

CHATHAM UNIVERSITY
Pittsburgh, Pennsylvania

Consolidated Financial Statements
and
Supplemental Financial Information
For the years ended June 30, 2016 and 2015
and Independent Auditors' Report Thereon

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INDEPENDENT AUDITORS' REPORT

Other Matters

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 *U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2016, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Sta4(c)-5.4(o)5.6Pce. That07.4(A)4.2(u).2(h)-558.0(d.23 525.35 -*

	2016	2015
Cash and cash equivalents	\$ 3,592,649	\$ 6,458,539
Cash and cash equivalents held for debt service payments	2,559,375	2,559,375
	6,152,024	9,017,914
Student accounts receivable (net of allowance of \$1,634,000 and \$1,598,000 as of June 30, 2016 and 2015, respectively)	1,118,815	1,115,952
Contributions receivable, net	3,687,775	4,507,534
Other receivables	2,193,518	2,043,967
Student loans receivable (net of allowance of \$278,000 and \$269,500 as of June 30, 2016 and 2015, respectively)	636,702	637,458
Investments	74,972,477	83,921,042

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND OTHER ADDITIONS				
Tuition and fees	\$ 48,732,296	\$ -	\$ -	\$ 48,732,296
Scholarships	(12,265,482)	-	-	(12,265,482)
	36,466,814	-	-	36,466,814
Auxiliary enterprises revenues	9,329,174	37,804	-	9,366,978
Federal and state grants and contracts	163,856	803,066	-	966,922

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ (6,287,373)	\$ 2,501,471
Adjustments to reconcile changes in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	5,958,571	5,130,656
Net unrealized and realized losses (gains) on investments	585,131	(1,082,221)
Change in value of assets held in trust by others	228,265	71,579
Contributions restricted for long-term investments	(1,066,886)	(1,465,759)
Changes in assets and liabilities:		
Student accounts receivable, net	(2,863)	(126,283)
Contributions receivable, net	819,759	459,613
Other receivables	(149,551)	1,307,026
Prepaid expenses and other assets	(126,891)	(110,513)
Deferred compensation deposits	(24,095)	(85,384)
Accounts payable, accrued liabilities and other	(1,268,639)	1,368,945
Student deposits and deferred revenues	1,283,329	(1,233,976)
Net Cash (Used In) Provided By Operating Activities	(51,243)	6,735,154
CASH FLOWS FROM INVESTING ACTIVITIES		
Construction or acquisition of land, buildings and equipment, net of construction payables	(16,417,433)	(15,304,125)
Proceeds from sale of investments	13,909,489	8,420,579
Purchase of investments	(5,252,458)	(6,532,683)
Loans made to students and others, net	(128,055)	(80,410)
Repayments of loans by students and others	128,811	193,890
Net Cash Used In Investing Activities	(7,759,646)	(13,302,749)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from contributions restricted for long-term investment	773,289	390,759
Proceeds from issuance of debt	6,766,161	11,147,268
Payments on ,4.6(u)-5.3T2.9		

	<u>2016</u>	<u>2015</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for interest	\$ <u>2,463,968</u>	\$ <u>2,525,144</u>
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING ACTIVITIES		
Gift of building, land and collections	\$ <u>-</u>	<u>1,075,000</u>
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Capital lease obligations incurred for purchases of equipment	\$ <u>1,181,100</u>	<u>763,551</u>

See notes to consolidated financial statements.

CHATHAM UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

The consolidated financial statements include the financial position and results of operations of Chatham University and Chatham Investments LLC, which is hereinafter referred to as the "University." All material intercompany transactions have been eliminated in consolidation. At June 30, 2016 and 2015, the University has an outstanding receivable of approximately \$328,000 due from Eden Hall Solar, LLC, and an outstanding receivable of approximately \$532,000 at June 30, 2016 and 2015 due from Common Orchard South Solar, LLC. These amounts are included in other receivables in the accompanying consolidated statements of financial position.

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

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

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

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

CHATHAM UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

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

CHATHAM UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

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

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

CHATHAM UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

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

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

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

Tuition and Fees - Tuition and fees are reported on the consolidated statements of activities and changes in net assets are reported net of discretionary discounts, which include both discounts and funded scholarships. The University generally recognizes revenue in the academic period that tuition is earned and collectability is reasonably assured. All payments received in advance for the subsequent academic period are recorded as deferred revenue. Discretionary tuition discounts are University funds awarded by the University to reduce the net amount of tuition paid by students.

Funded scholarships are shown separately and represent awards and prizes given to students. There is

CHATHAM UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

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

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), 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). The new standard 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

CHATHAM UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

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

- Requires net presentation of investment expenses against investment return on the statement of activities and eliminates the requirement to disclose investment expenses that have been netted.

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CHATHAM UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 2 - INVESTMENTS (Continued)

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

	<u>2016</u>	<u>2015</u>
Dividends and interest	\$ 1,043,036	\$ 1,440,483
Net realized gain (loss)	727,835	(1,355,116)
Net unrealized (loss) gain	(1,312,966)	2,437,337
Net unrealized loss on assets held in trust by others	<u>(228,265)</u>	<u>(71,579)</u>
	<u>\$ 229,640</u>	<u>\$ 2,451,125</u>

NOTE 3 - FAIR VALUE MEASUREMENT

CHATHAM UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 3 - 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:

	2016			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and cash equivalents	\$ 965,767	-	\$ -	\$ 965,767
Fixed income	3,769,583	-	-	3,769,583
Equities	5,207,550	-	-	5,207,550
International funds	11,084,541	-	-	11,084,541

CHATHAM UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 3 - FAIR VALUE MEASUREMENT (Continued)

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

Investments measured at net asset value primarily consist of the University's ownership in alternative investments and hedge funds. The valuation of alternative investments requires significant judgment due to the absence of quoted market prices, inherent lack of liquidity, heavy reliance on significant unobservable inputs, and the long-term nature of such investments. These investments are valued initially at their transaction value, and subsequently adjusted to reflect expected exit values at the measurement date by utilizing assumptions that market participants would normally use to estimate a fair market value. These valuation adjustments include, but are not limited to, material changes in an organization's operations and/or financial performance, subsequent or anticipated rounds of equity financings, specific rights or terms associated with the investment (e.g., conversion features, liquidation preferences or restrictions), expected exit timing and strategy, industry valuations or comparable public companies, changes in economic conditions, and changes in legal or regulatory environments. The University's interest in alternative investments contains some liquidity constraints, which are outlined in the table below. Depending on the investment, some of them are not easily transferrable and typically achieve liquidity over an extended period of time when and if the fund managers return invested capital or distribute proceeds realized from the underlying assets. In addition to annual distributions received from the alternative investment funds for the year ended June 30, 2016, withdrawals and distributions on approximately \$36,216,182 of the outstanding investment balances can be received by the University based upon written notice as described below.

The following redemption table clarifies the nature and risk of the University's investments and liquidity

CHATHAM UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 7 - BONDS AND NOTES PAYABLE

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

	<u>2016</u>	<u>2015</u>
Series A of 2008	\$ 10,000,000	\$ 10,000,000
Series B of 2008	6,528,111	7,229,502
Series A of 2012	32,310,000	33,230,000
Phase I-B construction loan	17,949,027	11,182,866
Mortgage loans payable	<u>568,658</u>	<u>593,392</u>
	67,355,796	62,235,760
Plus - Unamortized premium	<u>1,478,703</u>	<u>1,553,891</u>
	<u>\$ 68,834,499</u>	<u>\$ 63,789,651</u>

Scheduled principal repayments are as follows:

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Total</u>
2017	\$ 2,255,263
2018	2,484,340
2019	2,589,407
2020	2,697,303
2021	2,740,485
Thereafter	<u>54,588,998</u>
	67,355,796
Plus - Unamortized premium	<u>1,478,703</u>
	68,834,499
Less - Unamortized debt issuance costs	<u>(527,381)</u>
	<u>\$ 68,307,118</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.

CHATHAM UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 7 - BONDS AND NOTES PAYABLE (Continued)

CHATHAM UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 9 - LEASES (Continued)

Total obligations under all capital lease agreements are as follows:

Fiscal Year Ending June 30	Amounts
2017	\$ 941,202
2018	793,126
2019	657,308
2020	401,453
2021	291,151
Thereafter	2,295,003
	5,379,243
Less - Amounts representing interest	1,026,370
Present value of minimum lease payments	\$ 4,352,873

NOTE 10 - ENDOWMENT

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

Interpretation of Relevant Law - The Board of Trustees has elected to be governed by the Commonwealth of Pennsylvania's Act 141 (Act 141). Act 141 permits election of a total return policy that allows a nonprofit to

CHATHAM UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 10 - ENDOWMENT (Continued)

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
June 30, 2016	\$ <u>10,463,915</u>	\$ <u>17,435,853</u>	\$ <u>51,122,258</u>	\$ <u>79,022,026</u>
June 30, 2015	\$ <u>16,546,264</u>	\$ <u>21,075,358</u>	\$ <u>50,577,234</u>	\$ <u>88,198,856</u>

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

	<u>Unrestricted Designated</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2014	\$ 17,873,276	\$ 20,944,780	\$ 50,258,054	\$ 89,076,110
Investment return:				
Investment income	267,560	1,171,897	-	1,439,457
Net unrealized appreciation	20,426	1,303,308	(71,579)	1,252,155
Contributions	-	-	390,759	390,759
Appropriation of endowment assets for expenditures	2,344,627	(2,344,627)	-	-
Spend	(3,959,625)			

CHATHAM UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 10 - ENDOWMENT (Continued)

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

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

Spending Policy and Investment Objectives Related to Spending Policy - As permitted by Act 141, the University annually transfers between 5% and 7%, based on a three-year average of historical endowment market values to unrestricted net assets, for use in current and future operations. In 2016 and 2015, the spendable return approximated \$3,256,000 and \$2,345,000, respectively, and was transferred to board-designated endowment. The

CHATHAM UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 11 - RESTRICTED NET ASSET BALANCES (Continued)

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

	<u>2016</u>	<u>2015</u>
Permanently restricted net assets:		
Scholarships	\$ 20,194,556	\$ 19,943,545
Professorships and other	14,387,177	14,069,181
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	475,055	472,895
General operations	<u>394,931</u>	<u>421,074</u>
	<u>\$ 59,432,258</u>	<u>\$ 58,887,234</u>

NOTE 12 - PELL GRANTS AND PENNSYLVANIA HIGHER EDUCATION ASSISTANCE
 AGENCY PROGRAMS

Activity of the Pell Grant and Pennsylvania Higher Education Assistance Agency (PHEAA) programs is not reflected in the University's consolidated financial statements because the amounts represent direct grants to students. Students received \$1,243,191 and \$1,081,976 from the Federal Pell Grant and \$862,388 and \$847,081 from PHEAA programs in fiscal years 2016 and 2015, respectively.

CHATHAM UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 14 - CONDITIONAL ASSET RETIREMENT OBLIGATIONS (Continued)

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

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

Board of Trustees
Chatham University
Pittsburgh, Pennsylvania

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Chatham University

Purpose of this Report

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

Schneider Downs & Co., Inc.

Pittsburgh, Pennsylvania
November 2, 2016

Federal/Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Amount Expended
STUDENT FINANCIAL ASSISTANCE CLUSTER: Direct Awards				
Department of Education Programs:				
Federal Pell Grant Program	84.063			\$ 1,243,191
Federal Supplemental Educational Opportunity Grant Program	84.007			87,750
Federal Work-Study Program	84.033			337,359
Teacher Education Assistance for College and Higher Education Grants (TEACH)	84.379			32,485
Federal Perkins Loan Program (Note 4)	84.038			144,118
Federal Direct Loan Loans (Note 5)	84.268			25,598,292
Total Department of Education Programs				27,443,195
Total Student Financial Assistance Cluster				27,443,195
NATIONAL SCIENCE FOUNDATION: Direct Award				
National Science Foundation				

CHATHAM UNIVERSITY

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (Schedule) includes the federal grant activity of Chatham University (University) under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the University, it is not intended to and does not present the consolidated financial position, changes in net assets or cash flows of the University.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICY

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

Board of Trustees
Chatham University
Pittsburgh, Pennsylvania

Report on Compliance for Each Major Federal Program

We have audited Chatham University's (University) compliance with the types of compliance requirements described in [REDACTED] programs for the year ended June 30, 2016. The University's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

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

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

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the University's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of

Opinion on Each Major Federal Program

In our opinion, the University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control Over Compliance

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

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

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

Purpose of this Report

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

Schneider Downs & Co., Inc.

Pittsburgh, Pennsylvania
November 2, 2016

CHATHAM UNIVERSITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016

PART I - SUMMARY OF AUDITORS' RESULTS

Financial Statement Section:

Type of auditors' report issued:		Unmodified			
Internal control over financial reporting:					
Material weakness(es) identified?	-	yes	X	no	
Significant deficiency(ies) identified not considered to be material weaknesses?	-	yes	X	none reported	
Noncompliance material to financial statements noted?	-	yes	X	no	

Federal Awards Section:

Internal control over major programs:					
Material weakness(es) identified?	-	yes	X	no	
Significant deficiency(ies) identified not considered to be material weaknesses?	-	yes	X	none reported	

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

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	-	yes	X	no	
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Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Programs</u>
84.063, 84.007, 84.033, 84.379, 84.038, 84.268 93.243	Student Financial Aid Cluster Substance Abuse and Mental Health Services Administration

Dollar threshold used to distinguish between Type A and Type B programs:		\$ 750,000			
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Auditee qualified as low-risk auditee?	X	yes	-	no	
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The independent auditors' report on compliance should be read with this schedule.

CHATHAM UNIVERSITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016

(Continued)

PART II - FINANCIAL STATEMENT FINDINGS SECTION

This section identifies the significant deficiencies, material weaknesses, fraud, noncompliance with provisions of laws,

This section identifies the reportable conditions, material weaknesses and instances of noncompliance related to the financial statements that were required to be reported in accordance with Government Auditing Standards and OMB Circular A-133 in the prior year.

Finding Number

Finding

Status

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