

CHATHAM UNIVERSITY
Pittsburgh, Pennsylvania

Consolidated Financial Statements
For the years ended June 30, 2023 and 2022
and Independent Auditor's Report Thereon



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INDEPENDENT AUDITOR’S REPORT

Board of Trustees
Chatham University
Pittsburgh, Pennsylvania

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Chatham University (University), which comprise the consolidated statements of financial position as of June 30, 2023 and 2022, and the related consolidated statements of activities and changes in net assets, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the University as of June 30, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the University and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the University’s ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 University's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the University's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control related matters that we identified during the audit.

Schneider Downs & Co, Inc.

Pittsburgh, Pennsylvania
February 13, 2024

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CHATHAM UNIVERSITY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	June 30	
	2023	2022
ASSETS		
Cash and cash equivalents	\$ 3,601,509	\$ 325,643
Cash and cash equivalents held for debt service payments	-	2,559,375
	3,601,509	2,885,018
Student accounts receivable (net of allowance of \$1,113,000 and \$1,104,000 as of June 30, 2023 and 2022, respectively)	1,012,254	846,629
Contributions receivable, net	3,112,022	1,938,976
Other receivables	7,067,259	828,739
Student loans receivable (net of allowance of \$286,000 and \$247,000 as of June 30, 2023 and 2022, respectively)	148,089	239,332
Investments	74,816,353	89,066,510
Assets held in trust by others	4,291,857	4,064,575
Deferred compensation deposits	927,148	841,543
Prepaid expenses and other assets	1,037,068	743,127
Land, buildings and equipment, net	121,281,849	114,417,946
 Total Assets	 \$ 217,295,408	 \$ 215,872,395
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 4,597,612	\$ 4,016,243
Accrued liabilities and other	4,819,435	5,343,027
Student deposits and deferred revenues	4,490,918	4,322,834
Finance lease obligations	5,770,487	6,496,697
Lines of credit	8,257,637	6,500,000
Bonds and notes payable, net	56,503,713	56,343,143
Advances from federal government for student loans	847,824	927,478
 Total Liabilities	 85,287,626	 83,949,422
 NET ASSETS		
Without donor restrictions:		
Board-Designated for Investment	2,415,419	17,513,676
Undesignated	11,977,474	2,842,513
Total Net Assets Without Donor Restrictions	14,392,893	20,356,189
With donor restrictions	117,614,889	111,566,784
 Total Net Assets	 132,007,782	 131,922,973
 Total Liabilities And Net Assets	 \$ 217,295,408	 \$ 215,872,395

See notes to consolidated financial statements.

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CHATHAM UNIVERSITY

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

	2023		Total
	Without Donor Restrictions	With Donor Restrictions	
REVENUES AND OTHER ADDITIONS			
Tuition and fees	\$ 73,153,273	\$ -	\$ 73,153,273
Scholarships	(28,139,715)	-	(28,139,715)
Tuition and fees, net	45,013,558	-	45,013,558
Auxiliary enterprises revenues	9,851,588	10,402	9,861,990
Federal and state grants and contracts	290,675	656,125	946,800
Private gifts and grants	2,120,144	5,721,176	7,841,320
Interest and dividends	130,039	1,148,048	1,278,087
Total Revenues And Other Additions	57,406,004	7,535,751	64,941,755
NET ASSETS RELEASED FROM RESTRICTIONS:			
Operations	5,373,701	(5,373,701)	-
Capital	181,250	(181,250)	-
Total Revenues And Other Additions And Net Assets Released From Restrictions	62,960,955	1,980,800	64,941,755
EXPENSES AND OTHER DEDUCTIONS			
Program expenses:			
Instruction	28,484,255	-	28,484,255
Library	2,605,896	-	2,605,896
Student services	20,554,390	-	20,554,390
Public service	1,918,722	-	1,918,722
Total Program Expenses	53,563,263	-	53,563,263
Administrative and general	15,770,208	-	15,770,208
Auxiliary enterprises expenses	6,197,794	-	6,197,794
Total Expenses And Other Deductions	75,531,265	-	75,531,265
Changes in Net Assets - Operating	(12,570,310)	1,980,800	(10,589,510)
OTHER CHANGES IN NET ASSETS			
Gain on disposal of assets	641,511	-	641,511
Net unrealized and realized (losses) gains on investments	(117,872)	4,067,305	3,949,433
Employee retention credit revenue	6,083,375	-	6,083,375
Changes in Net Assets - Non-Operating	6,607,014	4,067,305	10,674,319
Total Changes In Net Assets	(5,963,296)	6,048,105	84,809
NET ASSETS			
Beginning of year	20,356,189	111,566,784	131,922,973
End of year	\$ 14,392,893	\$ 117,614,889	\$ 132,007,782

2022		
Without Donor Restrictions	With Donor Restrictions	Total
\$ 71,753,665	\$ -	\$ 71,753,665
<u>(28,175,432)</u>	<u>-</u>	<u>(28,175,432)</u>
43,578,233	-	43,578,233
9,998,761	14,926	10,013,687
282,248	810,987	1,093,235
707,882	6,510,522	7,218,404
<u>197,482</u>	<u>1,086,068</u>	<u>1,283,550</u>
54,764,606	8,422,503	63,187,109
9,782,304	(9,782,304)	-
<u>181,793</u>	<u>(181,793)</u>	<u>-</u>
64,728,703	(1,541,594)	63,187,109
27,025,559	-	27,025,559
2,576,463	-	2,576,463
17,940,080	-	17,940,080
<u>1,496,002</u>	<u>-</u>	<u>1,496,002</u>
49,038,104	-	49,038,104
15,902,056	-	15,902,056
<u>6,161,121</u>	<u>-</u>	<u>6,161,121</u>
71,101,281	-	71,101,281
(6,372,578)	(1,541,594)	(7,914,172)
1,500	-	1,500
(1,388,166)	(9,776,014)	(11,164,180)
<u>-</u>	<u>-</u>	<u>-</u>
(1,386,666)	(9,776,014)	(11,162,680)
(7,759,244)	(11,317,608)	(19,076,852)
<u>28,115,433</u>	<u>122,884,392</u>	<u>150,999,825</u>
\$ <u>20,356,189</u>	\$ <u>111,566,784</u>	\$ <u>131,922,973</u>

See notes to consolidated financial statements.

CHATHAM UNIVERSITY

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 84,809	\$ (19,076,852)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	6,532,223	8,257,512
Gain on disposal of land, buildings and equipment	(614,511)	-
Net unrealized and realized (gains) losses on investments	(3,722,151)	10,063,062
Change in value of assets held in trust by others	(227,282)	1,101,118
Contributions restricted for long-term investments	(1,795,800)	(300,310)
Change in allowance for doubtful accounts	3,422	(263,939)
Changes in assets and liabilities:		
Student accounts receivable	(175,456)	397,609
Contributions receivable	(1,166,637)	3,385,915
Other receivables	(6,238,520)	1,234,660
Prepaid expenses and other assets	(293,941)	(141,621)
Deferred compensation deposits	(85,605)	249,641
Accounts payable, accrued liabilities and other	(3,806)	(1,233,042)
Student deposits and deferred revenues	168,084	(270,564)
Net Cash (Used In) Provided by Operating Activities	<u>(7,535,171)</u>	<u>3,403,189</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Construction or acquisition of land, buildings and equipment, net of construction payables	(6,576,760)	(4,506,719)
Proceeds from sale of investments	38,569,424	7,069,369
Purchase of investments	(20,597,116)	(5,303,847)
Repayments of loans by students and others	91,243	78,551
Proceeds from sale of land, buildings and equipment	614,511	-
Net Cash Provided By (Used In) Investing Activities	<u>12,101,302</u>	<u>(2,662,646)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from contributions restricted for long-term investment	1,795,800	300,310
Payments on long-term debt	(5,421,802)	(2,991,255)
Proceeds from lines of credit	1,757,637	4,000,000
Payments on finance lease obligations	(1,981,275)	(1,927,576)
Net Cash Used In Financing Activities	<u>(3,849,640)</u>	<u>(618,521)</u>
 Net Increase In Cash And Cash Equivalents	 716,491	 122,022
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>2,885,018</u>	<u>2,762,996</u>
End of year	<u>\$ 3,601,509</u>	<u>\$ 2,885,018</u>

	<u>2023</u>	<u>2022</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for interest	\$ <u>2,912,224</u>	\$ <u>2,661,700</u>
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Capital lease obligations incurred for purchases of equipment	\$ <u>3,038,255</u>	\$ <u>1,710,650</u>
Construction payables outstanding for construction-in-progress	\$ <u>63,101</u>	\$ <u>866,975</u>
Lease liabilities settled in connection with building acquired through mortgage	\$ <u>1,783,190</u>	<u>-</u>
The proceeds of the 2022 series bonds used to refinance the 2012 series bonds	\$ <u>22,220,000</u>	<u>-</u>

See notes to consolidated financial statements.

CHATHAM UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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.

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.

CHATHAM UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

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

Revenue Recognition - The University's revenue streams consist primarily of student tuition and fees, room and board and rental income. Under Financial Accounting Standards Board (FASB) Accounting Standards Codification (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 consolidated statements of activities and changes in net assets that was 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 the bookstore 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.

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. Gross undergraduate tuition and fees revenue was approximately \$47,939,000 and \$47,757,000 at June 30, 2023 and 2022, respectively. Gross graduate tuition and fees revenue was approximately \$25,214,000 and \$23,997,000 at June 30, 2023 and 2022, 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 courseload 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, 2023 and 2022, respectively, are recognized over time and are included in deferred revenue on the consolidated statements of financial position as of June 30, 2023 and 2022.

Room and board revenue is presented on the consolidated statements of activities and changes in net assets under 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. Except for those who have applied for and have been granted a residency exemption, all students who have completed less than four terms of study are required to reside in on-campus housing for their first two years on campus. Falk School students are required to reside one year at the Shadyside Campus and another at the Eden Hall Campus. Payments for room and board that extend past June 30, 2023 and 2022, respectively, are recognized over time and are included in deferred revenue on the consolidated statement of financial position at June 30, 2023 and 2022.

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.

CHATHAM UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

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

Contract liabilities consist of student and day camp deposits and deferred revenue. Student and day camp deposits consist of approximately \$1,588,000, \$1,546,000 and \$1,757,000, related to advanced deposits by students as of June 30, 2023, 2022 and 2021, respectively. The caption deferred revenue on the consolidated statements of financial position consists primarily of tuition of approximately \$2,709,000, \$2,698,000 and \$2,806,000 as of June 30, 2023, 2022 and 2021, respectively.

At June 30, 2023 and 2022, 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, 2023 and 2022, 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 of when the goods or services were transferred to and controlled by students. 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 semester-based recognition method, whereby 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, mandatory fees, room, and board budgets.

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. Net unrealized and realized gains and losses on investments and other assets are reported as increases or decreases in non-operating 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 at times exceed federally insured amounts.

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.

CHATHAM UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

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

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 2023 and 2022 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 on 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, 2023 and 2022 approximated \$230,000 and \$219,000, 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 and changes in net assets. 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 value may occur in the near term, and it is reasonably possible that such changes could materially affect the amounts reported in the consolidated statements of financial position.

Investments for which there is 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 investment partnerships, the nature of the investments, current market conditions and other factors 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, 2023 and 2022, 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 could 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.

CHATHAM UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

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

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 the date of acquisition or at fair value at the 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, 2023 and 2022. 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 four 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 might 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, 2023 and 2022.

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.

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.

CHATHAM UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

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

Fair Value Measurement - The University follows the FASB Codification topic Fair Value Measurement, 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.

Subsequent Events - Subsequent events are defined as events or transactions that occur after the consolidated statement of financial position date, but before the consolidated financial statements are issued or are available to be issued. Management has evaluated subsequent events through February 13, 2024, the date that the consolidated financial statements were issued.

On October 20, 2023, the University signed a letter of intent to negotiate a potential sale of its Eastside building and adjacent surface parking lot located at 6565-6585 Penn Avenue, Pittsburgh, Pennsylvania, 15206. The University is currently negotiating an agreement for the sale and purchase of property (Sales Agreement) with the potential buyer. As the condition of the sale, the University will require that the buyer lease-back a portion of the Eastside building and portion of the adjacent surface parking to the University for a period of at least 10 years. Should all conditions be satisfied, it is expected that the sale of the Eastside building would occur approximately 60-90 days following the execution of the Sales Agreement.

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 the 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.

CHATHAM UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 2 - LIQUIDITY AND AVAILABILITY (Continued)

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.

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of June 30, 2023 and 2022, comprise the following:

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 3,601,509	\$ 325,643
Student accounts receivable, net	1,012,254	846,629
Contributions receivable, net	913,072	1,013,637
Other receivables	883,884	828,739
Employer retention credit (ERC) receivable	6,083,375	-
Anticipated endowment draw (Note 11)	<u>2,400,000</u>	<u>4,095,000</u>
Financial assets available at June 30 for current use	<u>\$ 14,894,094</u>	<u>\$ 7,109,648</u>

It is the University's practice to actively manage cash flow to assist with maintaining a reasonable level of accounts payable balances, and to keep open invoice processing for a period of approximately two months after year-end. In addition, the University's revenues are seasonal in nature and tend to follow a traditional academic year schedule, thus cash is often at a low point during the months of June, July, November and December. The University maintains bank lines of credit of \$5 million (which was fully drawn upon at June 30, 2023 and 2022) to support operations and the seasonality of revenues. In January 2024, the University used \$5,000,000 of ERC funds collected to fully repay the bank line of credit, so the line is available for short-term cash flow needs. During 2022, the University entered into a line of credit with Parkhurst Dining, LLC of \$3.5 million (\$242,000 and \$2,000,000 available at June 30, 2023 and 2022, respectively) to support dining hall renovations.

The University's investment portfolio consists of donor-restricted funds, including endowments, and funds designated by the board to be temporarily invested in the portfolio until they are needed for strategic or operational needs. Income from donor-restricted funds and endowments are available for general use, unless restricted for a specific purpose by the donor. The anticipated endowment draw represents the University's estimate of expected annual draw in the upcoming twelve-month period to support operations. While the University does not intend to spend other than the annual board-approved spending rate from the endowment, board designated funds included in the investment portfolio of approximately \$2,415,000 and \$17,514,000 as of June 30, 2023 and 2022, respectively could be made available to support operations if necessary.

CHATHAM UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 3 - INVESTMENTS

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

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 3,073,358	\$ 3,769,729
Fixed income	16,107,068	24,250,568
Equities	30,502,057	32,088,671
International funds	5,836,741	8,171,460
Limited partnerships	16,495,441	17,380,037
Real estate investment fund	<u>2,801,688</u>	<u>3,406,045</u>
 Total investments	 74,816,353	 89,066,510
 Assets held in trust by others	 <u>4,291,857</u>	 <u>4,064,575</u>
 Total market value of investments	 \$ <u><u>79,108,210</u></u>	 \$ <u><u>93,131,085</u></u>

Investments at June 30 are composed of the following:

	<u>2023</u>	<u>2022</u>
Endowment	\$ 74,806,328	\$ 88,959,400
Assets held in trust by others	4,291,857	4,064,575
Annuity trust agreements	<u>10,025</u>	<u>107,110</u>
	 \$ <u><u>79,108,210</u></u>	 \$ <u><u>93,131,085</u></u>

CHATHAM UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 3 - INVESTMENTS (Continued)

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

	<u>2023</u>	<u>2022</u>
Dividends and interest	\$ 1,278,087	\$ 1,283,550
Net realized gain	17,615,205	2,321,488
Net unrealized (loss) gain	(13,893,054)	(12,384,550)
Net unrealized (loss) gain on assets held in trust by others	<u>227,282</u>	<u>(1,101,118)</u>
	<u>\$ 5,227,520</u>	<u>\$ (9,880,630)</u>

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 of 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.

CHATHAM UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 4 - FAIR VALUE MEASUREMENT (Continued)

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

	2023			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 3,073,358	\$ -	\$ -	\$ 3,073,358
Fixed income	16,107,068	-	-	16,107,068
Equities	30,502,057	-	-	30,502,057
International funds	5,836,741	-	-	5,836,741
Assets held in trust by others	-	4,291,857	-	4,291,857
Total investments in the fair value hierarchy	\$ <u>55,519,224</u>	\$ <u>4,291,857</u>	\$ <u>-</u>	59,811,081
Investments measured at net asset value (a)				<u>19,297,129</u>
Total investments				\$ <u>79,108,210</u>
	2022			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 3,769,729	\$ -	\$ -	\$ 3,769,729
Fixed income	24,250,568	-	-	24,250,568
Equities	32,088,671	-	-	32,088,671
International funds	8,171,460	-	-	8,171,460
Assets held in trust by others	-	4,064,575	-	4,064,575
Total investments in the fair value hierarchy	\$ <u>68,280,428</u>	\$ <u>4,064,575</u>	\$ <u>-</u>	72,345,003
Investments measured at net asset value (a)				<u>20,786,082</u>
Total investments				\$ <u>93,131,085</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.

CHATHAM UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 4 - FAIR VALUE MEASUREMENT (Continued)

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.

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
	2023	2022			
Limited partnerships	\$ 16,495,441	\$ 17,380,037	\$ 11,593,930	None permitted upon final closing of the fund until liquidation of the funds	N/A
Real estate investment fund	<u>2,801,688</u>	<u>3,406,045</u>	<u>-</u>	Daily	None
	<u>\$ 19,297,129</u>	<u>\$ 20,786,082</u>	<u>\$ 11,593,930</u>		

Realized gains and unrealized (depreciation) appreciation are included in net unrealized and realized gains on investments in the accompanying consolidated statements of activities and changes in net assets.

CHATHAM UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 5 - CONTRIBUTIONS RECEIVABLE

Contributions receivable at June 30 are as follows:

	<u>2023</u>	<u>2022</u>
Gross contributions outstanding	\$ 3,333,902	\$ 2,109,923
Less - unamortized discount	170,948	113,606
Less - allowance	<u>50,932</u>	<u>57,341</u>
	<u>\$ 3,112,022</u>	<u>\$ 1,938,976</u>
Amounts due in:		
Less than one year	\$ 1,134,952	\$ 1,184,284
One to five years	<u>2,198,950</u>	<u>925,339</u>
	<u>\$ 3,333,902</u>	<u>\$ 2,109,623</u>

NOTE 6 - LINE OF CREDIT

The University has available a \$5,000,000 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 (8.25% and 4.75% at June 30, 2023 and 2022, respectively). There were \$5,000,000 of borrowings outstanding at June 30, 2023 and 2022. In January 2024, the University used \$5,000,000 of ERC funds collected to fully repay the bank line of credit, so the line is available for short-term cash flow needs.

During the year ended June 30, 2022, the University entered into a \$3,500,000 line-of-credit agreement with Parkhurst Dining, LLC. The agreement carries a maturity date of September 2032 and bears interest at 4.25%. There were \$3,258,000 and \$1,500,000 of borrowings outstanding at June 30, 2023 and 2022, respectively.

CHATHAM UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 7 - LAND, BUILDINGS AND EQUIPMENT

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

	<u>2023</u>	<u>2022</u>
Buildings and improvements	\$ 188,316,507	\$ 173,709,307
Furniture and equipment	43,695,088	39,900,813
Building under finance lease	-	3,144,406
	<u>232,011,595</u>	<u>216,754,526</u>
Less - Accumulated depreciation and amortization	<u>124,467,449</u>	<u>117,370,377</u>
	107,544,146	99,384,149
Land	11,252,647	10,867,247
Construction-in-progress	<u>2,485,056</u>	<u>4,166,550</u>
	<u>\$ 121,281,849</u>	<u>\$ 114,417,946</u>

NOTE 8 - BONDS AND NOTES PAYABLE

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

	<u>2023</u>	<u>2022</u>
Series A of 2008	\$ 10,000,000	\$ 10,000,000
Series B of 2008	1,293,384	2,125,440
Series A of 2012	-	25,730,000
Series A of 2022	22,220,000	-
Phase I-B construction loan	12,998,818	13,809,878
Mortgage loans payable	8,789,025	2,785,031
Eastside phase II loan	<u>1,160,859</u>	<u>1,241,288</u>
	56,462,086	55,691,637
Plus - Unamortized premium	471,996	1,027,573
Less - Unamortized debt issuance costs	<u>430,369</u>	<u>376,067</u>
	<u>\$ 56,503,713</u>	<u>\$ 56,343,143</u>

CHATHAM UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 8 - BONDS AND NOTES PAYABLE (Continued)

Scheduled principal repayments are as follows:

Fiscal Year Ending June 30	Amount
2024	\$ 3,103,360
2025	3,402,335
2026	3,581,925
2027	3,732,054
2028	3,899,093
Thereafter	<u>38,743,319</u>
	<u>\$ 56,462,086</u>

a. Series A of 2008

On September 29, 2008, the 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 4.25%. Interest payments are required monthly. Principal payments are required monthly, with the first payment due on January 1, 2025, and the final payment due on October 1, 2033.

Interest expense on the Series A of 2008 Notes for the years ended June 30, 2023 and 2022 was \$425,000.

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, the 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 6.83%. Interest payments are required monthly. Principal payments are required monthly. The final payment is due on December 31, 2024.

Interest expense on the Series B of 2008 Notes for the years ended June 30, 2023 and 2022 was \$95,000 and \$139,000, respectively.

CHATHAM UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

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, the 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. Prior to the full refunding of the issue in July of 2022, the Series A of 2012 Bonds carried interest rates ranging from 2.0% to 5.0%. Interest payments were required semiannually. Prior to the full refunding, principal payments were required on September 1 of each year, with the final payment scheduled for payment on September 1, 2035.

On July 6, 2022, the Series A of 2012 Bonds were fully refunded as part of the issuance of the Series A of 2022 Bond as outlined below. At closing, the University funded the principal and interest payments due on September 1, 2023, for \$1,083,333 and \$428,833, respectively, and transferred \$2,559,375 from the 2012A Debt Service Revenue Fund into the refunding escrow deposit account.

d. Series A of 2022

On July 6, 2023, the Allegheny County Higher Education Building Authority issued \$22,220,000 aggregate principal of its University Revenue Bonds Series A of 2022 on behalf of the University for the purpose of current refunding of the 2012 Series A Bonds. The Series A of 2022 Bonds bear interest at rates ranging from 5.0% to 5.25%. 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 2022 Bonds for the year ended June 30, 2023, was \$1,111,000.

The Series A of 2022 Bonds 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.

e. Phase I-B Construction Loan

On July 16, 2014, the 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, 2036.

CHATHAM UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 8 - BONDS AND NOTES PAYABLE (Continued)

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 \$12,999,000 and \$13,810,000 in borrowings outstanding under this agreement at June 30, 2023 and 2022, respectively. No interest was capitalized during the years ended June 30, 2023 and 2022 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.

f. Mortgages

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. Cost of the property acquired totaled \$937,287 and has a net book value of \$741,781 and \$758,782 at June 30, 2023 and 2022, respectively.

During the 2021 fiscal year, the University entered into a mortgage loan agreement for approximately \$2,508,000 payable in monthly installments of \$12,973, including interest of 3.75% and subject to change every five years based on the five-year Intercontinental Exchange (ICE) rate, through July of 2040. The loan is secured by first-lien mortgages on the real property and improvements on the property acquired by the loan proceeds. Cost of the property acquired was approximately \$2,606,000 and has a net book value of approximately \$2,443,567 and \$2,476,148 at June 30, 2023 and 2022, respectively.

During the 2023 fiscal year, the University entered into two mortgage loan agreements for approximately \$6,192,250 that are payable in monthly installments ranging from \$3,621 to \$34,889 and that are inclusive of a nominal annual rate of 5.55%. The mortgages are secured by first-lien mortgages on the real property and improvements on the property acquired by the loan proceeds. Cost of the properties acquired totaled \$8,791,000 and have a net book value of approximately \$8,682,458 at June 30, 2023.

g. Eastside Phase II Loan

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 10 years. The agreement is secured by the assets of the University and bears interest at the bank's prime lending rate (5.59% at June 30, 2023 and 2022). There were \$1,161,000 and \$1,241,000 of borrowings outstanding at June 30, 2023 and 2022, respectively.

CHATHAM UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 9 - RETIREMENT PLANS

The University sponsors a defined contribution retirement plan. Full-time employees over 21 years of age are eligible to begin making voluntary retirement contributions in the plan immediately. After an employee has been employed for one year or has a 403(b) plan already established, the University will match the employee's contribution from 5% to 8% 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. Effective September 1, 2021, the University adopted a revised contribution structure whereby all employees who contribute the mandatory 2% receive a 5% University match. Employees who contribute at least 3% and up to 5%, receive a flat 8% match. In addition, the University contributes to a union-administered defined contribution retirement plan for certain hourly employees, which is funded based on hours worked.

Effective September 2023, the University announced a reduction in its match from a flat 8% to a flat 3% for all non-union employees who contribute at least 2% of their base wage to the Plan. Expense charged to operations for these plans was approximately \$2,007,000 and \$1,736,000 for the years ended June 30, 2023 and 2022, 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 were approximately \$927,000 and \$842,000 as of June 30, 2023 and 2022, respectively.

NOTE 10 - LEASES

On June 1, 2007, the University entered into a finance lease agreement involving the rental of an apartment building. This lease was noncancelable and ran through May 31, 2022. It was extended through July 31, 2022. Lease payments were adjusted annually by a percentage increase or decrease in the Bureau of Labor Statistics Consumer Price Index. Net rent did not decrease below \$205,600 per year for the lease term. At the end of the lease term, the University was obligated to purchase the building at an agreed-upon amount based on two independent appraisals of the building's fair market value at that time. In March and April 2022, the University obtained two independent appraisal that estimated the building's fair market value at \$9.2 million and \$6.6 million, respectively. Assets recorded under the finance lease agreement totaled \$0 and \$3,144,406 as of June 30, 2023 and 2022, respectively, and accumulated depreciation totaled \$0 and \$1,375,406 as of June 30, 2023 and 2022, respectively. On August 1, 2022, the University entered into an agreement to purchase the building for \$8,000,000, partially financed through a mortgage of approximately \$5,610,000.

During the year ended June 30, 2018, the University entered into seven finance lease agreements involving the rental of computer, network resources and classroom fixtures, and two finance 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 \$15,266 to \$341,522. Amounts related to the machinery and vehicles are payable monthly from \$464 to \$5,537. Assets recorded under the finance lease agreements totaled \$2,988,461 and accumulated depreciation totaled \$2,988,461 and \$2,756,256 as of June 30, 2023 and 2022, respectively.

CHATHAM UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 10 - LEASES (Continued)

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 finance 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 \$486. Assets recorded under the finance lease agreements totaled \$1,559,000 and accumulated depreciation totaled \$1,471,484 and \$1,244,777 as of June 30, 2023 and 2022, respectively.

In April 2019, the University executed a land lease agreement with the 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.

In February 2020, in connection with the aforementioned land lease agreement with the Wilkinsburg School District, the University entered into a lease agreement to bridge financing for the renovation of the playing field and the adjoining grandstand, locker room, service building, and parking lot. Graham Field is the home to the University's lacrosse and soccer teams and is utilized by community groups for youth football and other activities.

During the year ended June 30, 2020, the University entered into six lease agreements involving the rental of vehicles, computer, network resources and equipment. These leases are noncancelable and run through the year 2025. Amounts related to the equipment are payable in monthly, quarterly or annual installments from \$2,716 to \$49,772. Assets recorded at June 30, 2023 and 2022 under the finance lease agreements totaled \$1,434,890 and accumulated depreciation totaled \$1,353,510 and \$1,070,070 as of June 30, 2023 and 2022, respectively.

During the year ended June 30, 2021, the University entered into 10 lease agreements involving the rental of computers, network resources and equipment. These leases are noncancelable and run through the year 2026. Amounts related to the equipment are payable in monthly, quarterly or annual installments from \$223 to \$113,953. Assets recorded at June 30, 2023 and 2022 under the finance lease agreements totaled \$1,687,889 and accumulated depreciation totaled \$1,142,811 and \$742,424 as of June 30, 2023 and 2022, respectively.

During the year ended June 30, 2022, the University entered into 14 lease agreements involving the rental of computer equipment and automobiles. These leases are noncancelable and run through the year 2026. Amounts related to the equipment are payable in monthly, quarterly or annual installments from \$653 to \$49,672. Assets recorded at June 30, 2023 and 2022 under the finance lease agreements totaled \$1,710,650 and accumulated depreciation totaled \$658,301 and \$225,664 as of June 30, 2023 and 2022, respectively.

During the year ended June 30, 2023, the University entered into 12 lease agreements involving the rental of computer equipment and automobiles. These leases are noncancelable and run through the year 2028. Amounts related to the equipment are payable in monthly, quarterly or annual installments from \$680 to \$199,528. Assets recorded at June 30, 2023 and 2022 under the finance lease agreements totaled \$3,038,255 and accumulated depreciation totaled \$343,910 as of June 30, 2023.

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 2024.

Rent expense for the years ended June 30, 2023 and 2022 was \$244,000 and \$299,000, respectively.

CHATHAM UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 10 - LEASES (Continued)

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

<u>Fiscal Year Ending June 30</u>	<u>Finance Leases</u>	<u>Operating Leases</u>	<u>Total</u>
2024	\$ 2,633,691	\$ 50,872	\$ 2,684,563
2025	1,664,894	-	1,664,894
2026	1,101,949	-	1,101,949
2027	614,222	-	614,222
2028	153,492	-	153,492
Present value of minimum lease payments	<u>\$ 6,168,248</u>	<u>\$ 50,872</u>	<u>\$ 6,219,120</u>

NOTE 11 - ENDOWMENT

The University's endowment consists of various investment funds established primarily for the support of its mission. As required by U.S. GAAP, 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), which 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. 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%. The spending rate is 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, 2023 was the fiscal year ended June 30, 2022.

Spending Policy and Investment Objectives Related to Spending Policy - As permitted by Act 141, the University typically 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 2020 and 2021, due to the COVID-19 pandemic, changes to Act 141 allowed for larger transfers to help organizations faced with challenges from the pandemic. The University elected to transfer 7% as of June 30, 2023 and 2022, which amounted to approximately \$4,023,000 and \$4,069,000, 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.

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. 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.

CHATHAM UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 11 - ENDOWMENT (Continued)

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, 2023	\$ 2,415,420	\$ 76,292,789	\$ 79,108,209
June 30, 2022	\$ 17,513,676	\$ 75,617,409	\$ 93,131,085

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, 2021	\$ 18,651,958	87,408,829	106,060,787
Investment return:			
Investment income	197,482	1,086,068	1,283,550
Net unrealized appreciation	(1,904,668)	(10,614,401)	(12,519,069)
Contributions	-	1,860,552	1,860,552
Net asset transfers	-	(54,735)	(54,735)
Appropriation of endowment assets for expenditures	4,068,904	(4,068,904)	-
Spend	(3,500,000)	-	(3,500,000)
Endowment net assets, June 30, 2022	17,513,676	\$ 75,617,409	\$ 93,131,085
Investment return:			
Investment income	130,039	1,148,048	1,278,087
Net unrealized appreciation (depreciation)	(245,250)	2,232,998	1,987,748
Contributions	-	1,795,800	1,795,800
Net asset transfers	-	(78,698)	(78,698)
Appropriation of endowment assets for expenditures	4,022,766	(4,022,766)	-
Spend	(4,300,000)	-	(4,300,000)
Investment drawdown Board-designated	(14,705,812)	-	(14,705,812)
Endowment net assets, June 30, 2023	\$ 2,415,419	\$ 76,292,791	\$ 79,108,210

CHATHAM UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 11 - ENDOWMENT (Continued)

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, which they have interpreted to be permitted under Act 141. Deficiencies of this nature that are reported in net assets with donor restriction total \$1,059,697 and \$1,972,010, and the associated fair value of these funds was \$7,289,143 and \$19,533,652, as of June 30, 2023 and 2022, 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.

CHATHAM UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 12 - NET ASSETS WITH DONOR RESTRICTIONS BALANCES

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

	<u>2023</u>	<u>2022</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	\$ 4,931,656	\$ 3,998,636
Realized and unrealized endowment gains restricted primarily for scholarships and professorships	43,115,849	38,986,766
Annuity and trust agreements	10,025	107,112
	<u>48,057,530</u>	<u>43,092,514</u>
Funds not subject to appropriation or expenditure:		
Scholarships	27,695,045	27,166,912
Professorships and other	17,352,526	16,824,513
Falk School of Sustainability	15,000,000	15,000,000
Eden Hall Campus	8,310,000	8,310,000
Library	35,000	35,000
Awards	713,932	710,332
General operations	450,856	427,513
	<u>69,557,359</u>	<u>68,474,270</u>
	<u>\$ 117,614,889</u>	<u>\$ 111,566,784</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 are as follows:

	<u>2023</u>	<u>2022</u>
Funds expended for a specified purpose:		
Gifts and other unexpended revenues available for scholarships, instruction, construction of Eden Hall Campus and other programs	\$ 3,079,846	\$ 7,537,638
Realized and unrealized endowment gains restricted primarily for scholarships and professorships	2,475,105	2,395,674
Annuity and trust agreements	-	30,785
	<u>\$ 5,554,951</u>	<u>\$ 9,964,097</u>

In September of 2023, a donor agreed to release the restriction on approximately \$6.0 million to support University operations for the fiscal year 2024. Restoration of the fund will take place upon mutual agreement between the University and the donor.

CHATHAM UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 13 - GOVERNMENT GRANTS

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 \$1,537,126 and \$1,585,513 from the federal Pell Grant and \$1,523,986 and \$1,324,049 from PHEAA programs in fiscal years 2023 and 2022, respectively.

The ERC, a credit against certain payroll taxes allowed to an eligible employer for qualifying wages, was established by the Coronavirus Aid Relief and Economic Security Act and further amended by the Consolidated Appropriations Act and the American Rescue Plan Act. The ERC provided qualifying employers up to \$5,000 of credit for each employee based on certain wages paid after March 12, 2020, and before January 1, 2021. Subsequent legislation increased the credit for each employee to \$7,000 per calendar quarter after December 31, 2020, through September 30, 2021. During the year ended June 30, 2023, the University applied for and recognized within federal and state grants and contracts on the consolidated statement of activities and changes in net assets approximately \$6,083,000 of ERCs. The University believes that the barriers and conditions for recognition of their application were satisfied upon submission of its application.

On January 19, 2024, the University received \$6,533,567, which included the full request of \$6,083,000 and \$450,192 in accrued interest. The ERC is shown within the Other Changes in Net Asset section of the Statement of Activities and Changes in Net Assets.

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 \$928,000 and \$883,000 as of June 30, 2023 and 2022, 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.

CHATHAM UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

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, which 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, 2023 and 2022 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 2020.

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 the University at June 30, 2023 are as follows:

	<u>Program</u> <u>Activities</u>	<u>Administrative</u> <u>and General</u>	<u>Auxiliary</u> <u>Enterprises</u>	<u>Total</u> <u>Expenses</u>
Salaries, wages and fringes	\$ 31,330,514	\$ 9,046,224	\$ 688,149	\$ 41,064,887
Operating expenses	13,072,800	677,448	673,685	14,423,933
Outside services	1,042,359	4,521,936	3,038,671	8,602,966
Depreciation and amortization	6,478,802	1,030,514	1,017,939	8,527,255
Interest	1,638,788	494,086	779,350	2,912,224
	<u>\$ 53,563,263</u>	<u>\$ 15,770,208</u>	<u>\$ 6,197,794</u>	<u>\$ 75,531,265</u>

CHATHAM UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 17 - EXPENSES BY BOTH NATURE AND FUNCTION (Continued)

Functional expenses of the University at June 30, 2022 are as follows:

	<u>Program</u> <u>Activities</u>	<u>Administrative</u> <u>and General</u>	<u>Auxiliary</u> <u>Enterprises</u>	<u>Total</u> <u>Expenses</u>
Salaries, wages and fringes	\$ 29,404,856	\$ 9,063,342	\$ 730,107	\$ 39,198,305
Operating expenses	10,946,416	673,082	813,317	12,432,815
Outside services	884,929	4,842,405	2,803,875	8,531,209
Depreciation and amortization	6,175,490	1,041,664	1,040,357	8,257,511
Interest	1,626,413	281,563	773,465	2,681,441
	<u>\$ 49,038,104</u>	<u>\$ 15,902,056</u>	<u>\$ 6,161,121</u>	<u>\$ 71,101,281</u>

Total fundraising expense representing the cost of the institutional advancement department and the comprehensive campaign for the years ended June 30, 2023 and 2022 was approximately \$1,530,000 and \$1,352,000, respectively, and is included in administrative and general expenses in the consolidated statement of activities and changes in net assets.