

CHATHAM UNIVERSITY
Pittsburgh, Pennsylvania

Consolidated Financial Statements
For the years ended June 30, 2020 and 2019
and Independent Auditors' Report Thereon



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CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	1
CONSOLIDATED FINANCIAL STATEMENTS	
Statements of Financial Position, June 30, 2020 and 2019	3
Statements of Activities and Changes in Net Assets for the years ended June 30, 2020 and 2019:	4
Statements of Cash Flows for the years ended June 30, 2020 and 2019	6
Notes to Consolidated Financial Statements	8



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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Chatham University
Pittsburgh, Pennsylvania

We have audited the accompanying consolidated financial statements of Chatham University (University), which comprise the consolidated statements of financial position as of June 30, 2020 and 2019, and the related consolidated statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the University as of June 30, 2020 and 2019, and the changes in its net assets, and its cash flows for the years then ended in accordance with U.S. GAAP.

Schneider Downs & Co., Inc.

Pittsburgh, Pennsylvania
October 23, 2020

CHATHAM UNIVERSITY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	June 30	
	2020	2019
ASSETS		
Cash and cash equivalents	\$ 472,026	\$ 1,492,678
Cash and cash equivalents held for debt service payments	2,559,375	2,559,375
	3,031,401	4,052,053
Student accounts receivable (net of allowance of \$1,480,000 and \$1,143,000 as of June 30, 2020 and 2019, respectively)	1,234,873	796,880
Contributions receivable, net	3,283,826	3,789,081
Other receivables	2,085,166	1,292,712
Student loans receivable (net of allowance of \$231,000 and \$228,000 as of June 30, 2020 and 2019, respectively)	419,877	483,919
Investments	83,007,899	81,633,866
Assets held in trust by others	4,329,784	4,502,403
Deferred compensation deposits	957,070	1,054,174
Prepaid expenses and other assets	740,146	657,499
Land, buildings and equipment, net	118,081,674	119,635,676
 Total Assets	 \$ 217,171,716	 \$ 217,898,263
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 2,854,807	\$ 3,712,441
Accrued liabilities and other	5,402,954	4,466,245
Student deposits and deferred revenues	4,414,741	4,534,417
Capital lease obligations	7,808,309	5,720,936
Line of credit	3,940,000	3,396,799
Bonds and notes payable, net	59,893,023	60,993,817
Advances from federal government for student loans	1,072,956	1,177,147
 Total Liabilities	 85,386,790	 84,001,802
NET ASSETS		
Without donor restrictions:		
Designated for endowment	13,986,261	10,631,940
Undesignated	11,916,219	17,386,799
Total Net Assets Without Donor Restrictions	25,902,480	28,018,739
With donor restrictions	105,882,446	105,877,722
 Total Net Assets	 131,784,926	 133,896,461
 Total Liabilities And Net Assets	 \$ 217,171,716	 \$ 217,898,263

See notes to consolidated financial statements.

CHATHAM UNIVERSITY

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES AND OTHER ADDITIONS			
Tuition and fees	\$ 68,757,003	\$ -	\$ 68,757,003
Scholarships	<u>(23,619,940)</u>	<u>-</u>	<u>(23,619,940)</u>
	45,137,063	-	45,137,063
Auxiliary enterprises revenues	9,620,928	14,111	9,635,039
Federal and state grants and contracts	257,370	1,980,765	2,238,135
Private gifts and grants	691,116	4,896,430	5,587,546
Interest and dividends	174,888	912,508	1,087,396
Net unrealized and realized gains on investments	<u>418,612</u>	<u>2,984,164</u>	<u>3,402,776</u>
 Total Revenues And Other Additions	 56,299,977	 10,787,978	 67,087,955
 NET ASSETS RELEASED FROM RESTRICTIONS:			
Operations	9,479,670	(9,479,670)	-
Capital	<u>1,303,584</u>	<u>(1,303,584)</u>	<u>-</u>
 Total Revenues And Other Additions And Net Assets Released From Restrictions	 67,083,231	 4,724	 67,087,955
 EXPENSES AND OTHER DEDUCTIONS			
Program expenses:			
Instruction	26,734,504	-	26,734,504
Library	2,320,223	-	2,320,223
Student services	17,483,291	-	17,483,291
Public service	<u>1,577,633</u>	<u>-</u>	<u>1,577,633</u>
 Total Program Expenses	 48,115,651	 -	 48,115,651
Administrative and general	14,768,661	-	14,768,661
Auxiliary enterprises expenses	<u>6,319,885</u>	<u>-</u>	<u>6,319,885</u>
 Total Expenses And Other Deductions	 69,204,197	 -	 69,204,197
 OTHER CHANGES IN NET ASSETS			
Gain (loss) on disposal of assets	<u>4,707</u>	<u>-</u>	<u>4,707</u>
 Changes In Net Assets	 (2,116,259)	 4,724	 (2,111,535)
 NET ASSETS			
Beginning of year	<u>28,018,739</u>	<u>105,877,722</u>	<u>133,896,461</u>
End of year	<u>\$ 25,902,480</u>	<u>\$ 105,882,446</u>	<u>\$ 131,784,926</u>

2019		
<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
\$ 65,987,966	\$ -	\$ 65,987,966
<u>(20,697,460)</u>	<u>-</u>	<u>(20,697,460)</u>
45,290,506	-	45,290,506
11,155,525	23,807	11,179,332
249,842	780,735	1,030,577
605,213	6,244,991	6,850,204
166,542	1,137,495	1,304,037
<u>456,828</u>	<u>3,446,179</u>	<u>3,903,007</u>
57,924,456	11,633,207	69,557,663
5,630,888	(5,630,888)	-
<u>673,935</u>	<u>(673,935)</u>	<u>-</u>
64,229,279	5,328,384	69,557,663
26,334,677	-	26,334,677
2,223,812	-	2,223,812
17,631,063	-	17,631,063
<u>1,752,489</u>	<u>-</u>	<u>1,752,489</u>
47,942,041	-	47,942,041
15,601,339	-	15,601,339
<u>6,603,210</u>	<u>-</u>	<u>6,603,210</u>
70,146,590	-	70,146,590
<u>(8,383)</u>	<u>-</u>	<u>(8,383)</u>
(5,925,694)	5,328,384	(597,310)
<u>33,944,433</u>	<u>100,549,338</u>	<u>134,493,771</u>
\$ <u><u>28,018,739</u></u>	\$ <u><u>105,877,722</u></u>	\$ <u><u>133,896,461</u></u>

See notes to consolidated financial statements.

CHATHAM UNIVERSITY

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ (2,111,535)	\$ (597,310)
Adjustments to reconcile changes in net assets to net cash used in operating activities:		
Depreciation and amortization	7,635,731	7,472,214
(Gain) loss on disposal of land, buildings and equipment	(4,707)	8,383
Net unrealized and realized gains on investments	(3,491,501)	(3,819,876)
Change in value of assets held in trust by others	172,619	(69,093)
Contributions restricted for long-term investments	(7,745,245)	(8,352,495)
Change in allowance for doubtful accounts	244,145	109,407
Changes in assets and liabilities:		
Student accounts receivable	(774,913)	237,194
Contributions receivable	598,030	(997,781)
Other receivables	(792,454)	575,824
Prepaid expenses and other assets	(82,647)	(167,979)
Deferred compensation deposits	97,104	43,891
Accounts payable, accrued liabilities and other	(63,645)	1,523,041
Student deposits and deferred revenues	<u>(119,676)</u>	<u>(1,695,817)</u>
Net Cash Used In Operating Activities	<u>(6,438,694)</u>	<u>(5,730,397)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Construction or acquisition of land, buildings and equipment, net of construction payables	(4,648,885)	(2,829,713)
Proceeds from sale of land, buildings and equipment	-	32,448
Proceeds from sale of investments	25,641,034	68,196,669
Purchase of investments	(16,877,171)	(58,611,903)
Repayments of loans by students and others	<u>64,042</u>	<u>94,244</u>
Net Cash Provided By Investing Activities	4,179,020	6,881,745
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from contributions restricted for long-term investment	1,098,850	1,435,654
Payments on long-term debt	(2,450,252)	(2,381,598)
Proceeds from capital project financing	2,739,187	-
Proceeds from lines of credit	2,000,000	1,945,607
Payments on lines of credit	(62,059)	(1,906,269)
Payments on capital lease obligations	<u>(2,086,704)</u>	<u>(1,716,093)</u>
Net Cash Provided By (Used In) Financing Activities	<u>1,239,022</u>	<u>(2,622,699)</u>
Net Decrease In Cash And Cash Equivalents	(1,020,652)	(1,471,351)
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>4,052,053</u>	<u>5,523,404</u>
End of year	<u>\$ 3,031,401</u>	<u>\$ 4,052,053</u>

	<u>2020</u>	<u>2019</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for interest	\$ <u>3,128,813</u>	\$ <u>3,101,611</u>
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Capital lease obligations incurred for purchases of equipment	\$ <u>4,174,077</u>	\$ <u>1,580,500</u>
Construction payables outstanding for construction in progress	\$ <u>76,900</u>	\$ <u>167,200</u>

See notes to consolidated financial statements.

CHATHAM UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

On October 1, 2013, Chatham University established Chatham Investments LLC as a wholly owned subsidiary. Chatham Investments LLC previously contributed capital for a 1% ownership interest in two joint ventures, Eden Hall Solar, LLC and Common Orchard South Solar, LLC. The joint ventures are responsible for investing, constructing, operating and managing renewable energy systems and other sustainable property at the Eden Hall Campus.

In addition, Chatham University executed a lease agreement with both of the joint ventures. Eden Hall Solar, LLC leased University property to install an electricity-grid-connected photovoltaic power plant, which is located on the Eden Hall Campus. The term of the lease expired on January 1, 2020. Annual rent payments had been \$1.00. Common Orchard South Solar, LLC leased Chatham University property to install a photovoltaic and thermal power plant, which will be located on the Eden Hall Campus. The term of the lease expires on September 1, 2021 with annual rent payments of \$1.00.

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

The University is currently negotiating an ongoing maintenance agreement and final lease termination agreement for the Eden Hall Solar, LLC lease. Both agreements are expected to be complete by October 31, 2020.

The consolidated financial statements include the financial position and results of operations of Chatham University and Chatham Investments LLC (collectively referred to as the University). All material intercompany transactions have been eliminated in consolidation. At June 30, 2020 and 2019, the University has an outstanding receivable of approximately \$345,000 and \$328,000, respectively, due from Eden Hall Solar, LLC, respectively, and an outstanding receivable of approximately \$560,000 and \$532,000 at June 30, 2020 and 2019 due from Common Orchard South Solar, LLC. These amounts are included in other receivables in the accompanying consolidated statements of financial position.

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

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

CHATHAM UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

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

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

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

Net Assets With Donor Restrictions - Net assets that are subject to donor-imposed or legal restrictions that may or will be met either by actions of the University and/or passage of time or may be maintained permanently by the University. Generally, the donors of these assets permit the University to use all or part of the income earned on related investments for general or specific purposes.

Revenue Recognition - The University's revenue streams consist primarily of student tuition and fees, room and board, and rental income. Under 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 statements of 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 book store and day camps. Revenues from government grants, private gifts and grants, investment income, endowment income, net realized and unrealized gains on operating and endowment investments are not derived from contracts with customers.

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

Tuition and fees revenue is presented separately on the consolidated statements of activities and changes in net assets under its own caption and is derived from delivering academic programs to students. The University further disaggregates tuition and fees revenue between undergraduate and graduate students. Undergraduate tuition and fees revenue was \$43,700,771 and \$38,895,262 at June 30, 2020 and 2019, respectively. Graduate tuition and fees revenue was \$25,056,232 and \$27,092,704 at June 30, 2020 and 2019, respectively. Tuition and fees revenue is recognized over time as the academic programs are delivered to students, because the students simultaneously receive and consume the benefits provided by the University. Scholarships and other student aid reduce the amount of revenue recognized. At the beginning of each academic term, there is a two-week period in which students may adjust their course load or withdraw completely. Refunds issued to students reduce the amount of revenue recognized and are recorded as refunds occur and become known. Payments for tuition and fees are due approximately one week prior to the start of the academic term. Payments for academic programs that extend past June 30, 2020 and 2019, respectively, are recognized over time and are included in deferred revenue on the consolidated statements of financial position as of June 30, 2020 and 2019.

CHATHAM UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

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

Room and board revenue is presented on the consolidated statements of activities and changes in net assets under the auxiliary enterprises revenues and is derived from providing on-campus lodging and meal plans to students enrolled in academic programs. Room and board revenue is recognized over time as the lodging services and meal plans are delivered to enrolled students, because the students simultaneously receive and consume the benefits provided by the University. Payments for room and board that extend past June 30, 2020 and 2019, respectively, are recognized over time and are included in deferred revenue on the consolidated statement of financial position at June 30, 2020 and 2019.

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

Contract liabilities consist of student and day camp deposits and deferred revenue. Student and day camp deposits consist of approximately \$1,498,000 and \$1,574,000 related to advanced deposits by students as of June 30, 2020 and 2019, respectively. The caption deferred revenue on the consolidated statements of financial position consists primarily of tuition of approximately \$2,917,000 and \$2,960,000 as of June 30, 2020 and 2019, respectively.

At June 30, 2020 and 2019, 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, 2020 or 2019, respectively, from performance obligations that were satisfied or partially satisfied in prior periods.

The timing and the satisfaction of performance obligations were determined through careful analysis when the goods or services were transferred to, and controlled by, 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 pro-rata time-based output method, which the University believes faithfully depicts the transfer of goods and services to the customers. The transaction price is determined through Board of Trustee approval of tuition and room and board budgets.

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

Expiration of Donor-Imposed Restrictions - The University follows the policy of reporting donor-imposed restricted contributions and endowment income whose restrictions are met in the same fiscal year as received as support with donor restrictions and then released. It is also the University's policy to account for donated long-lived assets, and those acquired with gifts of cash restricted for such acquisitions, as assets without donor restrictions when placed in service. Expirations of net assets with donor restrictions are reported as reclassifications to net assets without donor restrictions.

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

CHATHAM UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

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

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

Contributions Receivable - Contributions receivable are recorded as revenue when an unconditional promise to give is received. These amounts, less an appropriate allowance for uncollectible amounts, are recorded at their estimated fair value as determined by the present value of estimated future cash flows. The discount on these amounts is computed using an appropriate discount rate commensurate with the risks involved. The discount rate used in 2020 and 2019 for new contributions was 4.00%. Amortization of the discount is included in contribution revenue, in accordance with donor-imposed restrictions, if any. Conditional promises to give are recognized as income when the conditions are substantially met. An allowance for uncollectible contributions receivable is provided based upon management's judgment, including such factors as past collection experience, missed payments or modification of payment terms, and creditworthiness of the donor.

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

Loan balances are written-off when they are deemed to be permanently uncollectible. Amounts past due as of June 30, 2020 and 2019 approximated \$242,000 and \$212,000, 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 values of investment securities will occur in the near term, and it is reasonably possible that such changes could materially affect the amounts reported in the consolidated statements of financial position.

Investments for which there is not an actively traded market are valued at fair value as estimated by management. In estimating fair value, management takes into consideration valuations reported to the University by the investment partnerships, the nature of the investments, current market conditions and other factors that the University considers relevant. The University's interests in limited partnerships such as private equity, hedge funds and real estate funds are generally reported at the University's ownership interests' net asset value (NAV) in the funds reported by the fund managers, unless it is probable that all or a portion of the investment will be sold for an amount different from the estimated fair value. As of June 30, 2020 and 2019, 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, 2020 AND 2019

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 date of acquisition or fair value at date of donation in the case of gifts. The University capitalizes interest expense on the construction of assets to the extent of borrowings related to the construction. There was no interest capitalized for the years ended June 30, 2020 and 2019. 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, 2020 and 2019.

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, 2020 AND 2019

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

Fair Value Measurement - The University follows the Financial Accounting Standards Board (FASB) Codification topic Fair Value Measurement and Disclosures, which establishes a framework for measuring fair value and expands disclosures related to fair value measurements. The University has applied the provisions of the Fair Value Measurement topic to its recurring measurement. (See Note 4.)

Deferred Bond Financing Costs - Deferred bond financing costs represent the cost of issuing the variable rate demand bonds and are amortized over the life of the bonds using a method that approximates the interest method. The University presents deferred financing costs in the consolidated statements of financial position as a direct deduction from the carrying amount of the related debt liability.

Recent Accounting Pronouncements - In February 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-02 Leases (Topic 842) (ASU 2016-02), which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e., lessees and lessors). ASU 2016-02 requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. In July 2018, the FASB issued ASU No. 2018-11 Leases (Topic 842) - Targeted Improvements (ASU 2018-11), which provides an optional transition method of applying the provisions of ASU 2016-02. ASU 2016-02 can be applied using either a modified retrospective approach at the beginning of the earliest period presented, or as permitted by ASU 2018-11, at the beginning of the period in which it is adopted. Also in July 2018, the FASB issued ASU No. 2018-10: Codification Improvements to Topic 842, Leases (ASU 2018-10). The provisions of ASU 2018-10 clarify, correct or remove inconsistencies in the provisions of ASU 2016-02 related to specific issues identified. ASU 2016-02 is expected to impact the University's consolidated financial statements, since the University has certain operating lease arrangements for which it is the lessee. ASU 2016-02 supersedes the previous leases standard, Leases (Topic 840). The FASB also issued ASU 2020-05 in June 2020, which defers the adoption of ASU 2016-02 for one year for organizations that had not already adopted the standard. Therefore, this guidance will be effective for fiscal years beginning after December 15, 2021, with early adoption permitted. The University is currently in the process of evaluating the impact that the adoption of ASU 2016-02 will have on its consolidated financial statements.

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

Subsequent Events - The administration of the University has evaluated subsequent events through October 23, 2020, the date on which the consolidated financial statements were available to be issued.

CHATHAM UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 2 - LIQUIDITY AND AVAILABILITY

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

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

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

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of June 30, 2020 and 2019, comprise the following:

	<u>2020</u>	<u>2019</u>
Total assets at June 30	\$ 217,171,716	\$ 217,898,263
Less:		
Cash and cash equivalents held for debt service payments	2,559,375	2,559,375
Contributions receivable, due in more than one year	1,884,828	1,753,389
Student loans receivable, due in more than one year	419,877	483,919
Donor-restricted endowment funds	62,994,310	62,248,881
Endowment investments, illiquid	11,712,799	13,670,615
Assets held in trust by others	4,329,784	4,502,403
Deferred compensation deposits	957,070	1,054,174
Land, buildings, and equipment, net	<u>118,081,674</u>	<u>119,635,676</u>
Financial assets available at June 30 for current use	<u>\$ 14,231,999</u>	<u>\$ 11,989,831</u>

It is the University's practice to keep accounts payable balances low, and to keep open invoice processing for a period of two weeks after year-end. In addition, the University's revenues are seasonal in nature. At the end of the fiscal year, cash balances tend to be at their lowest point. The University maintains bank lines of credit of \$5 million and \$2 million (\$1,060,000 and \$60,000 that is available at June 30, 2020 and 2019, respectively) to support operations and the seasonality of revenues.

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

CHATHAM UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 2 - LIQUIDITY AND AVAILABILITY (Continued)

The University's endowment of \$83 million and \$81 million was subject to an annual draw rate of 10% and 6% for fiscal 2020 and 2019, respectively, as described in Note 11. It is the University's intention to spend as little as possible from the endowment (other than amounts appropriated for general expenditure as part of its Board's annual budget approval and appropriation).

NOTE 3 - INVESTMENTS

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

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 1,295,987	\$ 2,097,225
Fixed income	28,377,980	22,080,502
Equities	32,904,050	28,240,981
International funds	2,029,815	3,419,769
Hedge funds	-	410,403
Limited partnerships	14,872,846	17,161,858
Real estate investment fund	<u>3,527,221</u>	<u>8,223,128</u>
 Total investments	 83,007,899	 81,633,866
 Assets held in trust by others	 <u>4,329,784</u>	 <u>4,502,403</u>
 Total market value of investments	 \$ <u>87,337,683</u>	 \$ <u>86,136,269</u>

Investments at June 30 are composed of the following:

	<u>2020</u>	<u>2019</u>
Endowment	\$ 82,796,131	\$ 81,403,147
Assets held in trust by others	4,329,784	4,502,403
Annuity trust agreements	<u>211,768</u>	<u>230,719</u>
	 \$ <u>87,337,683</u>	 \$ <u>86,136,269</u>

CHATHAM UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 3 - INVESTMENTS (Continued)

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

	<u>2020</u>	<u>2019</u>
Dividends and interest	\$ 1,087,396	\$ 1,304,037
Net realized gain	2,631,929	4,936,349
Net unrealized gain (loss)	943,466	(1,102,435)
Net unrealized (loss) gain on assets held in trust by others	<u>(172,619)</u>	<u>69,093</u>
	<u>\$ 4,490,172</u>	<u>\$ 5,207,044</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, 2020 AND 2019

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:

	2020			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 1,295,987	\$ -	\$ -	\$ 1,295,987
Fixed income	28,377,980	-	-	28,377,980
Equities	32,904,050	-	-	32,904,050
International funds	2,029,815	-	-	2,029,815
Assets held in trust by others	-	4,329,784	-	4,329,784
Total investments in the fair value hierarchy	\$ <u>64,607,832</u>	\$ <u>4,329,784</u>	\$ <u>-</u>	68,937,616
Investments measured at net asset value (a)				<u>18,400,067</u>
Total investments				\$ <u>87,337,683</u>
	2019			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 2,097,225	\$ -	\$ -	\$ 2,097,225
Fixed income	22,080,502	-	-	22,080,502
Equities	28,240,981	-	-	28,240,981
International funds	3,419,769	-	-	3,419,769
Assets held in trust by others	-	4,502,403	-	4,502,403
Total investments in the fair value hierarchy	\$ <u>55,838,477</u>	\$ <u>4,502,403</u>	\$ <u>-</u>	60,340,880
Investments measured at net asset value (a)				<u>25,795,389</u>
Total investments				\$ <u>86,136,269</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, 2020 AND 2019

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
	2020	2019			
Limited partnerships	\$ 14,872,846	\$ 17,161,858	\$ 2,296,193	None permitted upon final closing of the fund until liquidation of the funds	N/A
Hedge funds	-	410,403	-	Quarterly - annually	30 - 90 days
Real estate investment fund	<u>3,527,221</u>	<u>8,223,128</u>	<u>-</u>	Daily	None
	\$ <u>18,400,067</u>	\$ <u>25,795,389</u>	\$ <u>-</u>		

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

NOTE 5 - CONTRIBUTIONS RECEIVABLE

The majority of the University's contributions receivable are due from individual donors and foundations. Contributions receivable include approximately \$114,000 and \$159,000 from members of the Board of Trustees as of June 30, 2020 and 2019, respectively.

CHATHAM UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 5 - CONTRIBUTIONS RECEIVABLE (Continued)

Contributions receivable at June 30 are as follows:

		<u>2020</u>		<u>2019</u>
Gross contributions outstanding	\$	3,617,604	\$	4,243,137
Less - unamortized discount		123,187		150,690
Less - allowance		<u>210,591</u>		<u>303,366</u>
	\$	<u>3,283,826</u>	\$	<u>3,789,081</u>
 Amounts due in:				
Less than one year	\$	1,732,776	\$	2,489,748
One to five years		1,299,581		1,406,935
More than five years		<u>585,247</u>		<u>346,454</u>
	\$	<u>3,617,604</u>	\$	<u>4,243,137</u>

Total fundraising expense, representing the cost of the institutional advancement department and the comprehensive campaign, for the years ended June 30, 2020 and 2019 was approximately \$1,301,000 and \$1,278,000, respectively, and is included in administrative and general expenses in the consolidated statement of activities and changes in net assets.

NOTE 6 - LINE OF CREDIT

The University has available a \$5,000,000 demand line-of-credit agreement with a bank. This line of credit was extended from \$2,000,000 to \$5,000,000 with an amendment executed in September 2019. The agreement is secured by certain real property, due on demand and bears interest at the bank's prime lending rate (3.25% and 5.5% at June 30, 2020 and 2019, respectively). There were \$3,940,000 and \$1,940,000 of borrowings outstanding at June 30, 2020 and 2019, respectively.

CHATHAM UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 7 - LAND, BUILDINGS AND EQUIPMENT

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

	<u>2020</u>	<u>2019</u>
Buildings and improvements	\$ 164,927,238	\$ 164,070,675
Furniture and equipment	35,581,337	33,598,902
Building under capital lease	<u>3,144,406</u>	<u>3,144,406</u>
	203,652,981	200,813,983
Less - Accumulated depreciation and amortization	<u>101,324,576</u>	<u>93,686,800</u>
	102,328,405	107,127,183
Land	10,059,927	10,059,927
Construction in progress	<u>5,693,342</u>	<u>2,448,566</u>
	<u>\$ 118,081,674</u>	<u>\$ 119,635,676</u>

NOTE 8 - BONDS AND NOTES PAYABLE

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

	<u>2020</u>	<u>2019</u>
Series A of 2008	\$ 10,000,000	\$ 10,000,000
Series B of 2008	3,753,116	4,399,962
Series A of 2012	28,150,000	29,270,000
Phase I-B construction loan	15,387,896	16,044,151
Mortgage loans payable	465,203	492,354
Eastside phase II loan	<u>1,394,740</u>	<u>-</u>
	59,150,955	60,206,467
Plus - Unamortized premium	1,177,950	1,253,138
Less - Unamortized debt issuance costs	<u>435,882</u>	<u>465,788</u>
	<u>\$ 59,893,023</u>	<u>\$ 60,993,817</u>

CHATHAM UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 8 - BONDS AND NOTES PAYABLE (Continued)

Scheduled principal repayments are as follows:

Fiscal Year Ending June 30	Amount
2021	\$ 2,844,360
2022	2,966,976
2023	3,091,634
2024	3,275,535
2025	3,945,228
Thereafter	43,027,222
	<u>\$ 59,150,955</u>

a. Series A of 2008

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

Interest expense on the Series A of 2008 Notes for the years ended June 30, 2020 and 2019 was \$289,000 and \$391,000, respectively.

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

b. Series B of 2008

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

Interest expense on the Series B of 2008 Notes for the years ended June 30, 2020 and 2019 was \$174,639 and \$230,547, respectively.

CHATHAM UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 8 - BONDS AND NOTES PAYABLE (Continued)

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

c. Series A of 2012

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

Interest expense on the Series A of 2012 Bonds for the years ended June 30, 2020 and 2019 was \$1,435,500 and \$1,065,000, respectively.

The University is subject to certain reporting covenants and is required to maintain a debt service reserve fund equal to the maximum annual debt service due in any fiscal year on the Series A of 2012 Bonds. Included in cash and cash equivalents at June 30, 2020 and 2019 was \$2,559,375 to satisfy the debt service fund requirement.

d. Phase I-B Construction Loan

On July 16, 2014, Allegheny County Higher Education Building Authority issued \$18,000,000 aggregate principal of its Tax-Exempt Revenue Note Series of 2014 on behalf of the University. The Series of 2014 Note will be used by the University for the financing of the construction of Phase I-B of Eden Hall Campus. The Series of 2014 Note bears interest at 3.10%. Interest-only payments are required monthly from August 1, 2014 through July 31, 2016. Starting on September 1, 2016, principal and interest payments are required monthly, with the final payment due on August 1, 2026.

As part of the issuance of this loan agreement, the financing for construction of the Phase I-A was cancelled, and outstanding borrowings were included in the principal balance for the Phase I-B agreement. There were \$15,331,792 and \$15,988,047 in borrowings outstanding under this agreement at June 30, 2020 and 2019, respectively. No interest was capitalized during the years ended June 30, 2020 and 2019 related to the outstanding borrowings.

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

During the 2012 fiscal year, the University entered into three mortgage loan agreements for a total of \$676,000 payable in monthly installments ranging from \$1,136 to \$1,662, including interest at rates ranging from 4.625% to 5.00%, through November 2031. These loans are secured by first-lien mortgages on the real property and improvements on the properties acquired by the loan proceeds. The cost of the property acquired totaled \$937,287 and has a net book value of \$792,783 and \$809,783 at June 30, 2020 and 2019, respectively.

CHATHAM UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 8 - BONDS AND NOTES PAYABLE (Continued)

e. 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 ten 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, 2020 and 2019) during the renovation phase. There were \$1,394,740 and \$1,451,192 of borrowings outstanding at June 30, 2020 and 2019, respectively.

NOTE 9 - RETIREMENT PLANS

The University sponsors a defined contribution retirement plan. Full-time employees over 21 years of age are eligible to participate in the plan immediately. After an employee has been employed for one year or an employee has a 403(b) plan already established, the University will match the employee's contribution from 5% to 10% of the employee's base compensation. Participation in the defined contribution retirement plan is mandatory for all employees at the 2% contribution level with a 5% match. Contributions of 4% receive a 9% match effective January 1, 2009. Maximum match is 10% on employee contributions of 5%. In addition, the University contributes to a union-administered defined contribution retirement plan for certain hourly employees, which is funded based upon hours worked. Expense charged to operations for these plans was approximately \$2,120,000 and \$2,044,000 for the years ended June 30, 2020 and 2019, respectively.

The University also sponsors deferred compensation plans in accordance with Sections 457(b) and 457(f) of the Internal Revenue Code of 1986 (IRC). Benefits are payable under these plans equal to the fair value of the underlying investments. Amounts payable under these plans and related fair value of assets held by the University included in accrued liabilities and in the accompanying consolidated statements of financial position are approximately \$957,000 and \$1,054,000 as of June 30, 2020 and 2019, respectively, related to these plans.

NOTE 10 - LEASES

On June 1, 2007, the University entered into a capital lease agreement involving the rental of an apartment building. This lease is noncancelable and runs through the year 2022. Lease payments are adjusted annually by a percentage increase or decrease in the Bureau of Labor Statistics Consumer Price Index. Net rent will not decrease below \$205,600 per year. At the end of the lease term, the University is obligated to purchase the building at its fair market value at that time. Assets recorded under the capital lease agreement totaled \$3,144,406 as of both June 30, 2020 and 2019, and accumulated depreciation totaled \$1,139,846 and \$1,061,236 as of June 30, 2020 and 2019, respectively.

During the year ended June 30, 2018, the University entered into seven capital lease agreements involving the rental of computer, network resources, and classroom fixtures and two capital leases involving the rental of machinery and vehicles. These leases are noncancelable and run through the year 2022. Amounts related to the equipment are payable in quarterly or annual installments from \$8,247 to \$341,522. Amounts related to the machinery and vehicles are payable monthly from \$464 to \$5,537. Assets recorded under the capital lease agreements totaled \$3,129,010 as of June 30, 2020 and 2019, and accumulated depreciation totaled \$1,694,655 and \$1,016,793 as of June 30, 2020 and 2019, respectively.

CHATHAM UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

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 capital leases involving the rental of vehicles. These leases are noncancelable and run through the year 2023. Amounts related to the equipment are payable in quarterly or annual installments from \$1,485 to \$99,877. Amounts related to the vehicles are payable monthly from \$378 to \$522. Assets recorded under the capital lease agreements totaled \$1,580,500 as of June 30, 2020 and 2019 and accumulated depreciation totaled \$571,438 and \$201,023 as of June 30, 2020 and 2019, respectively.

In April 2019, the University executed a land lease agreement with Wilkinsburg School District. The lease is for an initial term of 25 years and provides for renewal options, which both parties will negotiate at that time. Rental payments under the lease agreement are \$1 per year. The University is responsible for all operating costs and repairs and maintenance, including taxes, assessments, utilities and all other charges. The University did not recognize any in-kind rent for the value of this lease for the fiscal years ended 2020 and 2019, as the facilities are not yet in service.

In February 2020, in connection with the aforementioned land lease agreement with 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 will be the home to the University's lacrosse and soccer teams, and will be utilized by community groups for youth football and other activities. The project is primarily funded by donations and grants, some of which have not been received as of June 30, 2020. The term of the lease is five years.

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 \$1,582 to \$49,772. Assets recorded under the capital lease agreements totaled \$1,434,890 as of June 30, 2020 and accumulated depreciation totaled \$343,485 as of June 30, 2020.

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, 2020 and 2019 was \$993,000 and \$1,320,000, respectively.

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

<u>Fiscal Year Ending June 30</u>	<u>Capital Leases</u>	<u>Operating Leases</u>	<u>Total</u>
2021	\$ 3,784,257	\$ 170,712	\$ 3,954,969
2022	3,778,950	143,365	3,922,315
2023	503,139	49,662	552,801
2024	81,495	6,240	87,735
	<u>8,147,841</u>	<u>369,979</u>	<u>8,517,820</u>
Less - Amounts representing interest	<u>339,532</u>	<u>-</u>	<u>339,532</u>
Present value of minimum lease payments	<u>\$ 7,808,309</u>	<u>\$ 369,979</u>	<u>\$ 8,178,288</u>

CHATHAM UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 11 - ENDOWMENT

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

Interpretation of Relevant Law - The Board of Trustees has elected to be governed by the Commonwealth of Pennsylvania’s Act 141 (Act 141). Act 141 permits election of a total return policy that allows a nonprofit to choose to treat a percentage of the average market value of the endowment’s investments with donor restrictions as income each year. However, the long-term preservation of the real value of the assets must be taken into consideration when the Board elects the amount. On an annual basis, the Board of Trustees must elect, in writing, a spending rate of between 2% and 7%. For the year ended June 30, 2020 and 2019, the University utilized a 10.0% and a 6.0% spending rate, respectively, 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, 2020 was the fiscal year ended June 30, 2019.

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

1. Protecting the corpus of the endowment fund
2. Preserving the spending power of the assets
3. Obtaining maximum investment return with reasonable risk and operational consideration
4. Complying with applicable laws

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

	<u>Without Donor</u> <u>Restrictions</u>	<u>With Donor</u> <u>Restrictions</u>	<u>Total</u>
June 30, 2020	\$ <u>13,986,261</u>	\$ <u>73,351,422</u>	\$ <u>87,337,683</u>
June 30, 2019	\$ <u>10,631,940</u>	\$ <u>75,504,329</u>	\$ <u>86,136,269</u>

CHATHAM UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 11 - ENDOWMENT (Continued)

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, 2018	\$ 9,167,539	\$ 75,747,686	\$ 84,915,225
Investment return:			
Investment income	166,542	1,137,495	1,304,037
Net unrealized appreciation	1,951,095	90,710	2,041,805
Contributions	-	1,302,772	1,302,772
Net asset transfers	-	132,882	132,882
Appropriation of endowment assets for expenditures	2,907,216	(2,907,216)	-
Spend	<u>(3,560,452)</u>	<u>-</u>	<u>(3,560,452)</u>
Endowment net assets, June 30, 2019	10,631,940	75,504,329	86,136,269
Investment return:			
Investment income	174,888	912,508	1,087,396
Net unrealized appreciation	123,606	1,822,469	1,946,075
Contributions	-	1,039,575	1,039,575
Net asset transfers	-	128,368	128,368
Appropriation of endowment assets for expenditures	6,055,827	(6,055,827)	-
Spend	<u>(3,000,000)</u>	<u>-</u>	<u>(3,000,000)</u>
Endowment net assets, June 30, 2020	<u>\$ 13,986,261</u>	<u>\$ 73,351,422</u>	<u>\$ 87,337,683</u>

Funds with Deficiencies - From time to time, the fair value of assets associated with individual donor-restricted endowment funds might fall below the level that the donor or applicable law (Act 141) requires the University to retain as a fund of perpetual duration. The Board has permitted spending from the underwater endowment in which they have interpreted to be permitted under Act 141. Deficiencies of this nature that are reported in net assets with donor restriction total \$2,046,402 and \$1,042,138, and the associated fair value of these funds was \$9,031,473 and \$6,744,035, as of June 30, 2020 and 2019, 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.

CHATHAM UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 11 - ENDOWMENT (Continued)

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

Spending Policy and Investment Objectives Related to Spending Policy - As permitted by Act 141, the University 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. However, due to the COVID-19 pandemic, there have been changes to Act 141 that have allowed for larger transfers to help organizations faced with challenges from the pandemic. Due to this, the University elected to transfer 10% as of June 30, 2020. In 2020 and 2019, the spendable return approximated \$6,055,828 and \$2,907,000, 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.

NOTE 12 - NET ASSETS WITH DONOR RESTRICTIONS BALANCES

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

	2020	2019
Funds subject to expenditure based on donor designation:		
Gifts and other unexpended revenues available for Scholarships, instruction, construction of Eden Hall Campus, and other programs	\$ 6,281,639	\$ 6,209,135
Realized and unrealized endowment gains restricted primarily for scholarships and professorships	34,854,436	34,804,680
Annuity and trust agreements	211,768	230,719
	41,347,843	41,244,534
Funds not subject to appropriation or expenditure:		
Scholarships	23,657,918	23,950,367
Professorships and other	15,884,003	15,683,822
Falk School of Sustainability	15,000,000	15,000,000
Eden Hall Campus	8,310,000	8,310,000
Library	670,539	670,539
Awards	579,165	578,065
General operations	432,978	440,395
	64,534,603	64,633,188
	\$ 105,882,446	\$ 105,877,722

CHATHAM UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 12 - NET ASSETS WITH DONOR RESTRICTIONS BALANCES (Continued)

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>2020</u>	<u>2019</u>
Funds expended for a specified purpose:		
Gifts and other unexpended revenues available for Scholarships, instruction, construction of Eden Hall Campus, and other programs	\$ 6,479,421	\$ 4,655,235
Realized and unrealized endowment gains restricted primarily for scholarships and professorships	4,271,343	1,608,975
Annuity and trust agreements	32,490	40,613
	<u>\$ 10,783,254</u>	<u>\$ 6,304,823</u>

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 \$1,672,813 and \$1,653,614 from the Federal Pell Grant and \$227,700 and \$249,482 from PHEAA programs in fiscal years 2020 and 2019, respectively.

In March 2020, the University completed and submitted to Department of Education (ED) the Federal Funding Certification and Agreement to participate in Higher Education Emergency Relief Fund (HEERF) as part of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). The University has reflected the full grant of \$1,162,375 in federal and state grants and contracts in the consolidated statement of activities and changes in net assets as of and for the year ended June 30, 2020 in accordance with FASB ASC 958-605, as amended by ASU 2018-08 on conditional contributions. Pursuant to the agreement, the University is required to distribute no less than 50% of the total grant received to eligible students, referred to as Part A. The remaining portion of the grant, referred to as Part B, is available to cover expenses associated with significant changes to the delivery of instruction due to the disruptions caused by the COVID-19 pandemic incurred on or after March 13, 2020, including refunds processed to students, enhancements to online learning platforms and other technology related expenses, and certain other qualifying expenses that have a clear nexus to significant changes to the delivery of instruction due to the COVID-19 pandemic. Part B is also available to provide additional funding to students at the University's discretion. The University credited \$1,147,694 to eligible students covered by 100% of Part A and 97% of Part B, which is reflected in auxiliary enterprises revenues on the consolidated statements 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.

CHATHAM UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

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 \$800,000 and \$761,000 as of June 30, 2020 and 2019, respectively, based on the current estimate of the scope of the asbestos abatement that will be required during the planned renovations. The actual cost for the abatement could vary from this estimate.

NOTE 16 - INCOME TAXES

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

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

The University follows the FASB Codification topic on Income Taxes. The topic prescribes a minimum recognition threshold and measurement methodology that a tax position taken or expected to be taken in a tax return is required to meet before being recognized in consolidated financial statements. The University's consolidated statements of financial position at June 30, 2020 and 2019 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 2017.

NOTE 17 - RISKS AND UNCERTAINTIES

In March 2020, the World Health Organization declared the outbreak of COVID-19 a pandemic, which continues to spread throughout the United States and world. The University is closely monitoring the impact of the COVID-19 pandemic on all aspects of the University and its operations, including the impact to students, faculty and staff.

At the onset of the COVID-19 outbreak, the University began focusing intensely on mitigating the adverse impacts of the outbreak by protecting students, faculty and staff. Classroom delivery shifted to a remote online platform in mid-March 2020 and through the remainder of the spring 2020 academic term. Residence halls and food services were closed for the year ended June 30, 2020. Certain summer programs and camps were cancelled resulting in a decrease in deposits.

CHATHAM UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 17 - RISKS AND UNCERTAINTIES (Continued)

Governmental and regulatory responses to the pandemic might include quarantines, shutdowns or other governmental or regulatory actions, including closures or other restrictions that limit or close college campuses. These actions could restrict faculty and staffs' ability to perform necessary business functions and students' ability to travel or attend classes in-person, all of which could adversely impact operating results.

Additionally, investment value and the University's grantors, donors, partners and the community could be adversely affected by these disruptions, which in turn could negatively impact the University's net assets.

The University has made efforts to identify, manage, and mitigate the economic disruption impacts of the COVID-19 pandemic; however, there are factors beyond the University's knowledge or control, including the duration and severity of this outbreak or any such similar outbreak, as well as further governmental and regulatory actions. Financial efforts to mitigate the disruptions of the pandemic include being awarded a HEERF grant (See Note 13). Certain safety protocols and monitoring procedures have been enacted by the University for the fall 2020 and spring 2021 academic terms to ensure the safety of the students, faculty and staff. Such efforts might result in increased operating expenses and potentially jeopardize the efficiency of operations. Such impacts might further increase the difficulty of planning for operations and could adversely impact financial results.

NOTE 18 - 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, 2020 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	\$ 28,772,570	\$ 8,282,077	\$ 771,261	\$ 37,825,908
Operating expenses	11,040,439	634,467	1,302,428	12,977,334
Outside services	859,711	4,182,929	2,573,897	7,616,537
Depreciation and amortization	5,666,059	1,120,098	827,281	7,613,438
Interest	<u>1,776,872</u>	<u>549,090</u>	<u>845,018</u>	<u>3,170,980</u>
	<u>\$ 48,115,651</u>	<u>\$ 14,768,661</u>	<u>\$ 6,319,885</u>	<u>\$ 69,204,197</u>

CHATHAM UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 18 - EXPENSES BY BOTH NATURE AND FUNCTION (Continued)

Functional expenses of the University at June 30, 2019 are as follows:

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

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