

IMMACULATA UNIVERSITY
CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2017 AND 2016

CliftonLarsonAllen LLP



WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING



**IMMACULATA UNIVERSITY
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YEARS ENDED JUNE 30, 2017 AND 2016**

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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 statements of financial position as of June 30, 2017 and 2016, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Immaculata University as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the consolidated financial statements, Immaculata University adopted a recently issued accounting standard related to the accounting for debt issuance costs. The new standard requires entities to present debt issuance costs as a direct deduction from the face amount of the related borrowings, amortize debt issuance costs using the effective interest method over the life of the debt, and record the amortization as a component of interest expense. Our opinion is not modified with respect to this matter.

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

CliftonLarsonAllen LLP

Plymouth Meeting, Pennsylvania
October 16, 2017

IMMACULATA UNIVERSITY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2017 AND 2016

ASSETS	2017	2016
Cash and Cash Equivalents	\$ 5,247,043	\$ 6,053,164
Accounts Receivable, Less Allowance for Doubtful Accounts of \$856,147 and \$1,002,051 in 2017 and 2016, Respectively	1,406,181	1,394,410
Prepaid Expenses	372,643	984,820
Contributions Receivable	3,397,130	5,053,255
Investments	18,418,890	17,012,809
Deposits Held with Trustees	4,428,279	4,416,387
Loans to Students	657,713	427,782
Property, Plant, and Equipment:		
Land	212,719	212,719
Buildings and Improvements	100,441,156	99,342,115
Furniture, Equipment, and Library Books	33,889,117	33,426,317
Improvements in Progress	2,741,083	1,708,850
Total Property, Plant, and Equipment	137,284,075	134,690,001
Less: Accumulated Depreciation	(82,630,925)	(78,773,222)
Net Property, Plant, and Equipment	54,653,150	55,916,779
 Total Assets	 \$ 88,581,029	 \$ 91,259,406
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 3,170,412	\$ 2,595,847
Student Deposits and Deferred Revenue	3,041,039	3,275,680
Notes Payable	4,112,110	4,483,821
Bonds Payable	38,022,843	38,709,129
Government Advances for Student Loans	458,538	367,802
Asset Retirement Obligation	2,182,620	2,217,125
Total Liabilities	50,987,562	51,649,404
 NET ASSETS		
Unrestricted	14,535,520	16,423,853
Temporarily Restricted	14,603,376	14,486,632
Permanently Restricted	8,454,571	8,699,517
Total Net Assets	37,593,467	39,610,002
 Total Liabilities and Net Assets	 \$ 88,581,029	 \$ 91,259,406

See accompanying Notes to Consolidated Financial Statements.

IMMACULATA UNIVERSITY
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
OPERATING REVENUES				
Tuition and Fees, Net of Scholarship Allowances of (\$14,822,586)	\$ 32,412,744	\$ -	\$ -	\$ 32,412,744
Contributed Services, Net	1,036,872	-	-	1,036,872
Federal Grants and Contracts	643,212	-	-	643,212
State Grants and Contracts	182,546	-	-	182,546
Contributions	648,461	424,792	-	1,073,253
Investment Income	670,502	728,970	-	1,399,472
Auxiliary Enterprises	6,111,391	-	-	6,111,391
Other Revenues	579,282	9,875	-	589,157
Net Assets Released from Restrictions	815,904	(815,904)	-	-
Total Operating Revenues	<u>43,100,914</u>	<u>347,733</u>	<u>-</u>	<u>43,448,647</u>
OPERATING EXPENSES				
Instructional	15,632,923	-	-	15,632,923
Academic Support	2,652,910	-	-	2,652,910
Student Services	9,592,089	-	-	9,592,089
Institutional Support	13,565,746	-	-	13,565,746
Auxiliary Enterprises	5,692,040	-	-	5,692,040
Total Operating Expenses	<u>47,135,708</u>	<u>-</u>	<u>-</u>	<u>47,135,708</u>
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES	(4,034,794)	347,733	-	(3,687,061)
NONOPERATING INCOME (EXPENSE)				
Realized and Unrealized Gains (Losses) on Investments, Net of Spending Rate	(78,338)	553,670	-	475,332
Contributions for Capital Projects	-	710,384	-	710,384
Contributions Restricted for Long-Term Investment	-	-	484,810	484,810
Reclassification for Endowment	(160,000)	348,000	(188,000)	-
Reclassification for Changes in Donor Intent	2,384,799	(1,843,043)	(541,756)	-
Total Nonoperating Income (Expense)	<u>2,146,461</u>	<u>(230,989)</u>	<u>(244,946)</u>	<u>1,670,526</u>
CHANGE IN NET ASSETS	(1,888,333)	116,744	(244,946)	(2,016,535)
Net Assets - Beginning of Year	<u>16,423,853</u>	<u>14,486,632</u>	<u>8,699,517</u>	<u>39,610,002</u>
NET ASSETS - END OF YEAR	<u>\$ 14,535,520</u>	<u>\$ 14,603,376</u>	<u>\$ 8,454,571</u>	<u>\$ 37,593,467</u>

See accompanying Notes to Consolidated Financial Statements.

IMMACULATA UNIVERSITY
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
OPERATING REVENUES				
Tuition and Fees, Net of Scholarship Allowances of (\$14,204,178)	\$ 34,143,249	\$ -	\$ -	\$ 34,143,249
Contributed Services, Net	1,221,362	-	-	1,221,362
Federal Grants and Contracts	872,021	-	-	872,021
State Grants and Contracts	181,996	-	-	181,996
Contributions	3,970,390	312,770	-	4,283,160
Investment Income	613,711	695,949	-	1,309,660
Auxiliary Enterprises	6,031,999	-	-	6,031,999
Other Revenues	596,615	3,460	-	600,075
Net Assets Released from Restrictions	548,957	(548,957)	-	-
Total Operating Revenue	<u>48,180,300</u>	<u>463,222</u>	<u>-</u>	<u>48,643,522</u>
OPERATING EXPENSES				
Instructional	17,243,165	-	-	17,243,165
Academic Support	3,551,839	-	-	3,551,839
Student Services	9,012,201	-	-	9,012,201
Institutional Support	13,376,949	-	-	13,376,949
Auxiliary Enterprises	5,888,421	-	-	5,888,421
Total Operating Expenses	<u>49,072,575</u>	<u>-</u>	<u>-</u>	<u>49,072,575</u>
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES	(892,275)	463,222	-	(429,053)
NONOPERATING INCOME (EXPENSE)				
Realized and Unrealized Losses on Investments, Net of Spending Rate	(751,675)	(1,041,457)	-	(1,793,132)
Contributions for Capital Projects	-	5,519,124	-	5,519,124
Contributions Restricted for Long-Term Investment	-	-	1,088,417	1,088,417
Reclassification for Endowment	(188,000)	-	188,000	-
Net Assets Released from Restriction	69,352	(69,352)	-	-
Total Nonoperating Income (Expense)	<u>(870,323)</u>	<u>4,408,315</u>	<u>1,276,417</u>	<u>4,814,409</u>
CHANGE IN NET ASSETS	(1,762,598)	4,871,537	1,276,417	4,385,356
Net Assets - Beginning of Year	<u>18,186,451</u>	<u>9,615,095</u>	<u>7,423,100</u>	<u>35,224,646</u>
NET ASSETS - END OF YEAR	<u>\$ 16,423,853</u>	<u>\$ 14,486,632</u>	<u>\$ 8,699,517</u>	<u>\$ 39,610,002</u>

See accompanying Notes to Consolidated Financial Statements.

IMMACULATA UNIVERSITY
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (2,016,535)	\$ 4,385,356
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation and Amortization	4,050,012	4,206,001
Imputed Interest on Debt Issuance Costs	58,714	69,370
Accretion of Asset Retirement Obligations	(34,505)	(15,532)
Forgiveness of Note Payable	-	(3,262,500)
Loss on Disposal of Property, Plant, and Equipment	18,262	-
Contributions Restricted for Long-Term Investment	(484,810)	(1,088,417)
Contributions for Capital Projects	(710,384)	(5,519,124)
Realized and Unrealized (Gain) Loss on Investments	(1,576,932)	745,196
Changes in Assets and Liabilities:		
Accounts Receivable, Net	(11,771)	591,847
Contributions Receivable	1,656,125	(4,811,026)
Prepaid Expenses	612,177	(184,211)
Accounts Payable and Accrued Expenses	470,453	(106,785)
Student Deposits and Deferred Revenue	(234,641)	(597,779)
Net Cash Provided (Used) by Operating Activities	1,796,165	(5,587,604)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Property, Plant, and Equipment	(2,700,533)	(1,926,297)
Sales of Investments	7,226,747	8,747,518
Purchases of Investments	(7,055,896)	(8,988,395)
Net Loans to Students	(229,931)	31,037
Net Cash Used by Investing Activities	(2,759,613)	(2,136,137)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in Deposits Held with Trustees	(11,892)	(2,349)
Proceeds from Contributions Restricted for Long-Term Investment	484,810	1,088,417
Proceeds from Contributions for Capital Projects	710,384	5,519,124
Principal Payments on Notes Payable	(371,711)	(413,562)
Principal Payments on Bonds Payable	(745,000)	(475,000)
Change in Government Advances	90,736	-
Net Cash Provided by Financing Activities	157,327	5,716,630
NET DECREASE IN CASH AND CASH EQUIVALENTS	(806,121)	(2,007,111)
Cash and Cash Equivalents - Beginning of Year	6,053,164	8,060,275
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 5,247,043	\$ 6,053,164
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash Paid for Interest	\$ 2,100,159	\$ 1,952,558
Noncash Gifts of Stock	-	54,785
Capital Lease on Purchased Equipment	-	217,067
Liabilities Incurred in Acquisition of Equipment	372,904	268,792
Forgiveness of Note Payable	-	3,262,500

See accompanying Notes to Consolidated Financial Statements.

IMMACULATA UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

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 to men and women directed primarily toward liberal and professional education. 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 is committed to scholarship and encourages the formation of the whole person for leadership and service always looking to the needs of others while empowering all members of the community to seek truth, promote justice, foster peace, and engage in dialogue between faith and culture.

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, 2017 and 2016. All intercompany transactions and balances have been eliminated in consolidation. For additional information about Enserv refer to Note 13.

Basis of Presentation

The University's consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America for nonprofit 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 restrictions. These net assets may be designated for specific purposes by action of the board of trustees. Expenses are shown as decreases in unrestricted net assets. Contributions and income from endowments for which restrictions have been met in the same fiscal year as their receipt are combined and reported with unrestricted net assets.

Temporarily Restricted Net Assets – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the University or the passage of time. The University classifies contributions to acquire long-lived assets as temporarily restricted net assets. The release of restrictions occurs when the asset is placed in service.

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, 2017 AND 2016

**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.

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 statements of activities.

Deposits with Trustees

Deposits with trustees consist of debt service and reserve fund with a market value of \$4,428,279 and \$4,416,387 at June 30, 2017 and 2016, respectively. These funds are invested in fixed income securities and will be used for debt service.

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.

IMMACULATA UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

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

Property, Plant, and Equipment (Continued)

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

Buildings	20 to 50 Years
Building Improvements	5 to 50 Years
Furniture, Equipment, and Library Books	3 to 20 Years

Depreciation expense for the years ended June 30, 2017 and 2016 was \$4,050,012 and \$4,225,331, 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.

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.

Asset Retirement Obligation

The University recognizes the fair value of an asset retirement obligation in the period in which it is incurred if a reasonable estimate of fair value can be made. When the liability was initially recorded, the University capitalized the cost of the asset retirement obligation by increasing the carrying amount of the related long-lived asset. The capitalized cost associated with the retirement obligation is depreciated over the useful life of the related asset. Upon settlement of the obligation, any difference between the cost to settle the asset retirement obligation and the liability recorded is recognized as a gain or loss in the consolidated statement of activities (Note 7).

Tuition and Student Financial Aid

Tuition revenue is reported at established rates, net of financial assistance provided by the University. Revenue is recognized in the academic period that it is earned. Any payments received in advance of the subsequent year are classified as deferred revenue in the accompanying consolidated statements of financial position. 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 with 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.

IMMACULATA UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

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

Contributions

Contributions, including unconditional promises to give (contributions receivable), 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 (contributions receivable) 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 fundraising activity. As of June 30, 2017 and 2016, an allowance was not necessary.

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 to be nonoperating activities.

Use of Estimates

The preparation of consolidated 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

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.

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 2017 or 2016.

IMMACULATA UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

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

Recently Adopted Accounting Standards

The University has adopted the accounting guidance in Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2015-03, *Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. ASU 2015-03 requires organizations to present debt issuance costs as a direct deduction from the face amount of the related borrowings, amortize debt issuance costs using the effective interest method over the life of the debt, and record the amortization as a component of interest expense. The effect of adopting the new standard decreased the debt issuance costs asset to zero and decreased the debt liability by \$671,255 as of June 30, 2016. The adoption of the standard had no effect on previously reported net assets.

During the year ended June 30, 2017, the University early adopted a provision of FASB ASU 2016-01, *Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities*. This provision eliminates the requirement for entities, other than public business entities, to disclose the fair values of financial instruments carried at amortized cost, as previously required by Accounting Standards Codification (ASC) 825-10-50. As such, the University has omitted this disclosure for the years ended June 30, 2017 and 2016. The early adoption of this provision did not have an impact on the University's financial position or results of operations.

Reclassifications

Certain reclassifications have been made to the 2016 amounts to conform to the 2017 presentation.

Subsequent Events

In preparing these consolidated financial statements, the University has evaluated events and transactions through October 16, 2017, the date the consolidated financial statements were issued.

IMMACULATA UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 2 INVESTMENTS

Investments as of June 30, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Common and Preferred Stocks	\$ 11,236,835	\$ 10,072,901
Corporate Bonds and U.S. Government Obligations	3,445,448	3,367,111
Money Market Funds	385,658	748,151
Mutual Funds:		
Fixed Income	1,383,829	1,343,551
Equity Securities	1,967,120	1,481,095
	<u>\$ 18,418,890</u>	<u>\$ 17,012,809</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, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Dividend and Interest Income	\$ 483,053	\$ 433,688
Realized and Unrealized Gains (Losses)	1,576,932	(745,196)
Investment Management Fees	(185,181)	(171,964)
	<u>\$ 1,874,804</u>	<u>\$ (483,472)</u>

Investment income (loss) is classified in the consolidated statements of activities as follows for the year ended June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Operating	\$ 1,399,472	\$ 1,309,660
Nonoperating	475,332	(1,793,132)
	<u>\$ 1,874,804</u>	<u>\$ (483,472)</u>

IMMACULATA UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 3 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, 2017 or 2016.

IMMACULATA UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 3 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, 2017 and 2016:

	Fair Value as of June 30, 2017		
	Total	Level 1	Level 2
Assets:			
Investments:			
Common and Preferred Stock	\$ 11,236,835	\$ 11,236,835	\$ -
Corporate Bonds and U.S. Government Obligations	3,445,448	-	3,445,448
Money Market and Mutual Funds	3,736,607	3,736,607	-
	<u>18,418,890</u>	<u>14,973,442</u>	<u>3,445,448</u>
Deposits Held with Trustees	4,428,279	4,428,279	-
	<u>\$ 22,847,169</u>	<u>\$ 19,401,721</u>	<u>\$ 3,445,448</u>
	Fair Value as of June 30, 2016		
	Total	Level 1	Level 2
Assets:			
Investments:			
Common and Preferred Stock	\$ 10,072,901	\$ 10,072,901	\$ -
Corporate Bonds and U.S. Government Obligations	3,367,111	-	3,367,111
Money Market and Mutual Funds	3,572,797	3,572,798	-
	<u>17,012,809</u>	<u>13,645,699</u>	<u>3,367,111</u>
Deposits Held with Trustees	4,416,387	4,416,387	-
	<u>\$ 21,429,196</u>	<u>\$ 18,062,086</u>	<u>\$ 3,367,111</u>

NOTE 4 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 1.2% to 2.4%. 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, 2017 and 2016:

	2017	2016
Unconditional Promises Expected to be Collected:		
Within One Year	\$ 1,544,000	\$ 1,491,000
Between One and Five Years	1,915,000	3,697,000
	<u>3,459,000</u>	<u>5,188,000</u>
Less: Unamortized Discount on Contributions Receivable	(61,870)	(134,745)
	<u>\$ 3,397,130</u>	<u>\$ 5,053,255</u>

IMMACULATA UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 5 NOTES PAYABLE

Notes payable as of June 30, 2017 and 2016 consisted of:

	<u>2017</u>	<u>2016</u>
Loan Payable	\$ 3,789,027	\$ 3,809,125
Lease Payable	323,083	674,696
	<u>\$ 4,112,110</u>	<u>\$ 4,483,821</u>

The University had a line of credit with Manufacturers and Traders Trust Company (M&T Bank) providing for borrowings up to \$3,250,000 at interest rates of one-month LIBOR rounded up to the nearest 1/16th of 1% plus 275 basis points. The line expired on December 22, 2016.

The University has a loan agreement with the Congregation for \$10,000,000 and \$7,000,000 as of June 30, 2017 and 2016, respectively. The loan was increased after the expiration of the M&T Bank line of credit. These borrowings are to be used for general purposes of the University. The principal outstanding as of both June 30, 2017 and 2016 was \$3,262,500. The University is 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 2013, the contractor increased an existing financial commitment to the University to assist in the renovation of dining facilities and purchases of equipment. In January 2016, the University changed contractors and the total unamortized portion of the financial commitment of \$174,000 was paid by the University. A loan was extended from the newly appointed contractor in January 2016 and the commitment is paid to the contractor on a straight-line basis over the number of months remaining until June 2020. The unamortized balance as of June 30, 2017 and 2016 was \$182,394 and \$202,492, respectively.

The University has various capital lease agreements for pianos, computer hardware, and maintenance equipment. The aggregate outstanding balance was \$323,083 and \$674,696, with an average effective rate of interest of 3.72% as of both June 30, 2017 and 2016. The leases expire through 2019 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, 2017 and 2016, respectively (see Note 13).

IMMACULATA UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 6 BONDS PAYABLE

Bonds payable as of June 30, 2017 and 2016 consisted of:

	2017	2016
Chester County Health and Education Facilities		
Authority Revenue Bonds, Series of 2005	\$ 20,105,000	\$ 20,605,000
Less: Unamortized Discount, Series of 2005	(172,267)	(186,126)
Less: Unamortized Debt Issuance Cost, Series of 2005	(337,272)	(364,417)
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	(59,850)	(62,293)
Less: Unamortized Debt Issuance Cost, Series of 2013 MM	(90,248)	(84,978)
Chester County Health and Education Facilities		
Authority Revenue Bonds, Series of 2013 S3	13,165,000	13,410,000
Less: Unamortized Discount, Series of 2013 S3	(80,450)	(86,197)
Less: Unamortized Debt Issuance Cost, Series of 2013 S3	(207,070)	(221,860)
	\$ 38,022,843	\$ 38,709,129

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. 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 February 15, 2018. The expiration date of the letter of credit may be extended at the sole discretion of the lender. During fiscal year ended June 30, 2017, interest rates ranged between 0.41% and 0.94%.

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, 2017.

IMMACULATA UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 6 BONDS PAYABLE (CONTINUED)

Principal and interest payments on bonds payable at June 30, 2017 are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$1,010,000	\$1,596,740	\$ 2,606,740
2019	1,050,000	1,570,683	2,620,683
2020	1,100,000	1,536,303	2,636,303
2021	1,150,000	1,500,030	2,650,030
2022	1,205,000	1,461,850	2,666,850
Thereafter	33,455,000	16,926,308	50,381,308
Total	<u>\$ 38,970,000</u>	<u>\$ 24,591,914</u>	<u>\$ 63,561,914</u>

Interest expense on all borrowings was \$2,158,873 and \$2,021,928 for the years ended June 30, 2017 and 2016, respectively. No interest costs were capitalized for the years ended June 30, 2017 and 2016, respectively.

NOTE 7 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 \$2,182,620 and \$2,217,125 at June 30, 2017 and 2016, respectively.

For the years ended June 30, 2017 and 2016, the University recognized an additional \$75,823 and \$68,989, respectively, for accretion of the liability. The University settled \$110,328 and \$84,521 of the asset retirement obligation due to remediation of asbestos that was performed during fiscal years 2017 and 2016, respectively.

NOTE 8 NET ASSET BALANCES

Temporarily restricted net assets consist of the following as of June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Funds Held for Scholarships	\$ 3,521,924	\$ 4,223,994
Funds Held for Debt Service	2,000,000	2,000,000
Funds Held for Specific Programs	3,228,213	1,807,133
Funds Held for Purchase of Capital Improvements	5,338,644	6,100,936
Other	65,664	65,569
Term Endowment	448,931	289,000
	<u>\$ 14,603,376</u>	<u>\$ 14,486,632</u>

Permanently restricted net assets total \$8,454,571 and \$8,699,517 as of June 30, 2017 and 2016, respectively. These consist of multi-year pledges for the creation and establishment of permanently restricted endowed funds and endowment funds of \$8,258,332 and \$8,199,242 as of June 30, 2017 and 2016, respectively. The income from these investments is principally expendable for scholarships.

IMMACULATA UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 9 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 5% of salaries of participating employees, was \$714,328 and \$650,146 for the years ended June 30, 2017 and 2016, respectively.

NOTE 10 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 \$2,341,744 and \$2,631,311 in 2017 and 2016, respectively, and has been reduced by payments made for the stipends and maintenance of members of the religious community in the amount of \$1,304,872 and \$1,409,949, respectively, which includes \$199,616 and \$272,320 of fringe benefits, respectively.

NOTE 11 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.

IMMACULATA UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 11 ENDOWMENT (CONTINUED)

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% to 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, 2017 and 2016 was 5.2% and 5.5%, respectively.

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, 2017 or 2016.

Net Asset Classifications of Endowment Funds

Net asset classification by type of endowment funds as of June 30, 2017:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-Restricted Endowment Funds	\$ -	\$ 4,353,596	\$ 8,258,332	\$ 12,611,928
Board-Designated Endowment Funds	5,720,403	-	-	5,720,403
	<u>\$ 5,720,403</u>	<u>\$ 4,353,596</u>	<u>\$ 8,258,332</u>	<u>\$ 18,332,331</u>

Net asset classification by type of endowment funds as of June 30, 2016:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-Restricted Endowment Funds	\$ -	\$ 3,168,492	\$ 8,199,242	\$ 11,367,734
Board-Designated Endowment Funds	5,543,927	-	-	5,543,927
	<u>\$ 5,543,927</u>	<u>\$ 3,168,492</u>	<u>\$ 8,199,242</u>	<u>\$ 16,911,661</u>

IMMACULATA UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 11 ENDOWMENT (CONTINUED)

Net Asset Classifications of Endowment Funds (Continued)

Changes in endowment fund net assets for the year ended June 30, 2017:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment Funds, Beginning of Year	\$ 5,543,927	\$ 3,168,492	\$ 8,199,242	\$ 16,911,661
Investment Return:				
Investment Income	168,990	727,073	-	896,063
Net Realized and Unrealized Gains	422,931	543,034	-	965,965
Total Investment Return	591,921	1,270,107	-	1,862,028
Contributions	29,555	160,000	247,090	436,645
Reclassification for Endowment	-	188,000	(188,000)	-
Appropriation of Endowment Assets for Expenditure	(445,000)	(433,003)	-	(878,003)
	<u>\$ 5,720,403</u>	<u>\$ 4,353,596</u>	<u>\$ 8,258,332</u>	<u>\$ 18,332,331</u>

Changes in endowment fund net assets for the year ended June 30, 2016:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment Funds, Beginning of Year	\$ 6,096,710	\$ 3,925,812	\$ 7,423,100	\$ 17,445,622
Investment Return:				
Investment Income	142,539	281,054	-	423,593
Net Realized and Unrealized Losses	(306,072)	(615,274)	-	(921,346)
Total Investment Return	(163,533)	(334,220)	-	(497,753)
Contributions	55,675	-	776,142	831,817
Appropriation of Endowment Assets for Expenditure	(444,925)	(423,100)	-	(868,025)
	<u>\$ 5,543,927</u>	<u>\$ 3,168,492</u>	<u>\$ 8,199,242</u>	<u>\$ 16,911,661</u>

NOTE 12 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, 2017 through December 31, 2017 were \$210,471 as of June 30, 2017. Energy commitments for natural gas for the delivery period July 2017 through July 2018 were \$165,383 as of June 30, 2017.

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 2017 and 2016 were \$97,613 and \$133,656, respectively. Future minimum lease payments under noncancelable operating leases are \$46,978 in 2018, \$28,242 in 2019, and \$8,406 in 2020.

Construction Commitments

The University has outstanding commitments on uncompleted building improvement contracts totaling \$506,975 as of June 30, 2017.

IMMACULATA UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 12 COMMITMENTS AND CONTINGENCIES (CONTINUED)

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.

NOTE 13 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 5) which is included in notes payable in the consolidated statements 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.



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