

IMMACULATA UNIVERSITY
CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2015 AND 2014

**IMMACULATA UNIVERSITY
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YEARS ENDED JUNE 30, 2015 AND 2014**

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Immaculata University
Immaculata, Pennsylvania

We have audited the accompanying consolidated financial statements of Immaculata University, which comprise the consolidated statement of financial position as of June 30, 2015, and the related consolidated statement of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Board of Trustees
Immaculata University

Opinion

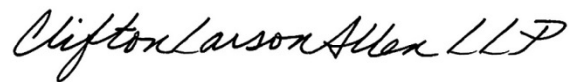
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Immaculata University as of June 30, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 2 to the consolidated financial statements, errors resulting in an overstatement of unrestricted net assets previously reported as of June 30, 2013, were discovered during the current year. Accordingly, certain amounts have been restated in the 2014 consolidated financial statements now presented. Our opinion is not modified with respect to this matter.

Other Matter

The 2014 consolidated financial statements of Immaculata University were audited by other auditors whose report dated October 8, 2014 expressed, prior to restatement, an unmodified opinion on those statements.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Plymouth Meeting, Pennsylvania
October 28, 2015

IMMACULATA UNIVERSITY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2015 AND 2014

ASSETS	2015	2014 (As Restated)
Cash and Cash Equivalents	\$ 2,469,609	\$ 2,731,306
Accounts Receivable, Less Allowance for Doubtful Accounts of \$1,014,454 and \$1,001,885 in 2015 and 2014, Respectively	1,986,257	1,698,917
Prepaid Expenses	800,609	827,287
Contributions Receivable	-	75,648
Investments	23,107,794	22,564,005
Deposits Held with Trustees	4,414,038	8,173,390
Loans to Students	458,819	462,649
Deferred Charges	717,132	763,566
Property, Plant, and Equipment:		
Land	212,719	212,719
Buildings and Improvements	99,018,282	93,662,092
Furniture, Equipment, and Library Books	33,059,054	31,710,644
Improvements in Progress	1,167,536	4,004,118
	133,457,591	129,589,573
Less Accumulated Depreciation	(74,818,163)	(70,703,727)
Net Property, Plant, and Equipment	58,639,428	58,885,846
 Total Assets	 \$ 92,593,686	 \$ 96,182,614
LIABILITIES AND NET ASSETS		
Accounts Payable and Accrued Expenses	\$ 2,553,712	\$ 3,467,442
Student Deposits and Deferred Revenue	2,788,494	2,484,256
Notes Payable	7,962,145	7,901,662
Bonds Payable	39,831,891	40,260,442
Government Advances for Student Loans	367,802	367,802
Asset Retirement Obligation	2,232,657	2,167,628
Total Liabilities	55,736,701	56,649,232
Net Assets:		
Unrestricted	19,936,966	22,998,068
Temporarily Restricted	9,372,866	9,239,984
Permanently Restricted	7,547,153	7,295,330
Total Net Assets	36,856,985	39,533,382
 Total Liabilities and Net Assets	 \$ 92,593,686	 \$ 96,182,614

See accompanying Notes to Consolidated Financial Statements

IMMACULATA UNIVERSITY
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
OPERATING REVENUES				
Tuition and Fees, Net of Scholarship				
Allowances of (\$13,292,888)	\$ 38,328,421	\$ -	\$ -	\$ 38,328,421
Contributed Services, Net	1,349,831	-	-	1,349,831
Federal Grants and Contracts	727,849	-	-	727,849
State Grants and Contracts	205,777	-	-	205,777
Contributions	681,705	401,428	-	1,083,133
Investment Income	659,592	738,208	-	1,397,800
Auxiliary Enterprises	6,464,509	-	-	6,464,509
Other Revenues	677,232	3,000	-	680,232
Net Assets Released from Restrictions	678,746	(678,746)	-	-
Total Operating Revenues	<u>49,773,662</u>	<u>463,890</u>	<u>-</u>	<u>50,237,552</u>
OPERATING EXPENSES				
Instructional	17,318,943	-	-	17,318,943
Academic Support	2,936,179	-	-	2,936,179
Student Services	9,685,773	-	-	9,685,773
Institutional Support	15,447,580	-	-	15,447,580
Auxiliary Enterprises	7,019,971	-	-	7,019,971
Total Operating Expenses	<u>52,408,446</u>	<u>-</u>	<u>-</u>	<u>52,408,446</u>
Change in Net Assets from Operating Activities	<u>(2,634,784)</u>	<u>463,890</u>	<u>-</u>	<u>(2,170,894)</u>
NONOPERATING INCOME (EXPENSE)				
Realized and Unrealized Losses on Investments, Net of Spending Rate	(434,651)	(337,792)	-	(772,443)
Contributions for Capital Projects	-	15,117	-	15,117
Contributions Restricted for Long-Term Investment	-	-	251,823	251,823
Net Assets Released from Restriction	8,333	(8,333)	-	-
Total Nonoperating Income (Expense)	<u>(426,318)</u>	<u>(331,008)</u>	<u>251,823</u>	<u>(505,503)</u>
Change in Net Assets	(3,061,102)	132,882	251,823	(2,676,397)
Net Assets, Beginning of Year, As Restated	<u>22,998,068</u>	<u>9,239,984</u>	<u>7,295,330</u>	<u>39,533,382</u>
Net Assets, End of Year	<u>\$ 19,936,966</u>	<u>\$ 9,372,866</u>	<u>\$ 7,547,153</u>	<u>\$ 36,856,985</u>

See accompanying Notes to Consolidated Financial Statements

IMMACULATA UNIVERSITY
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2014

	<u>Unrestricted (As Restated)</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total (As Restated)</u>
OPERATING REVENUES				
Tuition and Fees, Net of Scholarship				
Allowances of (\$13,758,145)	\$ 42,129,389	\$ -	\$ -	\$ 42,129,389
Contributed Services, Net	1,556,737	-	-	1,556,737
Federal Grants and Contracts	816,424	-	-	816,424
State Grants and Contracts	250,277	-	-	250,277
Contributions	655,324	454,865	-	1,110,189
Investment Income	563,367	470,394	-	1,033,761
Auxiliary Enterprises	6,912,749	-	-	6,912,749
Other Revenues	610,910	3,625	-	614,535
Net Assets Released from Restrictions	<u>518,129</u>	<u>(518,129)</u>	-	-
Total Operating Revenue	<u>54,013,306</u>	<u>410,755</u>	-	<u>54,424,061</u>
OPERATING EXPENSES				
Instructional	18,068,289	-	-	18,068,289
Academic Support	2,900,837	-	-	2,900,837
Student Services	9,687,320	-	-	9,687,320
Institutional Support	15,788,979	-	-	15,788,979
Auxiliary Enterprises	<u>7,548,216</u>	-	-	<u>7,548,216</u>
Total Operating Expenses	<u>53,993,641</u>	-	-	<u>53,993,641</u>
Change in Net Assets from Operating Activities	<u>19,665</u>	<u>410,755</u>	-	<u>430,420</u>
NONOPERATING INCOME (EXPENSE)				
Realized and Unrealized Gain on Investments, Net of Spending Rate	173,812	965,529	-	1,139,341
Loss on Swap Agreement	(23,525)	-	-	(23,525)
Loss on Bond Refinancing	(146,994)	-	-	(146,994)
Contributions for Capital Projects	-	132,803	-	132,803
Contributions Restricted for Long-Term Investment	-	-	158,817	158,817
Reclassification for Term Endowment	(55,000)	55,000	-	-
Net Assets Released from Restriction	<u>227,619</u>	<u>(227,619)</u>	-	-
Total Nonoperating Income	<u>175,912</u>	<u>925,713</u>	<u>158,817</u>	<u>1,260,442</u>
Change in Net Assets	195,577	1,336,468	158,817	1,690,862
Net Assets, Beginning of Year, As Restated	<u>22,802,491</u>	<u>7,903,516</u>	<u>7,136,513</u>	<u>37,842,520</u>
Net Assets, End of Year, As Restated	<u>\$ 22,998,068</u>	<u>\$ 9,239,984</u>	<u>\$ 7,295,330</u>	<u>\$ 39,533,382</u>

See accompanying Notes to Consolidated Financial Statements

IMMACULATA UNIVERSITY
CONDOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2015 AND 2014

	2015	2014 (As Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (2,676,397)	\$ 1,690,862
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	4,551,476	4,615,796
Accretion of Asset Retirement Obligation	65,029	63,134
Loss on Swap Agreement	-	23,525
Loss on Extinguishment of Debt	-	146,994
Loss on Disposal of Property, Plant, and Equipment	67,530	6,593
Contributions Restricted for Long-Term Investment	(251,823)	(158,817)
Contributions for Capital Projects	(15,117)	(132,803)
Realized and Unrealized Gains on Investments	(269,031)	(2,031,957)
Changes in Assets and Liabilities:		
Accounts Receivable, Net	(287,340)	190,638
Contribution Receivable	75,648	(35,000)
Prepaid Expenses	26,678	(64,032)
Accounts Payable and Accrued Expenses	(105,386)	(354,738)
Student Deposits and Deferred Revenue	304,238	(127,350)
Net Cash Provided by Operating Activities	<u>1,485,505</u>	<u>3,832,845</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Property, Plant, and Equipment	(4,638,552)	(3,350,417)
Net (Purchases) Sales of Investments	(274,758)	279,646
Net Loans to Students	3,830	(8,264)
Net Cash Used in Investing Activities	<u>(4,909,480)</u>	<u>(3,079,035)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of Bond Refinancing Costs	-	(351,542)
Swap Termination Payment	-	(664,320)
Decrease (Increase) in Deposit with Trustees	3,759,352	(3,836,005)
Proceeds from Issuance of Debt	-	18,941,025
Refunding of Long-Term Debt	-	(12,875,800)
Proceeds for Contributions Restricted for Long-Term Investment	251,823	158,796
Proceeds for Contributions Restricted for Capital Projects	15,117	149,027
Principal Payments on Notes Payable	(414,014)	(347,128)
Principal Payments on Bonds Payable	(450,000)	(640,416)
Net Cash Provided by Financing Activities	<u>3,162,278</u>	<u>533,637</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(261,697)	1,287,447
Cash and Cash Equivalents at Beginning of Year	<u>2,731,306</u>	<u>1,443,859</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 2,469,609</u>	<u>\$ 2,731,306</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid for Interest	\$ 1,923,219	\$ 1,750,527
Noncash Gifts of Stock	55,848	13,912
Capital Lease on Purchased Equipment	473,886	192,837
Liabilities Incurred in Acquisition of Equipment	119,872	928,215

See accompanying Notes to Consolidated Financial Statements

IMMACULATA UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

NOTE 1 OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Operations

Immaculata University (the University) is a Catholic institution of higher education founded for women in 1920 by the Sisters, Servants of the Immaculate Heart of Mary (the Congregation). The University offers undergraduate and graduate programs directed primarily toward liberal and professional education. Effective fall 2005, the University expanded its market in higher education to include both men and women in its traditional undergraduate program. The University offers courses in distance and online instruction in addition to on-campus and off-site graduate and undergraduate programs serving the adult learner.

The University, to attain the goal of developing the whole person of any faith within a Catholic community, encourages the student to see in liberal education an integrative process contributing to the formation of a truly educated person: value-oriented and committed to seeking the truth, promoting justice, and fostering peace.

Principles of Consolidation

The financial statements of the University include the net assets and operations of Enserv, Inc. (Enserv), a Pennsylvania nonprofit corporation that was organized to build, own and operate a sewage treatment facility (the Plant). Certain members of Enserv's board of directors are employed by or affiliated with the University, which provides Enserv with funds for operation and maintenance of the Plant. There were no amounts due from (to) Enserv as of June 30, 2015 and 2014. All intercompany transactions and balances have been eliminated in consolidation. For additional information about Enserv refer to Note 14.

Basis of Presentation

The University's consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles for not-for-profit organizations.

Net assets and revenues, expenses, gains, and losses are classified 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.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the University and/or the passage of time.

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

IMMACULATA UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

NOTE 1 OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

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 are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets. Clarifications of donor intentions are presented as reclassifications between the applicable classes of net assets in the year known.

Operation and maintenance of plant, depreciation, interest expense, and amortization of bond discount and issue costs are allocated to the functional classifications based on square footage.

Cash and Cash Equivalents

Cash and cash equivalents include interest-bearing money market accounts and short-term investments with an original maturity of three months or less. At June 30, 2014, \$631,494 of cash and cash equivalents was held in an escrow account with M&T Bank supporting the campus housing project financed with the 2013 debt issuance. The University completed the project during fiscal year 2015 and all funds were released that were held in escrow.

Contributions

Contributions, including unconditional promises to give, are recognized as revenues in the appropriate category of net assets in the period received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value at the date of the gift. Contributions to be received after one year are discounted using an appropriate discount rate commensurate with the period of collection. Amortization of discounts is included in contribution revenue in accordance with donor-imposed restrictions. An allowance for uncollectible contributions receivable is provided based upon management's judgment, including such factors as prior collection history, type of contribution, and nature of fund-raising activity.

Investments

Investments in fixed income and marketable equity securities are stated at fair value based on quoted market prices. Investments acquired by gift are recorded at the fair value on the date the gift was received. Cost of investments sold is determined on the first-in, first-out method, and investment transactions are recognized on the trade date. Net realized and unrealized gains and losses on investments are reflected in the consolidated statement of activities.

Deposits with Trustees

Deposits with bond trustees consist of debt service and reserve funds with a market value of \$4,414,038. These funds are invested in fixed income securities, and will be used for debt service.

IMMACULATA UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

NOTE 1 OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derivative and Hedging Activities

The University accounts for derivatives and hedging activities as either assets or liabilities on the consolidated statement of financial position at their respective fair values. Changes in fair value of derivatives are recognized as a change in net assets on the consolidated statement of activities. The University's consolidated financial statements include an interest rate swap that was terminated in December 2013 (Note 7).

Property, Plant, and Equipment

The properties, campus, and buildings known as Immaculata University are owned by the Congregation, except for Alumnae Hall, Gabriele Library, Lillian P. Lettiere Center, Draper Walsh Stadium, and various athletic facilities (which are owned by the University). By resolution of the Congregation's Executive Council, the campus and buildings are made available and all risks and rewards of ownership are transferred to the University for educational purposes and have been included in property, plant, and equipment on the accompanying consolidated statements of financial position. Improvements made to these properties and buildings are owned by the University. Plant assets are stated at cost or, in the case of gifts, at fair value at date of gift, net of accumulated depreciation. Repairs and maintenance costs are expensed as incurred.

Plant assets are capitalized and depreciated using the straight-line method according to the following schedule:

Buildings	20 to 40 years
Building improvements	5 to 40 years
Furniture, equipment, and library books	3 to 20 years

Depreciation expense for the years ended June 30, 2015 and 2014 was \$4,483,593 and \$4,551,225 respectively.

Costs of purchased software are capitalized along with internal and external costs incurred during the application development stage (i.e., from the time the software is selected until it is ready for use). Capitalized costs are amortized on a straight-line basis over the expected life of the software. Computer software maintenance costs are expensed as incurred.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

IMMACULATA UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

NOTE 1 OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Tuition and Student Financial Aid

Tuition revenue is recognized in the period the related academic services are rendered. The University provides financial aid to eligible students, generally in a “package” that includes loans, compensation under work-study programs, and/or grant and scholarship awards. The loans are provided primarily through programs of the U.S. government (including direct and guaranteed loan programs) under which the University is responsible only for certain administrative duties. The grants and scholarships include awards provided from gifts and grants from private donors, income earned on endowment funds restricted for student aid, and University funds.

Income Taxes

The University is qualified as a not-for-profit organization under Section 501(c)(3) of the Internal Revenue Code, as amended. Accordingly, the University is not subject to income taxes except to the extent it has taxable income from activities that are not related to its exempt purpose. The University recognizes the effect of income tax positions, if any, only if those positions are more likely than not of being sustained. No provision for income taxes was required for fiscal year 2015 or 2014.

Leases

The University leases certain facilities and equipment. Certain of these leases contain rent escalations and renewal options, and require payment for taxes, insurance, and maintenance. Rent expense is charged to operations as incurred.

Nonoperating Activities

The University considers endowment gifts, capital campaign contributions, net realized and unrealized gains and losses on investments in excess of the University’s spending rate, and loss on interest rate swap, and debt refundings to be nonoperating activities.

Asset Retirement Obligation

An asset retirement obligation is a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. The University records a liability to perform the asset retirement activity.

Subsequent Events

In preparing these consolidated financial statements, the University has evaluated events and transactions through October 28, 2015, the date the consolidated financial statements were issued.

IMMACULATA UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

NOTE 2 RESTATEMENT

Two errors resulting in an overstatement of unrestricted net assets previously reported as of June 30, 2013, were discovered during the current year.

Costs related to the construction of a student center were capitalized and included in improvements in progress in prior years. Subsequently, the University made a decision to change the scope and timing of this project and, therefore, not all of the originally capitalized costs could be used towards the revised project. Those costs with no future use were not properly charged to operations at that time.

Upon the initial recording of an asset retirement obligation for asbestos remediation several years ago, the University did not properly determine the fair value of the obligation and also failed to record the asset retirement cost and related depreciation.

The following consolidated financial statement line items for 2014 were restated:

	As Previously Reported	As Restated
Consolidated Statement of Financial Position, June 30, 2014:		
Buildings and Improvements	\$ 93,016,992	\$ 93,662,092
Improvements in Progress	6,080,122	4,004,118
Accumulated Depreciation	(70,273,660)	(70,703,727)
Asset Retirement Obligation	1,832,291	2,167,628
Unrestricted Net Assets	25,194,377	22,998,068
Consolidated Statement of Activities, Year Ended June 30, 2014:		
Unrestricted:		
Instructional	\$ 18,062,163	\$ 18,068,289
Academic Support	2,898,513	2,900,837
Student Services	9,684,785	9,687,320
Institutional Support	15,784,120	15,788,979
Auxiliary Enterprises	7,542,935	7,548,216
Operating Expenses	53,972,516	53,993,641
Change in Unrestricted Net Assets from Operating Activities	40,790	19,665
Change in Unrestricted Net Assets	216,702	195,577
Change in Net Assets	1,711,987	1,690,862
Unrestricted:		
Net Assets, Beginning of Year	\$ 24,977,675	\$ 22,802,491
Net Assets, End of Year	25,194,377	22,998,068

IMMACULATA UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

NOTE 3 INVESTMENTS

Investments as of June 30, 2015 and 2014 are as follows:

	<u>2015</u>	<u>2014</u>
Common and Preferred Stocks	\$ 10,662,222	\$ 11,135,546
Corporate Bonds and U.S. Government Obligations	2,485,584	2,277,255
Money Market Funds	6,086,604	5,434,077
Mutual Funds:		
Fixed Income	2,022,563	1,986,351
Equity Securities	1,850,821	1,730,776
	<u>\$ 23,107,794</u>	<u>\$ 22,564,005</u>

Investments are exposed to certain risks, such as interest rate, credit, and overall market volatility. The stock portfolio is well diversified and is principally comprised of the securities of well established companies with high quality, widely accepted products and services. Due to the level of risk associated with certain investment securities, changes in the value of investment securities could occur in the near term, and these changes could materially affect the amounts reported in the accompanying consolidated financial statements.

Investment income (loss) is summarized as follows for the years ended June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Dividend and Interest Income	\$ 547,974	\$ 303,263
Realized and Unrealized Gains	269,031	2,031,957
Investment Management Fees	(191,648)	(162,118)
	<u>\$ 625,357</u>	<u>\$ 2,173,102</u>

Investment income is classified in the consolidated statements of activities as follows for the years ended June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Operating	\$ 1,397,800	\$ 1,033,761
Nonoperating	(772,443)	1,139,341
	<u>\$ 625,357</u>	<u>\$ 2,173,102</u>

IMMACULATA UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

NOTE 4 FAIR VALUE MEASUREMENTS

The fair values of the University's financial instruments represent management's best estimates of the amounts that would be received to sell those assets or that would be paid to transfer those liabilities in an orderly transaction between market participants at that date. Those fair value measurements maximize the use of observable inputs. However, in situations where there is little, if any, market activity for the asset or liability at the measurement date, the fair value measurement reflects the University's own judgments about the assumptions that market participants would use in pricing the asset or liability. Those judgments are developed by the University based on the best information available in the circumstances.

Common and preferred stocks, corporate bonds, U.S. government obligations, money market, and mutual funds are determined using quoted market prices at the reporting date multiplied by the quantity on hand.

Fair value is 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 fair value hierarchy prioritizes the inputs of valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1: Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities that are traded in an active exchange market.

Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. The University did not have any Level 3 holdings as of June 30, 2015 or 2014.

IMMACULATA UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 4 FAIR VALUE MEASUREMENTS (CONTINUED)

The University's assets and liabilities measured at fair value on a recurring basis are summarized below as of June 30, 2015 and 2014:

	Fair value as of June 30, 2015		
	Total	Level 1	Level 2
Assets:			
Investments:			
Common and Preferred Stock	\$ 10,662,222	\$ 10,662,222	\$ -
Corporate Bonds and U.S. Government Obligations	2,485,584	-	2,485,584
Money Market and Mutual Funds	9,959,988	9,959,988	-
	23,107,794	20,622,210	2,485,584
Deposits Held with Trustees	4,414,038	4,414,038	-
Total	<u>\$ 27,521,832</u>	<u>\$ 25,036,248</u>	<u>\$ 2,485,584</u>

	Fair value as of June 30, 2014		
	Total	Level 1	Level 2
Assets:			
Investments:			
Common and Preferred Stock	\$ 11,135,546	\$ 11,135,546	\$ -
Corporate Bonds and U.S. Government Obligations	2,277,255	-	2,277,255
Money Market and Mutual Funds	9,151,204	9,151,204	-
	22,564,005	20,286,750	2,277,255
Deposits Held with Trustees	8,173,390	8,173,390	-
Total	<u>\$ 30,737,395</u>	<u>\$ 28,460,140</u>	<u>\$ 2,277,255</u>

Short-term Assets and Liabilities

The carrying amount of student accounts receivable, accounts payable and accrued expenses approximates fair value due to the short maturity of these financial instruments.

Loans Receivable

Loans receivable are carried at face value less an allowance for doubtful accounts. A reasonable estimate of the fair value of loans receivable under student loan programs is not practical to determine because loans may only be assigned to the federal government or its designees.

Debt

Information about the fair value of bonds payable is disclosed in Note 7 to the consolidated financial statements.

IMMACULATA UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 5 CONTRIBUTIONS RECEIVABLE

The University records unconditional promises to give as contributions receivable. Contributions due beyond one year are discounted to the present value using discount rates ranging from 1.4% to 5.1%. Contributions receivable, net, consist primarily of pledges to a capital campaign to support the renovation and construction of campus facilities and are summarized as follows as of June 30, 2015 and 2014:

	2015	2014
Unconditional Promises Expected to be Collected in:		
Less than One Year	\$ -	\$ 93,333
One Year to Five Years	-	-
	-	93,333
Less Allowance for Uncollectible Contributions Receivable	-	(13,542)
Less Unamortized Discount on Contributions Receivable	-	(4,143)
	\$ -	\$ 75,648

NOTE 6 NOTES PAYABLE

The University has a loan agreement with the Congregation in the amount of \$7,000,000 to be used for general purposes of the University. The principal outstanding as of June 30, 2015 and 2014 was \$6,525,000. The University was required to pay interest on the unpaid balance on a semiannual basis, at a rate based on the current ten-year Treasury note. The note was renegotiated and effective April 14, 2014, the interest rate became fixed at 2% with payments due on a semi-annual basis. The loan is repayable by October 15, 2023, providing certain covenants are met.

Campus renovation projects and dining facility renovations have been partially financed by a loan from a University contractor. The total unamortized portion of the financial commitment of \$300,000 was paid by the University in February 2013. In fiscal year ending 2013, the contractor increased an existing financial commitment to the University to assist in the renovation of dining facilities and purchases of equipment. The financial commitment is amortized on a straight-line basis over the number of months remaining until June 2020. The unamortized balance as of June 30, 2015 and 2014 was \$193,292 and \$231,951, respectively.

The University had a line of credit agreement with PNC Bank providing for borrowings up to \$3,000,000 at interest rates of LIBOR plus three hundred twenty-five basis points. The line expired on December 16, 2013 and was replaced with a line of credit provided by Manufacturers and Traders Trust Company (M&T Bank) providing for borrowings up to \$6,500,000 at interest rates of one-month LIBOR rounded up to the nearest 1/16th of one percent plus two hundred seventy-five basis points. The line extends through December 16, 2015 and is annually renewable thereafter. There were no borrowings in fiscal year 2015 or 2014 and no balance outstanding at June 30, 2015 or June 30, 2014.

IMMACULATA UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 6 NOTES PAYABLE (CONTINUED)

The University has various capital lease agreements for pianos, computer hardware, and maintenance equipment. The aggregate outstanding balance was \$899,720 and \$800,578, with an average effective rate of interest of 4.3% and 5.8% as of June 30, 2015 and 2014, respectively. The leases expire through 2017 and are repayable ratably over the term.

A note payable from Enserv to the University was established as consideration for the construction costs paid by the University for the Plant. The total amount outstanding was \$344,133 at June 30, 2015 and 2014, respectively (Note 14).

NOTE 7 BONDS PAYABLE

Bonds payable as of June 30, 2015 and 2014 consisted of:

	2015	2014
Chester County Health and Education Facilities Authority Revenue Bonds, Series of 2005	\$ 21,080,000	\$ 21,530,000
Less Unamortized Discount, Series of 2005	(201,429)	(214,678)
Chester County Health and Education Facilities Authority Revenue Bonds, Series of 2013 MM2	5,700,000	5,700,000
Less Unamortized Discount, Series of 2013 MM2	(64,736)	(67,179)
Chester County Health and Education Facilities Authority Revenue Bonds, Series of 2013 S3	13,410,000	13,410,000
Less Unamortized Discount, Series of 2013 S3	(91,944)	(97,701)
	\$ 39,831,891	\$ 40,260,442

The Series of 1998 Bonds were issued to provide advance refunding of the University's Series of 1991 Bonds and to provide financing for the improvements and renovations to Villa Maria, Lourdes, and Nazareth Halls. On December 15, 2010, the University, through the Chester County Health and Education Facilities Authority, entered into a tax-exempt loan agreement (2010 Loan) with PNC Bank, the proceeds of which, along with the 1998 Bonds Debt Service Reserve Fund, were used to redeem all outstanding 1998 Bonds. On December 16, 2013, the University, through the Chester County Health and Education Facilities Authority, issued Series 2013 S3 Bonds in the amount of \$13,410,000 used as a current refunding of the 2010 Loan and to terminate the interest rate swap. Series 2013 S3 are variable rate bonds maturing in 2030 and bear interest at a weekly rate enhanced by a direct-pay letter of credit. The letter of credit is for an amount up to \$13,612,068 and expires December 15, 2015. The expiration date of the letter of credit may be extended at the sole discretion of the Bank. The letter of credit may also be replaced with an acceptable alternative letter of credit within certain timeframes. During fiscal year ended June 30, 2015, interest rates ranged between 0.04% and 0.13%.

IMMACULATA UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

NOTE 7 BONDS PAYABLE (CONTINUED)

Concurrently, on December 16, 2013, a fixed-rate bond in the amount of \$5,700,000 was issued through the Chester County Health and Educational Facilities Authority (2013 Series MM2) to provide financing for the west campus student residence facilities. The 2013 Series MM2 bonds mature in 2041 and bear a fixed-interest rate of 7.0%. A Debt Service Reserve fund was established in the amount of \$570,000.

The Series 2005 Bonds were issued to provide financing for campus renovations and upgrades including new buildings, athletic facilities, renovation of Alumnae, Marian and DeChantal Halls, and various supporting infrastructure initiatives. The Series 2005 Bonds mature in varying principal amounts ranging from \$350,000 in 2009 to the final maturity of \$1,575,000 in 2037. The interest rates on the Series 2005 Bonds are fixed rates that range from 5.125% to 5.750% over the term of the bonds. A Debt Service Reserve Fund was established in the amount of \$1,670,350.

Under the bond indentures, the University is subject to certain covenants, which among other things require the University to meet certain financial and debt service coverage and liquidity ratios. The University was not aware of any noncompliance with such requirements as of June 30, 2015.

Principal and interest payments on bonds payable at June 30, 2015 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year Ending June 30:			
2016	\$ 720,000	\$ 1,381,832	\$ 2,101,832
2017	985,000	1,373,708	2,358,708
2018	1,020,000	1,586,740	2,606,740
2019	1,070,000	1,550,682	2,620,682
2020	1,115,000	1,521,302	2,636,302
Thereafter	<u>35,280,000</u>	<u>20,418,188</u>	<u>55,698,188</u>
	<u>\$ 40,190,000</u>	<u>\$ 27,832,452</u>	<u>\$ 68,022,452</u>

Interest expense on all borrowings was \$1,904,970 and \$1,776,494 for the years ended June 30, 2015 and 2014, respectively. Interest costs capitalized for the year ended June 30, 2015 and June 30, 2014 was \$169,375 and \$143,931, respectively, net of interest earnings of \$493 and \$5,694, respectively.

The fair value of the University's debt at June 30, 2015 and 2014 was \$41,844,102 and \$42,806,403, respectively, determined by using Level 2 observable inputs, including quoted prices from similar securities based upon maturity and the credit rating for each series of bond.

IMMACULATA UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

NOTE 8 ASSET RETIREMENT OBLIGATION

The University is required to recognize the cost associated with the eventual remediation and abatement of asbestos and other regulated substances located within the construction of the University's property, plant and equipment. The cost of the abatement was estimated by management based on knowledge of remaining asbestos within existing buildings and contractor estimates for remediation integrated with management's future remediation plans. The conditional asset retirement obligation was \$2,232,657 and \$2,167,628 at June 30, 2015 and 2014, respectively.

For the years ended June 30, 2015 and 2014, the University recognized an additional \$65,029 and \$63,135, respectively, for accretion of the liability.

NOTE 9 NET ASSET BALANCES

Temporarily restricted net assets consist of the following as of June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Funds Held for Scholarships	\$ 4,216,500	\$ 4,215,613
Funds Held for Debt Service	2,000,000	2,000,000
Funds Held for Specific Programs	1,951,780	1,735,821
Funds Held for Purchase of Capital Improvements	1,037,943	1,117,092
Other	65,643	70,458
Term Endowment	101,000	101,000
	<u>\$ 9,372,866</u>	<u>\$ 9,239,984</u>

Permanently restricted net assets consist of endowment funds of \$7,547,153 and \$7,295,330 as of June 30, 2015 and 2014, respectively. The income from these investments is principally expendable for scholarships.

NOTE 10 PENSION PLAN

The University has a defined-contribution pension plan provided through the Teachers Insurance Annuity Association covering eligible personnel. Total pension expense, based on 7% of salaries of participating employees, was \$1,003,731 and \$1,045,445 for the years ended June 30, 2015 and 2014, respectively.

NOTE 11 CONTRIBUTED SERVICES

The University recognizes contributed services revenue and expenses for uncompensated faculty and administrators who are members of the Congregation and contribute their services to the University. The value of contributed services, which is based on prevailing wage rates, has been estimated to be \$2,698,189 and \$2,896,483 in 2015 and 2014, respectively, and has been reduced by payments made for the stipends and maintenance of members of the religious community in the amount of \$1,348,358 and \$1,339,746, respectively, which includes \$291,039 and \$299,096 of fringe benefits, respectively.

IMMACULATA UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

NOTE 12 ENDOWMENT

The University's endowment consists of approximately 49 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees (Board) to function as endowments. Net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The University classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment; (b) the original value of subsequent gifts to the permanent endowment; and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the University in a manner consistent with the standard of prudence prescribed by relevant law. Pennsylvania law permits the Board to make an election to annually appropriate for expenditure a selected percentage between 2% and 7% of the fair value of the assets related to donor-restricted endowment funds averaged over a period of three or more preceding years, provided the Board has determined that such percentage is consistent with the long-term preservation of the real value of such assets.

Return Objectives and Risk Parameters

The University has adopted investment and spending policies for endowment assets (donor-restricted and Board-designated) that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under these policies, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of various indices while assuming a moderate level of investment risk.

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 investments are distributed to several asset classes and investment styles to minimize investment risk through diversification and provide enhanced investment performance.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The University has appropriated for distribution each year 4%–6% of its funds based on the average market value over the prior three years preceding June 30. Accordingly, over the long term, the University expects the current spending policy to allow its endowment to grow at an average rate of 2% to 6% annually. The actual rate of spending for the years ended June 30, 2015 and 2014 was 5.7% and 4.7%, respectively.

IMMACULATA UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 12 ENDOWMENT (CONTINUED)

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the original gift amount maintained as permanently restricted net assets. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions. There were no deficiencies of this nature at June 30, 2015 or 2014.

Net Asset Classifications of Endowment Funds

Net asset classification by type of endowment funds as of June 30, 2015:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-Restricted Endowment Funds	\$ -	\$ 3,925,812	\$ 7,547,153	\$ 11,472,965
Board-Designated Endowment Funds	5,972,657	-	-	5,972,657
	<u>\$ 5,972,657</u>	<u>\$ 3,925,812</u>	<u>\$ 7,547,153</u>	<u>\$ 17,445,622</u>

Net asset classification by type of endowment funds as of June 30, 2014:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-Restricted Endowment Funds	\$ -	\$ 3,922,086	\$ 7,295,330	\$ 11,217,416
Board-Designated Endowment Funds	6,213,045	-	-	6,213,045
	<u>\$ 6,213,045</u>	<u>\$ 3,922,086</u>	<u>\$ 7,295,330</u>	<u>\$ 17,430,461</u>

Changes in endowment fund net assets for the year ended June 30, 2015:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment Funds, Beginning of Year	\$ 6,213,045	\$ 3,922,086	\$ 7,295,330	\$ 17,430,461
Investment Return:				
Investment Income	194,481	334,346	-	528,827
Net Realized and Unrealized Gains	14,894	69,444	-	84,338
Total Investment Return	209,375	403,790	-	613,165
Contributions	-	-	251,823	251,823
Appropriation of Endowment Assets for Expenditure	(449,763)	(400,064)	-	(849,827)
	<u>\$ 5,972,657</u>	<u>\$ 3,925,812</u>	<u>\$ 7,547,153</u>	<u>\$ 17,445,622</u>

IMMACULATA UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

NOTE 12 ENDOWMENT (CONTINUED)

Net Asset Classifications of Endowment Funds (Continued)

Changes in endowment fund net assets for the year ended June 30, 2014:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment Funds, Beginning of Year	\$ 5,933,682	\$ 2,723,415	\$ 7,136,513	\$ 15,793,610
Investment Return:				
Investment Income	105,566	188,056	-	293,622
Net Realized and Unrealized Gains	<u>623,616</u>	<u>1,236,293</u>	<u>-</u>	<u>1,859,909</u>
Total Investment Return	729,182	1,424,349	-	2,153,531
Contributions	-	55,000	158,817	213,817
Appropriation of Endowment Assets for Expenditure	<u>(449,819)</u>	<u>(280,678)</u>	<u>-</u>	<u>(730,497)</u>
	<u>\$ 6,213,045</u>	<u>\$ 3,922,086</u>	<u>\$ 7,295,330</u>	<u>\$ 17,430,461</u>

NOTE 13 COMMITMENTS AND CONTINGENCIES

Energy Commitments

The University, in the normal course of operations, enters into purchase commitments for electricity and natural gas, which includes market pricing measures and, in certain instances, contains options for additional quantities. Energy commitments for electricity for the delivery period July 1, 2015 through December 31, 2016 were \$806,823 as of June 30, 2015. Energy commitments for natural gas for the delivery period August 2014 through July 2016 were \$361,819 as of June 30, 2015.

Noncancelable Operating Leases

The University has several noncancelable operating leases, primarily for automobiles, that expire over the next three years. Expenses for operating leases during 2015 and 2014 were \$237,558 and \$410,727, respectively. Future minimum lease payments under noncancelable operating leases are \$57,083 in 2016, \$22,459 in 2017 and \$5,469 in 2018.

Litigation

The University is involved in legal actions that have arisen in the normal course of operations. The University believes that the outcome of the cases will not have a material adverse effect on the financial position of the University.

IMMACULATA UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

NOTE 13 COMMITMENTS AND CONTINGENCIES (CONTINUED)

U.S. Department of Education Program Review

The U.S. Department of Education (ED) performed a program review in December 2011 of the University's compliance with certain federal student financial assistance requirements, and issued its preliminary program review report on August 14, 2013. The preliminary findings included several areas in which ED had required the University to review and revise its policies and procedures. ED also required the University to conduct file reviews for the 2010 -2011 and 2011-2012 award years for students enrolled in the University's accelerated programs who received Direct Loans and/or Pell grants; and for reported disbursement dates for Pell and Direct Loans for all recipients of those federal awards. The University responded to the preliminary program review report on April 29, 2014. The final report was issued by ED on July 24, 2015. Total liabilities due from the University were determined to be \$12,313 and were remitted to ED on August 14, 2015.

NOTE 14 RELATED ENTITY

As described in Note 1, the University's financial statements include a related entity, Enserv. Enserv was created by an agreement dated June 1, 1993, between the University and Camilla Hall (Camilla), an infirmary and life residency operated by the Congregation. Enserv was organized to build, own and operate the Plant to be used exclusively by Camilla and the University.

Under the terms of the agreement, Camilla and the University agreed to pay to Enserv a portion of construction costs to build the Plant. The University contributed 70% and Camilla 30% towards the costs of construction. In consideration for these payments, Enserv issued a note payable to Camilla in the amount of \$344,133 (Note 6) which is included in notes payable in the consolidated statement of financial position and a subvention certificate to the University. No payments are to be made related to either the note payable or subvention certificate by Enserv until dissolution of Enserv and prior payment by Enserv to all other creditors.

In addition to construction costs, Camilla and the University agreed to pay Enserv for operation and maintenance costs related to the Plant based on the same contribution percentages used for construction costs.