

Chaminade University of Honolulu

Financial Statements, Supplemental Schedules and
Single Audit Reports
June 30, 2017 and 2016
Together with Independent Auditor's Reports

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SECTION I

Introduction



A Hawaii Limited Liability Partnership

To The Board of Regents
Chaminade University of Honolulu:

We have completed our audit of the financial statements of Chaminade University of Honolulu (the University) for the year ended June 30, 2017 and submit herein our report on the financial statements and schedule of expenditures of federal awards, together with our reports on internal control and compliance.

The primary purpose of our audit was to form an opinion as to the fairness of the University's financial statements and schedule of expenditures of federal awards. The objectives and scope of the audit are as follows:

Objectives of the Audit

1. To provide a basis for an opinion on the fairness of the financial statements for the year ended June 30, 2017 and the schedule of expenditures of federal awards for the year ended June 30, 2017.
2. To review the University's internal controls over financial reporting and over compliance with the requirements of laws, regulations, contracts and grants that could have a direct and material effect on each of its major federal programs as of and for the year ended June 30, 2017.
3. To review the University's compliance with laws, regulations, contracts, grants and other matters that may have a direct and material effect on the determination of financial statement amounts and on each of its major federal programs.

Scope of the Audit

We performed an audit of the financial statements for the year ended June 30, 2017 and the schedule of expenditures of federal awards for the year ended June 30, 2017 in accordance with auditing standards generally accepted in the United States of America, as adopted by the American Institute of Certified Public Accountants, the standards for financial audits enumerated in *Government Auditing Standards*, issued by the Comptroller General of the United States, certain provisions of Subpart F of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance).

Organization of the Report

This report has been organized into four sections as follows:

1. Section I, entitled "Introduction" describes briefly the objectives and scope of our audits and the contents of this report.
2. Section II, entitled "Financial Statements," includes the financial statements of the University and our report thereon, as of and for the year ended June 30, 2017.
3. Section III, entitled "Supplementary Information," contains the schedule of expenditures of federal awards and notes to schedule of expenditures of federal awards for the year ended June 30, 2017.
4. Section IV, entitled "Compliance and Internal Control," contains our reports on the University's internal control over financial reporting and on compliance and other matters, the University's compliance and internal control applicable to each of its major federal programs in accordance with the Uniform Guidance and a schedule of findings and questioned costs.

We would like to take this opportunity to express our appreciation to the personnel of the University for the cooperation and assistance extended to us during our audit. We shall be pleased to discuss any questions that you or your associates may have regarding our reports.

KMH LLP

KMH LLP

Honolulu, Hawaii
November 2, 2017

SECTION II

Financial Statements



A Hawaii Limited Liability Partnership

Independent Auditor's Report

To the Board of Regents
Chaminade University of Honolulu:

Report on the Financial Statements

We have audited the accompanying financial statements of Chaminade University of Honolulu (the University), which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of the 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.

Other Matters

Other Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2017 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

KMH LLP

KMH LLP

Honolulu, Hawaii
November 2, 2017

Chaminade University of Honolulu

Statements of Financial Position

June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash and Cash Equivalents	\$ 2,470,874	\$ 1,550,901
Restricted Cash Equivalents	5,433,735	10,003,115
Receivables:		
Student tuition and fees (less allowance for doubtful accounts of \$563,000 in 2017 and \$2,214,600 in 2016)	558,649	394,881
Pledges	2,535,931	1,903,894
Grants	852,811	1,760,065
Other	408,727	406,825
Total receivables	<u>4,356,118</u>	<u>4,465,665</u>
Other Assets	4,280,310	1,155,398
Land, Buildings, Improvements and Equipment, net	62,186,056	56,781,445
Interest in Net Assets of Chaminade University Educational Foundation	1,397,720	1,254,159
Investments	16,328,654	17,079,520
Total assets	<u>\$ 96,453,467</u>	<u>\$ 92,290,203</u>

See accompanying notes to financial statements.

Chaminade University of Honolulu

Statements of Financial Position

June 30, 2017 and 2016

Liabilities and Net Assets

	<u>2017</u>	<u>2016</u>
Accounts Payable and Accrued Expenses	\$ 3,197,698	\$ 3,026,512
Accrued Payroll	1,622,173	1,556,785
Advance Tuitions and Other Deferred Revenues	1,794,916	1,882,946
Deposits Held in Custody for Others	211,637	214,677
Capital Lease Obligation	2,113,136	2,024,635
Bonds Payable, net	<u>21,907,420</u>	<u>22,203,690</u>
Total liabilities	<u>30,846,980</u>	<u>30,909,245</u>
Commitments and Contingencies		
Net Assets:		
Unrestricted	44,652,548	42,780,470
Temporarily restricted	7,890,389	6,917,445
Permanently restricted	<u>13,063,550</u>	<u>11,683,043</u>
Total net assets	<u>65,606,487</u>	<u>61,380,958</u>
Total liabilities and net assets	<u><u>\$ 96,453,467</u></u>	<u><u>\$ 92,290,203</u></u>

See accompanying notes to financial statements.

Chaminade University of Honolulu

Statements of Activities

For the Years Ended June 30, 2017 and 2016

	2017				2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, Gains, and Other Support:								
Tuition and fees, net of discounts and scholarships of \$12,285,292 in 2017 and \$11,414,967 in 2016	\$ 31,413,262	\$ -	\$ -	\$ 31,413,262	\$ 32,387,221	\$ -	\$ -	\$ 32,387,221
Contributions, private gifts and grants	4,307,728	2,131,801	1,380,507	7,820,036	3,085,236	2,826,048	320,150	6,231,434
Auxiliary enterprises	3,669,592	-	-	3,669,592	3,602,513	-	-	3,602,513
Federal grants and contracts	5,428,839	-	-	5,428,839	5,210,703	-	-	5,210,703
Net realized and unrealized gains (losses) on investments	498,045	1,501,710	-	1,999,755	123,769	(136,644)	-	(12,875)
Net investment income	36,786	359,635	-	396,421	22,394	295,906	-	318,300
Change in interest in net assets of Chaminade University Educational Foundation	-	143,561	-	143,561	-	(124,539)	4,121	(120,418)
Net assets released from restrictions	3,163,763	(3,163,763)	-	-	2,190,511	(2,190,511)	-	-
Other	202,600	-	-	202,600	3,832,032	110,000	(110,000)	3,832,032
Total revenues, gains, and other support	48,720,615	972,944	1,380,507	51,074,066	50,454,379	780,260	214,271	51,448,910
Expenses:								
Program expenses:								
Instructional	16,726,521	-	-	16,726,521	17,770,522	-	-	17,770,522
Academic support	9,935,887	-	-	9,935,887	10,273,442	-	-	10,273,442
Institutional support	9,501,569	-	-	9,501,569	9,533,439	-	-	9,533,439
Student services	4,526,811	-	-	4,526,811	4,655,629	-	-	4,655,629
Total program expenses	40,690,788	-	-	40,690,788	42,233,032	-	-	42,233,032
Fund-raising	1,499,700	-	-	1,499,700	1,426,287	-	-	1,426,287
Auxiliary enterprises	4,658,049	-	-	4,658,049	4,517,581	-	-	4,517,581
Total expenses	46,848,537	-	-	46,848,537	48,176,900	-	-	48,176,900
Change in net assets	1,872,078	972,944	1,380,507	4,225,529	2,277,479	780,260	214,271	3,272,010
Net Assets, Beginning of Year	42,780,470	6,917,445	11,683,043	61,380,958	40,502,991	6,137,185	11,468,772	58,108,948
Net Assets, End of Year	\$ 44,652,548	\$ 7,890,389	\$ 13,063,550	\$ 65,606,487	\$ 42,780,470	\$ 6,917,445	\$ 11,683,043	\$ 61,380,958

See accompanying notes to financial statements.

Chaminade University of Honolulu

Statements of Cash Flows

For the Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities:		
Change in net assets	\$ 4,225,529	\$ 3,272,010
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	3,753,423	3,806,566
Loss (gain) on disposal of land, buildings, improvements and equipment	14,156	(3,586,350)
Provision for doubtful accounts, net	292,400	103,600
Interest in net assets of Chaminade University Educational Foundation	(143,561)	120,418
Net realized and unrealized (gains) losses on investments	(1,999,755)	12,875
Contributions restricted for long-term investment	(1,445,507)	(653,342)
Change in operating assets and liabilities:		
Student tuition and fees receivable	(456,168)	(49,026)
Pledges receivable	(597,299)	200,200
Grants receivable	907,254	(201,380)
Other receivables	(1,902)	(73,948)
Other assets	(3,124,912)	(392,906)
Accounts payable and accrued expenses	(38,262)	807,985
Accrued payroll	65,388	(13,940)
Advance tuitions and other deferred revenues	(88,030)	81,571
Deposits held in custody for others	(3,040)	(26,468)
Net cash provided by operating activities	<u>1,359,714</u>	<u>3,407,865</u>
Cash Flows from Investing Activities:		
Purchases of investments	(1,830,647)	(5,564,075)
Proceeds from sale of investments	4,581,268	552,824
Purchases of land, buildings, improvements, and equipment	(8,776,270)	(8,726,426)
Proceeds from land, buildings, improvements, and equipment	<u>-</u>	<u>5,300,000</u>
Net cash used in investing activities	<u>\$ (6,025,649)</u>	<u>\$ (8,437,677)</u>

(continued)

See accompanying notes to financial statements.

Chaminade University of Honolulu

Statements of Cash Flows

For the Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash Flows from Financing Activities:		
Payments on notes payable	\$ -	\$ (611,232)
Proceeds from bonds payable, net of issuance costs of \$643,678 in 2016	-	22,196,825
Repayments of bonds payable	(310,000)	(8,565,000)
Payments on capital leases	(118,979)	(132,501)
Decrease (increase) in restricted cash equivalents	4,569,380	(8,881,584)
Proceeds from contributions and investment income restricted for:		
Investment in endowment	1,380,507	320,150
Investment in plant	<u>65,000</u>	<u>333,192</u>
Net cash provided by financing activities	<u>5,585,908</u>	<u>4,659,850</u>
Net increase (decrease) in cash and cash equivalents	919,973	(369,962)
Cash and Cash Equivalents at beginning of year	<u>1,550,901</u>	<u>1,920,863</u>
Cash and Cash Equivalents at end of year	<u>\$ 2,470,874</u>	<u>\$ 1,550,901</u>
Supplemental Disclosure of Cash Flow Information --		
Cash Paid During the Year for Interest	<u>\$ 647,518</u>	<u>\$ 286,494</u>
Supplemental Disclosure of Noncash Activity:		
Net fixed asset additions included in accounts payable and accrued expenses	<u>\$ 209,448</u>	<u>\$ 245,825</u>
Net equipment additions under capital lease agreements	<u>\$ 207,480</u>	<u>\$ 404,117</u>

See accompanying notes to financial statements.

Chaminade University of Honolulu

Notes to Financial Statements
June 30, 2017 and 2016

1. Organization and Summary of Significant Accounting Policies

a. Organization

Chaminade University of Honolulu (the University) is a private, co-educational Catholic university established in 1955 by the Society of Mary, Marianists. The mission of the University is to prepare its students for professional careers and personal growth in an educational environment in the liberal arts tradition enriched by Catholic and Marianist values. The University offers classes that lead to Associate, Bachelors, and Masters degrees.

The Marianist Center of Hawaii (MCH) is an autonomous, religious, not-for-profit Hawaii corporation established and controlled by the Society of Mary, Marianists, a Roman Catholic Institute of Consecrated Life, which owns, holds, and manages the land and certain of the buildings of the University's Kalaepohaku (Honolulu) campus used for the promotion and maintenance of its charitable, educational, and religious purposes. The University shares its campus with Saint Louis School (SLS), an affiliated college preparatory school for boys and young men.

b. Basis of Accounting

Net assets and revenues, gains and other support, expenditures, and other deductions 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 not subject to donor-imposed stipulations over which the Board of Regents (Board) has discretionary control.

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. Contributions with donor-imposed restrictions are reported as restricted support. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently Restricted Net Assets – Net assets subject to donor-imposed stipulations that must be maintained permanently by the University. The donors of these assets permit the University to use all of the income earned on related investments for general or specific purposes.

Chaminade University of Honolulu

Notes to Financial Statements
June 30, 2017 and 2016

1. Organization and Summary of Significant Accounting Policies (continued)

c. Cash and Cash Equivalents

For purposes of the statements of cash flows, the University considers all highly liquid instruments with original maturities of three months or less to be cash equivalents, unless they are purchased with resources that have donor-imposed restrictions that limit their use to long-term investment.

d. Restricted Cash Equivalents

Restricted cash equivalents include amounts deposited in money market funds, which are restricted by legal or contractual requirements associated with the servicing of the University's tax-exempt special-purpose revenue bonds and related bond reserves.

e. Student Receivables

Student accounts receivable which includes tuition and fees, are stated at amounts due from students, net of an allowance for doubtful accounts. Receivables which are outstanding longer than the contractual payment terms are considered past due. The University determines its allowance by considering a number of factors, including the length of time accounts receivable are past due, the University's previous loss history, the student's current ability to pay its obligation to the University, and the condition of the general economy and the industry as a whole. The University writes off accounts receivable when they become uncollectible, and payments subsequently received on such receivables are credited to the allowance for doubtful accounts. As of June 30, 2017 and 2016, an allowance for doubtful accounts of \$563,000 and \$2,214,600, respectively, was recorded.

f. Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value in the statements of financial position with unrealized gains and losses included in the statements of activities.

Gains and losses on investments are reported in the statements of activities as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or by law.

Donated investments and in-kind gifts are stated at fair value at the date of donation.

Chaminade University of Honolulu

Notes to Financial Statements
June 30, 2017 and 2016

1. Organization and Summary of Significant Accounting Policies (continued)

f. Investments (continued)

The University classifies all investments which will be liquidated within one year as short-term. All other investments and investments related to endowment funds have been classified as long-term in the accompanying statements of financial position.

g. Land, Buildings, Improvements, and Equipment

Buildings, improvements, and equipment are capitalized at cost, if purchased, or at fair market value at the date of donation. Depreciation is calculated on the straight-line basis over the estimated useful lives of the assets. The estimated useful lives are as follows:

Buildings and building improvements	10 to 30 years
Furniture, fixtures, and equipment	5 to 10 years

The University reports gifts of buildings and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the University reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

h. Other Assets

Other assets as of June 30, 2017 are comprised of approximately \$3,444,000 of prepaid rent related to land leased from SLS and the usage of SLS athletic facilities and various lease deposits (see Note 12d for further description of the lease terms). Other assets as of June 30, 2016 are comprised of various prepaid expenses and lease deposits.

Chaminade University of Honolulu

Notes to Financial Statements
June 30, 2017 and 2016

1. Organization and Summary of Significant Accounting Policies (continued)

i. Bond Issue Cost and Premium

The cost of issuing bonds are deferred and amortized to expense using the straight-line method, which approximates the effective interest method, over the term of the debt. Unamortized bond issuance costs are offset against the related bonds payable at June 30, 2017 and 2016. Amortization expense for each of the years ended June 30, 2017 and 2016 amounted to approximately \$22,200 and \$466,600, respectively. Amortization for the year ended June 30, 2016 includes amortization of approximately \$455,000 related to bonds which were repurchased (see Note 6).

Bond premium is amortized ratably over the term of the related bond using the effective interest method, and the unamortized balance is reported as an offset to the related bond payable liability in the accompanying statements of financial position.

j. Revenue Recognition

Tuition and educational fees, net—Student tuition and educational fees are recorded as revenues in the fiscal year the related academic services are rendered using the proportional performance method. Student tuition and educational fees received in advance of services to be rendered are recorded as deferred revenue. Financial aid provided by the University for tuition and educational fees is reflected as a reduction of tuition and educational fees. Financial aid does not include payments made to students for services provided to the University.

Private and federal grants and contracts—Revenues from private and federal grants and contracts are recognized when allowable expenditures are incurred under such agreements.

k. Contributions

Unconditional promises to give (pledges receivable) that are expected to be collected within one year are recorded at net realizable value. Pledges receivable that are expected to be collected in future years are recorded at the present value of their estimated future cash flows using risk-free interest rates in the year in which the pledges are made. Amortization of the discounts is included in private gifts and grants revenue in the statements of activities. The University provides an allowance for uncollectible pledges based upon its best estimate of the amount of probable credit losses.

Chaminade University of Honolulu

Notes to Financial Statements
June 30, 2017 and 2016

1. Organization and Summary of Significant Accounting Policies (continued)

k. Contributions (continued)

The University records conditional restricted pledges upon satisfaction of their conditions. The University received a conditional restricted pledge of approximately \$5,450,000 from Kamehameha Schools, a third-party educational trust, in 2016. The University will recognize a pledge receivable for variable installment payments on an annual basis upon the satisfaction of the conditions of the restricted pledge. At June 30, 2017 and 2016, the University recognized pledges receivable of approximately \$1,447,000 and \$1,009,000, respectively. These amounts, which were subsequently received, were recorded as temporarily restricted contributions on the statement of activities.

l. Endowment

The University's endowment consists of 71 and 67 individual funds established for a variety of purposes at June 30, 2017 and 2016, respectively. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The University is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA). The University has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, 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 organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

Chaminade University of Honolulu

Notes to Financial Statements
June 30, 2017 and 2016

1. Organization and Summary of Significant Accounting Policies (continued)

1. Endowment (continued)

In accordance with UPMIFA, the University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- a. The duration and preservation of the fund
- b. The purposes of the organization and the donor-restricted endowment fund
- c. General economic conditions
- d. The possible effect of inflation and deflation
- e. The expected total return from income and the appreciation of investments
- f. Other resources of the organization
- g. The investment policies of the organization.

The University has adopted investment and spending policies for endowment assets 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. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. The Investment Sub-Committee of the Board of Regents' Finance Committee has the responsibility to periodically review the Investment Policy, to ensure that it is in accordance with the objectives of the University. The University's goal is to protect, over the long-term, the future purchasing power of the managed funds by earning a net of fees return of 3.0% in excess of the long-term inflation rate.

The University's goal is to select an asset allocation which can reasonably be expected to earn the required rate of total return while assuming a risk no greater than that of a "standard" endowment portfolio when projected over a five-year period. The University relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The University targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

The University has a policy of appropriating for spending 3.5% of the year end market value. The policy also accounts for an annual increase of 2.5% in spending from the prior year (spending is frozen if more than 5%, and reset to 3.5%, if less than 3% of the year end market value).

Chaminade University of Honolulu

Notes to Financial Statements
June 30, 2017 and 2016

1. Organization and Summary of Significant Accounting Policies (continued)

l. Endowment (continued)

In establishing this policy, the University considered the long-term expected return on its endowment. Accordingly, over the long term, the University expects the current spending policy to allow its endowment to maintain the future purchasing power of the endowment assets as well as to provide additional real growth through new gifts and investment return.

At June 30, 2017 and 2016, total interfund financing of \$4,500,000 and \$2,000,000, respectively, was outstanding from unrestricted operating funds. Repayment of the outstanding amounts due to the endowment fund will be made through a combination of interest-only and principal payments at annual interest rates between 3.9% and 5.0% and maturities between June 2021 and April 2034.

m. Impairment of Long-Lived Assets

Long-lived assets, such as buildings, improvements, and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

n. Use of Estimates

The preparation of the financial statements requires management of the University to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, gains, and other support and expenditures during the period. Significant items subject to such estimates and assumptions include the carrying amounts of donated buildings, improvements and equipment, obligations under the University's power purchase agreement, fair value of financial instruments, and valuation allowances for receivables. Actual results could differ from those estimates.

Chaminade University of Honolulu

Notes to Financial Statements
June 30, 2017 and 2016

1. Organization and Summary of Significant Accounting Policies (continued)

o. Concentrations of Credit Risk

Financial instruments that potentially subject the University to concentrations of credit risks primarily consist of temporary cash investments and student and pledges receivable. The University maintains its cash, cash equivalents, and restricted cash equivalents in bank deposit accounts, which at times may exceed federally insured limits. Deposit accounts are insured by the Federal Deposit Insurance Corporation up to \$250,000 per account holder. The University had approximately \$8,027,000 and \$11,317,000 in excess of federally-insured limits at June 30, 2017 and 2016, respectively. Management believes that the University is not exposed to any significant credit risk related to cash and cash equivalents.

At June 30, 2017 and 2016, approximately 56% and 46% of pledges receivable were due from one donor, respectively. The University maintains contact with donors throughout the year to identify and record an allowance for uncollectible pledges as they become known.

p. Income Taxes

The University has received a determination from taxing authorities that its stated purpose is tax exempt as described in Section 501(c)(3) of the Internal Revenue Code and that contributions to the University are deductible for tax purposes by the donor, subject to the normal limitations imposed by the aforementioned authorities.

In evaluating a tax position for recognition, management judgmentally evaluates whether it is more-likely-than-not that a tax position will be sustained upon examination, including resolution of related appeals or litigation processes, based on the technical merits of the position. If the tax position meets the more-likely-than-not recognition threshold, the tax position is measured and recognized in the University's financial statements as the largest amount of tax benefit that, in management's judgment, is greater than 50% likely of being realized upon ultimate settlement.

The University has evaluated its tax positions and determined that there were no uncertain tax positions at June 30, 2017 and 2016. Interest and penalties, if any (none in 2017 or 2016), are included in institutional support expenses.

Chaminade University of Honolulu

Notes to Financial Statements
June 30, 2017 and 2016

1. Organization and Summary of Significant Accounting Policies (continued)

q. Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*, which sets forth a new revenue recognition model, codified in FASB Accounting Standards Codification (ASC) Topic 606-10. In August 2015, the FASB issued ASU No. 2015-14, which deferred the effective date of the amendments in ASU 2014-09 by one year. The amendments in ASU 2014-09 requires entities to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 will be effective for the University's fiscal year ending June 30, 2019. The University is currently assessing the impact of ASU 2014-09 on its financial position and results of operations and has not determined if the adoption will have a material effect on its financial statements.

In February 2016, the FASB issued ASU 2016-02 *Leases* (Topic 842). The guidance in this ASU supersedes the leasing guidance in Topic 840 Leases. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard will be effective for the University's fiscal year ending June 30, 2020. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The University is currently assessing the impact of ASU 2016-02 on its financial position and results of operations and has not determined if the adoption will have a material effect on its financial statements.

In June 2016, the FASB issued ASU 2016-13 *Financial Instruments – Credit Losses* (Topic 326): *Measurement of Credit Losses on Financial Instruments*. The guidance in this ASU establishes a requirement to measure credit losses at the inception of a financial instrument based on the net amount management expects to be collect. The measurement of all expected credit losses is based on historical experience, current conditions, and reasonable and supportable forecasts. The ASU will be effective for the University's fiscal year ending June 30, 2022. The University is currently assessing the impact of ASU 2016-13 on its financial position and results of operations and has not determined if the adoption will have a material effect on its financial statements.

Chaminade University of Honolulu

Notes to Financial Statements
June 30, 2017 and 2016

1. Organization and Summary of Significant Accounting Policies (continued)

q. Recently Issued Accounting Pronouncements (continued)

In August 2016, the FASB issued ASU 2016-14 *Non-for-Profit Entities* (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*. The guidance in this ASU substantially changes the financial statement presentation and disclosure requirements of not-for-profit entities to provide more relevant information about their financial resources, liquidity and changes to those financial resources. These changes include qualitative and quantitative requirements in the presentation and disclosure of net asset classes, investment return, expenses, liquidity and availability of resources, and operating cash flows. The ASU will be effective for the University's fiscal year ending June 30, 2019. The University is currently assessing the impact of ASU 2016-14 on its financial position and results of operations and has not determined if the adoption will have a material effect on its financial statements.

r. Reclassifications

Certain amounts have been reclassified for 2016 to conform to the classifications adopted in 2017. Such reclassifications had no effect on the University's previously reported changes in net assets.

2. Pledges Receivable

Pledges receivable consist of the following as of June 30, 2017 and 2016:

	2017	2016
Contributions to be received within 1 year	\$ 1,554,476	\$ 1,059,024
Contributions to be received in 1 to 5 years	117,147	15,300
Contributions to be received in more than 5 years	900,501	900,501
	2,572,124	1,974,825
Less discount at 4.19%	(36,193)	(70,931)
	<u>\$ 2,535,931</u>	<u>\$ 1,903,894</u>

There is no allowance for uncollectible pledges receivable at June 30, 2017 and 2016.

Chaminade University of Honolulu

Notes to Financial Statements
June 30, 2017 and 2016

3. Investments

Investments consist of the following as of June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Mutual and exchange traded funds	\$ 11,700,678	\$ 10,547,977
Money market funds	638,234	2,860,631
Common stocks	1,435,758	1,482,223
U.S. government debt securities	1,486,070	1,247,912
Corporate debt securities	<u>1,067,914</u>	<u>940,777</u>
Total investments	<u>\$ 16,328,654</u>	<u>\$ 17,079,520</u>

4. Fair Value Measurements

The FASB ASC Topic 820 (ASC 820) establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to 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 unobservable inputs (level 3 measurements).

The three levels of the fair value hierarchy under ASC 820 are described below:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the University has the ability to access.

Level 2: Inputs to the valuation methodology include:

- Quoted prices for identical or similar assets or liabilities in active or inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Chaminade University of Honolulu

Notes to Financial Statements
June 30, 2017 and 2016

4. Fair Value Measurements

The financial asset's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

There were no changes to the methodologies used to determine fair value or transfers of items between levels for the years ended June 30, 2017 and 2016.

The following summarizes financial assets measured at fair value on a recurring basis as of June 30, 2017 and 2016, segregated by the level of the valuation inputs within the fair value of hierarchy utilized to measure fair value:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
2017:				
Mutual and exchange traded funds:				
U.S. equity value	\$ 4,184,953	\$ -	\$ -	\$ 4,184,953
U.S. equity growth	3,565,738	-	-	3,565,738
Fixed income	2,003,703	-	-	2,003,703
Blended	1,290,259	-	-	1,290,259
Diversified emerging markets	656,024	-	-	656,024
Total mutual and exchange traded funds	<u>11,700,678</u>	<u>-</u>	<u>-</u>	<u>11,700,678</u>
Common stocks:				
Information technology	322,184	-	-	322,184
Financials	281,983	-	-	281,983
Industrials	241,638	-	-	241,638
Consumer goods	189,951	-	-	189,951
Health care	146,734	-	-	146,734
Other	253,268	-	-	253,268
Total common stocks	<u>1,435,758</u>	<u>-</u>	<u>-</u>	<u>1,435,758</u>
Money market funds	638,234	-	-	638,234
U.S. government obligations	-	1,486,070	-	1,486,070
Corporate debt securities	-	1,067,914	-	1,067,914
	<u>\$ 13,774,670</u>	<u>\$ 2,553,984</u>	<u>\$ -</u>	<u>\$ 16,328,654</u>

Chaminade University of Honolulu

Notes to Financial Statements
June 30, 2017 and 2016

4. Fair Value Measurements (continued)

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
2016:				
Mutual and exchange traded funds:				
U.S. equity growth	\$ 3,693,771	\$ -	\$ -	\$ 3,693,771
U.S. equity value	3,688,817	-	-	3,688,817
Fixed income	1,613,314	-	-	1,613,314
Blended	1,003,553	-	-	1,003,553
Diversified emerging markets	548,522	-	-	548,522
Total mutual and exchange traded funds	<u>10,547,977</u>	<u>-</u>	<u>-</u>	<u>10,547,977</u>
Common stocks:				
Consumer goods	343,080	-	-	343,080
Information technology	288,127	-	-	288,127
Financials	201,986	-	-	201,986
Healthcare	179,708	-	-	179,708
Industrials	160,402	-	-	160,402
Other	308,920	-	-	308,920
Total common stocks	<u>1,482,223</u>	<u>-</u>	<u>-</u>	<u>1,482,223</u>
Money market funds	2,860,631	-	-	2,860,631
U.S. government obligations	-	1,247,912	-	1,247,912
Corporate debt securities	-	940,777	-	940,777
	<u>\$ 14,890,831</u>	<u>\$ 2,188,689</u>	<u>\$ -</u>	<u>\$ 17,079,520</u>

Chaminade University of Honolulu

Notes to Financial Statements
June 30, 2017 and 2016

4. Fair Value Measurements (continued)

The fair value of financial instruments is the amount at which the instrument could be exchanged in a current transaction between willing parties. The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and Cash Equivalents; Student and Other Receivables; Pledge and Grant Receivables; Accounts Payable and Accrued Expenses; Accrued Payroll; Advance Tuitions and Other Deferred Revenues; Deposits Held in Custody for Others – the carrying values approximate fair values due to the short maturity of these instruments or the use of market rates to discount the related cash flows.

Bonds Payable – the fair value, which amounted to approximately \$22,064,000 and \$22,595,000 at June 30, 2017 and 2016, respectively, is estimated using municipal debt securities' yield curves and the bonds' rating as of year end.

The University's investments are recorded at fair value as follows:

Common stocks are determined using the closing price reported on the active market on which the individual securities are traded.

Mutual and exchange traded funds are stated at fair value using quoted market prices or based on quoted prices obtained for similar assets.

Money market funds are determined using the net asset value reported on the active market on which the funds are traded.

U.S. Government and corporate debt securities are estimated using a market approach valuation technique that considers, among other things, credit information, observed market movements and sector news.

The University's policy is to transfer assets and liabilities into Level 3 when a significant input cannot be corroborated with market observable data. This may include circumstances in which market activity has dramatically decreased and transparency to underlying inputs cannot be observed, current prices are not available or substantial price variances in quotations among market participants exist. Transfers of assets and liabilities into or out of Level 3 are recognized at their fair values as of the end of each reporting period, consistent with the date of the determination of fair value. At June 30, 2017 and 2016, the University had no transfers into or out of Level 3.

Chaminade University of Honolulu

Notes to Financial Statements
June 30, 2017 and 2016

4. Fair Value Measurements (continued)

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the University believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

5. Land, Buildings, Improvements, and Equipment

Land, buildings, improvements, and equipment consist of the following at June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Land	\$ 637,000	\$ 637,000
Buildings and building improvements	83,339,997	76,915,536
Furniture, fixtures, and equipment	<u>13,691,797</u>	<u>13,109,852</u>
	97,668,794	90,662,388
Less accumulated depreciation and amortization	<u>(39,867,079)</u>	<u>(36,284,858)</u>
	57,801,715	54,377,530
Construction in progress	<u>4,384,341</u>	<u>2,403,915</u>
	<u>\$ 62,186,056</u>	<u>\$ 56,781,445</u>

Depreciation and amortization expense for the years ended June 30, 2017 and 2016 was \$3,774,431 and \$3,385,544, respectively.

6. Long Term Debt

a. Bonds Payable

The State of Hawaii constitution allows independent educational institutions the ability to issue tax-exempt State of Hawaii Special-Purpose Revenue Board (SPRB) bonds for the purpose of capital improvements.

Chaminade University of Honolulu

Notes to Financial Statements
June 30, 2017 and 2016

6. Long Term Debt (continued)

a. Bonds Payable (continued)

The issuance of SPRB Series 2006 bonds was completed in March 2006 for \$10,000,000 at a premium of \$140,846. The outstanding SPRB Series 2006 bonds were repurchased in December 2015 using the proceeds from the issuance of SPRB Series 2015 bonds. The University also recognized amortization expense of approximately \$455,000 for the year ended June 30, 2016 related to the write-off of the remaining issuance costs associated with SPRB Series 2006 bonds.

The issuance of SPRB Series 2015 bonds were completed in December 2015 for \$20,255,000 and \$2,340,000 at a total premium of \$245,503. Management's objective for the issuance of the bonds was for the purpose of supporting various capital projects, repurchasing the SPRB Series 2006 bonds, and for funding a future debt service reserve. The series consists of term bonds with fixed interest rates ranging from 5.0% to 5.5% and maturing at various dates between January 1, 2022 and January 1, 2045. These obligations are secured by all tuition and fees received by the University, certain property, and by restricted cash equivalents. These obligations also include certain restrictive covenants with which the University was in compliance at June 30, 2017 and 2016. Related unamortized bond issuance costs amounted to approximately \$610,000 and \$633,000, as of June 30, 2017 and 2016, respectively.

The University's obligation under the bonds payable, net of related unamortized issuance costs and bond premium, amounted to \$21,907,420 and \$22,203,690 as of June 30, 2017 and 2016, respectively. Interest expense on bonds payable amounted to \$1,132,925 and \$1,275,557 for the years ended June 30, 2017 and 2016, respectively.

Future maturities of the University's bonds payable as of June 30, 2017 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Years ending June 30,			
2018	\$ 375,000	\$ 1,124,400	\$ 1,499,400
2019	395,000	1,103,775	1,498,775
2020	415,000	1,082,050	1,497,050
2021	440,000	1,059,225	1,499,225
2022	460,000	1,035,025	1,495,025
Thereafter	<u>20,200,000</u>	<u>14,244,000</u>	<u>34,444,000</u>
	<u>\$ 22,285,000</u>	<u>\$ 19,648,475</u>	<u>\$ 41,933,475</u>

Chaminade University of Honolulu

Notes to Financial Statements
June 30, 2016 and 2015

6. Long Term Debt (continued)

b. Notes Payable

Notes payable as of June 30, 2017 and 2016 consisted of a \$6 million line of credit agreement with a bank through January 2018 which bears interest at the bank's prime rate (4.375% at June 30, 2017), and secured by accounts receivable, inventory, equipment and general intangibles. There was no amount outstanding as of June 30, 2017 and 2016.

There was no interest expense or capitalized interest on notes payable for the year ended June 30, 2017 and 2016.

7. Endowments

The University's endowment funds consist of the following at June 30, 2017 and 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
2017:				
Donor-restricted funds	<u>\$ -</u>	<u>\$ 4,242,544</u>	<u>\$ 12,623,318</u>	<u>\$16,865,862</u>
2016:				
Donor-restricted funds	<u>\$ -</u>	<u>\$ 3,199,977</u>	<u>\$ 11,242,811</u>	<u>\$14,442,788</u>

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the University to retain as a fund of perpetual duration. In accordance with FASB ASC Topic 958-205-45, deficiencies of this nature that are reported in unrestricted net assets were nil as of June 30, 2017 and 2016, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board.

Chaminade University of Honolulu

Notes to Financial Statements
June 30, 2017 and 2016

7. Endowments (continued)

During the years ended June 30, 2017 and 2016, the University had the following endowment-related activities:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
2017:				
Beginning of year	\$ -	\$ 3,199,977	\$ 11,242,811	\$ 14,442,788
Investment return:				
Investment income	-	359,635	-	359,635
Net appreciation	-	1,024,104	-	1,024,104
Total investment return	-	1,383,739	-	1,383,739
Contributions	-	-	1,380,507	1,380,507
Appropriations for expenditures	-	(341,172)	-	(341,172)
	<u>\$ -</u>	<u>\$ 4,242,544</u>	<u>\$ 12,623,318</u>	<u>\$ 16,865,862</u>
2016:				
Beginning of year	\$ (16)	\$ 3,542,539	\$ 11,032,661	\$ 14,575,184
Investment return:				
Investment income	-	295,906	-	295,906
Net appreciation	16	(234,812)	-	(234,796)
Total investment return	16	61,094	-	61,110
Contributions	-	-	320,150	320,150
Revision of donor restrictions	-	110,000	(110,000)	-
Appropriations for expenditures	-	(513,656)	-	(513,656)
	<u>\$ -</u>	<u>\$ 3,199,977</u>	<u>\$ 11,242,811</u>	<u>\$ 14,442,788</u>

Chaminade University of Honolulu

Notes to Financial Statements
June 30, 2017 and 2016

8. Temporarily Restricted Net Assets

Information relating to restrictions released during the years ended June 30, 2017 and 2016 and the remaining balance of temporarily restricted net assets as of June 30, 2017 and 2016 is as follows:

	2017		2016	
	Restriction Released	Available Balance	Restriction Released	Available Balance
Purpose of restriction:				
Financial aid, scholarships and awards	\$ 1,034,722	\$ 4,356,131	\$ 692,340	\$ 3,320,519
Instructional support and other	1,176,664	1,707,120	1,378,576	1,362,615
Building improvements and equipment acquisitions	952,377	869,649	119,595	1,420,384
Interest in net assets of Chaminade University Educational Foundation	-	957,489	-	813,927
	<u>\$ 3,163,763</u>	<u>\$ 7,890,389</u>	<u>\$ 2,190,511</u>	<u>\$ 6,917,445</u>

9. Permanently Restricted Net Assets

Permanently restricted net assets consisted of the following as of June 30, 2017 and 2016:

	2017	2016
Financial aid, scholarships, and awards	\$ 10,484,135	\$ 9,123,628
Building improvements and equipment acquisitions	2,139,183	2,119,183
Interest in net assets of Chaminade University Educational Foundation	440,232	440,232
	<u>\$ 13,063,550</u>	<u>\$ 11,683,043</u>

Chaminade University of Honolulu

Notes to Financial Statements
June 30, 2017 and 2016

10. Commitments and Contingencies

a. Operating Leases

The University is committed under operating lease agreements for real property used for student housing. The leases provide that the University pay for property tax assessments, insurance, general excise taxes, and certain maintenance and operating expenses applicable to the leased premises. Certain lease agreements include an option to purchase the leased fee interest available at the University's option. These were not exercised during the year ended June 30, 2017 and 2016. Rent expense for the years ended June 30, 2017 and 2016 amounted to approximately \$713,000 and \$636,000, respectively.

Future minimum lease payments under these non-cancelable operating leases as of June 30, 2017 are approximately as follows:

Years ending June 30,	
2018	\$ 544,000
2019	560,000
2020	401,000
2021	397,000
2022	409,000
Thereafter	<u>34,000</u>
	<u>\$ 2,345,000</u>

b. Capital Leases

During the year ended June 30, 2012, the University, MCH and SLS (collectively, the Partners), jointly entered into a long-term power purchase agreement to purchase the energy generated by a solar electric generating facility (the System). The System provides energy to various buildings occupied by the Partners and had a generation output of approximately 825,000 kilowatt-hours at June 30, 2017. The Partners are jointly obligated under the terms of the agreement to purchase all of the energy output of the equipment at a rate of approximately \$0.18 per kilowatt-hour (\$0.199 at June 30, 2017), with an escalation of 3 percent per year for the term of 20 years. The total amount paid by the Partners for the years ended June 30, 2017 and 2016 was approximately \$162,000 and \$179,000, respectively.

The agreement includes three purchase options for the System available at the Partners' option during the years ending June 30, 2018, 2022, and 2027 at a cost equal to the greater of the fair value of the equipment or \$1,480,000, \$1,370,000, and \$1,128,000, respectively.

Chaminade University of Honolulu

Notes to Financial Statements
June 30, 2017 and 2016

10. Commitments and Contingencies (continued)

b. Capital Leases (continued)

The Partners have allocated the amounts due under the agreement among the University, SLS and MCH based on each party's share of the expected electricity usage. Management has estimated the University's portion of the future payments due under the agreement as of June 30, 2017 is approximately as follows:

Years ending June 30,	
2018	\$ 119,000
2019	122,000
2020	125,000
2021	128,000
2022	132,000
Thereafter	<u>1,507,000</u>
	<u>\$ 2,133,000</u>

The University has determined that the payments due under the agreement include an element related to the leasing of the System. As such, in accordance with ASC Topic 840, management has recognized a capital lease for the estimated payments related to the System.

The University also acquired certain office equipment under a capital lease, which expires in June 2022.

For financial reporting purposes, minimum lease rentals relating to capital leases have been capitalized using the University's incremental borrowing rate at the inception of the lease. Amortization of the capitalized cost of these leases is included in depreciation and amortization expense for the years ended June 30, 2017 and 2016 and amounted to \$134,000 and \$206,000, respectively.

Chaminade University of Honolulu

Notes to Financial Statements
June 30, 2017 and 2016

10. Commitments and Contingencies (continued)

b. Capital Leases (continued)

The following is a schedule of leased equipment under capital leases as of June 30, 2017 and 2016, which is included in furniture, fixtures, and equipment and related accumulated depreciation and amortization (see Note 5):

	<u>2017</u>	<u>2016</u>
Solar electric generating facility	\$ 2,195,929	\$ 2,195,929
Office equipment	<u>207,480</u>	<u>206,365</u>
	2,403,409	2,402,294
Less accumulated amortization	<u>(618,937)</u>	<u>(663,774)</u>
	<u><u>\$ 1,784,472</u></u>	<u><u>\$ 1,738,520</u></u>

Future minimum lease payments under capital leases and related interest expense as of June 30, 2016 are as follows:

Years Ending June 30,	
2018	\$ 205,068
2019	208,916
2020	212,860
2021	216,902
2022	191,758
Thereafter	<u>1,867,881</u>
Total minimum lease payments	2,903,385
Less: amount representing interest at 4.5%	<u>(790,249)</u>
Present value of net minimum lease payments	<u><u>\$ 2,113,136</u></u>

c. Other Contract Commitments

The University is committed under construction contracts of approximately \$1,126,000 and \$8,391,000 at June 30, 2017 and 2016, respectively.

Chaminade University of Honolulu

Notes to Financial Statements
June 30, 2017 and 2016

10. Commitments and Contingencies (continued)

c. Other Contract Commitments (continued)

The University outsourced its bookstore operations in May 2014 to an independent third party. The outsourcing agreement continues through April 30, 2019 and may be renewed for an additional five year period subject to mutual agreement. Under the terms of the agreement, the University receives a variable percentage of gross sales from the operation of the bookstore, which is included in auxiliary enterprises in the accompanying statements of activities.

d. Litigation

The University is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the University's financial position, results of operations, or liquidity.

11. Employee Benefit Plan

The University sponsors a contributory, defined contribution retirement plan for eligible career faculty and administrative employees. Plan contributions are based upon a percentage of each participant's total earnings and are funded on a current basis. Contributions to the plan, net of any forfeitures, were approximately \$809,000 and \$794,000 for the years ended June 30, 2017 and 2016, respectively.

12. Transactions with Affiliated Entities

a. Marianist Center of Hawaii

The land and certain buildings from which the University operates belong to MCH. In March 2006, the properties were leased to the University under a conditional lease agreement for a term of 50 years. The lease requires annual rent of \$1 and all taxes, assessments, and other charges applicable to the leased premises. The University has the option to extend the term of the lease for one additional 50-year period. For the years ended June 30, 2017 and 2016, the estimated fair value of the lease rent for the land and buildings has been determined by a real estate appraiser to be approximately \$2,756,200 and \$2,686,000, respectively, and is included in unrestricted private gifts and grants and in various expenditure classifications in the accompanying statements of activities.

Chaminade University of Honolulu

Notes to Financial Statements
June 30, 2017 and 2016

12. Transactions with Affiliated Entities (continued)

b. Chaminade University Educational Foundation

The Chaminade University Educational Foundation (the Foundation), a charitable trust, was created exclusively to encourage, promote, and assist in the financing of the objectives and purpose of the University. Trustees are appointed by majority vote of the remaining trustees. The Foundation has received a determination from taxing authorities that its stated purpose is tax exempt as described in the Internal Revenue Code. The Foundation's board of trustees has sole discretion as to the timing and amounts of contributions of its net assets to the University. During the years ended June 30, 2017 and 2016, the University received temporarily restricted contributions from the Foundation of \$1,000 and \$59,067, respectively.

c. Contributions

Pledges receivable as of June 30, 2017 and 2016 include amounts from members of the Board totaling approximately nil and \$115,000, respectively. Contributions for the years ended June 30, 2017 and 2016 include amounts received from members of the Board totaling approximately \$163,000 and \$344,000, respectively.

d. Saint Louis School

The University and SLS were previously in an agreement for SLS to construct facilities for the University's exclusive use in the planned SLS athletic center and for the University to use various athletic facilities of SLS. Effective January 1, 2017, the previous agreement was superseded and a new agreement was signed for the University to lease certain parcels of land from SLS on which the University will construct and own a locker and training building as well as for the use of various SLS athletic facilities. In consideration for the above, the University prepaid rent to SLS in the amount of \$450,000 relating to the land lease with a term of 40 years and \$3,050,000 relating to the use of SLS athletic facilities with a lease term of 30 years. The \$3,500,000 will be amortized over the term of the respective lease terms. The amortized balance of approximately \$3,444,000 is included in other assets on the statement of financial position as of June 30, 2017.

The University shares its campus with SLS under the terms of the lease with MCH. Certain utilities and other shared costs of maintaining the campus are paid by the University and subsequently reimbursed by SLS. The reimbursements totaled approximately \$516,000 and \$520,000 for the years ended June 30, 2017 and 2016, respectively. The University had approximately \$101,000 and \$142,000 due from SLS included in other receivables on the statements of financial position as of June 30, 2017 and 2016, respectively.

Chaminade University of Honolulu

Notes to Financial Statements
June 30, 2017 and 2016

13. Subsequent Events

The University has evaluated subsequent events through November 2, 2017, the date on which the financial statements were available to be issued, and it was determined that all subsequent events had been properly accounted for.

SECTION III

Supplementary Information

Chaminade University of Honolulu
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2017

<u>Federal Grantor / Pass-through Grantor and Program Title</u>	<u>Catalog of Federal Domestic Assistance (CFDA) Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Passed through to Subrecipients</u>	<u>Total Federal Expenditures</u>
U.S. Department of Education Direct Programs:				
Student Financial Assistance Cluster:				
Federal Supplemental Educational Opportunity Grant Program	84.007		\$ -	\$ 213,577
Federal Work Study	84.033		-	194,117
Federal Pell Grant Program	84.063		-	3,620,480
Teacher Education Assistance for College and Higher Education	84.379		-	19,281
Federal Direct Student Loan	84.268		-	14,956,409
Title III: Increasing Capacity, Student Retention, Advising, Career Preparation, Faculty Development	84.031W		-	3,448,853
Subtotal U.S. Department of Education Direct Programs			-	22,452,717
Pass-through Program from: University of Hawaii at Manoa- Title II: Improving Teacher Quality	84.367	965088057	-	5,000
Total U.S. Department of Education			-	22,457,717
U.S. Department of Health and Human Services Direct Programs:				
BRIC Project	93.307		-	9,481
HRSA: Nurse Education Practice, Quality and Retention	93.359		-	106,181
Mast Cell Responses to Insulin	93.847		-	60,214
Biomedical/ Biobehavioral Research Administration Development (BRAD) Program	93.865		-	85,947
Subtotal U.S. Department of Health and Human Services Direct Programs			-	261,823
Pass-Through Programs from: University of Hawaii at Manoa- STAT3, G6PD and TrxR as underlying mechanisms for antitumor IDEA Networks of Biomedical Research Excellence (INBRE)	93.395 93.859	965088057 965088057	- -	27,390 520,368
Total U.S. Department of Health and Human Services			-	809,581
National Science Foundation Direct Program:				
Kulia: Improving Undergraduate STEM Education (IUSE) Program	47.076		29,398	124,605
Pass-Through Program from: University of Hawaii at Hilo- Island of Opportunity Alliance: Louis Stokes Alliance for Minority Participation (IOA-LSAMP)	47.076	195738039	-	7,930
Total National Science Foundation			29,398	132,535
Office of Naval Research Direct Programs:				
Engineering Success in STEM	12.300		42,605	120,717
K-20 Engineering Pipeline: Engineering as Community's Future	12.301		6,819	191,389
Clarkson Aerospace	12.800		-	52,742
Total Office of Naval Research			49,424	364,848
Department of Justice Pass-Through Programs from:				
University of California at San Diego- Evaluating the Skin Microbiome and Trace Evidence	16.560	804355790	-	62,150
University of Colorado at Boulder- Microbial Clocks for Estimating the Postmortem Interval of Human Remains at 3 Anthropological Research Facilities	16.560	007431505	-	8,856
Total Department of Justice			-	71,006
			<u>\$ 78,822</u>	<u>\$ 23,835,687</u>

The accompanying notes to the schedule of expenditures of federal awards are an integral part of this schedule.

Chaminade University of Honolulu

Notes to Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2017

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the University under programs of the federal government for the year ended June 30, 2017. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the University, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the University.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported in accordance with accounting principles generally accepted in the United States of America. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. The University has not elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

SECTION IV

Compliance and Internal Control



A Hawaii Limited Liability Partnership

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Independent Auditor's Report

To the Board of Regents
Chaminade University of Honolulu:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Chaminade University of Honolulu (the University), which comprise the statement of financial position as of June 30, 2017 and 2016, and the related statements of activities, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated November 2, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the University's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

KMH LLP

KMH LLP

Honolulu, Hawaii
November 2, 2017



A Hawaii Limited Liability Partnership

**Report on Compliance for Each Major Federal Program and
Report on Internal Control over Compliance**

Independent Auditor's Report

To the Board of Regents
Chaminade University of Honolulu:

Report on Compliance for Each Major Federal Program

We have audited Chaminade University of Honolulu's (the University) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the University's major federal programs for the year ended June 30, 2017. The University's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of federal statutes, regulations, and the terms and conditions of its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the University's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of the Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the University's compliance.

Opinion on Each Major Federal Program

In our opinion, the University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control over Compliance

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

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

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

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

KMH LLP

KMH LLP

Honolulu, Hawaii
November 2, 2017

Chaminade University of Honolulu

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2017

Section I – Summary of Auditor’s Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None Reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None Reported

Type of auditor’s report issued on compliance for major federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 2 CFR 200.516(a)? Yes No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
Various	U.S. Department of Education Student Financial Aid Assistance Cluster

Dollar threshold used to distinguish between type A and type B programs? \$750,000

Auditee qualified as low-risk auditee? Yes No

Chaminade University of Honolulu

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2017

Section II – Financial Statement Findings

No matters were reported.

Section III – Federal Award Findings and Questioned Costs

No matters were reported.

Section IV – Summary Schedule of Prior Audit Findings

No matters were reported.