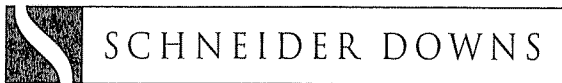


CHATHAM UNIVERSITY
Pittsburgh, Pennsylvania

Financial Statements
and
Supplemental Financial Information
For the years ended June 30, 2008 and 2007
and Independent Auditors' Report Thereon

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Chatham University
Pittsburgh, Pennsylvania

We have audited the accompanying statements of financial position of Chatham University (University) as of June 30, 2008 and 2007 and the related statements of activities and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University as of June 30, 2008 and 2007, the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated December 17, 2008 on our consideration of the University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with government auditing standards and should be read in conjunction with this report in considering the results of our audits.

Our audits were performed for the purpose of forming an opinion on the basic financial statements of the University taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Schneider Downs & Co., Inc.

Pittsburgh, Pennsylvania
December 17, 2008

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CHATHAM UNIVERSITY
STATEMENTS OF FINANCIAL POSITION

	June 30	
	2008	2007
ASSETS		
Cash and cash equivalents	\$ 4,998,029	\$ 5,406,956
Cash and cash equivalents held for debt service payments	3,635,757	3,730,844
Deferred compensation deposits	730,917	536,102
Student accounts receivable (net of allowance of \$490,262 and \$372,066 as June 30, 2008 and 2007, respectively)	1,329,481	983,688
Other receivables	1,540,308	658,422
Prepaid expenses and other assets	283,576	129,706
Contributions receivable, net	692,221	2,321,723
Loans receivable (net of allowance of \$107,606 as of June 30, 2008 and 2007)	786,085	666,043
Investments	56,985,446	62,105,319
Assets held in trust by others	4,423,305	4,976,740
	75,405,125	81,515,543
PROPERTY, PLANT AND EQUIPMENT		
Land	8,802,095	1,826,448
Buildings and improvements	81,459,582	76,847,743
Equipment, furniture and vehicles	15,921,956	14,830,487
Construction-in-progress	1,169,713	1,395,493
Building under capital lease	3,144,406	3,144,406
	110,497,752	98,044,577
Less - Accumulated depreciation	(37,662,709)	(34,553,266)
	72,835,043	63,491,311
DEFERRED BOND FINANCING COSTS, net	246,360	257,041
Total Assets	\$ 148,486,528	\$ 145,263,895
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 1,546,366	\$ 1,033,239
Accrued liabilities	2,490,036	2,086,229
Lines of credit	1,705,687	-
Student deposits and deferred revenues	1,567,430	985,746
Funds held for others	15,909	6,892
Capital lease obligation	2,887,406	3,093,006
Bonds payable	38,908,784	39,463,734
Advances from federal government for student loans	1,511,474	1,511,474
Total Liabilities	50,633,092	48,180,320
NET ASSETS		
Unrestricted	39,913,790	43,130,632
Temporarily restricted	22,444,087	26,790,753
Permanently restricted	35,495,559	27,162,190
Total Net Assets	97,853,436	97,083,575
Total Liabilities And Net Assets	\$ 148,486,528	\$ 145,263,895

See notes to financial statements.

CHATHAM UNIVERSITY

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	2008			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
REVENUES AND OTHER ADDITIONS				
Tuition and fees	\$ 32,478,730	\$ -	\$ -	\$ 32,478,730
Scholarships	(7,805,125)	-	-	(7,805,125)
	<u>24,673,605</u>	<u>-</u>	<u>-</u>	<u>24,673,605</u>
Auxiliary enterprises revenues	4,174,499	-	-	4,174,499
Federal and state grants and contracts	250,708	1,314,479	-	1,565,187
Private gifts and grants	1,234,709	1,476,578	8,333,369	11,044,656
Investment income, net of investment expense of \$120,793 and \$204,213, respectively	1,444,615	733,418	-	2,178,033
Interest on student loans receivable	571	19,026	-	19,597
Net unrealized and realized (losses) gains on investments	<u>(136,719)</u>	<u>(2,476,645)</u>	<u>-</u>	<u>(2,613,364)</u>
Total Revenues And Other Additions	31,641,988	1,066,856	8,333,369	41,042,213
NET ASSETS RELEASED FROM RESTRICTIONS				
	<u>5,413,522</u>	<u>(5,413,522)</u>	<u>-</u>	<u>-</u>
Total Revenues And Other Additions And Net Assets Released From Restrictions	37,055,510	(4,346,666)	8,333,369	41,042,213
EXPENSES AND OTHER DEDUCTIONS				
Educational and general:				
Instruction	11,548,926	-	-	11,548,926
Library	1,374,372	-	-	1,374,372
Student services	8,338,831	-	-	8,338,831
Administrative and general	15,785,766	-	-	15,785,766
Public service	<u>1,200,514</u>	<u>-</u>	<u>-</u>	<u>1,200,514</u>
Total Education And General	38,248,409	-	-	38,248,409
Auxiliary enterprises expenses	<u>2,023,943</u>	<u>-</u>	<u>-</u>	<u>2,023,943</u>
Total Expenses And Other Deductions	<u>40,272,352</u>	<u>-</u>	<u>-</u>	<u>40,272,352</u>
Changes In Net Assets	(3,216,842)	(4,346,666)	8,333,369	769,861
NET ASSETS				
Beginning of year	<u>43,130,632</u>	<u>26,790,753</u>	<u>27,162,190</u>	<u>97,083,575</u>
End of year	<u>\$ 39,913,790</u>	<u>\$ 22,444,087</u>	<u>\$ 35,495,559</u>	<u>\$ 97,853,436</u>

2007

<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
\$ 26,248,150	\$ -	\$ -	\$ 26,248,150
(6,077,710)	-	-	(6,077,710)
<u>20,170,440</u>	<u>-</u>	<u>-</u>	<u>20,170,440</u>
3,152,699	-	-	3,152,699
206,192	1,245,846	-	1,452,038
1,267,309	1,761,298	574,694	3,603,301
1,475,950	501,242	-	1,977,192
622	38,754	-	39,376
<u>2,071,592</u>	<u>5,776,830</u>	<u>-</u>	<u>7,848,422</u>
28,344,804	9,323,970	574,694	38,243,468
<u>5,829,916</u>	<u>(5,829,916)</u>	<u>-</u>	<u>-</u>
34,174,720	3,494,054	574,694	38,243,468
10,257,993	-	-	10,257,993
1,242,064	-	-	1,242,064
7,546,549	-	-	7,546,549
13,615,298	-	-	13,615,298
1,418,575	-	-	1,418,575
<u>34,080,479</u>	<u>-</u>	<u>-</u>	<u>34,080,479</u>
1,662,765	-	-	1,662,765
<u>35,743,244</u>	<u>-</u>	<u>-</u>	<u>35,743,244</u>
(1,568,524)	3,494,054	574,694	2,500,224
<u>44,699,156</u>	<u>23,296,699</u>	<u>26,587,496</u>	<u>94,583,351</u>
<u>\$ 43,130,632</u>	<u>\$ 26,790,753</u>	<u>\$ 27,162,190</u>	<u>\$ 97,083,575</u>

See notes to financial statements.

CHATHAM UNIVERSITY

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 769,861	\$ 2,500,224
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	3,120,124	2,804,729
Net unrealized and realized losses (gains) on investments	2,613,364	(7,848,422)
Change in value of assets held in trust by others	553,435	(485,880)
Contributions restricted for long-term investments, primarily in-kind in 2008	(8,333,369)	(574,694)
Changes in assets and liabilities:		
Student accounts receivable, net	(345,793)	(30,993)
Contributions receivable	1,629,502	1,276,396
Other receivables	(881,886)	(101,247)
Prepaid expenses and other assets	(153,870)	125,190
Loans receivable	(120,042)	72,974
Accounts payable and accrued liabilities	916,934	761,545
Student deposits and deferred revenues	581,684	(185,014)
Funds held for others	9,017	(13,777)
Net Cash Provided By (Used In) Operating Activities	<u>358,961</u>	<u>(1,698,969)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Construction or acquisition of property, plant and equipment, net of assets acquired under capital leases	(4,143,175)	(2,578,336)
Proceeds from sale of investments	3,279,889	3,038,915
Purchase of investments	(773,380)	(420,000)
Net Cash (Used In) Provided By Investing Activities	<u>(1,636,666)</u>	<u>40,579</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from contributions restricted for long-term investment	23,369	574,694
Proceeds from lines of credit	1,705,687	-
Payments on long-term debt	(554,950)	(529,951)
Payments on capital lease obligations	(205,600)	(51,400)
Net Cash Provided By (Used In) Financing Activities	<u>968,506</u>	<u>(6,657)</u>
Net Decrease In Cash And Cash Equivalents	(309,199)	(1,665,047)
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>9,673,902</u>	<u>11,338,949</u>
End of year	<u>\$ 9,364,703</u>	<u>\$ 9,673,902</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for interest	<u>\$ 2,257,869</u>	<u>\$ 2,274,624</u>
Assets acquired under capital lease	<u>\$ -</u>	<u>\$ 3,144,406</u>

See notes to financial statements.

CHATHAM UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Chatham University (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 financial statements follows:

Basis of Accounting - The 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.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 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:

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

Temporarily Restricted Net Assets - Net assets that are subject to donor-imposed or legal stipulations that may or will be met either by actions of the University and/or the passage of time. Commonwealth of Pennsylvania law permits the University to allocate to income each year a portion of endowment net realized gains. The amount that may be allocated under an endowment spending policy is limited to a maximum of 7% of a three-year moving average of the market value of the endowed assets. Since endowment net realized and unrealized gains may eventually be spent by the University, endowment net realized and unrealized gains are recorded in the financial statements as temporarily restricted net assets. For financial reporting purposes, the University elects to release from restriction the maximum of 7% under Commonwealth of Pennsylvania law. The amount is recognized as net assets released from restrictions in the statement of activities and amounted to \$1,784,240 and \$1,236,105 for the years ended June 30, 2008 and 2007, respectively. The University budgets withdrawals of 5.5% of the three-year moving average of the market value of the endowed assets. Any additional withdrawals must be approved by the Board of Trustees.

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

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

Contributed property is recorded at fair value at the date of the donation. If the donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In May 2008, the University received a gift of 387.40 acres of land improved with several buildings. The gift is permanently restricted, as the land and building may not be sold. The fair value of the gift was recorded at \$8,310,000.

CHATHAM UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Cash and Cash Equivalents - For purposes of the 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.

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 rates used in 2008 and 2007 were 4.00% and 4.50%, respectively. Amortization of the discount is included in contribution revenue, in accordance with donor-imposed restrictions, if any. An allowance for uncollectible contributions receivable is provided based upon management's judgment, including such factors as past collection experience, missed payments or modification of payment terms, and creditworthiness of the donor.

Investments - Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value, with realized and unrealized gains and losses included in the statement of activities. Investments received by gift are recorded at market 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 statements of financial position.

Investments for which there is no ready market are valued at fair value as estimated by management. In estimating fair value, management takes into consideration valuations reported to the University by the investment partnerships, the nature of the investments, current market conditions and other factors that the University considers relevant. 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.

Annuity and Trust Funds - The University has certain assets that consist of charitable gift annuities and unitrusts as well as bequests 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 agreement. 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.

CHATHAM UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, Plant and Equipment - Property, plant and equipment are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. Gifts of long-lived assets are recorded as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. The University releases temporarily restricted contributions for asset acquisitions when the asset is placed into service.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, which are 20 to 40 years for buildings and improvements; 7 years for equipment and furniture; and 4 years for vehicles.

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

Fair Value - For all financial instruments, carrying value approximates fair value.

Conditional Asset Retirement Obligations - The University accounts for conditional asset retirement obligations under Financial Accounting Standards Board (FASB) Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations" (FIN 47), which requires an entity to recognize a liability for the fair value of a conditional asset obligation if the fair value of the liability can be estimated. Management's evaluation concluded that the adoption of FIN 47 does not have a material effect on the University's June 30, 2008 and 2007 statement of financial position.

Recently Issued Accounting Pronouncements - In 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes: an Interpretation of FASB Statement No. 109" (FIN 48), which clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes." FIN 48 prescribes a recognition threshold and measurement principles for financial statement disclosure of tax positions taken or expected to be taken on a tax return. FIN 48 is effective for fiscal years beginning after December 15, 2008. The University is assessing the impact that the adoption of FIN 48 will have on its financial position and results of operations.

In August 2008, the FASB issued FASB Staff Position No. FAS 117-1, "Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), and Enhanced Disclosures for All Endowment Funds" (FSP 117-1). FSP 117-1 provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of UPMIFA. Currently, the Commonwealth of Pennsylvania has not enacted UPMIFA; therefore, certain provisions of FSP 117-1 are not applicable to the University. However, FSP 117-1 also improves disclosures about an organization's endowment funds (both donor-restricted endowment funds and board-designated endowment funds). The disclosure provisions of FSP 117-1 are effective for the University's fiscal year ending June 30, 2009.

In September 2006, the FASB issued Statement No. 157, "Fair Value Measurement" (FAS 157), which establishes a framework for measuring fair value under generally accepted accounting principles and expands disclosure about fair value measurements. FAS 157 is effective for financial statements issued with fiscal years beginning after November 15, 2007. The University is assessing the impact that the adoption of FAS 157 will have on its financial statements.

In February 2007, the FASB issued Statement No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" (FAS 159). The fair value option established by FAS 159 permits entities to choose to measure eligible items at fair value at specified election dates. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings at each subsequent reporting date. FAS 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. The University is assessing the impact that the adoption of FAS 159 will have on its financial statements.

CHATHAM UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE 2 - INVESTMENTS

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

	<u>2008</u>	<u>2007</u>
Cash and cash equivalents	\$ 2,336,312	\$ 364,664
Fixed income	8,741,936	9,627,073
Equities	13,895,185	17,654,634
International fund	10,872,990	12,104,579
Hedge funds	12,312,480	16,898,268
Alternative investments	5,926,886	3,610,273
Commodities	<u>2,899,657</u>	<u>1,845,828</u>
	<u>\$ 56,985,446</u>	<u>\$ 62,105,319</u>

As of June 30, 2008, the University has outstanding commitments to fund partnership investments with additional capital of approximately \$9,822,000.

Investments at June 30 are composed of the following:

	<u>2008</u>	<u>2007</u>
Endowment	\$ 56,089,572	\$ 61,215,594
Annuity trust agreements	<u>895,874</u>	<u>889,725</u>
	<u>\$ 56,985,446</u>	<u>\$ 62,105,319</u>

The investment return for June 30 is summarized in the following schedule:

	<u>2008</u>	<u>2007</u>
Dividends and interest	\$ 2,178,033	\$ 1,977,192
Net realized (loss) gain	(736,823)	6,194,080
Net unrealized (loss) gain	<u>(1,876,541)</u>	<u>1,654,342</u>
	<u>\$ (435,331)</u>	<u>\$ 9,825,614</u>

Through December 17, 2008, the financial markets have experienced significant declines in reported prices of many securities, which have materially impacted the fair values. Such impact is not reflected in the fair values reported above at June 30, 2008. The University believes it is still too early to speak with any clarity on the long-term impact of these current events on its financial statements or the fair values of the University's investment portfolio. However, the fair value of the portfolio was \$43,887,000 as of October 31, 2008.

CHATHAM UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE 3 - CONTRIBUTIONS RECEIVABLE

Contributions receivable at June 30 are related to the University's comprehensive capital campaign and are as follows:

	<u>2008</u>	<u>2007</u>
Gross contributions outstanding	\$ 1,159,913	\$ 2,853,169
Less unamortized discount	(136,739)	(211,873)
Less allowance	<u>(330,953)</u>	<u>(319,573)</u>
	<u>\$ 692,221</u>	<u>\$ 2,321,723</u>
Amounts due in:		
Less that one year	\$ 622,661	\$ 2,258,883
One to five years	137,252	194,286
More than five years	<u>400,000</u>	<u>400,000</u>
	<u>\$ 1,159,913</u>	<u>\$ 2,853,169</u>

Total fundraising expense, representing the cost of the institutional advancement department and the comprehensive campaign, for the years ended June 30, 2008 and 2007 was \$938,000 and \$916,000, respectively, and is included in administrative and general expenses in the statement of activities and changes in net assets.

NOTE 4 - LINE OF CREDIT PAYABLE

The University has a \$2,000,000 line-of-credit agreement with a bank. The line is secured by certain investments of the University having a market value of \$2,444,000. The agreement renews annually each September 30. The line of credit bears interest at the London InterBank Offered Rate (LIBOR) plus 70 basis points (3.15% at June 30, 2008). Borrowings outstanding on the agreement amounted to \$900,000 as of June 30, 2008. There were no borrowings outstanding as of June 30, 2007.

In June 2008, the University entered into a \$1,000,000 non-revolving line-of-credit agreement with a bank. The agreement is secured by certain real property. The agreement is due on demand and bears interest at the bank's prime lending rate (5.0% at June 30, 2008). The amount outstanding on this agreement was \$805,687 at June 30, 2008.

NOTE 5 - BONDS PAYABLE

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

	<u>2008</u>	<u>2007</u>
Series A of 1998	\$ 10,320,000	\$ 10,585,000
Series A of 2002	5,710,000	5,820,000
Series B of 2002	<u>23,925,000</u>	<u>24,150,000</u>
	39,955,000	40,555,000
Less - Unamortized discount	<u>(1,046,216)</u>	<u>(1,091,266)</u>
	<u>\$ 38,908,784</u>	<u>\$ 39,463,734</u>

CHATHAM UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE 5 - BONDS PAYABLE (Continued)

Scheduled principal repayments are as follows:

Year Ending June 30	Series A of 1998	Series A of 2002	Series B of 2002	Total
2009	\$ 275,000	\$ 115,000	\$ 240,000	\$ 630,000
2010	290,000	120,000	250,000	660,000
2011	305,000	130,000	260,000	695,000
2012	325,000	135,000	270,000	730,000
2013	340,000	145,000	285,000	770,000
Thereafter	<u>8,785,000</u>	<u>5,065,000</u>	<u>22,620,000</u>	<u>36,470,000</u>
	10,320,000	5,710,000	23,925,000	39,955,000
Less - Unamortized discount	<u>(261,823)</u>	<u>(44,338)</u>	<u>(740,055)</u>	<u>(1,046,216)</u>
	<u>\$ 10,058,177</u>	<u>\$ 5,665,662</u>	<u>\$ 23,184,945</u>	<u>\$ 38,908,784</u>

a. Series A of 1998

On July 23, 1998, Allegheny County Higher Education Building Authority issued \$12,295,000 aggregate principal of its University Revenue Bonds Series A of 1998 on behalf of the University. The bond proceeds were used by the University to refund the 1991 Bonds, to repay a loan related to the costs of acquisition of capital facilities, to fund a debt service reserve, and to pay the costs of issuance. The Series A of 1998 Bonds bear interest at rates ranging from 4.05% to 5.375%. Interest payments are required semiannually. Principal payments are required on September 1 of each year, with the first payment due on September 1, 1999, and the final payment due on September 1, 2028.

Interest expense on the Series A of 1998 Bonds for the years ended June 30, 2008 and 2007 was \$554,128 and \$567,044, respectively.

The Series A of 1998 Bonds are secured by facilities of the University. The University is also subject to certain financial and reporting covenants and is required to maintain a debt service reserve fund equal to the maximum annual debt service due in any fiscal year on the Series A of 1998 Bonds. Included in cash and cash equivalents at June 30, 2008 and 2007 was \$830,138 and \$867,534, respectively, to satisfy the debt service fund requirement.

b. Series A of 2002

On March 1, 2002, Allegheny County Higher Education Building Authority issued \$6,300,000 aggregate principal of its University Revenue Bonds Series A of 2002 on behalf of the University. The bond proceeds were used by the University to retire the 1998 Series B Bonds, to finance the costs of the construction and acquisition of capital facilities, to fund a debt service reserve, and to pay the costs of issuance. The Series A of 2002 Bonds bear interest at rates ranging from 3.1% to 5.95%. Interest payments are required semiannually. Principal payments are required on March 1 of each year, with the first payment due on March 1, 2003, and the final payment due on March 1, 2032.

CHATHAM UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE 5 - BONDS PAYABLE (Continued)

Interest expense on the Series A of 2002 Bonds for the years ended June 30, 2008 and 2007 was \$343,805 and \$348,530, respectively.

The University is subject to certain financial and reporting covenants and is required to maintain a debt service reserve fund equal to the maximum annual debt service due in any fiscal year on the Series A of 2002 Bonds. Included in cash and cash equivalents at June 30, 2008 and 2007 was \$459,047 and \$479,084, respectively, to satisfy the debt service fund requirement.

c. Series B of 2002

On December 1, 2002, Allegheny County Higher Education Building Authority issued \$24,580,000 aggregate principal of its University Revenue Bonds Series B of 2002 on behalf of the University. The bond proceeds were used by the University for constructing and equipping a new athletic facility, financing various capital projects, including maintenance and renovation projects, acquiring a residential property adjacent to the University, funding certain capitalized interest costs, funding a debt service reserve fund and paying certain issuance costs. The Series B of 2002 Bonds bear interest at rates ranging from 3.0% to 5.75%. Interest payments are required semiannually. Principal payments are required on November 15 of each year, with the first payment due on November 15, 2005, and the final payment due on November 15, 2035.

Interest expense on the Series B of 2002 Bonds for the years ended June 30, 2008 and 2007 was \$1,351,425 and \$1,359,050, respectively.

The University is subject to certain financial and reporting covenants and is required to maintain a debt service reserve fund equal to the maximum annual debt service due in any fiscal year on the Series B of 2002 Bonds. Included in cash and cash equivalents at June 30, 2008 and 2007 was \$2,346,572 and \$2,384,226, respectively, to satisfy the debt service fund requirement.

NOTE 6 - RETIREMENT PLANS

The University has a defined contribution retirement plan sponsored and administered by the Teachers' Insurance and Annuity Association that provides for the purchase of annuities for academic, administrative and certain other salaried and hourly employees. A full-time employee over 21 years of age is 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. In addition, the University contributes to a union-administered defined contribution retirement plan for certain hourly employees that is funded based upon hours worked. Pension expense charged to operations for these two plans was approximately \$1,148,000 and \$987,000 for the years ended June 30, 2008 and 2007, respectively.

Effective January 1, 2007, participation in the defined contribution retirement plan became mandatory for all employees at the 2% contribution level with a 5% match. Contributions of 4% receive a 9% match effective January 1, 2007. Maximum match is 10% on employee contributions of 5%.

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 the related fair value of assets held by the University are approximately \$731,000 and \$536,000 as of June 30, 2008 and 2007, respectively, related to these plans.

CHATHAM UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE 7 - LEASES

The University 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 2010. The lease agreement for the rental of the property contains a purchase option and four optional renewal terms of five years each for the first three renewal terms and three years and eleven months for the fourth and final renewal term.

Future minimum rental payments under the operating leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2008 are: 2009, \$458,000; 2010, \$132,000 and 2011, \$122,000.

Rent expense was \$644,000 for the year ended June 30, 2008 and \$138,000 for the year ended June 30, 2008.

On June 1, 2007, the University entered into a capital lease agreement involving the rental of an apartment building. This lease is noncancellable 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. Rent expense related to this agreement was approximately \$207,000 for the year ended June 30, 2008.

Total obligations under this agreement are as follows:

Year Ending June 30	Amounts
2009	\$ 212,473
2010	218,124
2011	223,926
2012	229,823
2013	235,998
Thereafter	4,067,508
	<u>5,187,852</u>
Less - Amounts representing interest	<u>(2,300,446)</u>
Present value of minimum lease payments	<u>\$ 2,887,406</u>

NOTE 8 - RESTRICTED NET ASSET BALANCES

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

	<u>2008</u>	<u>2007</u>
Temporarily restricted net assets:		
Capital campaign	\$ 219,562	\$ 1,401,957
Gifts and other unexpended revenues available for scholarships, instruction and other programs	2,050,691	2,114,726
Realized and unrealized endowment gains restricted primarily for scholarships and professorships	17,996,373	19,740,490
Annuity and trust agreements	2,177,461	3,533,580
	<u>\$ 22,444,087</u>	<u>\$ 26,790,753</u>

CHATHAM UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE 8 - RESTRICTED NET ASSET BALANCES (Continued)

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

	<u>2008</u>	<u>2007</u>
Permanently restricted net assets:		
Scholarships	\$ 14,607,317	\$ 14,872,710
Professorships and other	10,698,609	10,030,627
Eden Hall Farm	8,310,000	-
Library	670,539	670,539
Awards	444,812	453,656
General operations	764,282	1,134,658
	<u>\$ 35,495,559</u>	<u>\$ 27,162,190</u>

NOTE 9 - 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 financial statements as the amounts represent direct grants to students. Students received \$635,585 and \$516,505 from the Federal Pell Grant and \$888,850 and \$786,053 from PHEAA programs in fiscal 2008 and 2007, respectively.

NOTE 10 - COMMITMENTS AND CONTINGENCIES

In October 2008, the University signed a consent decree agreement with the U.S. Department of Justice under the Americans with Disabilities Act to improve accessibility of the University's facilities. The terms of the agreement call for specified improvements to be made over five years. The total estimated costs under the agreement approximate \$2,000,000, and are expected to be incurred ratably over the term of the agreement.

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

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

NOTE 11 - 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 financial statements.

NOTE 12 - SUBSEQUENT EVENTS

In September 2008, the University purchased a building and land for \$16,050,000, including the assignment of all active lease agreements. In connection with this purchase, the McKeesport Industrial Development Authority issued a \$10,000,000 tax-exempt revenue note (Series 2008 A) and a \$10,000,000 taxable revenue note (Series 2008 B), and entered into a loan agreement with the University. The notes accrue interest at varying rates between 4.47% to 6.67% and mature between August 2020 and September 2022. The notes are secured by the purchased building and land and are subject to nonfinancial covenants.

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REPORTING UNDER GOVERNMENT
AUDITING STANDARDS AND OMB CIRCULAR A-133



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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 the financial statements of Chatham University (University) as of and for the year ended June 30, 2008, and have issued our report thereon dated December 17, 2008. We conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the University's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the University's financial statements that is more than inconsequential will not be prevented or detected by the University's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the University's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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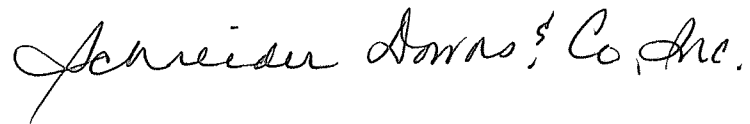
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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free of 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 financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We noted certain other matters that we reported to management of the University in a separate letter dated December 17, 2008.

This report is intended solely for the information of the Board of Trustees, management and the U.S. Department of Education and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Schneider Downs & Co. Inc." The signature is written in black ink and is centered on the page.

Pittsburgh, Pennsylvania
December 17, 2008

CHATHAM UNIVERSITY

SCHEDULE OF FEDERAL AWARDS EXPENDED
FOR THE YEAR ENDED JUNE 30, 2008

<u>Federal/Pass-Through Grantor Program Title</u>	<u>Contract Number</u>	<u>Federal CFDA Number</u>	<u>Amount Expended</u>
STUDENT FINANCIAL ASSISTANCE (SFA) PROGRAMS: Direct Awards			
U.S. Department of Education:			
Federal Pell Grant Program	N/A	84.063	\$ 625,908
Federal Supplemental Educational Opportunity Grant Program	N/A	84.007	159,052
Federal Work-Study Program	N/A	84.033	240,663
National Science and Mathematics Access to Retain Talent Grant	N/A	84.376	26,000
Academic Competiveness Grant	N/A	84.375	24,175
Federal Perkins Loan Program (Note 3)	N/A	84.038	-
Federal Family Educational Loan Program (Note 4)	N/A	84.032	-
 Total Student Financial Assistance			 <u>1,075,798</u>
 NATIONAL SCIENCE FOUNDATION: Direct Awards			
Mathematical and Physical Sciences	N/A	47.049	16,266
Education and Human Resources	N/A	47.076	<u>128,935</u>
 Total National Science Foundation			 <u>145,201</u>
 DEPARTMENT OF HEALTH: Indirect Award			
Pass-Through Allegheny County:			
Medical Assistance	N/A	93.778	<u>161,161</u>
 Total Federal Awards			 <u>\$ 1,382,160</u>

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

CHATHAM UNIVERSITY

NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDED
FOR THE YEAR ENDED JUNE 30, 2008

NOTE 1 - BASIS OF ACCOUNTING

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

NOTE 2 - RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

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

NOTE 3 - FEDERAL PERKINS LOAN PROGRAM

The University administers the following federal loan program:

	<u>Outstanding Balance at June 30, 2008</u>
Federal Perkins Loan Program	\$ <u>804,545</u>

Total loan disbursements for the fiscal year amount to \$189,517, which is composed entirely of loans to students.

NOTE 4 - FEDERAL FAMILY EDUCATION LOAN PROGRAM

For the Federal Family Education 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 financial statements.

During the fiscal year ended June 30, 2008, the University processed the following amount of new loans under the Federal Family Education Loan Program (which includes Federal Stafford Loans, Federal Parents' Loans for Undergraduate Students and Federal Supplemental Loans for Students):

	<u>Loans Processed</u>
Federal Family Education Loans	\$ <u>18,784,294</u>



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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Trustees
Chatham University
Pittsburgh, Pennsylvania

Compliance

We have audited the compliance of Chatham University (University) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program as of and for the year ended June 30, 2008 except those requirements discussed in the third following paragraph. The University's major federal program is identified in the Summary of Auditors' Results Section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the University's management. Our responsibility is to express an opinion on the University's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the University's compliance with those requirements.

In our opinion, the University complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2008.

We did not audit the University's compliance with requirements governing student loan repayments. Those requirements govern functions that are performed by Educational Computer Systems, Inc. (ECSI). Since we did not apply auditing procedures to satisfy ourselves as 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.

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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, Compliance Audits (Attestation Engagements) of Federal Student Financial Assistance Programs at Participating Institutions and Institution Servicers. Based on our review of the service organization's 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's accountants. Further, based on our review of the service organization's 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.

Internal Control Over Compliance

The management of the University is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the University's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Requirements governing student loan repayments are performed by ECSI. Internal control over compliance relating to such functions was assessed by other accountants in accordance with the Department of Education's Audit Guide, Compliance Audits (Attestation Engagements) of Federal Student Financial Assistance Programs at Participating Institutions and Institution Servicers. A copy of the service organization's accountants' report has been furnished to us. However, the scope of our work did not extend to internal control maintained at ECSI.

A control deficiency in internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the University's internal control

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information of the Board of Trustees, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Pittsburgh, Pennsylvania
December 17, 2008

CHATHAM UNIVERSITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008

PART I - SUMMARY OF AUDITORS' RESULTS

Financial Statement Section:

Type of auditors' report issued: Unqualified

Internal control over financial reporting:
Material weakness(es) identified? _____ yes X no

Significant deficiency(ies) identified not considered
to be material weaknesses? _____ yes X n/a

Noncompliance material to financial statements noted? _____ yes X no

Federal Awards Section:

Internal control over major programs:
Material weakness(es) identified? _____ yes X no

Significant deficiency(ies) identified not considered
to be material weaknesses? _____ yes X n/a

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

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

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Programs</u>
Various	Student Financial Aid Cluster

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

Auditee qualified as low-risk auditee? _____ yes X no

PART II - FINANCIAL STATEMENT FINDINGS SECTION

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

No matters are reportable.

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

CHATHAM UNIVERSITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

(Continued)

PART III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS SECTION

This section identifies the significant deficiencies, material weaknesses and instances of noncompliance, including questioned costs, related to the audit of major federal programs, as required to be reported by Circular A-133 (Section .510).

There are no findings and questioned costs to be reported.

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