

CHATHAM UNIVERSITY
Pittsburgh, Pennsylvania

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INDEPENDENT AUDITORS' REPORT

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	2012	2011
Cash and cash equivalents	\$ 2,697,485	\$ 2,091,700
Cash and cash equivalents held for debt service payments	2,559,375	3,729,047
	5,256,860	5,820,747
Student accounts receivable (net of allowance of \$737,000 and \$648,000 as June 30, 2012 and 2011, respectively)	1,338,859	1,589,503
Other receivables	330,698	1,329,949
Prepaid expenses and other assets	239,030	201,230
Contributions receivable, net	2,975,328	3,110,197
Loans receivable (net of allowance of \$233,000 and \$219,000 as of June 30, 2012 and 2011, respectively)	886,221	879,322
Deferred compensation deposits	628,480	1,841,456
Investments	58,867,206	61,243,653
Assets held in trust by others	3,664,408	3,857,246
	74,187,090	79,873,303
PROPERTY, PLANT AND EQUIPMENT		
Land	9,853,427	9,565,195
Buildings and		

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND OTHER ADDITIONS				
Tuition and fees	\$ 43,779,987	\$ -	\$ -	\$ 43,779,987
Scholarships	(9,600,405)	-	-	(9,600,405)
	34,179,582	-	-	34,179,582
Auxiliary enterprises revenues	7,616,829	-	-	7,616,829
Federal and state grants and contracts	146,191	935,968	-	1,082,159
Private gifts and grants	664,550	1,694,681	1,941,432	4,300,663
Interest on student loans receivable	598	15,574	-	16,172
Investment income, net of investment expense of \$65,000 and \$56,000, respectively	(83,745)	788,697	-	704,952
Net unrealized and realized gains (losses) on investments	165,124	(1,012,631)	(192,838)	

	2011		Total
	Unrestricted	Temporarily Restricted	
\$ 43,919,129	\$ -	\$ -	\$ 43,919,129
<u>(10,207,779)</u>	<u>-</u>	<u>-</u>	<u>(10,207,779)</u>
33,711,350	-	-	33,711,350
7,061,148	-	-	7,061,148
198,090	1,068,689	-	1,266,779
1,152,940	5,299,966	3,043	9,496,229
560	38,860	-	39,420
1,424,264	656,271	-	2,080,535
<u>2,952,454</u>	<u>5,732,432</u>	<u>26</u>	<u>8,947,703</u>
46,500,806	12,796,218	3,300	62,603,164
<u>4,195,960</u>	<u>(4,195,960)</u>	<u>-</u>	<u>-</u>
50,696,766	8,600,258	3,300	62,603,164
15,730,067	-	-	15,730,067
1,550,688	-	-	1,550,688
10,222,952	-	-	10,222,952
<u>1,199,082</u>	<u>-</u>	<u>-</u>	<u>1,199,082</u>
28,702,789	-	-	28,702,789
14,280,129	-	-	14,280,129
5,282,383	-	-	5,282,383
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>48,265,301</u>	<u>-</u>	<u>-</u>	<u>48,265,301</u>
2,431,465	8,600,258	-	14,337,863
<u>35,260,495</u>	<u>12,200,765</u>	<u>-</u>	<u>83,981,926</u>
\$ <u>37,691,960</u>	\$ <u>20,801,023</u>	\$ <u>-</u>	\$ 98,319,789

See notes to financial statements.

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ (5,289,274)	\$ 14,337,863
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	3,558,642	

CHATHAM UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Codification - The Financial Accounting Standards Board (FASB) Accounting Standards Codification (Codification) is the single source of authoritative United

CHATHAM UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Student Accounts Receivable - Student accounts receivable are reported at their outstanding

CHATHAM UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, Plant and Equipment - Property, plant and equipment are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The University capitalizes interest expense on the construction of assets to the extent of borrowings related to the construction. There was no capitalized interest for the years ended June 30, 2012 and 2011. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, which are 20 to 40 years for buildings and improvements; 7 years for equipment and furniture; and 4 years for vehicles. Gifts of long-lived assets are recorded as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. The University releases temporarily restricted contributions for asset acquisitions when the asset is placed into service.

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

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE 3 - FAIR VALUE MEASUREMENTS (Continued)

	2011			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and cash equivalents	\$ 842,767	\$ -	\$ -	\$ 842,767
Fixed income	7,434,275	2,708,495	-	10,142,770
Equities	1,828,541	11,132,842	-	12,961,383
International funds	13,109,497	-	-	13,109,497
Hedge funds	-	-	9,795,282	9,795,282
Limited partnerships	-	-	11,164,865	11,164,865
Commodities	1,784,434	-	-	1,784,434
Real estate investment fund	-	-	1,442,655	1,442,655
Assets held in trust by others	-	3,857,246	-	3,857,246
Total fair value of investments	<u>\$ 24,999,514</u>	<u>\$ 17,698,583</u>	<u>\$ 22,402,802</u>	<u>\$ 65,100,899</u>

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE 6 - BONDS AND NOTES PAYABLE

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

	<u>2012</u>	<u>2011</u>
Series A of 1998	\$ -	\$ 9,450,000
Series A of 2002	-	5,345,000
Series B of 2002	-	23,175,000
Series A of 2008	10,000,000	10,000,000
Series B of 2008	8,727,133	9,174,846
Series A of 2012	35,870,000	-
Mortgage loans payable	<u>660,163</u>	<u>-</u>
	55,257,296	57,144,846
Less - Unamortized discount	-	(911,067)
Plus - Unamortized		

CHATHAM UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE 6 - BONDS AND NOTES PAYABLE (Continued)

Principal payments were required on September 1 of each year, through September 1, 2028.
These

CHATHAM UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE 6 - BONDS AND NOTES PAYABLE (Continued)

Interest expense on the Series A of 2008 Notes for the years ended June 30, 2012 and 2011 was \$447,000.

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

e. 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 6.67%. 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, 2012 and 2011 was \$608,200 and \$635,976, respectively.

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 in all material respects with all covenants and agreements set forth in agreements evidencing indebtedness of the University.

f. 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.

As a result of the refunding of previous bond issuances, the University recognized a loss on bond refinancing of \$1,626,575 in the statements of activities and changes in net assets for the year ended June 30, 2012. This loss is a result of unamortized expenses from the previous issuances as well as the advance refunding of the 2002 Series A Bonds. The effect of the refunding is a reduction in interest expense over the life of the bonds and a reduction in annual debt services payments.

Interest expense on the Series A of 2012 Bonds for the years ended June 30, 2012 was \$532,230.

CHATHAM UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE 6 - BONDS AND NOTES PAYABLE (Continued)

The University is subject to certain financial and reporting covenants and is required to maintain a debt service reserve fund equal to the maximum annual debt service

CHATHAM UNIVERSITY

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE 9 - RESTRICTED NET ASSET BALANCES (Continued)

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

CHATHAM UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

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, 2012	\$ <u>16,464,714</u>	\$ <u>14,815,780</u>	\$ <u>33,265,400</u>	\$ <u>64,545,893</u>
June 30, 2011	\$ <u>18,279,426</u>	\$ <u>16,345,167</u>	\$ <u>31,516,806</u>	\$ <u>66,141,399</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, 2010	\$ 5,206,417	\$ 1,035,236	\$ 1,504,457	\$ 7,746,110
Investment return:				
Investment income	268,647	810,481	-	1,079,128
Net unrealized appreciation	1,108,526	7,053,090	262,817	8,424,433
Contributions				



CHATHAM UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE 10 - 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 Finance 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 2012 and 2011, the spendable return approximate

COMPLIANCE AND INTERNAL CONTROL REPORT

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Federal/Pass-Through Grantor Program Title	Federal CFDA Number	Amount Expended
STUDENT FINANCIAL ASSISTANCE (SFA) PROGRAMS: Direct Awards		
U.S. Department of Education:		
Federal Pell Grant Program	84.063	\$ 1,290,642
Federal Supplemental Educational Opportunity Grant Program	84.007	108,375
Federal Work-Study Program	84.033	298,497
Teacher Education Assistance for College and Higher Education Grant	84.379	6,000
Federal Perkins Loan Program (Note 3)	84.038	-
Direct Loan Program (Note 4)	84.268	-
 Total Student Financial Assistance		 1,703,514
NATIONAL SCIENCE FOUNDATION: Indirect Award		
Pass-Through National Council for Science and the Environment:		
Creating a Learning Community for Solutions to Climate Change	47.076	36,158
DEPARTMENT OF HEALTH AND HUMAN SERVICES: Direct Awards		
ARRA - Training in Primary Care Medicine and Dentistry	93.403	250,892
Affordable Health Care Act: Expansion of Physician Assistant Training Program	93.514	95,334
 Total Department of Health and Human Services		 346,226
DEPARTMENT OF HEALTH AND HUMAN SERVICES: Indirect Award		
Pass-Through Allegheny County:		
Medical Assistance Program	93.778	168,667
DEPARTMENT OF ENERGY: Indirect Award		
Pass-Through State of Pennsylvania:		
ARRA - Weatherization Assistance for Low-income Persons	81.041	4,672
 Total Department of Energy		 4,672
 Total Federal Awards		

CHATHAM UNIVERSITY

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

NOTE 1 - BASIS OF ACCOUNTING

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

NOTE 2 - RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

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

NOTE 3 - FEDERAL PERKINS LOAN PROGRAM

The University administers the following federal loan program:

	Outstanding Balance at <u>June 30, 2012</u>
Federal Perkins Loan Program	\$ <u>1,059,771</u>

Total loan disbursements for the fiscal year amount to \$88,997, which is composed entirely of loans to students.

NOTE 4 - FEDERAL FAMILY EDUCATION LOAN PROGRAM

For the Federal Direct Loan Programs, the University is responsible only for the performance of certain administrative duties; therefore, the loan balances and transactions for those programs are not included in the University's financial statements.

During the fiscal year ended June 30, 2012, the University processed the following amount of new loans under the Federal Direct Loan Program (which includes Federal Stafford Loans, Federal Parents' Loans for Undergraduate Students and Federal Supplemental Loans for Students):

	Loans <u>Processed</u>
Federal Direct Loans	\$ <u>29,640,412</u>

REPORTING UNDER GOVERNMENT
AUDITING STANDARDS AND OMB CIRCULAR A-133

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND
INTERNAL

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Financial Statement Section:

Type of auditors' report issued:

Unqualified

Internal control over financial reporting:

Material weakness(es) identified?

yes X no

Significant deficiency(ies) identified not considered to be material weaknesses?

yes X 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:

Unqualified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (Section .510(a))?

X yes no

Identification of major programs:

CFDA Numbers

84.063, 84.007, 84.033, 84.379, 84.038, 84.268

93.403

Dollar threshold used to determine type A programs:

CHATHAM UNIVERSITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012

(Continued)

PART II -

SCHEDULE OF PRIOR AUDIT FINDINGS

CHATHAM UNIVERSITY

SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2011

<u>Finding Number</u>	<u>Finding</u>	<u>Status</u>
Federal Awards Findings and Questioned Costs Section: 2011-01	The recordkeeping for capital leases was not in accordance with generally accepted accounting principles.	Item was corrected in 2012. No similar finding was noted during the 2012 audit.

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

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