federal Supplemental Educational Opportunity Grant Program	84.007	78,764
Federal Work-Study Program	84.033	256,329
Teacher Education Assistance for College and Higher Education Grants	84.379	14,940
Federal Perkins Loan Program (Note 3)	84.038	82,000
Federal Direct Loan Loans (Note 4)	84.268	<u>29,367,769</u>
Total Student Financial Assistance Cluster		30,881,778
NATIONAL SCIENCE FOUNDATION: Direct Award		
National Science Foundation		
S-Stem: Schlr SCI Tech Eng & Match	47.076	74,639
DEPARTMENT OF HEALTH AND HUMAN SERVICES: Direct Awards		
ARRA Grants for Training in Primary Care Medicine and Dentistry Training and Enhancement	93.403	300,995
DEPARTMENT OF HEALTH AND HUMAN SERVICES: Indirect Award		
Pass-Through University of Pittsburgh:		
National Institute of Health	93.865	15,053
Pass-Through Washington County:		
Medical Assistance Program	93.778	16,304
Pass-Through Allegheny County:		
Medical Assistance Program	93.778	<u>157,587</u>
Total Department of Health and Human Services: Indirect Awards		<u>188,944</u>
Total Federal Awards		<u>\$ 31,446,356</u>

The notes to schedule of expenditures of federal awards should be read with this schedule.

CHATHAM UNIVERSITY

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2015

NOTE 1 - BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards is presented using the accrual basis of accounting.

NOTE 2 - RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

Amounts reported in the accompanying schedule agree with the amounts included in the University's basic consolidated financial statements.

NOTE 3 - FEDERAL PERKINS LOAN PROGRAM

The University administers the following federal loan program:

	<u>Outstanding Balance at June 30, 2015</u>
Federal Perkins Loan Program	\$ <u>847,081</u>

Total loan disbursements for the fiscal year amount to \$82,000, which is composed entirely of loans to students.

NOTE 4 - FEDERAL DIRECT LOAN PROGRAM

For the Federal Direct Loan Programs, the University is responsible only for the performance of certain administrative duties; therefore, the loan balances and transactions for those programs are not included in the University's consolidated financial statements.

REPORTING UNDER GOVERNMENT  
AUDITING STANDARDS AND OMB CIRCULAR A-133



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON  
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Board of Trustees  
Chatham University  
Pittsburgh, Pennsylvania

***Report on Compliance for Each Major Federal Program***

We have audited Chatham University's (University) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the University's major federal programs for the year ended June 30, 2015. The University's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of the University's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the University's compliance.

***Opinion on Each Major Federal Program***

In our opinion, the University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

### ***Report on Internal Control Over Compliance***

Management of the University is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the University's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses might exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Schneider Downs & Co., Inc.*

Pittsburgh, Pennsylvania  
October 23, 2015

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**



CHATHAM UNIVERSITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2015

PART I - SUMMARY OF AUDITORS' RESULTS

Financial Statement Section:

Type of auditors' report issued:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified? \_\_\_\_\_ yes       X       no

Significant deficiency(ies) identified not considered to be material weaknesses? \_\_\_\_\_ yes       X       none reported

Noncompliance material to financial statements noted? \_\_\_\_\_ yes       X       no

Federal Awards Section:

Internal control over major programs:

Material weakness(es) identified? \_\_\_\_\_ yes       X       no

Significant deficiency(ies) identified not considered to be material weaknesses? \_\_\_\_\_ yes       X       none reported

Type of auditors' report on compliance for major programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (Section 510(a))? \_\_\_\_\_ yes       X       no

Identification of major programs:

CFDA Numbers  
84.063, 84.007, 84.033, 84.379, 84.038, 84.268  
93.403

Name of Federal Programs  
Student Financial Aid Cluster  
Department of Health and Human Services

Dollar threshold used to determine type A programs: \$ 300,000

Auditee qualified as low-risk auditee?       X       yes \_\_\_\_\_ no

The independent auditors' report on compliance should be read with this schedule.

CHATHAM UNIVERSITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2015

(Continued)

PART II - FINANCIAL STATEMENT FINDINGS SECTION

This section identifies the deficiencies, significant deficiencies, material weaknesses and instances of noncompliance related to the financial statements that are required to be reported in accordance with Chapter 5.18 of Government Auditing Standards.

There were no findings noted in the current year that are required to be reported in accordance with Chapter 5.18 of Government Auditing Standards.

The independent auditors' report on compliance should be read with this schedule.

SCHEDULE OF PRIOR AUDIT FINDINGS



CHATHAM UNIVERSITY

SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2015

<u>Finding Number</u>	<u>Finding</u>	<u>Status</u>
	There were no prior-year audit findings.	

The independent auditors' report should be read with this schedule.

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