CHATHAM UNIVERSITY
Pittsburgh, Pennsylvania

Financial Statements
and
Supplemental Financial Information
For the years ended June 30, 2011 and 2010

and Independent Auditors’ Report Thereon
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<td></td>
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<tr>
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INDEPENDENT AUDITORS’ REPORT

Board of Trustees
Chatham University
Pittsburgh, Pennsylvania

We have audited the accompanying statements of financial position of Chatham University (University) as of June 30, 2011 and 2010, and the related statements of activities and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the University’s administration. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University as of June 30, 2011 and 2010, and changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated December 31, 2011 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audits.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Pittsburgh, Pennsylvania
December 13, 2011

Schneider Downs & Co., Inc.
www.schneiderdowns.com
CHATHAM UNIVERSITY
STATEMENTS OF FINANCIAL POSITION

<table>
<thead>
<tr>
<th></th>
<th>June 30 2011</th>
<th>June 30 2010 (Restated)</th>
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</thead>
<tbody>
<tr>
<td><strong>ASSETS</strong></td>
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<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$2,091,700</td>
<td>$2,773,386</td>
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<tr>
<td>Cash and cash equivalents held for debt service payments</td>
<td>3,729,047</td>
<td>3,669,738</td>
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<tr>
<td>Student accounts receivable (net of allowance of $648,000 and $415,000 as June 30, 2011 and 2010, respectively)</td>
<td>1,589,503</td>
<td>1,339,850</td>
</tr>
<tr>
<td>Other receivables</td>
<td>1,329,949</td>
<td>1,226,152</td>
</tr>
<tr>
<td>Prepaid expenses and other assets</td>
<td>201,230</td>
<td>120,061</td>
</tr>
<tr>
<td>Contributions receivable, net</td>
<td>3,110,197</td>
<td>1,343,339</td>
</tr>
<tr>
<td>Loans receivable (net of allowance of $233,000 and $219,000 as of June 30, 2011 and 2010, respectively)</td>
<td>879,322</td>
<td>843,842</td>
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<tr>
<td>Deferred compensation deposits</td>
<td>1,841,456</td>
<td>1,319,234</td>
</tr>
<tr>
<td>Investments</td>
<td>61,243,653</td>
<td>48,700,381</td>
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<tr>
<td>Assets held in trust by others</td>
<td>3,857,246</td>
<td>3,594,429</td>
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<tr>
<td><strong>PROPERTY, PLANT AND EQUIPMENT</strong></td>
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<td></td>
</tr>
<tr>
<td>Land</td>
<td>9,565,195</td>
<td>9,565,195</td>
</tr>
<tr>
<td>Buildings and improvements</td>
<td>102,828,972</td>
<td>102,571,994</td>
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<tr>
<td>Equipment, furniture and vehicles</td>
<td>18,648,951</td>
<td>18,068,382</td>
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<tr>
<td>Construction-in-progress</td>
<td>2,440,126</td>
<td>3,000</td>
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<tr>
<td>Building under capital lease</td>
<td>3,144,406</td>
<td>3,144,406</td>
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<tr>
<td><strong>Less - Accumulated depreciation</strong></td>
<td>136,627,650</td>
<td>133,352,977</td>
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<tr>
<td>(48,706,388)</td>
<td>(44,973,087)</td>
<td></td>
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<tr>
<td><em>Total</em></td>
<td>87,921,262</td>
<td>88,379,890</td>
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<tr>
<td><strong>DEFERRED BOND FINANCING COSTS, net</strong></td>
<td>214,316</td>
<td>224,997</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>$168,008,881</td>
<td>$153,535,299</td>
</tr>
</tbody>
</table>

**LIABILITIES AND NET ASSETS**

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts payable</td>
<td>$1,467,661</td>
<td>$1,287,070</td>
</tr>
<tr>
<td>Accrued liabilities</td>
<td>4,128,748</td>
<td>3,454,218</td>
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<tr>
<td>Student deposits and deferred revenues</td>
<td>3,329,708</td>
<td>2,950,598</td>
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<tr>
<td>Funds held for others</td>
<td>17,162</td>
<td>15,679</td>
</tr>
<tr>
<td>Capital lease obligation</td>
<td>3,000,560</td>
<td>3,026,757</td>
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<tr>
<td>Bonds and notes payable</td>
<td>56,233,779</td>
<td>57,307,577</td>
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<tr>
<td>Advances from federal government for student loans</td>
<td>1,511,474</td>
<td>1,511,474</td>
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<tr>
<td><strong>Total Liabilities</strong></td>
<td>69,689,092</td>
<td>69,553,373</td>
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<tr>
<td><strong>NET ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unrestricted:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Designated for endowment</td>
<td>18,279,426</td>
<td>15,226,517</td>
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<tr>
<td>Undesignated</td>
<td>19,412,534</td>
<td>20,033,978</td>
</tr>
<tr>
<td>Temporarily restricted</td>
<td>20,801,023</td>
<td>12,200,765</td>
</tr>
<tr>
<td>Permanently restricted</td>
<td>39,826,806</td>
<td>36,520,666</td>
</tr>
<tr>
<td><strong>Total Net Assets</strong></td>
<td>98,319,789</td>
<td>83,981,926</td>
</tr>
<tr>
<td><strong>Total Liabilities And Net Assets</strong></td>
<td>$168,008,881</td>
<td>$153,535,299</td>
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</tbody>
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See notes to financial statements.
## CHATHAM UNIVERSITY

### STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

<table>
<thead>
<tr>
<th></th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Permanently Restricted</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>REVENUES AND OTHER ADDITIONS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tuition and fees</td>
<td>$43,919,129</td>
<td>-</td>
<td>-</td>
<td>$43,919,129</td>
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<tr>
<td>Scholarships</td>
<td>(10,207,779)</td>
<td>-</td>
<td>-</td>
<td>(10,207,779)</td>
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<tr>
<td>Auxiliary enterprises revenues</td>
<td>33,711,350</td>
<td>-</td>
<td>-</td>
<td>33,711,350</td>
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<tr>
<td>Federal and state grants and contracts</td>
<td>7,061,148</td>
<td>-</td>
<td>-</td>
<td>7,061,148</td>
</tr>
<tr>
<td>Private gifts and grants</td>
<td>1,152,940</td>
<td>1,068,689</td>
<td>3,043,323</td>
<td>9,496,229</td>
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<tr>
<td>Interest on student loans receivable</td>
<td>560</td>
<td>38,860</td>
<td>-</td>
<td>39,420</td>
</tr>
<tr>
<td>Investment income, net of investment expense of $56,000 and $99,000, respectively</td>
<td>1,424,264</td>
<td>656,271</td>
<td>-</td>
<td>2,080,535</td>
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<tr>
<td>Net unrealized and realized gains (losses) on investments</td>
<td>2,952,454</td>
<td>5,732,432</td>
<td>262,817</td>
<td>8,947,703</td>
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<tr>
<td><strong>Total Revenues And Other Additions</strong></td>
<td>46,500,806</td>
<td>12,796,218</td>
<td>3,306,140</td>
<td>62,603,164</td>
</tr>
</tbody>
</table>

| **NET ASSETS RELEASED FROM RESTRICTIONS** | 4,195,960 | (4,195,960) | - | - |

| Total Revenues And Other Additions And Net Assets Released From Restrictions | 50,696,766 | 8,600,258 | 3,306,140 | 62,603,164 |

| **EXPENSES AND OTHER DEDUCTIONS** |              |            |            |            |
| Educational and student services: |              |            |            |            |
| Instruction | 15,045,899 | -          | -          | 15,045,899 |
| Library     | 1,355,973  | -          | -          | 1,355,973  |
| Student services | 9,113,315 | -          | -          | 9,113,315  |
| Public service | 1,174,994 | -          | -          | 1,174,994  |
| Total Education And Student Services | 26,690,181 | -          | -          | 26,690,181 |
| Administrative and general | 17,249,862 | -          | -          | 17,249,862 |
| Auxiliary enterprises expenses | 4,325,258   | -          | -          | 4,325,258  |
| Total Expenses And Other Deductions | 48,265,301 | -          | -          | 48,265,301 |
| Changes In Net Assets | 2,431,465   | 8,600,258  | 3,306,140  | 14,337,863 |

| **NET ASSETS** |              |            |            |            |
| Beginning of year, as restated (See Note 1) | 35,260,495 | 12,200,765 | 36,520,666 | 83,981,926 |
| End of year | $37,691,960 | $20,801,023 | $39,826,806 | $98,319,789 |

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<table>
<thead>
<tr>
<th></th>
<th>2010 Unrestricted (Restated)</th>
<th>Temporarily Restricted</th>
<th>Permanently Restricted</th>
<th>Total</th>
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<td></td>
<td>$40,019,988</td>
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<td>-</td>
<td>$40,019,988</td>
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<tr>
<td></td>
<td>(9,505,951)</td>
<td>-</td>
<td>-</td>
<td>(9,505,951)</td>
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<td>$30,514,037</td>
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<td>-</td>
<td>-</td>
<td>30,514,037</td>
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<td>$7,057,104</td>
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<td>-</td>
<td>-</td>
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<td>$204,204</td>
<td>$1,339,055</td>
<td>-</td>
<td>-</td>
<td>1,543,259</td>
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<td>$1,025,809</td>
<td>$2,233,979</td>
<td>$1,281,550</td>
<td>-</td>
<td>4,541,338</td>
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<td>187</td>
<td>23,933</td>
<td>-</td>
<td>-</td>
<td>24,120</td>
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<td>$1,604,590</td>
<td>300,082</td>
<td>-</td>
<td>-</td>
<td>1,904,672</td>
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<td>$1,498,452</td>
<td>$2,454,710</td>
<td>-</td>
<td>172,790</td>
<td>4,125,952</td>
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<td>$41,904,383</td>
<td>$6,351,759</td>
<td>1,454,340</td>
<td>49,710,482</td>
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<td>$3,451,801</td>
<td>(3,469,956)</td>
<td>18,155</td>
<td>-</td>
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<td>$45,356,184</td>
<td>$2,881,803</td>
<td>1,472,495</td>
<td>49,710,482</td>
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<td>$13,767,402</td>
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<td>13,767,402</td>
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<td>$1,420,422</td>
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<td>-</td>
<td>1,420,422</td>
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<td>$8,736,933</td>
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<td>8,736,933</td>
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<td>$1,313,074</td>
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<td>1,313,074</td>
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<td>$25,237,831</td>
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<td>25,237,831</td>
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<td>$17,138,173</td>
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<td>-</td>
<td>17,138,173</td>
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<tr>
<td>$3,898,658</td>
<td>-</td>
<td>-</td>
<td>3,898,658</td>
<td></td>
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<tr>
<td>$46,274,662</td>
<td>-</td>
<td>-</td>
<td>46,274,662</td>
<td></td>
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<tr>
<td>(918,478)</td>
<td>2,881,803</td>
<td>1,472,495</td>
<td>3,435,820</td>
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<td>$36,178,973</td>
<td>$9,318,962</td>
<td>$35,048,171</td>
<td>80,546,106</td>
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<tr>
<td>$35,260,495</td>
<td>$12,200,765</td>
<td>$36,520,666</td>
<td>$83,981,926</td>
<td></td>
</tr>
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See notes to financial statements.
## CHATHAM UNIVERSITY

### STATEMENTS OF CASH FLOWS
**FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
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<tbody>
<tr>
<td><em>CASH FLOWS FROM OPERATING ACTIVITIES</em></td>
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<td></td>
</tr>
<tr>
<td>Changes in net assets</td>
<td>$14,337,863</td>
<td>$3,435,820</td>
</tr>
<tr>
<td>Adjustments to reconcile changes in net assets to net cash provided by operating activities:</td>
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<td></td>
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<tr>
<td>Depreciation and amortization</td>
<td>3,779,768</td>
<td>3,793,785</td>
</tr>
<tr>
<td>Net unrealized and realized gain on investments</td>
<td>(8,684,886)</td>
<td>(3,953,162)</td>
</tr>
<tr>
<td>Change in value of assets held in trust by others</td>
<td>(262,817)</td>
<td>(172,790)</td>
</tr>
<tr>
<td>Contributions restricted for long-term investments,</td>
<td>(3,043,323)</td>
<td>(1,281,550)</td>
</tr>
<tr>
<td><em>Changes in assets and liabilities:</em></td>
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<td></td>
</tr>
<tr>
<td>Student accounts receivable, net</td>
<td>(249,653)</td>
<td>57,141</td>
</tr>
<tr>
<td>Contributions receivable</td>
<td>(777,858)</td>
<td>(39,778)</td>
</tr>
<tr>
<td>Other receivables</td>
<td>(103,797)</td>
<td>272,951</td>
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<tr>
<td>Prepaid expenses and other assets</td>
<td>(81,169)</td>
<td>353,938</td>
</tr>
<tr>
<td>Loans receivable</td>
<td>(35,480)</td>
<td>(69,367)</td>
</tr>
<tr>
<td>Deferred compensation deposits</td>
<td>(522,222)</td>
<td>(423,094)</td>
</tr>
<tr>
<td>Accounts payable and accrued liabilities</td>
<td>864,386</td>
<td>(1,810,156)</td>
</tr>
<tr>
<td>Student deposits and deferred revenues</td>
<td>379,110</td>
<td>1,067,977</td>
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<tr>
<td>Funds held for others</td>
<td>1,483</td>
<td>3,430</td>
</tr>
<tr>
<td><em>Net Cash Provided By Operating Activities</em></td>
<td>5,601,405</td>
<td>1,235,145</td>
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</table>

### CASH FLOWS FROM INVESTING ACTIVITIES

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction or acquisition of property, plant and equipment, net of construction payables</td>
<td>(3,274,673)</td>
<td>(1,398,667)</td>
</tr>
<tr>
<td>Proceeds from sale of investments</td>
<td>7,572,062</td>
<td>4,460,444</td>
</tr>
<tr>
<td>Purchase of investments</td>
<td>(11,430,448)</td>
<td>(5,673,968)</td>
</tr>
<tr>
<td><em>Net Cash Used In Investing Activities</em></td>
<td>(7,133,059)</td>
<td>(2,612,191)</td>
</tr>
</tbody>
</table>

### CASH FLOWS FROM FINANCING ACTIVITIES

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proceeds from contributions restricted for long-term investment</td>
<td>2,054,323</td>
<td>1,281,550</td>
</tr>
<tr>
<td>Proceeds from issuance of bonds</td>
<td>-</td>
<td>1,145,443</td>
</tr>
<tr>
<td>Payments on long-term debt</td>
<td>(1,118,849)</td>
<td>(1,061,305)</td>
</tr>
<tr>
<td>Payments on capital lease obligations</td>
<td>(26,197)</td>
<td>(23,835)</td>
</tr>
<tr>
<td><em>Net Cash Provided By Financing Activities</em></td>
<td>909,277</td>
<td>1,341,853</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td><em>Net Decrease In Cash And Cash Equivalents</em></td>
<td>(622,377)</td>
<td>(35,193)</td>
</tr>
</tbody>
</table>

### CASH AND CASH EQUIVALENTS

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning of year</td>
<td>6,443,124</td>
<td>6,478,317</td>
</tr>
<tr>
<td>End of year</td>
<td>$5,820,747</td>
<td>$6,443,124</td>
</tr>
</tbody>
</table>

### SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash paid during the year for interest</td>
<td>$3,249,912</td>
<td>$3,269,476</td>
</tr>
</tbody>
</table>

See notes to financial statements.
CHATHAM UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

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 States generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities.

Basis of Accounting - The financial statements of the University are prepared using the accrual method of accounting in accordance with accounting principles generally accepted in the United States of America.

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

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

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

Temporarily Restricted Net Assets - Net assets that are subject to donor-imposed or legal restrictions that may or will be met either by actions of the University and/or the passage of time.

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

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

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

Cash and Cash Equivalents - For purposes of the statements of cash flows, the University considers all cash balances and short-term highly liquid investments with original maturities of three months or less to be cash equivalents. The University maintains at various financial institutions, cash and cash equivalents that may exceed federally insured amounts at times.
NOTE 1 - 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 for new contributions used in 2011 and 2010 was 4.00%. Amortization of the discount is included in contribution revenue, in accordance with donor-imposed restrictions, if any. An allowance for uncollectible contributions receivable is provided based upon management's judgment, including such factors as past collection experience, missed payments or modification of payment terms, and creditworthiness of the donor.

Investments - Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value, with realized and unrealized gains and losses included in the statement of activities. Investments received by gift are recorded at market value on the date of donation. Investment securities, in general, are exposed to various risks such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, changes in values of investment securities will occur in the near term, and it is reasonably possible that such changes could materially affect the amounts reported in the statements of financial position.

Investments for which there is no ready market are valued at fair value as estimated by management. In estimating fair value, management takes into consideration valuations reported to the University by the investment partnerships, the nature of the investments, current market conditions and other factors that the University considers relevant. 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 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, 2011 and 2010, 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 may differ from the values that would have been used had a ready market existed for such investments or if the investments were realized, and the differences could be material. Such investments are, by their nature, generally considered to be long-term investments and are not intended to be liquidated on a short-term basis.

Interest and dividends from investments are included in investment income and are recognized when earned. Realized gains and losses on the sale of securities are recognized using the specific identification method at the time of the sale or redemption.

Annuity and Trust Funds - The University has certain assets that consist of charitable gift annuities and unitrusts as well as bequests in the form of trusts held by a third party. For annuities and unitrusts, assets are invested and payments are made in accordance with the respective agreement. Revenue is recognized at the date the agreement is established, net of the liability for the present value of the estimated future payments.

For trusts held by a third party, the University has the irrevocable right, under the terms of the trust, to receive the income earned on the trust assets held in perpetuity but never receives the assets held in the trust. Assets are recorded at the fair value unless facts indicate that the fair value of the beneficial interest differs from the fair value of the assets contributed. Contribution revenue for the perpetual trusts held by third parties is recognized when the University is notified of the trust's existence or the date on which the trust becomes irrevocable.
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, 2011 and 2010. 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, scientific and curatorial 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 are not reflected in the 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 statement of financial position.

Self-Insured Liabilities - Effective January 1, 2011, the University became self-insured for health insurance benefits. A stop-loss policy provides protection to the University for individual claims that exceed $75,000 per claim. The University accrues an estimate for claims incurred but not reported during the year.

Fair Value Measurements - 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 Measurements and Disclosures topic to its recurring measurements (See Note 3.)

Restatement - The University's prior period financial statements have been restated to reflect a correction to accounting for its capital lease obligation related to accounting for interest expense under the terms of the lease. As a result, capital lease obligation was increased by $181,765 to $3,026,757, and unrestricted net assets decreased by $181,765 to $35,260,495 as of June 30, 2010. Auxiliary enterprise expenses were increased by $181,765 to $3,898,658 for the year ended June 30, 2010. In addition, unrestricted net assets were decreased by the cumulative effect of $368,786 as of June 30, 2009 to $36,178,973. (See Note 8.)

Subsequent Events - The administration of the University has evaluated subsequent events through December 13, 2011, the date on which the financial statements were available to be issued.

Recently Issued Accounting Pronouncements - In January 2010, the FASB issued an Accounting Standards Update, Fair Value Measurements Disclosures, to require new disclosure for fair value measurements and provide clarification for existing disclosure requirements. More specifically, this update will require information about purchases, sales, issuances and settlements to be presented separately (i.e., present the activity on a gross basis rather than net) in the reconciliation for fair value measurements using significant unobservable inputs (Level 3 inputs). This update clarifies existing disclosure requirements for the level of disaggregation used for classes of assets and liabilities measured at fair value and requires disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements using Level 2 and Level 3 inputs. The University does not anticipate that the adoption of this statement will materially expand its financial statement footnote disclosures. The disclosures are effective for fiscal years beginning after December 15, 2010.
NOTE 2 - INVESTMENTS

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

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>$842,767</td>
<td>$2,055,194</td>
</tr>
<tr>
<td>Fixed income</td>
<td>10,142,770</td>
<td>6,255,710</td>
</tr>
<tr>
<td>Equities</td>
<td>12,961,383</td>
<td>12,714,289</td>
</tr>
<tr>
<td>International funds</td>
<td>13,109,497</td>
<td>8,023,737</td>
</tr>
<tr>
<td>Hedge funds</td>
<td>9,795,282</td>
<td>10,355,951</td>
</tr>
<tr>
<td>Limited partnerships</td>
<td>11,164,865</td>
<td>7,710,995</td>
</tr>
<tr>
<td>Commodities</td>
<td>1,784,434</td>
<td>1,324,805</td>
</tr>
<tr>
<td>Real estate investment fund</td>
<td>1,442,655</td>
<td>259,700</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$61,243,653</strong></td>
<td><strong>$48,700,381</strong></td>
</tr>
</tbody>
</table>

As of June 30, 2011, the University has outstanding commitments to fund partnership investments with additional capital of approximately $6,470,000.

Investments at June 30 are composed of the following:

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Endowment</td>
<td>$60,726,565</td>
<td>$47,725,325</td>
</tr>
<tr>
<td>Annuity trust agreements</td>
<td>517,088</td>
<td>975,056</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$61,243,653</strong></td>
<td><strong>$48,700,381</strong></td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividends and interest</td>
<td>$2,080,535</td>
<td>$1,904,672</td>
</tr>
<tr>
<td>Net realized (loss) gain</td>
<td>(547,568)</td>
<td>1,161,251</td>
</tr>
<tr>
<td>Net unrealized gain</td>
<td>9,232,454</td>
<td>2,791,911</td>
</tr>
<tr>
<td>Net unrealized gain on assets held in trust for others</td>
<td>262,817</td>
<td>172,790</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$11,028,238</strong></td>
<td><strong>$6,030,624</strong></td>
</tr>
</tbody>
</table>

NOTE 3 - FAIR VALUE MEASUREMENTS

The University follows the Codification topic Fair Value Measurement and Disclosures, which defines fair value, establishes a framework for its measurement and expands disclosures about fair value measurement.
NOTE 3 - FAIR VALUE MEASUREMENTS (Continued)

The Fair Value Measurement and Disclosures 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 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 University’s financial instruments consist primarily of cash and cash equivalents, student accounts receivable, contributions receivable, loans receivable, investments, assets held in trust by others, accounts payable, notes payable and bonds payable. The carrying amount of cash and cash equivalents, student accounts receivable, contributions receivable, loans receivable and accounts payable, approximates their fair value due to the short-term nature of such investments. The carrying amount of notes payable approximates fair value due to the interest rates on the notes compared to the current credit market.

The University has determined the fair value of Series A of 1998 Bonds, the Series A of 2002 Bonds and the Series B of 2002 Bonds to be cumulatively $34,015,895 by using matrix-level pricing.

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

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

11
NOTE 3 - FAIR VALUE MEASUREMENTS (Continued)

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Level 1</td>
<td>Level 2</td>
<td>Level 3</td>
<td>Total</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$2,055,194</td>
<td>$ -</td>
<td>$ -</td>
<td>$2,055,194</td>
</tr>
<tr>
<td>Fixed income</td>
<td>3,749,752</td>
<td>2,505,958</td>
<td>-</td>
<td>6,255,710</td>
</tr>
<tr>
<td>Equities</td>
<td>4,242,192</td>
<td>8,472,097</td>
<td>-</td>
<td>12,714,289</td>
</tr>
<tr>
<td>International funds</td>
<td>4,909,795</td>
<td>3,113,942</td>
<td>-</td>
<td>8,023,737</td>
</tr>
<tr>
<td>Hedge funds</td>
<td>-</td>
<td>-</td>
<td>10,355,951</td>
<td>10,355,951</td>
</tr>
<tr>
<td>Limited partnerships</td>
<td>-</td>
<td>-</td>
<td>7,710,995</td>
<td>7,710,995</td>
</tr>
<tr>
<td>Commodities</td>
<td>1,324,805</td>
<td>-</td>
<td>-</td>
<td>1,324,805</td>
</tr>
<tr>
<td>Real estate investment fund</td>
<td>-</td>
<td>-</td>
<td>259,700</td>
<td>259,700</td>
</tr>
<tr>
<td>Assets held in trust by others</td>
<td>-</td>
<td>3,594,429</td>
<td>-</td>
<td>3,594,429</td>
</tr>
<tr>
<td><strong>Total fair value of investments</strong></td>
<td><strong>$16,281,738</strong></td>
<td><strong>$17,686,426</strong></td>
<td><strong>$18,326,646</strong></td>
<td><strong>$52,294,810</strong></td>
</tr>
</tbody>
</table>

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 Level 3 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.

The University’s interests in limited partnerships and hedge funds are considered to be relatively illiquid in that they are not easily transferable and typically achieve liquidity over multi-year periods when and if the fund managers return invested capital or distribute proceeds realized from underlying fund assets.

The changes in investments measured at fair value for which the University has used Level 3 inputs to determine fair value for the years ended June 30, 2011 and 2010 are as follows:

<table>
<thead>
<tr>
<th></th>
<th>Hedge Funds</th>
<th>Limited Partnerships</th>
<th>Real Estate Investment Fund</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance, June 30, 2009</td>
<td>$9,410,833</td>
<td>$5,650,873</td>
<td>$301,050</td>
<td>$15,362,756</td>
</tr>
<tr>
<td>Capital calls</td>
<td>-</td>
<td>1,573,412</td>
<td>-</td>
<td>1,573,412</td>
</tr>
<tr>
<td>Proceeds from distributions</td>
<td>-</td>
<td>(170,029)</td>
<td>-</td>
<td>(170,029)</td>
</tr>
<tr>
<td>Realized gains, net</td>
<td>-</td>
<td>-</td>
<td>9,013</td>
<td>9,013</td>
</tr>
<tr>
<td>Unrealized appreciation (depreciation), net</td>
<td>945,118</td>
<td>656,739</td>
<td>(50,363)</td>
<td>1,551,494</td>
</tr>
<tr>
<td>Balance, June 30, 2010</td>
<td>10,355,951</td>
<td>7,710,995</td>
<td>259,700</td>
<td>18,326,646</td>
</tr>
<tr>
<td>Capital calls</td>
<td>-</td>
<td>1,442,608</td>
<td>1,000,000</td>
<td>2,442,608</td>
</tr>
<tr>
<td>Proceeds from distributions</td>
<td>(1,500,000)</td>
<td>(393,985)</td>
<td>-</td>
<td>(1,893,985)</td>
</tr>
<tr>
<td>Unrealized appreciation, net</td>
<td>939,331</td>
<td>2,405,247</td>
<td>182,955</td>
<td>3,527,533</td>
</tr>
<tr>
<td>Balance, June 30, 2011</td>
<td>$9,795,282</td>
<td>$11,164,865</td>
<td>$1,442,655</td>
<td>$22,402,802</td>
</tr>
</tbody>
</table>
NOTE 3 - FAIR VALUE MEASUREMENTS (Continued)

Realized gains and unrealized appreciation and depreciation are included in net unrealized and realized losses on investments in the accompanying statements of activities and changes in net assets. Unrealized appreciation and depreciation, net on Level 3 investments relates to investments held as of June 30, 2011.

NOTE 4 - CONTRIBUTIONS RECEIVABLE

The majority of the University’s contributions receivable are due individual donors and foundations. Contributions receivable include approximately $1,670,000 and $552,000 from Board members as of June 30, 2011 and 2010, respectively. Contributions receivable at June 30 are as follows:

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross contributions outstanding</td>
<td>$3,582,762</td>
<td>$1,680,215</td>
</tr>
<tr>
<td>Less unamortized discount</td>
<td>(247,272)</td>
<td>(153,969)</td>
</tr>
<tr>
<td>Less allowance</td>
<td>(225,293)</td>
<td>(182,907)</td>
</tr>
<tr>
<td></td>
<td>$3,110,197</td>
<td>$1,343,339</td>
</tr>
</tbody>
</table>

Amounts due in:

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than one year</td>
<td>$1,699,182</td>
<td>$870,845</td>
</tr>
<tr>
<td>One to five years</td>
<td>1,483,580</td>
<td>409,370</td>
</tr>
<tr>
<td>More than five years</td>
<td>400,000</td>
<td>400,000</td>
</tr>
<tr>
<td></td>
<td>$3,582,762</td>
<td>$1,680,215</td>
</tr>
</tbody>
</table>

Total fundraising expense, representing the cost of the institutional advancement department and the comprehensive campaign, for the years ended June 30, 2011 and 2010 was $1,122,000 and $1,028,000, respectively, and is included in administrative and general expenses in the statement of activities and changes in net assets.

NOTE 5 - LINE-OF-CREDIT PAYABLE

The University has available a $2,000,000 demand line-of-credit agreement with a bank. The agreement is secured by certain real property, due on demand and bears interest at the bank’s prime lending rate (3.25% at June 30, 2011 and 2010). There were no borrowings outstanding at June 30, 2011 and 2010.

NOTE 6 - BONDS AND NOTES PAYABLE

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

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Series A of 1998</td>
<td>$9,450,000</td>
<td>$9,755,000</td>
</tr>
<tr>
<td>Series A of 2002</td>
<td>5,345,000</td>
<td>5,475,000</td>
</tr>
<tr>
<td>Series B of 2002</td>
<td>23,175,000</td>
<td>23,435,000</td>
</tr>
<tr>
<td>Series A of 2008</td>
<td>10,000,000</td>
<td>10,000,000</td>
</tr>
<tr>
<td>Series B of 2008</td>
<td>9,174,846</td>
<td>9,598,695</td>
</tr>
<tr>
<td></td>
<td>57,144,846</td>
<td>58,263,695</td>
</tr>
<tr>
<td>Less - Unamortized discount</td>
<td>911,067</td>
<td>956,118</td>
</tr>
<tr>
<td></td>
<td>$56,233,779</td>
<td>$57,307,577</td>
</tr>
</tbody>
</table>
CHATHAM UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

NOTE 6 - BONDS AND NOTES PAYABLE (Continued)

Scheduled principal repayments are as follows:

<table>
<thead>
<tr>
<th>Fiscal Year Ending June 30</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>$1,177,713</td>
</tr>
<tr>
<td>2013</td>
<td>1,239,996</td>
</tr>
<tr>
<td>2014</td>
<td>1,309,548</td>
</tr>
<tr>
<td>2015</td>
<td>1,382,865</td>
</tr>
<tr>
<td>2016</td>
<td>1,457,856</td>
</tr>
<tr>
<td>Thereafter</td>
<td>50,576,868</td>
</tr>
<tr>
<td></td>
<td>57,144,846</td>
</tr>
<tr>
<td>Less - Unamortized discount</td>
<td>911,067</td>
</tr>
<tr>
<td></td>
<td><strong>$56,233,779</strong></td>
</tr>
</tbody>
</table>

a. Series A of 1998

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

Interest expense on the Series A of 1998 Bonds for the years ended June 30, 2011 and 2010 was $510,566 and $525,813, respectively.

The Series A of 1998 Bonds are secured by facilities of the University. The University is also subject to certain financial and reporting covenants and is required to maintain a debt service reserve fund equal to the maximum annual debt service due in any fiscal year on the Series A of 1998 Bonds. Included in cash and cash equivalents at June 30, 2011 and 2010 was $851,406 and $843,301, respectively, to satisfy the debt service fund requirement.

b. Series A of 2002

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

Interest expense on the Series A of 2002 Bonds for the years ended June 30, 2011 and 2010 was $323,623 and $330,643, respectively.

The University is subject to certain financial and reporting covenants and is required to maintain a debt service reserve fund equal to the maximum annual debt service due in any fiscal year on the Series A of 2002 Bonds. Included in cash and cash equivalents at June 30, 2011 and 2010 was $471,108 and $466,680, respectively, to satisfy the debt service fund requirement.

c. Series B of 2002

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

Interest expense on the Series B of 2002 Bonds for the years ended June 30, 2011 and 2010 was $1,321,920 and $1,332,828, respectively.

The University is subject to certain financial and reporting covenants and is required to maintain a debt service reserve fund equal to the maximum annual debt service due in any fiscal year on the Series B of 2002 Bonds. Included in cash and cash equivalents at June 30, 2011 and 2010 was $2,406,533 and $2,359,757, respectively, to satisfy the debt service fund requirement.

d. 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 Farm campus, and payment of all or a portion of the costs incurred in connection with such financing. The Series A of 2008 Note bears an interest rate of 4.47%. 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, 2011 and 2010 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.
NOTE 6 - BONDS AND NOTES PAYABLE (Continued)

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, with the first payment due on August 1, 2009, and the final payment due on May 1, 2025.

Interest expense on the Series B of 2008 Notes for the years ended June 30, 2011 and 2010 was $635,976 and $661,670, 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.

NOTE 7 - RETIREMENT PLANS

The University sponsors two defined contribution retirement plans. A full-time employee over 21 years of age is eligible to participate in the plans 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 that is funded based upon hours worked. Pension expense charged to operations for these plans was approximately $1,336,000 and $1,221,000 for the years ended June 30, 2011 and 2010, 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, included in accrued liabilities in the accompanying statements of financial position, and the related fair value of assets held by the University are approximately $1,841,000 and $1,319,000 as of June 30, 2011 and 2010, respectively, related to these plans.

NOTE 8 - LEASES

The University has various lease agreements primarily involving the rental of property, vehicles and office equipment. These leases are noncancelable and expire on various dates through the year 2016. The lease agreement for the rental of the property contains a purchase option and four optional renewal terms of five years each for the first three renewal terms and three years and eleven months for the fourth and final renewal term.
NOTE 8 - LEASES (Continued)

Future minimum rental payments under the operating leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2011 are: 2012, $187,000; 2013, $183,000; 2014, $168,000; 2015, $49,000 and 2015, $7,000.

Rent expense for the years ended June 30, 2011 and 2010 was $960,000 and $1,028,000, respectively.

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 June 30, 2011 and 2010, respectively, and accumulated depreciation totaled $432,355 and $353,745 as of June 30, 2011 and 2010, respectively. (See Note 1.) Total obligations under this agreement are as follows:

<table>
<thead>
<tr>
<th>Fiscal Year Ending June 30</th>
<th>Amounts</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>$ 229,883</td>
</tr>
<tr>
<td>2013</td>
<td>235,998</td>
</tr>
<tr>
<td>2014</td>
<td>242,275</td>
</tr>
<tr>
<td>2015</td>
<td>248,720</td>
</tr>
<tr>
<td>2015</td>
<td>255,336</td>
</tr>
<tr>
<td>Thereafter</td>
<td>3,428,787</td>
</tr>
<tr>
<td></td>
<td>4,640,999</td>
</tr>
<tr>
<td>Less - Amounts representing interest</td>
<td>(1,640,439)</td>
</tr>
<tr>
<td>Present value of minimum lease payments</td>
<td>$ 3,000,560</td>
</tr>
</tbody>
</table>

NOTE 9 - RESTRICTED NET ASSET BALANCES

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

<table>
<thead>
<tr>
<th>Temporary restricted net assets:</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital campaign</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Gifts and other unexpended revenues available for scholarships, instruction and other programs</td>
<td>7,427,503</td>
<td>2,949,323</td>
</tr>
<tr>
<td>Realized and unrealized endowment gains restricted primarily for scholarships and professorships</td>
<td>12,856,432</td>
<td>7,123,891</td>
</tr>
<tr>
<td>Annuity and trust agreements</td>
<td>517,088</td>
<td>2,057,517</td>
</tr>
<tr>
<td></td>
<td>$ 20,801,023</td>
<td>$ 12,200,765</td>
</tr>
</tbody>
</table>
NOTE 9 - RESTRICTED NET ASSET BALANCES (Continued)

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

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Permanently restricted net assets:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Scholarships</td>
<td>$18,444,344</td>
<td>$15,026,505</td>
</tr>
<tr>
<td>Professorships and other</td>
<td>11,522,679</td>
<td>11,397,664</td>
</tr>
<tr>
<td>Eden Hall Campus</td>
<td>8,310,000</td>
<td>8,310,000</td>
</tr>
<tr>
<td>Library</td>
<td>670,539</td>
<td>670,539</td>
</tr>
<tr>
<td>Awards</td>
<td>470,047</td>
<td>468,897</td>
</tr>
<tr>
<td>General operations</td>
<td>409,197</td>
<td>647,061</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$39,826,806</strong></td>
<td><strong>$36,520,666</strong></td>
</tr>
</tbody>
</table>

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 choose to treat a percentage of the average market value of the endowment’s permanently restricted investments 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, 2011, the University utilized a 7.0% spending rate, 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, 2011 was the fiscal year ended June 30, 2010.

The University classifies as permanently restricted net assets 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 temporarily restricted net assets. In accordance with Act 141, the University has adopted a written investment policy, of which a section specifically related 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:

<table>
<thead>
<tr>
<th></th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Permanently Restricted</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>June 30, 2011</td>
<td>$18,279,426</td>
<td>$16,345,167</td>
<td>$31,516,806</td>
<td>$66,141,399</td>
</tr>
<tr>
<td>June 30, 2010</td>
<td>$15,226,517</td>
<td>$10,157,332</td>
<td>$28,210,666</td>
<td>$53,594,515</td>
</tr>
</tbody>
</table>
NOTE 10 - 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:

<table>
<thead>
<tr>
<th></th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Permanently Restricted</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Endowment net assets,</td>
<td>$11,505,625</td>
<td>$8,711,538</td>
<td>$26,738,171</td>
<td>$46,955,334</td>
</tr>
<tr>
<td>July 1, 2009</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment return:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment income</td>
<td>130,911</td>
<td>384,189</td>
<td>-</td>
<td>515,100</td>
</tr>
<tr>
<td>Net unrealized</td>
<td>1,274,853</td>
<td>3,376,733</td>
<td>172,790</td>
<td>4,824,376</td>
</tr>
<tr>
<td>appreciation</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contributions</td>
<td>-</td>
<td>-</td>
<td>1,299,705</td>
<td>1,299,705</td>
</tr>
<tr>
<td>Appropriation of</td>
<td>2,315,128</td>
<td>(2,315,128)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>endowment assets for</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>expenditures</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Endowment net assets,</td>
<td>$15,226,517</td>
<td>$10,157,332</td>
<td>$28,210,666</td>
<td>$53,594,515</td>
</tr>
<tr>
<td>June 30, 2010</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment return:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment income</td>
<td>268,647</td>
<td>810,481</td>
<td>-</td>
<td>1,079,128</td>
</tr>
<tr>
<td>Net unrealized</td>
<td>1,108,526</td>
<td>7,053,090</td>
<td>262,817</td>
<td>8,424,433</td>
</tr>
<tr>
<td>appreciation</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contributions</td>
<td>-</td>
<td>-</td>
<td>3,043,323</td>
<td>3,043,323</td>
</tr>
<tr>
<td>Appropriation of</td>
<td>1,675,736</td>
<td>(1,675,736)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>endowment assets for</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>expenditures</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Endowment net assets,</td>
<td>$18,279,426</td>
<td>$16,345,167</td>
<td>$31,516,806</td>
<td>$66,141,399</td>
</tr>
<tr>
<td>June 30, 2011</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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 organization 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 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 2011 and 2010, the spendable return approximated $1,678,000 and $2,315,000, 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 unrestricted operating funds. 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. At June 30, 2011 and 2010, the aggregate fair market value of certain endowment funds was less than the original corpus by $2,322,000 and $3,530,000, respectively.
CHATHAM UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

NOTE 11 - PELL GRANTS AND PENNSYLVANIA HIGHER EDUCATION ASSISTANCE AGENCY PROGRAMS

Activity of the Pell Grant and Pennsylvania Higher Education Assistance Agency (PHEAA) programs is not reflected in the University's financial statements because the amounts represent direct grants to students. Students received $1,292,952 and $1,091,724 from the Federal Pell Grant and $1,038,067 and $984,863 from PHEAA programs in fiscal years 2011 and 2010, respectively.

NOTE 12 - COMMITMENTS AND CONTINGENCIES

In October 2008, the University signed a consent decree agreement with the U.S. Department of Justice under the Americans with Disabilities Act to improve accessibility of the University’s facilities. The terms of the agreement call for specified improvements to be made over five years. The total current estimated costs under the agreement approximate $2,000,000, and are expected to be incurred ratably over the remaining term of the agreement. As of June 30, 2011, the University had an outstanding commitment of approximately $1,470,000 under the terms of this agreement.

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

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

NOTE 13 - CONDITIONAL ASSET RETIREMENT OBLIGATIONS

The Accounting for Conditional Asset Retirement Obligations topic of the 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 $414,000 and $392,000 as of June 30, 2011 and 2010, 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 14 - INCOME TAXES

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

The University follows the 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 financial statements. The University's statements of financial position at June 30, 2011 and 2010 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 2008.
COMPLIANCE AND INTERNAL CONTROL REPORT
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Trustees
Chatham University
Pittsburgh, Pennsylvania

We have audited the financial statements of Chatham University (University) as of and for the year ended June 30, 2011, and have issued our report thereon dated December 31, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency in internal control over financial reporting (Finding 2011-1). A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

The University’s response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the University’s response and, accordingly, we express no opinion on it.

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

[Signature]

Pittsburgh, Pennsylvania
December 13, 2011
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
CHATHAM UNIVERSITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2011

<table>
<thead>
<tr>
<th>Federal/Pass-Through Grantor Program Title</th>
<th>Contract Number</th>
<th>Federal CFDA Number</th>
<th>Amount Expended</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Department of Education:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Federal Pell Grant Program</td>
<td>N/A</td>
<td>84.063</td>
<td>$1,284,049</td>
</tr>
<tr>
<td>Federal Supplemental Educational Opportunity Grant Program</td>
<td>N/A</td>
<td>84.007</td>
<td>105,857</td>
</tr>
<tr>
<td>Federal Work-Study Program</td>
<td>N/A</td>
<td>84.033</td>
<td>347,587</td>
</tr>
<tr>
<td>National Science and Mathematics Access to Retain Talent Grant</td>
<td>N/A</td>
<td>84.376</td>
<td>8,000</td>
</tr>
<tr>
<td>Academic Competitiveness Grant</td>
<td>N/A</td>
<td>84.375</td>
<td>45,550</td>
</tr>
<tr>
<td>Teacher Education Assistance for College and Higher Education Grant</td>
<td>N/A</td>
<td>84.379</td>
<td>32,000</td>
</tr>
<tr>
<td>HRSA - Non-ARRA Scholarships For Disadvantaged Students</td>
<td>N/A</td>
<td>93.925</td>
<td>44,102</td>
</tr>
<tr>
<td>HRSA - ARRA Scholarships For Disadvantaged Students</td>
<td>N/A</td>
<td>93.407</td>
<td>66,770</td>
</tr>
<tr>
<td>Federal Perkins Loan Program (Note 3)</td>
<td>N/A</td>
<td>84.038</td>
<td>-</td>
</tr>
<tr>
<td>Direct Loan Program (Note 4)</td>
<td>N/A</td>
<td>84.268</td>
<td>-</td>
</tr>
<tr>
<td>Total Student Financial Assistance</td>
<td></td>
<td></td>
<td>1,933,915</td>
</tr>
<tr>
<td>NATIONAL SCIENCE FOUNDATION: Direct Awards</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mathematical and Physical Sciences</td>
<td>N/A</td>
<td>47.049</td>
<td>66,717</td>
</tr>
<tr>
<td>Education and Human Resources</td>
<td>N/A</td>
<td>47.076</td>
<td>98,732</td>
</tr>
<tr>
<td>Total National Science Foundation</td>
<td></td>
<td></td>
<td>165,449</td>
</tr>
<tr>
<td>DEPARTMENT OF HEALTH AND HUMAN SERVICES: Direct Award</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ARRA - Training in Primary Care Medicine and Dentistry</td>
<td>N/A</td>
<td>93.403</td>
<td>121,994</td>
</tr>
<tr>
<td>DEPARTMENT OF HEALTH AND HUMAN SERVICES: Indirect Award</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pass-Through Allegheny County:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Medical Assistance Program</td>
<td>N/A</td>
<td>93.778</td>
<td>168,667</td>
</tr>
<tr>
<td>DEPARTMENT OF ENERGY: Indirect Award</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pass-Through State of Pennsylvania:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ARRA - Weatherization Assistance for Low-income Persons</td>
<td>N/A</td>
<td>81.041</td>
<td>71,136</td>
</tr>
<tr>
<td>Total Department of Energy</td>
<td></td>
<td></td>
<td>71,136</td>
</tr>
<tr>
<td>Total Federal Awards</td>
<td></td>
<td></td>
<td>$2,461,161</td>
</tr>
</tbody>
</table>

The notes to schedule of expenditures of federal awards should be read with this schedule.
CHATHAM UNIVERSITY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2011

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:

<table>
<thead>
<tr>
<th>Loan Program</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal Perkins Loan Program</td>
<td>$1,038,067</td>
</tr>
</tbody>
</table>

Total loan disbursements for the fiscal year amount to $169,025, 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, 2011, 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):

<table>
<thead>
<tr>
<th>Loans Processed</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal Direct Loans</td>
<td>$26,322,861</td>
</tr>
</tbody>
</table>
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 CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Trustees
Chatham University
Pittsburgh, Pennsylvania

Compliance

We have audited the compliance of Chatham University (University) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on the University’s major federal program for the year ended June 30, 2011. The University’s major federal programs are identified in the summary of auditors’ results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the University’s administration. Our responsibility is to express an opinion on the University’s compliance based on our audit.

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

In our opinion, the University complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2011.

We did not audit the University’s compliance with requirements governing student loan repayments over Perkins loans. Those requirements govern functions that are performed by Educational Computer Systems, Inc. (ECSI) through June 30, 2011. 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, “Compliance Audits (Attestation Engagements) of Federal Student Financial Assistance Programs at Participating Institutions and Institution Servicers” (Audit Guide). 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.

Internal Control Over Compliance

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

Requirements governing student loan repayments are performed by ECSI. Internal control over compliance relating to such functions has been addressed by other accountants in accordance with the Audit Guide. A copy of the service organization accountants’ report has been furnished to us. However, the scope of our work did not extend to internal control maintained at ECSI.

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.

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 the internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

Schneider Downs & Co., Inc.

Pittsburgh, Pennsylvania
December 19, 2011
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
PART I - SUMMARY OF AUDITORS' RESULTS

Financial Statement Section:
Type of auditors' report issued: Unqualified

Internal control over financial reporting:
Material weakness(es) identified? __________ yes __ X__ no

Significant deficiency(ies) identified not considered to be material weaknesses? __ X__ yes __________ 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))? __________ yes __ X__ no

Identification of major programs:

<table>
<thead>
<tr>
<th>CFDA Numbers</th>
<th>Name of Federal Programs</th>
</tr>
</thead>
<tbody>
<tr>
<td>84.063, 84.007, 84.033, 84.376, 84.375, 84.379, 93.925, 93.407, 84.038, 84.268, 93.403</td>
<td>Student Financial Aid Cluster, ARRA - Training in Primary Care Medicine and Dentistry</td>
</tr>
</tbody>
</table>

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

Auditee qualified as low-risk auditee? __ X__ yes __________ no

The independent auditors' report on compliance should be read with this schedule.
PART II - FINANCIAL STATEMENT FINDINGS SECTION

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

Finding 2011-01:
Criteria: The University must establish and maintain appropriate internal control over financial reporting that produces financial statements in accordance with generally accepted accounting principles.

Condition: In a prior year, the University entered into a significant capital lease. At that time, the required lease analysis was performed and the related journal entries had been established. However, errors were identified in the recordkeeping for this lease during the current year audit, resulting in an adjustment to the financial statements and restatement of prior year financial statements. This condition was considered to represent a significant deficiency in internal control over financial reporting.

Context: During our current year audit, an error was identified related to this capital lease resulting in an adjustment to current period and prior periods financial statements.

Effect: The University's financial statements for 2010 and 2009 were restated.

Cause: The University's account reconciliation of the capital lease was not being reviewed.

Recommendation: We recommend the University develop a process to ensure timely review of the capital lease account reconciliation.

Views of Responsible Officials and Planned Corrective Action: We concur with the finding and have implemented a process to ensure the capital lease reconciliation is reviewed on a timely basis and to ensure the related accounting is appropriate through the lease term.

The independent auditors’ report on compliance should be read with this schedule.
SCHEDULE OF PRIOR AUDIT FINDINGS
CHATHAM UNIVERSITY

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

<table>
<thead>
<tr>
<th>Finding Number</th>
<th>Finding</th>
<th>Status</th>
</tr>
</thead>
</table>

There were no prior year audit findings.