

CHATHAM UNIVERSITY
Pittsburgh, Pennsylvania

Consolidated Financial Statements
and
Supplemental Information
For the years ended June 30, 2019 and 2018
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, 2019 and 2018, 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 consolidated 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 (U.S. GAAP); 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.

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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, 2019 and 2018, and the changes in its net assets, and its cash flows for the years then ended in accordance with U.S. GAAP.

Emphasis of Matters

As discussed in Note 1 to the consolidated financial statements, during the year ended June 30, 2019, the University adopted Accounting Standards Update No. 2016-14 Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities and Accounting Standards Update No. 2014-09 (Topic 606) Revenue from Contracts with Customers. Our opinion is not modified with respect to these matters.

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 Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards, 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 schedule of expenditures of federal awards 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 November 21, 2019, 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
November 21, 2019

CHATHAM UNIVERSITY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

ASSETS	June 30	
	2019	2018
Cash and cash equivalents	\$ 1,492,678	\$ 2,964,029
Cash and cash equivalents held for debt service payments	2,559,375	2,559,375
	4,052,053	5,523,404
Student accounts receivable (net of allowance of \$1,143,000 and \$1,303,000 as of June 30, 2019 and 2018, respectively)	796,880	874,597
Contributions receivable, net	3,789,081	3,060,184
Other receivables	1,292,712	1,868,536
Student loans receivable (net of allowance of \$228,000 and \$219,000 as of June 30, 2019 and 2018, respectively)	483,919	578,163
Investments	81,633,866	80,481,915
Assets held in trust by others	4,502,403	4,433,310
Deferred compensation deposits	1,054,174	1,098,065
Prepaid expenses and other assets	657,499	489,520
Land, buildings and equipment, net	119,635,676	122,747,209
 Total Assets	 \$ 217,898,263	 \$ 221,154,903
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 3,712,441	\$ 2,215,084
Accrued liabilities and other	4,466,245	4,403,980
Student deposits and deferred revenues	4,534,417	6,230,234
Capital lease obligations	5,720,936	5,856,529
Lines of credit	3,396,799	3,357,461
Bonds and notes payable, net	60,993,817	63,420,697
Advances from federal government for student loans	1,177,147	1,177,147
 Total Liabilities	 84,001,802	 86,661,132
NET ASSETS		
Without donor restrictions:		
Designated for endowment	10,631,940	9,167,539
Undesignated	17,386,799	24,776,894
Total Net Assets Without Donor Restrictions	28,018,739	33,944,433
With donor restrictions	105,877,722	100,549,338
 Total Net Assets	 133,896,461	 134,493,771
 Total Liabilities And Net Assets	 \$ 217,898,263	 \$ 221,154,903

See notes to consolidated financial statements.

CHATHAM UNIVERSITY

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019		Total
	Without Donor Restrictions	With Donor Restrictions	
REVENUES AND OTHER ADDITIONS			
Tuition and fees	\$ 65,987,966	\$ -	\$ 65,987,966
Scholarships	<u>(20,697,460)</u>	<u>-</u>	<u>(20,697,460)</u>
	45,290,506	-	45,290,506
Auxiliary enterprises revenues	11,155,525	23,807	11,179,332
Federal and state grants and contracts	249,842	780,735	1,030,577
Private gifts and grants	605,213	6,244,991	6,850,204
Interest and dividends	166,542	1,137,495	1,304,037
Net unrealized and realized gains on investments	<u>456,828</u>	<u>3,446,179</u>	<u>3,903,007</u>
Total Revenues And Other Additions	57,924,456	11,633,207	69,557,663
NET ASSETS RELEASED FROM RESTRICTIONS:			
Operations	5,630,888	(5,630,888)	-
Capital	<u>673,935</u>	<u>(673,935)</u>	<u>-</u>
Total Revenues And Other Additions And Net Assets Released From Restrictions	64,229,279	5,328,384	69,557,663
EXPENSES AND OTHER DEDUCTIONS			
Program expenses:			
Instruction	26,334,677	-	26,334,677
Library	2,223,812	-	2,223,812
Student services	17,631,063	-	17,631,063
Public service	<u>1,752,489</u>	<u>-</u>	<u>1,752,489</u>
Total Program Expenses	47,942,041	-	47,942,041
Administrative and general	15,601,339	-	15,601,339
Auxiliary enterprises expenses	<u>6,603,210</u>	<u>-</u>	<u>6,603,210</u>
Total Expenses And Other Deductions	70,146,590	-	70,146,590
OTHER CHANGES IN NET ASSETS			
(Loss) gain on disposal of assets	<u>(8,383)</u>	<u>-</u>	<u>(8,383)</u>
Changes In Net Assets	(5,925,694)	5,328,384	(597,310)
NET ASSETS			
Beginning of year	<u>33,944,433</u>	<u>100,549,338</u>	<u>134,493,771</u>
End of year	\$ <u>28,018,739</u>	\$ <u>105,877,722</u>	\$ <u>133,896,461</u>

2018		
<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
\$ 59,032,257	\$ -	\$ 59,032,257
<u>(18,589,251)</u>	<u>-</u>	<u>(18,589,251)</u>
40,443,006	-	40,443,006
9,956,344	34,168	9,990,512
239,680	800,890	1,040,570
605,678	5,150,091	5,755,769
133,617	1,343,179	1,476,796
<u>537,653</u>	<u>5,653,020</u>	<u>6,190,673</u>
51,915,978	12,981,348	64,897,326
6,402,529	(6,402,529)	-
<u>230,137</u>	<u>(230,137)</u>	<u>-</u>
58,548,644	6,348,682	64,897,326
24,625,573	-	24,625,573
2,176,557	-	2,176,557
17,142,879	-	17,142,879
<u>1,402,175</u>	<u>-</u>	<u>1,402,175</u>
45,347,184	-	45,347,184
13,618,561	-	13,618,561
<u>6,224,392</u>	<u>-</u>	<u>6,224,392</u>
65,190,137	-	65,190,137
<u>1,748,480</u>	<u>-</u>	<u>1,748,480</u>
(4,893,013)	6,348,682	1,455,669
<u>38,837,446</u>	<u>94,200,656</u>	<u>133,038,102</u>
\$ <u>33,944,433</u>	\$ <u>100,549,338</u>	\$ <u>134,493,771</u>

See notes to consolidated financial statements.

CHATHAM UNIVERSITY

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ (597,310)	\$ 1,455,669
Adjustments to reconcile changes in net assets to net cash used in operating activities:		
Depreciation and amortization	7,472,214	6,830,609
Loss (gain) on disposal of land, buildings and equipment	8,383	(1,748,480)
Net unrealized and realized gains on investments	(3,819,876)	(6,053,148)
Change in value of assets held in trust by others	(69,093)	(137,525)
Contributions restricted for long-term investments	(8,352,495)	(6,817,691)
Change in allowance for doubtful accounts	109,407	(56,708)
Changes in assets and liabilities:		
Student accounts receivable	237,194	75,974
Contributions receivable	(997,781)	(1,473,004)
Other receivables	575,824	(99,708)
Prepaid expenses and other assets	(167,979)	193,144
Deferred compensation deposits	43,891	(23,815)
Accounts payable, accrued liabilities and other	1,523,041	(354,419)
Student deposits and deferred revenues	<u>(1,695,817)</u>	<u>724,609</u>
Net Cash Used In Operating Activities	<u>(5,730,397)</u>	<u>(7,484,493)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Construction or acquisition of land, buildings and equipment, net of construction payables	(2,829,713)	(1,233,430)
Proceeds from sale of land, buildings and equipment	32,448	2,073,000
Proceeds from sale of investments	68,196,669	13,228,493
Purchase of investments	(58,611,903)	(4,071,636)
Loans made to students and others, net	-	(79,747)
Repayments of loans by students and others	<u>94,244</u>	<u>114,595</u>
Net Cash Provided By Investing Activities	<u>6,881,745</u>	<u>10,031,275</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from contributions restricted for long-term investment	1,435,654	912,351
Payments on long-term debt	(2,381,598)	(2,486,140)
Proceeds from lines of credit	1,945,607	1,857,461
Payments on lines of credit	(1,906,269)	(1,746,789)
Payments on capital lease obligations	<u>(1,716,093)</u>	<u>(1,373,787)</u>
Net Cash Used In Financing Activities	<u>(2,622,699)</u>	<u>(2,836,904)</u>
Net Decrease In Cash And Cash Equivalents	(1,471,351)	(290,122)
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>5,523,404</u>	<u>5,813,526</u>
End of year	<u>\$ 4,052,053</u>	<u>\$ 5,523,404</u>

	<u>2019</u>	<u>2018</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for interest	\$ <u>3,101,611</u>	\$ <u>2,880,434</u>
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Capital lease obligations incurred for purchases of equipment	\$ <u>1,580,500</u>	\$ <u>3,140,657</u>
Construction payables outstanding for construction in progress	\$ <u>167,200</u>	\$ <u>38,000</u>

See notes to consolidated financial statements.

CHATHAM UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 1 - ORGANIZATION AND 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 Investments LLC previously contributed capital for a 1% ownership interest in two joint ventures, Eden Hall Solar, LLC and 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, Chatham 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 expires on January 1, 2020 with annual rent payments of \$1.00. Common Orchard South Solar, LLC will lease Chatham University property to install a photovoltaic and thermal power plant, which will be located on the Eden Hall Campus. The term of the lease expires on September 1, 2021 with annual rent payments of \$1.00.

Finally, Chatham University executed a power purchase agreement with both of the joint ventures. Chatham 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. Chatham 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 (collectively referred to as the University). All material intercompany transactions have been eliminated in consolidation. At June 30, 2019 and 2018, 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, 2019 and 2018 due from Common Orchard South Solar, LLC. These amounts are included in other receivables in the accompanying consolidated statements of financial position and are expected to be collected by January 1, 2020.

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 accounting principles generally accepted in the United States of America (U.S. GAAP).

Use of Estimates - The preparation of consolidated financial statements in conformity with U.S. 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.

Change in Presentation of Consolidated Financial Statements - In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14 Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities (ASU 2016-14), which addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The University has adjusted the presentation of these statements accordingly. ASU 2016-14 has been applied retrospectively to all periods presented.

CHATHAM UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A recap of the net asset reclassifications recorded by the adoption of ASU 2016-14 as of June 30, 2018 follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total Net Assets</u>
As previously presented:			
Unrestricted			
Board-designated	\$ 9,167,539	\$ -	\$ 9,167,539
Unrestricted and undesignated	24,776,894	-	24,776,894
Temporarily restricted	-	38,416,698	38,416,698
Permanently restricted	-	62,132,640	62,132,640
Net assets previously presented	<u>\$ 33,944,433</u>	<u>\$ 100,549,338</u>	<u>\$ 134,493,771</u>

With the adoption of ASU 2016-14, some reclassifications were made between expense categories. These reclassifications have no impact on previously reported net assets and changes in net assets.

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:

Net Assets Without Donor Restrictions - Net assets that are not subject to donor-imposed stipulations, including contractual obligations imposed by federal, state and local governmental agencies.

Net Assets With Donor Restrictions - 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 passage of time or may 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.

Revenue Recognition - The University's revenue streams consist primarily of student tuition and fees, room and board, and rental income. On July 1, 2018, the University adopted Accounting Standards Codification (Codification) Topic 606, using the cumulative impact transition method applied to those contracts that were not completed as of June 30, 2018, which recognizes the cumulative effect of initially applying Topic 606 as an adjustment to the opening balance of net assets without donor restrictions. The initial application of Topic 606 was applied to all contracts at the date of initial application. The adoption of Topic 606 did not materially affect the University's consolidated statements of activities and changes in net assets, financial position or cash flows. Accordingly, no adjustment was recorded to net assets without donor restrictions as of July 1, 2018. Under Codification Topic 606, revenue is recognized in accordance with a five-step model, which includes: identifying the contracts with customers; identifying the separate performance obligations; determining the transaction price; allocating the transaction price to the separate performance obligations; and recognizing revenue when each performance obligation is satisfied.

Revenue reported on the statements of changes in net assets that were derived from contracts with customers include net tuition and fees, room and board, and rental income. Other sources of revenue from contracts with customers include book store and day camps. Revenues from government grants, private gifts and grants, investment income, endowment income, net realized and unrealized gains on operating and endowment investments are not derived from contracts with customers.

CHATHAM UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The provisions of Topic 606 are applied by the University on an individual-contract-with-a-customer basis. As a practical expedient, the University applies this Topic to a portfolio of contracts with similar characteristics for the tuition and fees and room and board revenue streams. The University expects that the effects of applying this guidance to the portfolios would not significantly differ from applying the guidance to the individual contracts within the portfolio.

Tuition and fees revenue is presented separately on the consolidated statements of activities and changes in net assets under its own caption and is derived from delivering academic programs to students. The University further disaggregates tuition and fees revenue between undergraduate and graduate students. Undergraduate tuition and fees revenue was \$38,895,262 and \$33,627,559 at June 30, 2019 and 2018, respectively. Graduate tuition and fees revenue was \$27,092,704 and \$25,404,698 at June 30, 2019 and 2018, respectively. Tuition and fees revenue is recognized over time as the academic programs are delivered to students, because the students simultaneously receive and consume the benefits provided by the University. Scholarships and other student aid reduce the amount of revenue recognized. At the beginning of each academic term, there is a two-week period in which students may adjust their course load or withdraw completely. Refunds issued to students reduce the amount of revenue recognized and are recorded as refunds occur and become known. Payments for tuition and fees are due approximately one week prior to the start of the academic term. Payments for academic programs that extend past June 30, 2019 and 2018, respectively, are recognized over time and are included in deferred revenue on the consolidated statements of financial position as of June 30, 2019 and 2018.

Room and board revenue is presented on the consolidated statements of activities and changes in net assets under the auxiliary enterprises revenues and is derived from providing on-campus lodging and meal plans to students enrolled in academic programs. Room and board revenue is recognized over time as the lodging services and meal plans are delivered to enrolled students, because the students simultaneously receive and consume the benefits provided by the University. Payments for room and board that extend past June 30, 2019 and 2018, respectively, are recognized over time and are included in deferred revenue on the statement of financial position at June 30, 2019 and 2018.

Receivables from students, which include amounts derived from tuition and fees and room and board, are presented separately on the consolidated statements of financial position less an allowance for doubtful accounts assessed on a portfolio basis.

Contract liabilities consist of student and day camp deposits and deferred revenue. Student and day camp deposits consist of approximately \$1,574,000 and \$1,596,000 related to advanced deposits by students as of June 30, 2019 and 2018, respectively. The caption deferred revenue on the consolidated statements of financial position consists primarily of tuition of approximately \$2,960,000 and \$4,634,000 as of June 30, 2019 and 2018, respectively.

At June 30, 2019 and 2018, the remaining performance obligations are the delivery of academic programs under the tuition and fees revenue stream, and the delivery of lodging and meal plans under the room and board revenue stream. The University applies the practical expedient in FASB ASC 606-10-50-14 and therefore, does not disclose further information about remaining performance obligations that have original expected durations of one year or less. Additionally, there was no revenue recognized during the years ended June 30, 2019 or 2018, respectively, from performance obligations that were satisfied or partially satisfied in prior periods.

The timing and the satisfaction of performance obligations were determined through careful analysis when the goods or services were transferred to, and controlled by customers. Most performance obligations are satisfied over time as customers simultaneously receive and consume the benefits provided by the University. Performance obligations that are recognized over time generally use a pro-rata time-based output method, which the University believes faithfully depicts the transfer of goods and services to the customers. The transaction price is determined through Board of Trustee approval of tuition and room and board budgets.

CHATHAM UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulations or by law.

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 support with donor restrictions 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 assets without donor restrictions when placed in service. Expirations of net assets with donor restrictions are reported as reclassifications to net assets without donor 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 2019 and 2018 for new contributions was 4.00%. Amortization of the discount is included in contribution revenue, in accordance with donor-imposed restrictions, if any. Conditional promises to give are recognized as income when the conditions are substantially met. 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.

Loans to Students - Loans to students under the Federal Perkins Loan Program are reported at their outstanding principal adjusted for any charge-offs and net of the allowance for loan losses. The availability of funds for loans under the Federal Perkins Loans Program is dependent on reimbursement to the pool from repayments on outstanding loans. The University recognizes interest, delinquency charges and other fees when earned and collectability is reasonably assured. Outstanding loans canceled under the program result in a reduction of the funds available for future loans and a decrease in the liability due to the government. The allowance for loan losses is increased by charges and decreased by charge-offs (net of recoveries). The University's periodic evaluation of the adequacy of the allowance is based on the University's loan loss experience, adverse situations that might affect the borrower's ability to repay, and current economic conditions.

Loan balances are written-off when they are deemed to be permanently uncollectible. Amounts past due as of June 30, 2019 and 2018 approximated \$212,000 and \$205,000, respectively.

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 consolidated statements 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.

CHATHAM UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments for which there is not an actively traded 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' net asset value (NAV) 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, 2019 and 2018, 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. There was no interest capitalized for the years ended June 30, 2019 and 2018. 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; seven years for equipment and furniture; and 4 years for vehicles. Gifts of long-lived assets are recorded as support without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. The University releases contributions with donor restrictions for asset acquisitions when the asset is placed into service.

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. There were no impairment losses recorded for the years ended June 30, 2019 and 2018.

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.

CHATHAM UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 consolidated statements 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 \$100,000 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.

Fair Value Measurement - The University follows the FASB 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 Measurement topic to its recurring measurement. (See Note 4.)

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. The University presents deferred financing costs in the consolidated statements of financial position as a direct deduction from the carrying amount of the related debt liability.

Recent Accounting Pronouncements - In February 2016, the FASB issued ASU No. 2016-02 Leases (Topic 842) (ASU 2016-02), which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e., lessees and lessors). ASU 2016-02 requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. In July 2018, the FASB issued ASU No. 2018-11 Leases (Topic 842) - Targeted Improvements (ASU 2018-11), which provides an optional transition method of applying the provisions of ASU 2016-02. ASU 2016-02 can be applied using either a modified retrospective approach at the beginning of the earliest period presented, or as permitted by ASU 2018-11, at the beginning of the period in which it is adopted. Also in July 2018, the FASB issued ASU No. 2018-10: Codification Improvements to Topic 842, Leases (ASU 2018-10). The provisions of ASU 2018-10 clarify, correct or remove inconsistencies in the provisions of ASU 2016-02 related to specific issues identified. ASU 2016-02 is expected to impact the University's consolidated financial statements, since the University has certain operating lease arrangements for which it is the lessee. ASU 2016-02 supersedes the previous leases standard, Leases (Topic 840). The standard is effective for fiscal years beginning after December 15, 2019, with early adoption permitted. The University is currently in the process of evaluating the impact that the adoption of ASU 2016-02 will have on its consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15 Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (ASU 2016-15), which addresses eight specific cash-flow issues with the objective of reducing the existing diversity in practice. The specific cash issues addressed include the following: debt prepayment or debt extinguishment costs, settlement of zero-coupon debt instruments, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of corporate-owned life insurance policies, distributions received from equity method investees, beneficial interest in securitization transactions and separately identifiable cash flows and application of the predominance principle. ASU 2016-15 is effective for fiscal years beginning after December 15, 2018 and should be applied retrospectively. Early adoption is permitted. The University is currently in the process of evaluating the impact that the adoption of ASU 2016-15 will have on its consolidated financial statements.

CHATHAM UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In June 2018, the FASB issued ASU No. 2018-08 Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (ASU 2018-08) to clarify and improve the scope and accounting guidance for contributions received and contributions made. The amendments in ASU 2018-08 should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958 Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. ASU 2018-08 is effective for transactions in which the entity is a not-for-profit that has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market and serves as a resource recipient for annual periods beginning after June 15, 2018. For transactions in which the entity serves as the resource provider, ASU 2018-08 is effective for annual periods beginning after December 15, 2019. The University adopted ASU 2018-18 during 2019, and there was no material impact to the financial statements and related disclosures.

The FASB issued ASU No. 2019-03, Not-for-Profit Entities (Topic 958): Updating the Definition of Collections (ASU 2019-03), in order to improve the definition of collections in the Master Glossary by realigning it with the definition used by the American Alliance of Museums' Code of Ethics for Museums. ASU 2019-03 modifies the definition of collections and requires that a collection-holding entity to disclose its policy for the use of proceeds of sales of collection items. The amendments in ASU 2019-03 allow for the proceeds from the sale of existing collection items to either be used to acquire new collection items or provide for the direct care of existing items. If entities elect to use proceeds to provide for direct care of existing collection items, then disclosure of the entity's definition of direct care is required. ASU 2019-03 is effective for fiscal years beginning after December 15, 2019. The amendments in this ASU require prospective application, with early adoption permitted. The University is currently in the process of evaluating the impact that the adoption of ASU 2019-03 will have on its consolidated financial statements.

Subsequent Events - The administration of the University has evaluated subsequent events through November 21, 2019, the date on which the consolidated financial statements were available to be issued. Subsequent to year-end, the University amended a line-of-credit agreement with Dollar Bank providing for borrowing from \$2 million to \$5 million to fund the renovation of Graham Field.

NOTE 2 - LIQUIDITY AND AVAILABILITY

The University regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The University has various sources of liquidity at its disposal, including cash and cash equivalents, marketable debt and equity securities, and lines of credit.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the University considers all expenditures related to its ongoing activities of teaching, research, and public service as well as the conduct of services undertaken to support those activities to be general expenditures. Student loans receivable are not included in the analysis, as principal and interest on these loans are used solely to make new loans and are, therefore, not available to meet current operating needs.

In addition to financial assets available to meet general expenditures over the next 12 months, the University anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources. Refer to the consolidated statements of cash flows, which identify the sources and uses of the University's cash.

CHATHAM UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 2 - LIQUIDITY AND AVAILABILITY (Continued)

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of June 30, 2019, comprise the following:

Total assets at June 30, 2019	\$ 217,898,263
Less:	
Cash and cash equivalents held for debt service payments	2,559,375
Contributions receivable, due in more than one year	1,753,389
Student loans receivable, due in more than one year	483,919
Donor-restricted endowment funds	62,248,881
Endowment investments, illiquid	13,670,615
Assets held in trust by others	4,502,403
Deferred compensation deposits	1,054,174
Land, buildings, and equipment, net	<u>119,635,676</u>
Financial assets available at June 30, 2019 for current use	\$ <u>11,989,831</u>

The University incurred expenses on capital projects that are reimbursable from debt-related project funding and grants for which the reimbursements will be collected after June 30, 2019. In addition, the University advanced funds for projects for which there are pledges receivable. The total advances from unrestricted resources for capital projects amounted to approximately \$167,268 at June 30, 2019.

It is the University's practice to keep accounts payable balances low, and to keep open invoice processing for a period of two weeks after year-end. In addition, the University's revenues are seasonal in nature. At the end of the fiscal year, cash balances tend to be at their lowest point. The University maintains bank lines of credit of \$2 million (\$60,000 that is available at June 30, 2019) to support operations and the seasonality of revenues.

The University's endowment funds consist of donor-restricted endowments and funds designated by the board as endowments. Income from donor-restricted endowments is restricted for specific purposes, with the exception of the amounts available for general use. Donor-restricted endowment funds are not available for general expenditure.

The University's endowment of \$81 million was subject to an annual draw rate of 6% for fiscal 2019 as described in Note 11. It is the University's intention to spend as little as possible from the endowment (other than amounts appropriated for general expenditure as part of our Board's annual budget approval and appropriation); however, these amounts could be made available if necessary.

CHATHAM UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 3 - INVESTMENTS

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

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 2,097,225	\$ 7,210,709
Fixed income	22,080,502	3,334,865
Equities	28,240,981	8,801,400
Commingled funds	-	33,798,190
International funds	3,419,769	1,375,028
Hedge funds	410,403	4,013,042
Limited partnerships	17,161,858	14,180,615
Real estate investment fund	<u>8,223,128</u>	<u>7,768,066</u>
 Total investments	 81,633,866	 80,481,915
 Assets held in trust by others	 <u>4,502,403</u>	 <u>4,433,310</u>
 Total market value of investments	 \$ <u><u>86,136,269</u></u>	 \$ <u><u>84,915,225</u></u>

Investments at June 30 are composed of the following:

	<u>2019</u>	<u>2018</u>
Endowment	\$ 81,403,147	\$ 80,187,624
Assets held in trust by others	4,502,403	4,433,310
Annuity trust agreements	<u>230,719</u>	<u>294,291</u>
	\$ <u><u>86,136,269</u></u>	\$ <u><u>84,915,225</u></u>

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

	<u>2019</u>	<u>2018</u>
Dividends and interest	\$ 1,304,037	\$ 1,476,796
Net realized gain	4,936,349	1,348,989
Net unrealized (loss) gain	(1,102,435)	4,704,159
Net unrealized gain on assets held in trust by others	<u>69,093</u>	<u>137,525</u>
	\$ <u><u>5,207,044</u></u>	\$ <u><u>7,667,469</u></u>

CHATHAM UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 4 - FAIR VALUE MEASUREMENT

The Fair Value Measurement 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.

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:

	2019			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and cash equivalents	\$ 2,097,225	\$ -	\$ -	\$ 2,097,225
Fixed income	22,080,502	-	-	22,080,502
Equities	28,240,981	-	-	28,240,981
International funds	3,419,769	-	-	3,419,769
Assets held in trust by others	<u>-</u>	<u>4,502,403</u>	<u>-</u>	<u>4,502,403</u>
 Total investments in the fair value hierarchy	 \$ <u>55,838,477</u>	 \$ <u>4,502,403</u>	 \$ <u>-</u>	 <u>60,340,880</u>
 Investments measured at net asset value (a)				 <u>25,795,389</u>
 Total investments				 \$ <u>86,136,269</u>

CHATHAM UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 4 - FAIR VALUE MEASUREMENT (Continued)

	2018			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 7,210,709	\$ -	\$ -	\$ 7,210,709
Fixed income	3,334,865	-	-	3,334,865
Equities	8,801,400	-	-	8,801,400
International funds	1,375,028	-	-	1,375,028
Assets held in trust by others	-	4,433,310	-	4,433,310
Total investments in the fair value hierarchy	\$ <u>20,722,002</u>	\$ <u>4,433,310</u>	\$ <u>-</u>	25,155,312
Investments measured at net asset value (a)				<u>59,759,913</u>
Total investments				\$ <u>84,915,225</u>

- (a) In accordance with FASB Codification Subtopic 820-10, certain investments 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 consolidated statements of financial position.

Investments measured at NAV primarily consist of the University's ownership in limited partnerships, alternative investments, commingled funds 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.

CHATHAM UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 4 - FAIR VALUE MEASUREMENT (Continued)

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

Category	June 30		Unfunded Commitments	Redemption Frequency	Redemption Notice Period
	2019	2018			
Limited partnerships	\$ 17,161,858	\$ 14,180,615	\$ 7,947,102	None permitted upon final closing of the fund until liquidation of the funds	N/A
Hedge funds	410,403	4,013,042	-	Quarterly - annually	30 - 90 days
Real estate investment fund	8,223,128	7,768,066	-	Daily	None
Commingled funds	-	33,798,190	-	Daily	None
	<u>\$ 25,795,389</u>	<u>\$ 59,759,913</u>	<u>\$ 7,947,102</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.

NOTE 5 - CONTRIBUTIONS RECEIVABLE

The majority of the University's contributions receivable are due from individual donors and foundations. Contributions receivable include approximately \$159,000 and \$256,000 from members of the Board of Trustees as of June 30, 2019 and 2018, respectively.

Contributions receivable at June 30 are as follows:

	2019	2018
Gross contributions outstanding	\$ 4,243,137	\$ 3,243,892
Less - unamortized discount	150,690	149,226
Less - allowance	303,366	34,482
	<u>\$ 3,789,081</u>	<u>\$ 3,060,184</u>
Amounts due in:		
Less than one year	\$ 2,489,748	\$ 1,892,419
One to five years	1,406,935	927,809
More than five years	346,454	423,664
	<u>\$ 4,243,137</u>	<u>\$ 3,243,892</u>

Total fundraising expense, representing the cost of the institutional advancement department and the comprehensive campaign, for the years ended June 30, 2019 and 2018 was approximately \$1,278,000 and \$1,266,000, respectively, and is included in administrative and general expenses in the consolidated statement of activities and changes in net assets.

CHATHAM UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 6 - LINES OF CREDIT

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 (5.5% and 5.0% at June 30, 2019 and 2018, respectively). There were \$1,940,000 and \$1,857,461 of borrowings outstanding at June 30, 2019 and 2018, respectively. At June 30, 2019 and 2018, there were approximately \$60,000 and \$143,000, respectively, issued for standby letters of credit.

In March 2017, the University entered in to a \$1,500,000 nonrevolving construction line-of-credit agreement with a bank. The line of credit is due in monthly payments of interest only during the renovation phase, which expires at a date no later than September 30, 2018. Subsequent to this date, the permanent phase of the loan begins for a period of ten years. The agreement is secured by the assets of the University and bears interest at the bank's prime lending rate (5.59% and 5.0% at June 30, 2019 and 2018, respectively) during the renovation phase. There were \$1,451,192 and \$1,500,000 of borrowings outstanding at June 30, 2019 and 2018, respectively.

NOTE 7 - LAND, BUILDINGS AND EQUIPMENT

Land, buildings and equipment, at cost, at June 30 are as follows:

	<u>2019</u>	<u>2018</u>
Buildings and improvements	\$ 164,070,675	\$ 163,056,255
Furniture and equipment	33,598,902	31,539,146
Building under capital lease	3,144,406	3,144,406
	<u>200,813,983</u>	<u>197,739,807</u>
Less - Accumulated depreciation and amortization	93,686,800	86,339,653
	107,127,183	111,400,154
Land	10,059,927	10,059,927
Construction in progress	2,448,566	1,287,128
	<u>\$ 119,635,676</u>	<u>\$ 122,747,209</u>

NOTE 8 - BONDS AND NOTES PAYABLE

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

	<u>2019</u>	<u>2018</u>
Series A of 2008	\$ 10,000,000	\$ 10,000,000
Series B of 2008	4,399,962	5,056,556
Series A of 2012	29,270,000	30,335,000
Phase I-B construction loan	16,044,151	16,680,768
Mortgage loans payable	492,354	515,741
	<u>60,206,467</u>	<u>62,588,065</u>
Plus - Unamortized premium	1,253,138	1,328,326
Less - Unamortized debt issuance costs	465,788	495,694
	<u>\$ 60,993,817</u>	<u>\$ 63,420,697</u>

CHATHAM UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 8 - BONDS AND NOTES PAYABLE (Continued)

Scheduled principal repayments are as follows:

Fiscal Year Ending June 30	Amount
2020	\$ 2,697,303
2021	2,740,485
2022	2,929,479
2023	3,049,868
2024	3,242,676
Thereafter	45,546,656
	<u>\$ 60,206,467</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, 2019 and 2018 was \$391,000 and \$289,000, respectively.

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, 2019 and 2018 was \$230,547 and \$242,211, respectively.

CHATHAM UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 8 - BONDS AND NOTES PAYABLE (Continued)

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, 2019 and 2018 was \$1,065,000 and \$1,542,000, respectively.

The University is subject to certain 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, 2019 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 Tax-Exempt 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 3.10%. 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 \$15,988,047 and \$16,680,768 in borrowings outstanding under this agreement at June 30, 2019 and 2018, respectively. No interest was capitalized during the years ended June 30, 2019 and 2018 related to the outstanding borrowings.

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.

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, including interest at rates ranging 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 \$809,783 and \$826,784 at June 30, 2019 and 2018, respectively.

CHATHAM UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 9 - 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. Expense charged to operations for these plans was approximately \$2,044,000 and \$2,037,000 for the years ended June 30, 2019 and 2018, respectively.

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 and related fair value of assets held by the University included in accrued liabilities and in the accompanying consolidated statements of financial position are approximately \$1,054,000 and \$1,098,000 as of June 30, 2019 and 2018, respectively, related to these plans.

NOTE 10 - LEASES

On June 1, 2007, the University entered into a capital lease agreement involving the rental of an apartment building. This lease is noncancelable 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, 2019 and 2018, and accumulated depreciation totaled \$1,061,236 and \$982,625 as of June 30, 2019 and 2018, respectively.

During the year ended June 30, 2014, the University entered into five capital lease agreements involving the rental of computer and network resources. These leases are noncancelable 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 \$17,289 to \$39,852. Assets recorded under the capital lease agreements totaled \$190,599 and \$434,912 as of June 30, 2019 and 2018, respectively, and accumulated depreciation totaled \$190,599 and \$415,852 as of June 30, 2019 and 2018, respectively.

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 noncancelable 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 \$597,435 and \$882,453 as of June 30, 2019 and 2018, respectively, and accumulated depreciation totaled \$537,691 and \$678,785 as of June 30, 2019 and 2018, respectively. Three of these capital leases became fully depreciated in 2019.

During the year ended June 30, 2016, the University entered into eight capital lease agreements involving the rental of computer and network resources. These leases are noncancelable and run through the year 2020. Amounts are payable in quarterly installments from \$2,162 to \$41,906. Assets recorded under the capital lease agreements totaled \$949,096 and \$1,026,503 as of June 30, 2019 and 2018, respectively, and accumulated depreciation totaled \$781,058 and \$627,586 as of June 30, 2019 and 2018, respectively. Three of these capital leases became fully depreciated in 2019.

CHATHAM UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 10 - LEASES (Continued)

During the year ended June 30, 2017, the University entered into four capital lease agreements involving the rental of computer and network resources. These leases are noncancelable and run through the year 2020. Amounts are payable in quarterly or annual installments from \$2,922 to \$31,412. Assets recorded under the capital lease agreements totaled \$614,729 as of June 30, 2019 and 2018, and accumulated depreciation totaled \$415,119 and \$251,880 as of June 30, 2019 and 2018, respectively.

During the year ended June 30, 2018, the University entered into seven capital lease agreements involving the rental of computer, network resources, and classroom fixtures and two capital leases involving the rental of machinery and vehicles. These leases are noncancelable and run through the year 2022. Amounts related to the equipment are payable in quarterly or annual installments from \$8,247 to \$341,522. Amounts related to the machinery and vehicles are payable monthly from \$464 to \$5,537. Assets recorded under the capital lease agreements totaled \$3,129,010 as of June 30, 2019 and 2018, and accumulated depreciation totaled \$1,016,793 and \$338,931 as of June 30, 2019 and 2018, respectively.

During the year ended June 30, 2019, the University entered into eight lease agreements involving the rental of computer, network resources, classroom fixtures, and office equipment and three capital leases involving the rental of vehicles. These leases are noncancelable and run through the year 2023. Amounts related to the equipment are payable in quarterly or annual installments from \$1,485 to \$99,877. Amounts related to the vehicles are payable monthly from \$378 to \$522. Assets recorded under the capital lease agreements totaled \$1,580,500 as of June 30, 2019 and accumulated depreciation totaled \$201,023 as of June 30, 2019.

In April 2019, the University executed a land lease agreement with Wilkinsburg School District. The lease is for an initial term of 25 years and provides for renewal options, which both parties will negotiate at that time. Rental payments under the lease agreement are \$1 per year. The University is responsible for all operating costs and repairs and maintenance, including taxes, assessments, utilities and all other charges. The University did not recognize any in-kind rent for the value of this lease for the fiscal year ended 2019, as the facilities are not yet in-service.

The University also has various lease agreements primarily involving the rental of property, vehicles and office equipment. These leases are noncancelable and expire on various dates through the year 2019.

Rent expense for the years ended June 30, 2019 and 2018 was \$1,320,000 and \$1,067,000, respectively.

Total commitments and obligations under all operating and capital lease agreements are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Capital Leases</u>	<u>Operating Leases</u>	<u>Total</u>
2020	\$ 1,592,389	\$ 375,724	\$ 1,968,113
2021	1,315,236	338,532	1,653,768
2022	2,954,225	311,185	3,265,410
2023	186,397	217,482	403,879
2024	38,076	174,060	212,136
	<u>6,086,323</u>	<u>1,416,983</u>	<u>7,503,306</u>
Less - Amounts representing interest	<u>365,387</u>	<u>-</u>	<u>365,387</u>
Present value of minimum lease payments	<u>\$ 5,720,936</u>	<u>\$ 1,416,983</u>	<u>\$ 7,137,919</u>

CHATHAM UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 11 - 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 investments with donor restrictions 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, 2019, the University utilized a 6.0% 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, 2019 was the fiscal year ended June 30, 2018.

The University classifies as net assets with donor restrictions 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 net assets with donor restrictions. 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
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>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
June 30, 2019	\$ 10,631,940	\$ 75,504,329	\$ 86,136,269
June 30, 2018	\$ 9,167,539	\$ 75,747,686	\$ 84,915,225

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

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, July 1, 2017	\$ 9,932,509	\$ 72,043,560	\$ 81,976,069
Investment return:			
Investment income	133,617	1,343,179	1,476,796
Net unrealized appreciation	1,118,229	4,261,286	5,379,515
Contributions	-	912,351	912,351
Net asset transfers	-	463,451	463,451
Appropriation of endowment assets for expenditures	3,276,141	(3,276,141)	-
Spend	<u>(5,292,957)</u>	<u>-</u>	<u>(5,292,957)</u>
Endowment net assets, June 30, 2018	9,167,539	75,747,686	84,915,225

CHATHAM UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 11 - ENDOWMENT (Continued)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, June 30, 2018	\$ 9,167,539	\$ 75,747,686	\$ 84,915,225
Investment return:			
Investment income	166,542	1,137,495	1,304,037
Net unrealized appreciation	1,951,095	90,710	2,041,805
Contributions	-	1,302,772	1,302,772
Net asset transfers	-	132,882	132,882
Appropriation of endowment assets for expenditures	2,907,216	(2,907,216)	-
Spend	<u>(3,560,452)</u>	<u>-</u>	<u>(3,560,452)</u>
Endowment net assets, June 30, 2019	<u>\$ 10,631,940</u>	<u>\$ 75,504,329</u>	<u>\$ 86,136,269</u>

Funds with Deficiencies - From time to time, the fair value of assets associated with individual donor-restricted endowment funds might fall below the level that the donor or applicable law (Act 141) requires the University to retain as a fund of perpetual duration. The Board has permitted spending from the underwater endowment in which they have interpreted to be permitted under Act 141. Deficiencies of this nature that are reported in net assets with donor restriction total \$1,042,138 and \$849,056, and the associated fair value of these funds was \$6,744,035 and \$5,929,332, as of June 30, 2019 and 2018, respectively. These deficiencies resulted from extraordinary market conditions that occurred shortly after the investment of new perpetually restricted contributions.

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 net assets without donor restrictions, for use in current and future operations. In 2019 and 2018, the spendable return approximated \$2,907,000 and \$3,276,000, 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 operating funds without donor restrictions 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.

CHATHAM UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 12 - NET ASSETS WITH DONOR RESTRICTIONS BALANCES

Net assets with donor restrictions at June 30 are composed of the following:

	<u>2019</u>	<u>2018</u>
Funds subject to expenditure based on donor designation:		
Gifts and other unexpended revenues available for Scholarships, instruction, construction of Eden Hall Campus, and other programs	\$ 6,209,135	\$ 6,247,796
Realized and unrealized endowment gains restricted primarily for scholarships and professorships	34,804,680	31,874,611
Annuity and trust agreements	230,719	294,291
	41,244,534	38,416,698
Funds not subject to appropriation or expenditure:		
Scholarships	23,950,367	22,346,063
Professorships and other	15,683,822	14,890,384
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	578,065	476,365
General operations	440,395	439,289
	64,633,188	62,132,640
	<u>\$ 105,877,722</u>	<u>\$ 100,549,338</u>

Net assets released from donor restrictions satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows during fiscal years ended June 30, 2019 are as follows:

	<u>2019</u>	<u>2018</u>
Funds expenditure for a specified purpose:		
Gifts and other unexpended revenues available for Scholarships, instruction, construction of Eden Hall Campus, and other programs	\$ 4,655,235	\$ 4,188,254
Realized and unrealized endowment gains restricted primarily for scholarships and professorships	1,608,975	2,427,598
Annuity and trust agreements	40,613	16,814
	<u>\$ 6,304,823</u>	<u>\$ 6,632,666</u>

CHATHAM UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 13 - 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 \$1,653,614 and \$1,612,953 from the Federal Pell Grant and \$249,482 and \$746,306 from PHEAA programs in fiscal years 2019 and 2018, respectively.

NOTE 14 - COMMITMENTS AND CONTINGENCIES

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 consolidated 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 consolidated financial position of the University.

NOTE 15 - CONDITIONAL ASSET RETIREMENT OBLIGATIONS

The Accounting for Conditional Asset Retirement Obligations topic of the FASB 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 \$761,000 and \$725,000 as of June 30, 2019 and 2018, 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 16 - 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 FASB 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, 2019 and 2018 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 2016.

CHATHAM UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 17 - EXPENSES BY BOTH NATURE AND FUNCTION

Expenses are summarized and categorized based on their functional classification as either program or supporting services. Specific expenses that are readily identifiable to a single program or activity are charged directly to that function. Certain categories of expenses are attributable to more than one program or supporting function and are allocated across functional categories. Salaries and wages and employee benefits and payroll taxes are allocated on the basis of time and effort. Other indirect costs allocated include utilities, maintenance, fringe benefits and depreciation, which are allocated based on number of students or an allocation percentage of total administrative costs before allocation to total education expenses. All other expenses are allocated based on actual usage and on a reasonable basis that is consistently applied.

Functional expenses of Chatham University at June 30 are as follows:

	Program Activities	Administrative and General	Auxiliary Enterprises	Total	
				2019	2018
Salaries, wages, and fringes	\$ 28,683,472	\$ 7,368,632	\$ 922,028	\$ 36,974,132	\$ 34,777,982
Operating expenses	11,090,099	2,069,112	1,302,943	14,462,154	12,964,839
Outside services	956,934	4,521,331	2,772,062	8,250,327	7,711,700
Depreciation and amortization	5,533,338	1,130,792	808,085	7,472,215	6,830,609
Interest	<u>1,678,198</u>	<u>511,472</u>	<u>798,092</u>	<u>2,987,762</u>	<u>2,905,007</u>
	<u>\$ 47,942,041</u>	<u>\$ 15,601,339</u>	<u>\$ 6,603,210</u>	<u>\$ 70,146,590</u>	<u>\$ 65,190,137</u>

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REPORTING UNDER *GOVERNMENT AUDITING STANDARDS* AND UNIFORM GRANT GUIDANCE
FINANCIAL INFORMATION AND SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS



Big Thinking. Personal Focus.

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, 2019, and the related consolidated statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated November 21, 2019.

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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and is described in the accompanying schedule of findings and questions costs as Finding 2019-001.

The University's Response to Finding

The University's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The University's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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
November 21, 2019

CHATHAM UNIVERSITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2019

Federal/Pass-Through Grantor Program Title	Contract Number	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Amount Expended
STUDENT FINANCIAL ASSISTANCE CLUSTER: Direct Awards					
Department of Education Programs:					
Federal Pell Grant Program	N/A	84.063			\$ 1,653,614
Federal Supplemental Educational Opportunity Grant Program	N/A	84.007			88,442
Federal Work-Study Program	N/A	84.033			308,641
Federal Perkins Loan Program (Note 4)	N/A	84.038			860,901
Federal Direct Loan Loans (Note 5)	N/A	84.268			<u>30,556,029</u>
Total Department Of Education Programs					<u>33,467,627</u>
Total Student Financial Assistance Cluster					33,467,627
NATIONAL SCIENCE FOUNDATION: Direct Award					
National Science Foundation					
RUI: Collaborative Research NSF Grant Award	N/A	47.074			30,539
Collaborative Research: X-Rays, 3D Animation, and Human Locomotion	N/A	47.075			<u>34,732</u>
Total National Science Foundation					<u>65,271</u>
U.S. SMALL BUSINESS ADMINISTRATION					
Women's Business Ownership Assistance	N/A	59.043			150,000
DEPARTMENT OF HEALTH AND HUMAN SERVICES:					
Direct Awards					
Substance Abuse and Mental Health Services Administration					
Screening, Brief Intervention, and Referral to Treatment	1H79TI025985-02	93.243			93,710
Mental and Behavioral Health Education and Training	N/A	93.732			<u>369,576</u>
Total Department Of Health And Human Services: Direct Awards					<u>463,286</u>
DEPARTMENT OF HEALTH AND HUMAN SERVICES:					
Indirect Award					
Pass-Through Washington County:					
Medical Assistance Program	N/A	93.778			16,304
Pass-Through Allegheny County:					
Medical Assistance Program	N/A	93.778			157,587
Pass-Through University of Pittsburgh:					
Drug Abuse and Addiction Research Program	N/A	93.279	2R01DA014204-15A1		<u>19,815</u>
Total Department Of Health And Human Services: Indirect Awards					<u>193,706</u>
Total Department Of Health And Human Services					<u>656,992</u>
NATIONAL SECURITY AGENCY					
Indirect Award					
Data Analytics Research Project "Data Sampling Tools"	H98230-18-D-008	N/A	1130225-397262		<u>37,498</u>
NATIONAL ENDOWMENT FOR THE HUMANITIES					
Promotion of the Humanities Challenge Grant	N/A	45.130			<u>25,217</u>
DEPARTMENT OF AGRICULTURE					
Rural Business Development Grant	N/A	10.351			<u>5,920</u>
DEPARTMENT OF DEFENSE					
Military Medical Research and Development	N/A	12.420			<u>6,284</u>
Total Federal Awards					<u>\$ 34,414,809</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, 2019

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (Schedule) includes the federal grant activity of Chatham University (University) under programs of the federal government for the year ended June 30, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the University, it is not intended to and does not present the consolidated financial position, changes in net assets or cash flows of the University.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICY

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

NOTE 3 - INDIRECT COST RATE

The University has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

NOTE 4 - FEDERAL PERKINS LOAN PROGRAM

The federal student loan programs listed subsequently are administered directly by the University, and balances and transactions relating to these programs are included in the University's basic consolidated financial statements. Loans outstanding at the beginning of the year and made during the year are included in the federal expenditures presented in the Schedule. The balance of loans outstanding at June 30, 2019 consists of:

<u>CFDA Number</u>	<u>Program Name</u>	<u>Outstanding Balance at June 30, 2019</u>
84.038	Federal Perkins Loan Program	\$661,487

NOTE 5 - 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.



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INDEPENDENT AUDITORS’ REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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 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, 2019. The University’s major federal programs are identified in the summary of auditors’ results section of the accompanying schedule of findings and questioned costs.

We did not audit the University’s compliance with requirements governing student loan repayments over Federal Perkins Loans Program. Those requirements govern functions that are performed by Heartland ECSI (ECSI). Since we did not apply auditing procedures to satisfy ourselves with respect to compliance with those requirements, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on compliance with those requirements.

ECSI’s compliance with the requirements governing the functions that it performs for the University was examined by other accountants, whose report has been furnished to us. The report of the other accountants indicates that compliance with those requirements was examined in accordance with the Department of Education’s Audit Guide, “Audits of Federal Student Financial Assistance Programs at Participating Institutions and Institution Servicers.” Based on our review of the service organization accountants’ report, we have determined that all of the compliance requirements included in the “Compliance Supplement” that are applicable to the major program in which the University participates are addressed in either our report or the report of the service organization accountants. Further, based on our review of the service organization accountants’ report, we have determined that it does not contain any findings of noncompliance that would have a direct and material effect on the University’s major program.

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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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.

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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, 2019.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance that is required to be reported in accordance with the Uniform Guidance and is described in the accompanying schedule of findings and questioned costs as Finding 2019-001. Our opinion on each major federal program is not modified with respect to this matter.

The University's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The University's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 the Uniform Guidance, 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.

Purpose of This Report

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Schneider Downs & Co., Inc.

Pittsburgh, Pennsylvania
November 21, 2019

CHATHAM UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2019

SECTION 1 - SUMMARY OF AUDITORS' RESULTS

Financial Statements:

Type of report the auditor issued on whether the financial statements were prepared in accordance with accounting principles generally accepted in the United States of America:

Unmodified

Internal control over financial reporting:

Material weakness identified?

 - yes X no

Significant deficiency identified?

 X yes - none reported

Noncompliance material to financial statements notes

 - yes X no

Federal Awards:

Internal control over major programs:

Material weakness identified?

 - yes X no

Significant deficiency identified?

 X yes - none reported

Type of auditors' report on compliance for major federal programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

 - yes X no

Identification of major federal programs:

CFDA Numbers

84.063, 84.007, 84.033, 84.038, 84.268

Name of Federal Program or Cluster

Student Financial Aid Cluster

Dollar threshold used to distinguish between Type A and Type B programs:

\$750,000

Auditee qualified as low-risk auditee?

 X yes

CHATHAM UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2019

SECTION II - FINANCIAL STATEMENT FINDINGS

This section identifies the significant deficiencies, material weaknesses, fraud, noncompliance with provisions of laws, regulations, contracts, grant agreements and abuse related to the consolidated financial statements for which *Government Auditing Standards* require reporting.

See Section III - Federal Awards Findings and Questioned Costs for the full context of Finding 2019-001, which was both a financial statement and federal award finding.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

This section identifies the audit findings required to be reported by 2 CFR 200.516(a) (significant deficiencies, material weaknesses, material instances of noncompliance, including questioned costs and material abuse).

Finding 2019-001

Student Financial Assistance - Cluster, Department of Education Programs

Program Names: 84.007 - Federal Supplemental Educational Opportunity Grants, 84.033 - Federal Work-Study Program, 84.038 - Federal Perkins Loan, 84.063 - Federal Pell Grant Program, 84.268 - Federal Direct Student Loans

Criteria or Specific Requirement: Under an institution's Program Participation Agreement with the Department of Education (Department) and the Gramm-Leach-Bliley Act, schools must protect student financial aid information, with particular attention to information provided to institutions by the Department or otherwise obtained in support of the administration of the federal student financial aid programs. (16 CFR 314.3; HEA 483(a)(3)(E) and HEA 485B(d)(2))

Condition: The University did not have written documentation to demonstrate its compliance with the requirements of 16 CFR 314.

Cause: The University has not yet formalized its student financial aid security program in a formal manner.

Effect or potential effect: If the University has not performed a risk assessment that addresses the three areas noted in 16 CFR 314.4 (b), and documented safeguards for identified risks, there may be inadequate safeguards of student financial aid information.

Questioned Costs: None noted.

Context: We were unable to verify whether the University's designated individual coordinated the information security program, performed a risk assessment that addresses the three areas noted in 16 CFR 314.4 (b), and documented safeguards for identified risks.

Identification as a Repeat Finding: This is not a repeat finding.

Recommendation: We recommend that the University formally coordinate the information security program, perform a risk assessment that addresses the three areas noted in 16 CFR 314.4 (b), and document safeguards for identified risks.

Views of Responsible Officials: Management concurs with this finding. (See separate corrective action plan document.)

CHATHAM UNIVERSITY

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2019

This section identifies the reportable conditions, material weaknesses and instances of noncompliance related to the financial statements that were required to be reported in accordance with Government Auditing Standards and Uniform Guidance in the prior year.

<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.

Chatham University's (University) Response to Schneider Downs' Finding 2019-01, in connection with their audit of the University's financial statements for the year ended June 30, 2019:

The University takes the responsibility of protecting student financial aid information very seriously. The University's Chief Information Officer (CIO) is the designated individual with responsibility for coordination of the information security program.

Personally identifiable information related to student financial aid and account information is stored securely in the CampusVue student information system. Access to CampusVue is restricted to those employees whose job functions require access to personally identifiable information. These employees have a strong understanding of risk relevant to this information and take necessary precautions to ensure that personally identifiable information is not compromised.

The University acknowledges the specific documentation requirements outlined in the finding and presents the following action plan to address the requirements of 16 CFR 314.

Action Plan:

The CIO will design and execute a plan to adopt a comprehensive risk assessment process relative to information security that includes the three requirements 16 CFR 314.4 (b). The plan will include the following goals:

- The risk assessment program will be in place by June 30, 2020.
- Action plans resulting from the risk assessment will be developed to identify preventive or detective controls which address the risks.
- The risk assessment will be formally documented and performed on a recurring basis to address changes in the information security environment.
- Employees, particularly those with access to personally identifiable information, will receive training on information security.
- Documentation of the training will be maintained by the Information Technology Department.
- The plan will include a timetable for recurring training for employees.

The University will consider the costs and benefits of utilizing external resources or firms to accomplish this action plan.