

**King's College**  
Financial Statements  
June 30, 2014 and 2013



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# King's College

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June 30, 2014 and 2013

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## Independent Auditors' Report

Board of Directors  
King's College

We have audited the accompanying financial statements of King's College, which comprise the statement of financial position as of June 30, 2014 and 2013, 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.

### Auditors' 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. 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 King's College as of June 30, 2014 and 2013, 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.

*Baker Tilly Virchow Krause, LLP*

Wilkes-Barre, Pennsylvania  
October 6, 2014

# King's College

## Statement of Financial Position

June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 1,061,501	\$ 627,261
Short-term investments	400,409	363,130
Accounts receivable:		
Students, net	906,029	864,548
Other	937,854	791,534
Other assets	269,736	393,375
Contributions receivable, net	4,133,790	5,155,211
Deferred financing costs	230,271	246,627
Restricted cash	1,025,644	6,736,250
Investments	60,265,376	53,728,508
Student and other loans receivable	2,474,413	2,453,141
Land, buildings and equipment, net	94,073,407	83,988,118
Beneficial interest in perpetual trusts	7,160,689	6,398,814
	<u>172,939,119</u>	<u>161,746,517</u>
Total assets	<u>\$ 172,939,119</u>	<u>\$ 161,746,517</u>
<b>Liabilities and Net Assets</b>		
Line of credit	\$ 729,440	\$ 1,427,003
Accounts payable and accrued liabilities	5,688,156	4,668,490
Deferred revenue and deposits	2,640,991	1,626,569
Agency funds payable	562,900	529,887
Long-term debt	46,295,280	45,000,000
Interest rate swap	3,384,614	3,261,698
Refundable advances from federal government for student loans	1,892,407	1,928,428
	<u>61,193,788</u>	<u>58,442,075</u>
Total liabilities	<u>61,193,788</u>	<u>58,442,075</u>
<b>Net Assets</b>		
Unrestricted	57,751,632	54,468,420
Temporarily restricted	21,092,564	17,030,702
Permanently restricted	32,901,135	31,805,320
	<u>111,745,331</u>	<u>103,304,442</u>
Total net assets	<u>111,745,331</u>	<u>103,304,442</u>
Total liabilities and net assets	<u>\$ 172,939,119</u>	<u>\$ 161,746,517</u>

See notes to financial statements

**King's College**

## Statement of Activities

Year Ended June 30, 2014, With Summarized Information for the Year Ended June 30, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	<u>6/30/2013</u>
<b>Operating Revenues</b>					
Student tuition and fees	\$ 61,608,724	\$ -	\$ -	\$ 61,608,724	\$ 61,164,440
Internal student aid	<u>(24,037,349)</u>			<u>(24,037,349)</u>	<u>(23,728,840)</u>
Student tuition and fees, net	37,571,375	-	-	37,571,375	37,435,600
Auxiliary enterprises	12,044,377	-	-	12,044,377	12,329,717
Private gifts and grants	815,381	442,609	-	1,257,990	1,463,002
Endowment spending policy	2,789,178	-	-	2,789,178	2,185,330
Federal and state grants	1,650,429	-	-	1,650,429	1,374,234
Other sources	66,959	-	-	66,959	40,005
Net assets released from restrictions:					
Satisfaction of program restrictions	171,570	(171,570)	-	-	-
Expiration of time restrictions	<u>82,504</u>	<u>(82,504)</u>	-	-	-
Total operating revenues	<u>55,191,773</u>	<u>188,535</u>	<u>-</u>	<u>55,380,308</u>	<u>54,827,888</u>
<b>Operating Expenses</b>					
Instructional	21,242,023	-	-	21,242,023	21,736,265
Public services	855,346	-	-	855,346	1,116,810
Academic support	4,942,752	-	-	4,942,752	5,779,070
Student services	8,915,289	-	-	8,915,289	9,139,183
Institutional support	8,750,654	-	-	8,750,654	8,187,119
Student aid	223,688	-	-	223,688	201,128
Auxiliary enterprises	<u>9,161,025</u>	<u>-</u>	<u>-</u>	<u>9,161,025</u>	<u>9,360,383</u>
Total operating expenses	<u>54,090,777</u>	<u>-</u>	<u>-</u>	<u>54,090,777</u>	<u>55,519,958</u>
<b>Change in Net Assets from Operating Activities</b>	<u>1,100,996</u>	<u>188,535</u>	<u>-</u>	<u>1,289,531</u>	<u>(692,070)</u>
<b>Nonoperating</b>					
Endowment income in excess of spending policy	2,305,131	3,873,327	-	6,178,458	2,568,756
Unrealized gain (loss) on interest rate swaps	(122,915)	-	-	(122,915)	1,567,125
State capital grant	-	-	-	-	1,500,991
Loss on debt refunding	-	-	-	-	(144,166)
Contributions	-	-	333,940	333,940	1,301,112
Change in beneficial interest in perpetual trusts	<u>-</u>	<u>-</u>	<u>761,875</u>	<u>761,875</u>	<u>320,885</u>
<b>Change in Net Assets from Nonoperating Activities</b>	<u>2,182,216</u>	<u>3,873,327</u>	<u>1,095,815</u>	<u>7,151,358</u>	<u>7,114,703</u>
<b>Change in Net Assets</b>	3,283,212	4,061,862	1,095,815	8,440,889	6,422,633
<b>Net Assets, Beginning</b>	<u>54,468,420</u>	<u>17,030,702</u>	<u>31,805,320</u>	<u>103,304,442</u>	<u>96,881,809</u>
<b>Net Assets, Ending</b>	<u>\$ 57,751,632</u>	<u>\$ 21,092,564</u>	<u>\$ 32,901,135</u>	<u>\$ 111,745,331</u>	<u>\$ 103,304,442</u>

See notes to financial statements

**King's College**Statement of Activities  
Year Ended June 30, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Operating Revenues</b>				
Student tuition and fees	\$ 61,164,440	\$ -	\$ -	\$ 61,164,440
Internal student aid	(23,728,840)	-	-	(23,728,840)
Student tuition and fees, net	37,435,600	-	-	37,435,600
Auxiliary enterprises	12,329,717	-	-	12,329,717
Private gifts and grants	1,176,297	286,705	-	1,463,002
Endowment spending policy	2,185,330	-	-	2,185,330
Federal and state grants	1,374,234	-	-	1,374,234
Other sources	40,005	-	-	40,005
Net assets released from restrictions:				
Satisfaction of program restrictions	441,577	(441,577)	-	-
Expiration of time restrictions	241,716	(241,716)	-	-
Total operating revenues	<u>55,224,476</u>	<u>(396,588)</u>	<u>-</u>	<u>54,827,888</u>
<b>Operating Expenses</b>				
Instructional	21,736,265	-	-	21,736,265
Public services	1,116,810	-	-	1,116,810
Academic support	5,779,070	-	-	5,779,070
Student services	9,139,183	-	-	9,139,183
Institutional support	8,187,119	-	-	8,187,119
Student aid	201,128	-	-	201,128
Auxiliary enterprises	9,360,383	-	-	9,360,383
Total operating expenses	<u>55,519,958</u>	<u>-</u>	<u>-</u>	<u>55,519,958</u>
<b>Change in Net Assets from Operating Activities</b>	<u>(295,482)</u>	<u>(396,588)</u>	<u>-</u>	<u>(692,070)</u>
<b>Nonoperating</b>				
Endowment losses in excess of spending policy	1,244,908	1,323,848	-	2,568,756
Unrealized loss on interest rate swaps	1,567,125	-	-	1,567,125
State capital grant	1,500,991	-	-	1,500,991
Loss on debt refunding	(144,166)	-	-	(144,166)
Contributions	-	-	1,301,112	1,301,112
Changes in beneficial interest in perpetual trusts	-	-	320,885	320,885
<b>Change in Net Assets from Nonoperating Activities</b>	<u>4,168,858</u>	<u>1,323,848</u>	<u>1,621,997</u>	<u>7,114,703</u>
<b>Change in Net Assets</b>	<u>3,873,376</u>	<u>927,260</u>	<u>1,621,997</u>	<u>6,422,633</u>
<b>Net Assets, Beginning</b>	<u>50,595,044</u>	<u>16,103,442</u>	<u>30,183,323</u>	<u>96,881,809</u>
<b>Net Assets, Ending</b>	<u>\$ 54,468,420</u>	<u>\$ 17,030,702</u>	<u>\$ 31,805,320</u>	<u>\$ 103,304,442</u>

See notes to financial statements

**King's College**

## Statement of Cash Flows

Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ 8,440,889	\$ 6,422,633
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	3,891,130	3,731,100
Loss on debt refunding	-	144,166
Net realized and unrealized gains on investments	(7,863,705)	(4,448,784)
Restricted contributions	(776,549)	(1,587,817)
State capital grant	-	(1,500,991)
Change in beneficial interest in perpetual trusts	(761,875)	(320,885)
Unrealized (gain) loss on interest rate swap	122,915	(1,567,125)
Bad debt expense	139,167	178,674
Changes in assets and liabilities:		
Short-term investments	(37,279)	(20,736)
Accounts receivable	(326,968)	424,635
Contributions receivable	18,172	(5,579)
Other assets	123,639	(314,706)
Accounts payable and accrued liabilities	(609,932)	1,325,843
Agency funds payable	33,013	8,485
Deferred revenue and deposits	1,014,421	(399,439)
Net cash provided by operating activities	<u>3,407,038</u>	<u>2,069,474</u>
<b>Cash Flows from Investing Activities</b>		
Purchase of land, buildings, and equipment	(12,279,814)	(5,231,332)
(Decrease) increase in restricted cash	5,710,606	(6,736,250)
Purchase of investments	(874,692)	(11,239,859)
Proceeds from sale of investments	2,201,530	5,394,286
Disbursements of student and other loans	(405,250)	(322,452)
Repayments of student and other loans	383,978	403,377
Net cash used in investing activities	<u>(5,263,642)</u>	<u>(17,732,230)</u>
<b>Cash Flows from Financing Activities</b>		
Change in line of credit	(697,563)	(1,308,542)
Proceeds from issuance of long-term debt	3,460,280	45,000,000
Repayment of long-term debt	(2,165,000)	(32,115,000)
State capital grant	-	2,925,008
Payment of deferred financing costs	(50,650)	(250,606)
Proceeds from restricted contributions	1,779,798	1,726,292
Net advance from federal government for student loans	(36,021)	(32,539)
Net cash provided by financing activities	<u>2,290,844</u>	<u>15,944,613</u>
<b>Net Change in Cash and Cash Equivalents</b>	434,240	281,857
<b>Cash and Cash Equivalents, Beginning</b>	<u>627,261</u>	<u>345,404</u>
<b>Cash and Cash Equivalents, Ending</b>	<u>\$ 1,061,501</u>	<u>\$ 627,261</u>
<b>Supplemental Disclosure of Cash Flow Information</b>		
Cash paid for interest	<u>\$ 1,374,843</u>	<u>\$ 1,745,313</u>
<b>Supplemental Disclosure of Noncash Investing and Financing Activities</b>		
Land, buildings and equipment in accounts payable	<u>\$ 1,820,732</u>	<u>\$ 191,134</u>

See notes to financial statements



## 1. Nature of Operations and Summary of Significant Accounting Policies

### Nature of Operations

King's College (the "College") is a not-for-profit educational institution which provides undergraduate, graduate and professional education to its students. The College was founded in 1946 by the Congregation of Holy Cross as an independent four-year institution of higher education. The College welcomes students into its community without regard to gender, race, religion, disability or national origin, and seeks to assist talented students of modest financial means.

The College seeks to develop mutually beneficial and cooperative ties to the wider society, and particularly to the civic, cultural, and religious communities of Northeastern Pennsylvania. The broader community offers resources that support and compliment the educational mission of the College, which in turn is a resource to the community through the specialized competencies of its faculty and staff, the volunteer service of students, and through a diverse series of public lectures and religious, cultural and athletic events.

The College is dependent on continuing cash flows from operations to provide adequate liquidity to support its operations.

### Donor-Restricted Gifts/Contributions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily or permanently restricted support which increases those net asset classes. When a donor restriction expires, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets released from restrictions, satisfaction of program restrictions. However, if a restriction is satisfied in the same fiscal period in which the contribution is received, the College reports the support as unrestricted.

### Promises to Give

Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. Discounts on those amounts are computed using a risk-adjusted interest rate applicable to individual donors as determined by management. Risk adjusted rates are determined based on an analysis of individual donors ability to satisfy the obligations and current market rates. Amortization of the discount is included in contribution revenue.

### Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the College has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the College in perpetuity.

## **Cash and Cash Equivalents**

For purposes of the statement of cash flows, the College considers all highly liquid investments with original maturities of 90 days or less to be cash equivalents.

## **Accounts Receivable**

Students and other accounts receivable are reported at net realizable value. Student accounts are written off when they are determined to be uncollectible based upon management's assessment of individual accounts. The allowance for doubtful student accounts is estimated based on the College's historical losses and periodic review of individual accounts. Other receivables are written off when they are determined to be uncollectible based on management's review of individual balances. Management considers other accounts receivable fully collectible and an allowance is not considered necessary.

## **Restricted Cash**

Restricted cash consists of money market mutual funds held by the trustee as unspent debt proceeds and are carried at cost which approximates fair value. Such funds are restricted for capital projects.

## **Investments**

Equity securities are valued at fair value based on quoted market prices as reported by the College's investment custodians. The alternative investments, which are not readily marketable, are carried at net asset values as provided by the investment managers. The College reviews and evaluates the values provided by the investment managers and agrees with the valuation methods and assumptions used to determine the fair value of the alternative investments. The estimated fair values include assumptions made by management which could have differed significantly had an active market for these securities existed. Adjustments to reflect increases or decreases in market value, referred to as unrealized gains and losses, are reported in the statement of activities.

The College's investments are comprised of a variety of financial instruments and are managed by investment advisors. The fair values reported in the statement of financial position are exposed to various risks including changes in the equity markets, the interest rate environment, and general economic conditions. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the fair value of investment securities, it is reasonably possible that the amounts reported in the accompanying financial statements could change materially in the near term.

The cost of investments received as gifts is fair value as determined upon receipt. The cost of investments sold is determined by use of the specific identification method.

All realized gains and losses arising from the sale of investments and ordinary income from investments are reported as changes in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor imposed stipulations.

## Short-Term Investments

Short-term investments consist primarily of exchange traded funds and are carried at fair value. Interest and dividend income and gains and losses on these investments are included in investment income in the statement of activities. These investments are used primarily for operating activities at the College.

## Beneficial Interest in Assets Held by Others

The College invests a portion of its endowment with a religious affiliate that shares the College's Catholic ministry and educational mission. These assets are held in the affiliate's endowment and are invested for the College's benefit. No variance power has been granted to the religious affiliate. The endowment is managed to provide a stable source of financial support. In order to meet this objective the funds are invested in a diversified asset allocation with an emphasis on equity-based instruments to obtain capital appreciation and current yield. Investments held in the affiliate's endowment include U.S. public equities, non-U.S. public equities, long/short public equities, fixed income securities, marketable alternatives, private equity, real estate, and other real assets. The College has no unfunded commitments related to its beneficial interest in assets held by others as of June 30, 2014.

The College may redeem its interest as necessary. Whenever a request is made, the affiliate is required to distribute the funds within thirty days if the redemption value does not exceed \$10,000,000, within ninety days if the redemption value exceeds \$10,000,000 but does not exceed \$50,000,000, and within one hundred eighty days if the redemption value exceeds \$50,000,000.

## Land, Buildings, and Equipment

Land, buildings, and equipment are stated at cost, or estimated cost, less accumulated depreciation, computed on a straight-line basis over the estimated useful lives of buildings (25-50 years) and furniture and equipment (3-10 years). Maintenance and repairs are charged to expense as incurred; replacements and betterments are capitalized.

Contributed property and equipment is recorded at fair value at the date of donation. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support.

## Deferred Revenue

Tuition, fees, and room and board from currently enrolled students is billed in advance and is recognized as revenue when earned.

## Deferred Financing Costs

Costs incurred in connection with debt financing have been deferred and are amortized over the term of the related debt using the straight-line method which approximates the interest method. Amortization expense was approximately \$67,000 and \$31,000 in 2014 and 2013, respectively.

## Refundable Advances

Operating funds designated by government funding agencies for particular operating purposes are deemed to be earned and reported as revenue when the College has incurred expenses in compliance with the contract. Amounts received but not yet earned are reported as refundable advances.

## Income Taxes

The Internal Revenue Service (“IRS”) has ruled that the College is tax-exempt as a not-for-profit organization under Section 501(c)(3) of the Internal Revenue Code.

The College accounts for uncertainty in income taxes using a recognition threshold of more-likely-than-not to be sustained upon examination by the appropriate taxing authority. Measurement of the tax uncertainty occurs if the recognition threshold is met. Management determined that there were no tax uncertainties that met recognition threshold in fiscal year 2014 and 2013.

The College’s policy is to recognize interest related to unrecognized tax benefits in interest expense and penalties in operating expenses.

The College’s federal Exempt Organization Business Income Tax Returns for the years ended June 30, 2013, 2012, and 2011 remain subject to examination by the IRS.

## Use of Estimates

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

## Derivative Financial Instrument

The College has entered into interest rate swap agreements, which are considered derivative financial instruments, to manage its exposure on its variable rate bonds payable. The interest rate swap agreements are reported at fair value on the statement of financial position; related changes in fair value are reported in the statement of activities as an unrealized gain (loss) on interest rate swap.

## Title IV Requirements

The College participates in Government Student Financial Assistance Programs (“Title IV”) administered by the U.S. Department of Education (“ED”) for the payment of student tuitions. Substantial portions of the revenue and collection of accounts receivable as of June 30, 2014 and 2013, are dependent upon the College’s continued participation in the Title IV programs.

Institutions participating in Title IV programs are required by ED to demonstrate financial responsibility. ED determines an institution's financial responsibility through the calculation of a composite score based upon certain financial ratios as defined in regulations. Institutions receiving a composite score of 1.5 or greater are considered fully financially responsible. Institutions receiving a composite score between 1.0 and 1.4 are subject to additional monitoring and institutions receiving a score below 1.0 are required to submit financial guarantees in order to continue participation in the Title IV programs. As of and for the years ended June 30, 2014 and 2013, the College's composite score exceeded 1.5.

## **Investment Policy**

The College has a formal investment policy that enables it to utilize a portion of investment return for operating purposes. The College's Board of Directors sets the level of distribution within the limitation imposed by Pennsylvania statute.

## **Nonoperating Activities**

For the purpose of the statement of activities, the College considers its changes in net assets to be operational changes, except for changes related to realized and unrealized gains and losses on investments, net of the College spending policy, permanently restricted contributions, the change in value of beneficial interests in perpetual trusts and the College's interest rate swap agreements.

## **Advertising**

Advertising expenses are recorded as incurred and were approximately \$283,000 and \$291,000 in 2014 and 2013, respectively.

## **Fundraising Expenses**

Fundraising expenses are included in the institutional support classification on the statement of activities. Fundraising expenses of approximately \$1,311,000 and \$1,228,000 were incurred for the years ended June 30, 2014 and 2013, respectively.

## **Fair Value Measurements**

Financial assets and liabilities measured at fair value are categorized based upon the following characteristics or inputs to the valuation techniques:

Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 - Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument;

Level 3 - Prices or valuation techniques that are unobservable in the market and require significant management judgment or estimation to measure fair value.

A financial asset's or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

# King's College

Notes to Financial Statements  
June 30, 2014 and 2013

## Reclassifications

Certain amounts relating to 2013 have been reclassified to conform to the 2014 reporting format.

## Subsequent Events

The College evaluated subsequent events for recognition or disclosure through October 6, 2014, the date the financial statements were issued. Management is not aware of any subsequent events that would require recognition or disclosure in the financial statements.

## 2. Accounts Receivable, Students

Students accounts receivable represent amounts due for tuition, fees, and room and board from currently enrolled and former students. The College extends unsecured credit to students and parents of dependent students in connection with their studies. Some of those students are no longer enrolled or have completed their degrees. Student accounts receivable consists of the following at June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Accounts receivable	\$ 1,271,029	\$ 1,229,548
Less allowance for doubtful accounts	<u>365,000</u>	<u>365,000</u>
Total	<u>\$ 906,029</u>	<u>\$ 864,548</u>

## 3. Contributions Receivable

Contributions receivable at June 30, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
In one year or less	\$ 358,909	\$ 2,712,429
Between one year and five years	5,858,650	4,211,052
Between six years and ten years	<u>1,286,035</u>	<u>737,500</u>
	7,503,594	7,660,981
Less discount and allowance for doubtful collections	<u>3,369,804</u>	<u>2,505,770</u>
Net contributions receivable	<u>\$ 4,133,790</u>	<u>\$ 5,155,211</u>

## King's College

Notes to Financial Statements  
June 30, 2014 and 2013

Temporarily restricted:		
Land, buildings and equipment	\$ 27,740	65,360
Programs and other purposes	-	72,603
Time	<u>2,924,623</u>	<u>3,708,915</u>
Total temporarily restricted	2,952,363	3,846,787
Permanently restricted for endowment purposes	<u>1,181,427</u>	<u>1,308,334</u>
Total	<u>\$ 4,133,790</u>	<u>\$ 5,155,120</u>

These contributions have been made by businesses, individuals, and related parties primarily located in Pennsylvania. Approximately 97% of gross pledges receivable at June 30, 2014 are due from four individuals.

Management believes the College's allowance for doubtful collections, which is an estimate based on management's periodic assessment of the risk of collectability of each gift, is adequate based upon information currently known at June 30, 2014 and 2013. However, events impacting donors' ability to satisfy their commitments can occur in subsequent years which may result in a material change in the allowance for doubtful collections.

#### 4. Student Loans Receivable

These loans are made with funds advanced to the College by the federal government under the Perkins Student Loan Program (the "Program"). Such funds may be reloaned by the College after collection, but in the event that the College no longer participates in the Program, the amounts are refundable to the federal government. The College contributes one third of the amount contributed by the U.S. government as a match to the Program.

The prescribed practices for the Program do not provide for accrual of interest on student loans receivable or for a provision of allowance for doubtful loans. Accordingly, interest on loans is recorded as received; uncollectible loans are not recognized until the loans are canceled or written-off in conformity with Program requirements. The impact of recording interest income on a cash basis is not considered significant. In addition, the credit quality of the student is not evaluated after the initial approval and calculation of the loans. Delinquent loans and the allowance for losses on loans receivable are reviewed by management, but are not material to the overall financial statements.

# King's College

Notes to Financial Statements  
June 30, 2014 and 2013

## 5. Investments

Investments at June 30, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Cash equivalents	\$ 845,017	\$ 1,846,052
Domestic equity large cap funds	1,444,588	1,161,779
International fixed income	-	25,000
Hedge funds	78,223	110,284
Alternative investments:		
Natural resources	1,131,271	1,192,997
Private equity	4,270,309	4,435,046
Real estate	1,180,557	1,415,234
Venture capital	1,353,065	1,431,871
Beneficial interest in assets held by others	49,962,346	42,110,245
Total	<u>\$ 60,265,376</u>	<u>\$ 53,728,508</u>

The College's principal financial instruments subject to credit risk are its investments. The investments are managed by professional advisors subject to the College's investment policy. The degree and concentration of credit risk varies by type of investment.

Certain investments are pooled on a market value basis with each individual fund subscribing to or disposing of units on the basis of the market value per unit at the beginning of the calendar month in which the transaction takes place.

The components of total investment return are reflected below:

	<u>2014</u>	<u>2013</u>
Interest and dividends	\$ 933,372	\$ 305,299
Net realized and unrealized gains	8,034,264	4,448,787
Total	<u>\$ 8,967,636</u>	<u>\$ 4,754,086</u>

The above amounts are reported in the statement of activities under the following:

	<u>2014</u>	<u>2013</u>
Endowment spending policy	\$ 2,789,178	\$ 2,185,330
Endowment income in excess of spending policy	6,178,458	2,568,756
Total	<u>\$ 8,967,636</u>	<u>\$ 4,754,086</u>



## King's College

Notes to Financial Statements  
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### 6. Beneficial Interest in Perpetual Trusts

The College receives income from various perpetual trusts held by third parties. Under the terms of the trusts, the College has the irrevocable right to receive a portion of the income earned on these trust assets in perpetuity, but never receives the assets held in the trust.

Distributions from these trusts are recorded as unrestricted or restricted investment income in the statement of activities based on donor stipulations. The change in value of the perpetual trusts is reported as changes in permanently restricted net assets based on explicit donor stipulations.

### 7. Land, Buildings, and Equipment

Land, buildings, and equipment as of June 30, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Land and improvements	\$ 17,258,308	\$ 17,152,300
Buildings	92,618,905	92,358,507
Furniture, fixtures, and equipment	29,846,395	29,078,575
Construction in progress	13,092,785	341,541
Total	152,816,393	138,930,923
Less accumulated depreciation	<u>58,742,986</u>	<u>54,942,805</u>
Net	<u>\$ 94,073,407</u>	<u>\$ 83,988,118</u>

Depreciation expense was approximately \$3,800,000 in 2014 and \$3,737,000 in 2013.

At June 30, 2014, the College has commitments relating to the construction in progress of approximately \$750,000 which will be financed through the non-revolving credit facility bridge loan (Note 9).

### 8. Line of Credit/Subsequent Event

The College has a \$5,000,000 line of credit with a local financial institution which expires April 28, 2019. Interest is payable monthly based on 1 month LIBOR plus 1.17% (1.344% at June 30, 2014). Borrowings at June 30, 2014 and 2013 were \$729,440 and \$1,427,003, respectively. The line of credit is secured by a security interest in the College's gross revenues. In August 2014, the line of credit was increased to \$7,000,000.

# King's College

Notes to Financial Statements  
June 30, 2014 and 2013

## 9. Long-Term Debt

Long-term debt at June 30 is as follows:

	<u>2014</u>	<u>2013</u>
College Revenue Refunding Notes, Series A of 2013, payable in annual installments through May 2037. Interest is payable monthly at the variable rate.	\$ 28,810,000	\$ 30,475,000
College Revenue Notes, Series B of 2013, payable in annual installments through May 2043. Interest is payable monthly at the variable rate.	14,025,000	14,525,000
Non-revolving credit facility bridge loan, payable in lump sum upon maturity, July 14, 2015. Interest is payable monthly at the variable rate.	<u>3,460,280</u>	<u>-</u>
Total long-term debt	<u>\$ 46,295,280</u>	<u>\$ 45,000,000</u>

Interest on the Series A and B Notes of 2013 is calculated as 70% of the 1-month LIBOR, plus 1.35% (1.4557% as of June 30, 2014). The College has effectively fixed the interest rate on \$18,450,000 of the Series A Notes, in conjunction with an interest rate swap agreement with a local financial institution. See Note 17 for additional information.

In 2013, the City of Wilkes-Barre Finance Authority (the "Authority") issued \$30,475,000 of College Revenue Refunding Notes, Series A of 2013 and \$14,525,000 of College Revenue Notes, Series B of 2013. The proceeds of the notes issued were then loaned to the College by the Authority under the terms of a loan agreement between the two parties. The notes were then purchased from the Authority by various banks and the College has agreed to pay the Authority's obligations under the notes to the banks. The proceeds of the Series A of 2013 notes were used to currently refund the College's existing bonds and the proceeds of Series B of 2013 are to be used to finance various capital projects. The notes are collateralized by a security interest in the College's gross revenues.

In January 2014, the College entered into a non-revolving credit facility in the amount of \$7,000,000. The credit facility was issued to finance the improvements related to a capital project. The project consists of the renovation of a facility to be used for academic and residential purposes. Interest is calculated as one month LIBOR plus 1.95% (2.1% as of June 30, 2014). The facility is collateralized by a security interest in the College's gross revenues.

The line of credit (Note 8) and the above debt require the College to meet certain financial covenants.

## King's College

Notes to Financial Statements  
June 30, 2014 and 2013

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The scheduled future principal payments on the long-term debt are as follows:

Years ending June 30:	
2015	\$ 2,205,000
2016	5,715,280
2017	2,305,000
2018	1,855,000
2019	1,125,000
Thereafter	<u>33,090,000</u>
Total	<u>\$ 46,295,280</u>

Interest expense with regard to all debt was approximately \$1,377,000 and \$1,639,000 in 2014 and 2013, respectively. Interest expense reported is net of capitalized interest of approximately \$91,000 in 2014 and \$48,000 in 2013.

### 10. Operating Leases

The College leases equipment under noncancelable operating leases with terms of 24 to 60 months. The following is a schedule of the approximate future annual minimum rentals on these leases as of June 30, 2014:

Years ending June 30:	
2015	\$ 572,000
2016	349,000
2017	221,000
2018	61,000
2019	<u>6,000</u>
Total	<u>\$ 1,209,000</u>

Rent expense on the above leases was approximately \$676,000 in 2014 and \$795,000 in 2013.

The College leases a multiuse building adjacent to the College's campus. The building segments include approximately forty apartment style suites, an early childhood learning center, a dining facility, instructional facilities and faculty offices. The lease term is thirty years, expiring October 2039. Minimum lease payments and reimbursable costs are due and payable the first of each month.

## King's College

Notes to Financial Statements  
June 30, 2014 and 2013

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Future annual minimum rental payments on this lease are as follows:

Years ending June 30:	
2015	\$ 1,448,038
2016	1,493,324
2017	1,530,305
2018	1,561,220
2019	1,592,763
2020 - 2024	8,459,831
2025 - 2029	9,350,226
2030 - 2034	10,334,871
2035 - 2039	11,423,824
2040	<u>597,277</u>
Total	<u>\$ 47,791,679</u>

The College recognized rent expense of approximately \$1,714,000 in 2014 and \$1,727,000 in 2013 in conjunction with this agreement.

### 11. Pension

The College sponsors a defined contribution pension plan. Pension expense was approximately \$1,449,000 in 2014 and \$1,820,000 in 2013.

### 12. Government Grants and Student Aid

The government grants and student aid amounts do not include funds credited to student accounts under various federal and state grant programs. These grants are similar to agency funds as the College acts only as custodian and disbursing agent. Had these amounts been included, revenues and expenses would have increased by approximately \$5,219,000 in 2014 and \$5,640,000 in 2013.

### 13. Significant Group Concentration of Credit Risk

The College maintains its cash accounts in commercial banks located in Pennsylvania. Accounts are insured up to limits established by the Federal Deposit Insurance Corporation.

# King's College

Notes to Financial Statements  
June 30, 2014 and 2013

## 14. Net Assets

Unrestricted net assets are designated for the following as of June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Long-term investments	\$ 19,157,528	\$ 16,954,933
Plant facilities	37,880,729	38,467,710
Other	713,375	(954,223)
Total	<u>\$ 57,751,632</u>	<u>\$ 54,468,420</u>

Temporarily restricted net assets are available for the following purpose or in future periods as of June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Specified purposes	\$ 2,017,541	\$ 1,057,378
Time	2,526,194	3,335,413
Accumulated unspent endowment earnings	16,548,829	12,637,911
Total	<u>\$ 21,092,564</u>	<u>\$ 17,030,702</u>

Permanently restricted net assets are restricted for the following as of June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Beneficial interests in perpetual trusts	\$ 7,160,689	\$ 6,398,814
Assets held in perpetuity	25,740,446	25,406,506
Total	<u>\$ 32,901,135</u>	<u>\$ 31,805,320</u>

## 15. Endowment Funds

The College's endowment consists of approximately 300 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the College has developed a policy 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 interpreted through review of current Pennsylvania laws. As a result of this interpretation, the College 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 either temporarily restricted or unrestricted net assets based on the existence of donor restrictions or by law.

The College considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the College and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the College
7. The investment policies of the College

The College 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 College must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk. The College expects its endowment funds, over time, to provide an average rate of return of approximately 4%, plus inflation, annually.

To satisfy its long-term rate-of-return objectives, the College 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 College targets a diversified asset

## King's College

Notes to Financial Statements  
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allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

The College has a policy of appropriating for distribution each year 4% of its endowment fund's average fair value over the prior 12 quarters through the calendar year-end proceeding the fiscal year in which the distribution is planned. In establishing this policy, the College considered the long-term expected return on its endowment. This is consistent with the College's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

The permanently restricted category includes the value of interest in various trust accounts established by donors. The assets of the trusts are held by independent trustees in perpetuity. The College has an interest in the income generated from these trusts, but will never receive the assets held in the trusts. These assets are not governed by the College's investment policy. All investment decisions and distributions are governed by trust documents and the trustee.

Endowment net asset composition by type of fund as of June 30, 2014:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (7,394)	\$ 16,548,829	\$ 32,901,135	\$ 49,442,570
Board-designated endowment funds	<u>19,164,922</u>	<u>-</u>	<u>-</u>	<u>19,164,922</u>
Total endowment funds	<u>\$ 19,157,528</u>	<u>\$ 16,548,829</u>	<u>\$ 32,901,135</u>	<u>\$ 68,607,492</u>

Endowment net asset composition by type of fund as of June 30, 2013:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (179,655)	\$ 12,637,911	\$ 31,805,320	\$ 44,263,576
Board-designated endowment funds	<u>17,134,588</u>	<u>-</u>	<u>-</u>	<u>17,134,588</u>
Total endowment funds	<u>\$ 16,954,933</u>	<u>\$ 12,637,911</u>	<u>\$ 31,805,320</u>	<u>\$ 61,398,164</u>

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Changes in endowment net assets for the year ended June 30, 2014 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 16,954,933	\$ 12,637,911	\$ 31,805,320	\$ 61,398,164
Investment return:				
Interest and dividends	527,203	406,169	-	933,372
Net realized and unrealized gains	<u>4,255,451</u>	<u>3,677,010</u>	<u>761,875</u>	<u>8,694,336</u>
Total investment return	4,782,654	4,083,179	761,875	9,627,708
Contributions	36,858	-	333,940	370,798
Appropriation of endowment assets per spending policies	(2,789,178)	-	-	(2,789,178)
Other changes:				
Reclassification of underwater endowment net assets	<u>172,261</u>	<u>(172,261)</u>	<u>-</u>	<u>-</u>
Endowment net assets, end of year	<u>\$ 19,157,528</u>	<u>\$ 16,548,829</u>	<u>\$ 32,901,135</u>	<u>\$ 68,607,492</u>



## King's College

Notes to Financial Statements  
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Changes in endowment net assets for the year ended June 30, 2013 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 8,168,922	\$ 11,351,654	\$ 30,183,323	\$ 49,703,899
Investment return:				
Interest and dividends	9,757	295,542	-	305,299
Net realized and unrealized gains	<u>3,053,894</u>	<u>1,396,962</u>	<u>320,885</u>	<u>4,771,741</u>
Total investment return	3,063,651	1,692,504	320,885	5,077,040
Contributions	1,443	-	1,301,112	1,302,555
Appropriation of endowment assets for spending policy	(2,185,330)	-	-	(2,185,330)
Return of temporary appropriation of assets for capital expenditures	7,500,000	-	-	7,500,000
Other changes:				
Reclassification of underwater endowment net assets	<u>406,247</u>	<u>(406,247)</u>	<u>-</u>	<u>-</u>
Endowment net assets, end of year	<u>\$ 16,954,933</u>	<u>\$ 12,637,911</u>	<u>\$ 31,805,320</u>	<u>\$ 61,398,164</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 law requires the College to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature that are reported in unrestricted net assets were \$7,394 and \$179,655 as of June 30, 2014 and 2013. 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 were deemed prudent by the Board of Directors.

# King's College

Notes to Financial Statements  
June 30, 2014 and 2013

## 16. Commitments and Contingencies

The College has approximately \$770,000 in unfunded capital calls and approximately \$836,000 in distributions subject to recall related to various alternative and venture capital investments at June 30, 2014. These commitments can be funded through liquidation of current investments.

The College is a defendant in a number of legal actions resulting in the normal course of business. While the final outcome cannot be determined at this time, management is of the opinion that the ultimate liability, if any, from the final resolution of these matters will not have a material effect on the College's financial statements.

The College entered into a self-insured plan for their medical insurance. The College has limited their self-insurance liability through the purchase of catastrophic reinsurance coverage which will reimburse the College for any claims in excess of policy limits incurred in any plan year. Self insurance costs are accrued based on claims reported as of the balance sheet date as well as an estimated liability for claims incurred but not reported. The total accrued liability for self-insurance costs, included with accounts payable and accrued liabilities in the statement of financial position, was approximately \$928,000 and \$950,000 at June 30, 2014 and 2013, respectively. The cost of medical coverage for employees amounted to approximately \$2,835,000 and \$2,995,000 for the years ended June 30, 2014 and 2013, respectively.

The College owns several buildings constructed prior to the passage of the Clean Air Act that contain encapsulated asbestos material. Current law requires that this asbestos be removed in an environmentally safe manner prior to demolition or renovation of the buildings. The College has not recognized the asset retirement obligation for asbestos removal in its financial statements because it currently has no plans to demolish or renovate these buildings and as such, cannot reasonably estimate the fair value of the obligation. If plans change with respect to the use of the buildings and sufficient information becomes available to estimate the liability, it will be recognized at that time.

## 17. Interest Rate Swap

The College entered into an interest rate swap agreement in connection with a portion of the Series A of 2013 notes, which is considered a derivative financial instrument. The counterparty for the swap agreement is PNC Bank, N.A., a financial institution with which the College has other financial relationships (the "Bank"). The objective of the swap agreement is to minimize the risks associated with financing activities by reducing the impact of changes in interest rates. The swap agreement is not designated as a hedging instrument. The swap agreement is a contract to exchange variable rate for fixed rate interest payments over the life of the agreement without the exchange of the underlying notional amount. The notional amount of the swap agreement is used to measure the interest to be paid or received and does not represent the amount of exposure to credit loss. Exposure to credit loss is limited to the receivable amount, if any, which may be generated as a result of the swap agreement. Management believes that losses related to credit risk are remote. The net cash paid or received under the swap agreement is recognized as an adjustment to interest expense and totaled approximately \$750,000 and \$843,000 for the years ended June 30, 2014 and 2013, respectively.

The College does not utilize interest rate swaps or other financial instruments for trading or other speculative purposes.

At June 30, 2014, the following interest rate swap is in effect:

Effective notional amount	\$18,450,000
Strike rate	4.032%
Period	May 2013 to May 2031

# King's College

Notes to Financial Statements  
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The fair value of the interest rate swap agreements is the amount that the College would receive or pay to terminate the swap agreements at the reporting date and the fair value is based on information supplied by an independent third party valuation specialist. The College estimates that it would have paid approximately \$3,385,000 and \$3,262,000 on June 30, 2014 and 2013, respectively, to terminate this agreement.

## 18. Fair Value Disclosures

The carrying amount and estimated fair value of the College's financial instruments, other than those measured at fair value, at June 30, 2014 and 2013 are as follows:

	2014				
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Assets:					
Cash and cash equivalents	\$ 1,061,501	\$ 1,061,501	\$ 1,061,501	\$ -	\$ -
Contributions receivable	4,133,790	4,133,790	-	-	4,133,790
Student and other loans receivable	2,474,413	2,474,413	-	2,474,413	-
Liabilities:					
Line of credit	729,440	729,440	-	729,440	-
Long-term debt	46,295,280	46,295,280	-	46,295,280	-
Refundable advances from federal government for student loans	1,892,407	1,892,407	-	1,892,407	-
2013					
Assets:					
Cash and cash equivalents	\$ 627,261	\$ 627,261	\$ 627,261	\$ -	\$ -
Contributions receivable	5,155,211	5,155,211	-	-	5,155,211
Student and other loans receivable	2,435,141	2,435,141	-	2,435,141	-
Liabilities:					
Line of credit	1,427,003	1,427,003	-	1,427,003	-
Long-term debt	45,000,000	45,000,000	-	45,000,000	-
Refundable advances from federal government for student loans	1,928,428	1,928,428	-	1,928,428	-

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Cash and cash equivalents: Carried at cost which approximates fair value due to its short-term nature of that instrument.

Contributions receivable: The carrying amount approximates fair value as the carrying amount is based on the present value of estimated future cash flows discounted at risk adjusted rates.

Student and other loans receivables: The carrying amount approximates fair value based on current rates offered for similar loans with similar maturities.

Refundable advances from federal government for student loans: Represents that portion of the student loans receivable funded by the U.S. government and their fair value is considered to approximate their carrying value.

Long-term debt: The fair value is estimated based on discounted cash flows using borrowing rates currently available to the College for similar types of borrowing arrangements.

The College measures its long-term investments, beneficial interest in perpetual trusts and fair value of interest rate swap at fair value on a recurring basis in accordance with authoritative guidance. These items were measured with the following inputs at June 30, 2014 and 2013:

	2014			
	Total	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Restricted cash, Money market mutual funds	\$ 1,025,644	\$ 1,025,644	\$ -	\$ -
Short-term investments, Exchange traded funds	400,409	400,409	-	-
Investments:				
Cash equivalents	845,017	845,017	-	-
Domestic equity large cap funds	1,444,588	1,444,588	-	-
Hedge funds	78,223	-	-	78,223
Alternative:				
Natural resources	1,131,271	-	-	1,131,271
Private equity	4,270,309	-	-	4,270,309
Real estate	1,180,557	-	-	1,180,557
Venture capital	1,353,065	-	-	1,353,065
Beneficial interest in assets held by others	49,962,346	-	-	49,962,346
Total investments	60,265,376	2,289,605	-	57,975,771
Beneficial interests in perpetual trusts	7,160,689	-	-	7,160,689
Total	\$ 68,852,118	\$ 3,715,658	\$ -	\$ 65,136,460
Liability, Interest rate swap	\$ 3,384,614	\$ -	\$ 3,384,614	\$ -

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	2013			
	Total	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Restricted cash, Money market mutual funds	\$ 6,736,250	\$ 6,736,250	\$ -	\$ -
Short-term investments, Exchange traded funds	363,130	363,130	-	-
Investments:				
Cash equivalents	1,846,052	1,846,052	-	-
Domestic equity large cap funds	1,161,779	1,161,779	-	-
International fixed income	25,000	-	25,000	-
Hedge funds	110,284	-	-	110,284
Alternative:				
Natural resources	1,192,997	-	-	1,192,997
Private equity	4,435,046	-	-	4,435,046
Real estate	1,415,234	-	-	1,415,234
Venture capital	1,431,871	-	-	1,431,871
Beneficial interest in assets held by others	42,110,245	-	-	42,110,245
Total investments	53,728,508	3,007,831	25,000	50,695,677
Beneficial interests in perpetual trusts	6,398,814	-	-	6,398,814
Total	\$ 67,226,702	\$ 10,107,211	\$ 25,000	\$ 57,094,491
Liability, Interest rate swap	\$ 3,261,698	\$ -	\$ 3,261,698	\$ -

# King's College

## Notes to Financial Statements

June 30, 2014 and 2013

The following tables present a reconciliation of the beginning and ending balances of assets with fair value measurements using significant unobservable inputs (Level 3) as of June 30, 2014 and 2013:

	<u>July 1, 2013</u>	<u>Purchases</u>	<u>Sales</u>	<u>Issuances</u>	<u>Settlements</u>	<u>Unrealized</u>	<u>June 30, 2014</u>
Hedge funds	\$ 110,284	\$ -	\$ (62,223)	\$ -	\$ -	\$ 30,162	\$ 78,223
Alternative investments	7,043,277	22,357	(1,064,098)	-	231,347	349,254	6,582,137
Venture capital	1,431,871	-	(295,395)	-	87,931	128,658	1,353,065
Total	<u>\$ 8,585,432</u>	<u>\$ 22,357</u>	<u>\$ (1,421,716)</u>	<u>\$ -</u>	<u>\$ 319,278</u>	<u>\$ 508,074</u>	<u>\$ 8,013,425</u>
Beneficial interest in assets held by others	<u>\$ 42,110,245</u>	<u>\$ 500,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,385,319</u>	<u>\$ 3,966,785</u>	<u>\$ 49,962,349</u>
Beneficial interests in perpetual trusts	<u>\$ 6,398,814</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 761,875</u>	<u>\$ 7,160,689</u>
	<u>July 1, 2012</u>	<u>Purchases</u>	<u>Sales</u>	<u>Issuances</u>	<u>Settlements</u>	<u>Unrealized</u>	<u>June 30, 2013</u>
Hedge funds	\$ 2,008,126	\$ -	\$ (2,039,375)	\$ -	\$ 135,198	\$ 6,335	\$ 110,284
Alternative investments	7,649,425	101,320	(1,156,538)	-	215,588	233,482	7,043,277
Venture capital	1,679,604	-	(260,014)	-	155,036	(142,755)	1,431,871
Total	<u>\$ 11,337,155</u>	<u>\$ 101,320</u>	<u>\$ (3,455,927)</u>	<u>\$ -</u>	<u>\$ 505,822</u>	<u>\$ 97,062</u>	<u>\$ 8,585,432</u>
Beneficial interest in assets held by others	<u>\$ 31,017,647</u>	<u>\$ 9,313,610</u>	<u>\$ (2,000,000)</u>	<u>\$ -</u>	<u>\$ 2,298,102</u>	<u>\$ 1,480,886</u>	<u>\$ 42,110,245</u>
Beneficial interests in perpetual trusts	<u>\$ 6,077,929</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 320,885</u>	<u>\$ 6,398,814</u>

Gains and losses (realized and unrealized) included in changes in net assets for the period are reported in nonoperating revenues.

Investments: The fair values are based on values reported by external investment managers. Quoted market prices for identical assets are used to measure fair value of equity and fixed income securities and are classified within Level 1 of the valuation hierarchy. Fair value of investments within the Level 2 valuation hierarchy are based on pricing for similar assets with similar terms in actively traded markets or valued at the respective net asset values based on the underlying assets of the funds. The College's investment in hedge funds, natural resources, real estate, private equity and venture capital investments are valued at net asset value and are considered Level 3 inputs based on the investments not having an observable market and the need for significant estimation to measure fair value.

Beneficial interest in assets held by others: Fair value is based on the net asset value as reported by the affiliate, unless specific evidence indicates that net asset value should be adjusted. This may involve using significant unobservable inputs. The valuation methods utilized by the affiliate are subject to regular review by the College.

# King's College

## Notes to Financial Statements

June 30, 2014 and 2013

Beneficial interests in perpetual trusts: The fair value is estimated using the College's percentage of the underlying assets, which approximates the present value of estimated future cash flows to be received from the trust.

The College measures its derivative financial instrument at fair value based on proprietary models of an independent third party valuation specialist. The fair value takes into consideration the prevailing interest rate environment and the specific terms and conditions of the derivative financial instrument. The fair value was estimated using the zero-coupon discounting method and considers the credit risk of the College and the counterparty. This method calculates the future payments required by the derivative financial instruments, assuming that the current, forward rates implied by the yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rate implied by the current yield curve for a hypothetical zero coupon rate bond due on the date of each future net settlement payment on the derivative financial instruments. The value represents the estimated exit price the College would pay to terminate the agreements.

The College has a policy which permits investments that do not have a readily determinable fair value, and as such, has elected to use the net asset value per share ("NAV") as calculated on the reporting entity's measurement date as the fair value of the investment. The College measures the fair value of an investment that does not have a readily determinable fair value, based on the NAV of the investment as a practical expedient, without further adjustment, unless it is probable that the investment will be sold at a value significantly different than the NAV. If the practical expedient NAV is not as of the reporting entity's measurement date, then the NAV is adjusted to reflect any significant events that would materially affect the value of the security and the NAV of the College as of the valuation date. In using the NAV as a practical expedient, certain attributes of the investment, that may impact the fair value of the investment, are not considered in measuring fair value. Attributes of those investments include the investment strategies of the investees and may also include, but are not limited to, restrictions on the investor's ability to redeem its investments at the measurement date at NAV as well as any unfunded commitments. A listing of the investments held by the College and their attributes, that may qualify for these valuations consist of the following as of June 30:

2014					
Investment Category	Investment Strategy	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Natural resources (a)	Investment of funds in limited partnerships, which in turn, make oil, gas, timber and other natural resource-related investments with the objective of obtaining long-term growth of capital.	\$ 1,131,271	\$ 168,750	Quarterly income distributions. No ability to redeem ownership until termination of Limited Partnership, as stated in the agreements. Termination dates range from February 2017 through August 2020.	N/A

# King's College

## Notes to Financial Statements June 30, 2014 and 2013

Investment Category	Investment Strategy	2014		Redemption Frequency	Redemption Notice Period
		Fair Value	Unfunded Commitments		
Real estate loans (b)	Purpose is to originate and manage a portfolio of multifamily and commercial real estate loans, preferred equity investments and structured finance transactions secured by mortgages and other interests in real estate.	\$ 1,177,855	\$ 200,000	Quarterly income distributions. No ability to redeem ownership until termination of Limited Partnership, as stated in the agreements. Termination dates range from January 2011 through January 2017.	N/A
Real estate operations (c)	Invests in a diversified pool of real estate investments over time, within seven regional targeted markets.	2,702	-	Annually on September 30	30 days
Venture capital (a)	Invests primarily in other limited partnerships formed for the purpose of making venture capital investments in emerging growth companies. Generally, these investments may not be transferred or withdrawn prior to the termination of limited partnerships, which generally have a term of ten years.	1,353,065	105,912	Quarterly income distributions. No ability to redeem ownership until termination of Limited Partnership, as stated in the agreements. Termination dates range from January 2012 through March 2017.	N/A
Private equity (a)	Invests primarily in other limited partnerships formed for the purpose of making investments in equity securities, warrants or other options, focused either domestically or internationally, that are generally not actively traded at the time of investment. Generally, these investments may not be transferred or withdrawn prior to the termination of limited partnerships, which generally have a term of ten years.	4,270,309	295,362	Quarterly income distributions. No ability to redeem ownership until termination of Limited Partnership, as stated in the agreements. Termination dates are scheduled for March 2017.	Up to 90 days
Global equity and debt (a) (d)	Fund is a multi-strategy fund specializing in arbitrage and absolute return investment strategies in the global equity and corporate debt securities markets and seeks to deliver consistent returns with low volatility.	78,223	-	Annual	Requires approval of Board of Directors



# King's College

## Notes to Financial Statements

June 30, 2014 and 2013

2014					
Investment Category	Investment Strategy	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Beneficial interest in assets held by others	Fund is independently managed fund. Asset allocation determined by fund management.	\$ 49,962,346	\$ -	At College's discretion	Disclosed in accounting policy note
Beneficial interest in perpetual trusts (e)		7,160,689	-	Semi-annual or annual income distributions	N/A
2013					
Natural resources (a)	Investment of funds in limited partnerships, which in turn, make oil, gas, timber and other natural resource-related investments with the objective of obtaining long-term growth of capital.	\$ 1,192,997	\$ 243,750	Quarterly income distributions. No ability to redeem ownership until termination of Limited Partnership, as stated in the agreements. Termination dates range from February 2017 through August 2020.	N/A
Real estate loans (b)	Purpose is to originate and manage a portfolio of multifamily and commercial real estate loans, preferred equity investments and structured finance transactions secured by mortgages and other interests in real estate.	1,399,429	200,000	Quarterly income distributions. No ability to redeem ownership until termination of Limited Partnership, as stated in the agreements. Termination dates range from January 2011 through January 2017.	N/A
Real estate operations (c)	Invests in a diversified pool of real estate investments over time, within seven regional targeted markets.	15,805	-	Annually on September 30	30 days
Venture capital (a)	Invests primarily in other limited partnerships formed for the purpose of making venture capital investments in emerging growth companies. Generally, these investments may not be transferred or withdrawn prior to the termination of limited partnerships, which generally have a term of ten years.	1,431,871	128,412	Quarterly income distributions. No ability to redeem ownership until termination of Limited Partnership, as stated in the agreements. Termination dates range from January 2012 through March 2017.	N/A

# King's College

## Notes to Financial Statements June 30, 2014 and 2013

Investment Category	Investment Strategy	2013		Redemption Frequency	Redemption Notice Period
		Fair Value	Unfunded Commitments		
Private equity (a)	Invests primarily in other limited partnerships formed for the purpose of making investments in equity securities, warrants or other options, focused either domestically or internationally, that are generally not actively traded at the time of investment. Generally, these investments may not be transferred or withdrawn prior to the termination of limited partnerships, which generally have a term of ten years.	\$ 4,435,046	\$ 328,888	Quarterly income distributions. No ability to redeem ownership until termination of Limited Partnership, as stated in the agreements. Termination dates are scheduled for March 2017.	Up to 90 days
Global equity and debt (a) (d)	Fund is a multi-strategy fund specializing in arbitrage and absolute return investment strategies in the global equity and corporate debt securities markets and seeks to deliver consistent returns with low volatility.	110,284	-	Annual	Requires approval of Board of Directors
Beneficial interest in assets held by others	Fund is independently managed fund. Asset allocation determined by fund management.	42,110,245	-	At College's discretion	Disclosed in accounting policy note
Beneficial interest in perpetual trusts (e)		6,398,814	-	Semi-annual or annual income distributions	N/A

- (a) Investment is a feeder fund for other limited partnerships, limited liability corporations, offshore corporations or other foreign investment vehicles.
- (b) Underlying investments primarily include loans and other debt instruments that are secured by real estate or other physical assets.
- (c) Underlying investments are primarily operating real estate projects or undeveloped land held for future development or sale.
- (d) Represents a hedge fund focused in international markets.
- (e) Underlying investments are held by trustees, which hold exclusive rights to determine asset allocation. Payments of income are determined by the Trustee, based on the trust document and relevant law.

## 19. Functional Allocation

The College adheres to the AICPA Industry Audit Guide in reporting expenses by their functional classification. Accordingly, depreciation, interest and other expenses have been allocated to functional classifications based on square footage, use of bond proceeds, or other factors.

## 20. Related Party Transactions

The College has entered into transactions with which members of the Board of Directors have relationships as owners or officers. During the years ended June 30, 2014 and 2013 the College engaged in the following related party transactions:

- The College is invested in an alternative investment managed by a member of the Board. The fair value of that investment was approximately \$611,000 and \$741,000 at June 30, 2014 and 2013, respectively.
- The College paid insurance premiums of approximately \$132,000 and \$194,000 in 2014 and 2013, respectively, to a company which has an officer who is also a member of the Board.
- The College paid service fees to an insurance company, which has an officer who is also a member of the Board, of approximately \$464,000 and \$252,000 for 2014 and 2013, respectively.
- The College paid transportation costs to a company, which has an officer who is also a member of the Board, of approximately \$113,000 and \$109,000 for 2014 and 2013, respectively.
- The College paid legal and professional fees to a firm, which has a principal who is also a member of the Board, of approximately \$111,000 and \$91,000 for 2014 and 2013, respectively.
- The College paid construction management fees of approximately \$4,047,000 in 2013, to a company that has an officer who is also a member of the Board.

During 2004, the College entered into an agreement with the Congregation of Holy Cross to lease land located on the College's campus. The term of the lease is approximately 30 years at a rate of \$10 per year, payable by December 1st of each year. If at any time during the lease period, the lessee decides to sell the buildings and improvements constructed on the leased land, the College has the first option to purchase such buildings and improvements at market value.

**King's College**  
Financial Statements  
June 30, 2015 and 2014



Candor. Insight. Results.

# King's College

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## Independent Auditors' Report

Board of Directors  
King's College

We have audited the accompanying financial statements of King's College, which comprise the statement of financial position as of June 30, 2015 and 2014, 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.

### Auditors' 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. 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 King's College as of June 30, 2015 and 2014, 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.

*Baker Tilly Virchow Krause, LLP*

Wilkes-Barre, Pennsylvania  
October 15, 2015

# King's College

## Statement of Financial Position

June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 833,566	\$ 1,061,501
Short-term investments	404,780	400,409
Accounts receivable:		
Students, net	1,056,220	906,029
Other	1,058,356	937,854
Other assets	362,828	269,736
Contributions receivable, net	4,161,722	4,133,790
Restricted cash and investments	19,048,204	1,025,644
Investments	62,191,242	60,265,376
Student and other loans receivable	2,417,852	2,474,413
Land, buildings and equipment, net	111,360,129	94,073,407
Beneficial interest in perpetual trusts	6,923,796	7,160,689
	<u>209,818,695</u>	<u>172,708,848</u>
Total assets	<u>\$ 209,818,695</u>	<u>\$ 172,708,848</u>
<b>Liabilities and Net Assets</b>		
Accounts payable and accrued liabilities	\$ 4,431,033	\$ 5,688,156
Deferred revenue and deposits	2,550,209	2,640,991
Agency funds payable	518,860	562,900
Long-term debt	84,266,317	46,794,449
Interest rate swap	3,247,140	3,384,614
Refundable advances from federal government for student loans	1,880,506	1,892,407
	<u>96,894,065</u>	<u>60,963,517</u>
Total liabilities	<u>96,894,065</u>	<u>60,963,517</u>
<b>Net Assets</b>		
Unrestricted	58,083,950	57,751,632
Temporarily restricted	21,392,886	21,092,564
Permanently restricted	33,447,794	32,901,135
	<u>112,924,630</u>	<u>111,745,331</u>
Total net assets	<u>112,924,630</u>	<u>111,745,331</u>
Total liabilities and net assets	<u>\$ 209,818,695</u>	<u>\$ 172,708,848</u>

See notes to financial statements



**King's College**

## Statement of Activities

Year Ended June 30, 2015, With Summarized Information for the Year Ended June 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	<u>6/30/2014</u>
<b>Operating Revenues</b>					
Student tuition and fees	\$ 62,161,981	\$ -	\$ -	\$ 62,161,981	\$ 61,608,724
Internal student aid	(23,335,223)			(23,335,223)	(24,037,349)
Student tuition and fees, net	38,826,758	-	-	38,826,758	37,571,375
Auxiliary enterprises	11,966,857	-	-	11,966,857	12,044,377
Private gifts and grants	1,208,536	419,215	-	1,627,751	1,257,990
Endowment spending policy	1,127,393	1,757,836	-	2,885,229	2,789,178
Federal and state grants	1,541,249	-	-	1,541,249	1,650,429
Other sources	103,002	-	-	103,002	66,959
Net assets released from restrictions	2,929,108	(2,929,108)			
Total operating revenues	<u>57,702,903</u>	<u>(752,057)</u>	<u>-</u>	<u>56,950,846</u>	<u>55,380,308</u>
<b>Operating Expenses</b>					
Instructional	22,885,157	-	-	22,885,157	21,242,023
Public services	740,841	-	-	740,841	855,346
Academic support	5,481,167	-	-	5,481,167	4,942,752
Student services	8,360,829	-	-	8,360,829	8,915,289
Institutional support	8,893,341	-	-	8,893,341	8,750,654
Student aid	518,443	-	-	518,443	223,688
Auxiliary enterprises	9,747,529	-	-	9,747,529	9,161,025
Total operating expenses	<u>56,627,307</u>	<u>-</u>	<u>-</u>	<u>56,627,307</u>	<u>54,090,777</u>
<b>Change in Net Assets from Operating Activities</b>					
	<u>1,075,596</u>	<u>(752,057)</u>	<u>-</u>	<u>323,539</u>	<u>1,289,531</u>
<b>Nonoperating</b>					
Endowment (loss) income in excess of spending policy	(63,674)	1,052,379	-	988,705	6,178,458
Unrealized gain (loss) on interest rate swaps	137,474	-	-	137,474	(122,915)
Loss on debt refunding	(509,298)	-	-	(509,298)	-
Contributions	(307,780)	-	783,552	475,772	333,940
Change in beneficial interest in perpetual trusts	-	-	(236,893)	(236,893)	761,875
<b>Change in Net Assets from Nonoperating Activities</b>					
	<u>(743,278)</u>	<u>1,052,379</u>	<u>546,659</u>	<u>855,760</u>	<u>7,151,358</u>
<b>Change in Net Assets</b>					
	332,318	300,322	546,659	1,179,299	8,440,889
<b>Net Assets, Beginning</b>					
	<u>57,751,632</u>	<u>21,092,564</u>	<u>32,901,135</u>	<u>111,745,331</u>	<u>103,304,442</u>
<b>Net Assets, Ending</b>					
	<u>\$ 58,083,950</u>	<u>\$ 21,392,886</u>	<u>\$ 33,447,794</u>	<u>\$ 112,924,630</u>	<u>\$ 111,745,331</u>

See notes to financial statements

**King's College**Statement of Activities  
Year Ended June 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Operating Revenues</b>				
Student tuition and fees	\$ 61,608,724	\$ -	\$ -	\$ 61,608,724
Internal student aid	(24,037,349)	-	-	(24,037,349)
Student tuition and fees, net	37,571,375	-	-	37,571,375
Auxiliary enterprises	12,044,377	-	-	12,044,377
Private gifts and grants	815,381	442,609	-	1,257,990
Endowment spending policy	1,175,609	1,613,569	-	2,789,178
Federal and state grants	1,650,429	-	-	1,650,429
Other sources	66,959	-	-	66,959
Net assets released from restrictions	1,867,643	(1,867,643)	-	-
 Total operating revenues	<u>55,191,773</u>	<u>188,535</u>	<u>-</u>	<u>55,380,308</u>
<b>Operating Expenses</b>				
Instructional	21,242,023	-	-	21,242,023
Public services	855,346	-	-	855,346
Academic support	4,942,752	-	-	4,942,752
Student services	8,915,289	-	-	8,915,289
Institutional support	8,750,654	-	-	8,750,654
Student aid	223,688	-	-	223,688
Auxiliary enterprises	9,161,025	-	-	9,161,025
 Total operating expenses	<u>54,090,777</u>	<u>-</u>	<u>-</u>	<u>54,090,777</u>
<b>Change in Net Assets from Operating Activities:</b>	<u>1,100,996</u>	<u>188,535</u>	<u>-</u>	<u>1,289,531</u>
<b>Nonoperating</b>				
Endowment income in excess of spending policy	2,305,131	3,873,327	-	6,178,458
Unrealized loss on interest rate swaps	(122,915)	-	-	(122,915)
Contributions	-	-	333,940	333,940
Changes in beneficial interest in perpetual trusts	-	-	761,875	761,875
<b>Change in Net Assets from Nonoperating Activities:</b>	<u>2,182,216</u>	<u>3,873,327</u>	<u>1,095,815</u>	<u>7,151,358</u>
<b>Change in Net Assets</b>	<u>3,283,212</u>	<u>4,061,862</u>	<u>1,095,815</u>	<u>8,440,889</u>
<b>Net Assets, Beginning</b>	<u>54,468,420</u>	<u>17,030,702</u>	<u>31,805,320</u>	<u>103,304,442</u>
<b>Net Assets, Ending</b>	<u>\$ 57,751,632</u>	<u>\$ 21,092,564</u>	<u>\$ 32,901,135</u>	<u>\$ 111,745,331</u>

See notes to financial statements

**King's College**

## Statement of Cash Flows

Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ 1,179,299	\$ 8,440,889
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	3,954,404	3,824,123
Amortization of deferred financing costs	53,157	67,007
Loss on debt refunding	509,298	-
Net realized and unrealized gains on investments	(2,739,590)	(7,863,705)
Restricted contributions	(1,202,767)	(776,549)
Change in beneficial interest in perpetual trusts	236,893	(761,875)
Unrealized (gain) loss on interest rate swap	(137,474)	122,915
Bad debt expense	180,748	139,167
Changes in assets and liabilities:		
Short-term investments	(4,371)	(37,279)
Accounts receivable	(451,441)	(326,968)
Contributions receivable	(15,296)	18,172
Other assets	(93,092)	123,639
Accounts payable and accrued liabilities	289,886	(609,932)
Agency funds payable	(44,040)	33,013
Deferred revenue and deposits	(90,782)	1,014,421
Net cash provided by operating activities	<u>1,624,832</u>	<u>3,407,038</u>
<b>Cash Flows from Investing Activities</b>		
Purchase of land, buildings, and equipment	(9,588,135)	(12,279,814)
(Increase) decrease in restricted cash and investments	(18,022,560)	5,710,606
Purchase of investments	(3,402,557)	(874,692)
Proceeds from sale of investments	4,216,281	2,201,530
Disbursements of student and other loans	(418,900)	(405,250)
Repayments of student and other loans	475,461	383,978
Net cash used in investing activities	<u>(26,740,410)</u>	<u>(5,263,642)</u>
<b>Cash Flows from Financing Activities</b>		
Change in line of credit	2,924,858	(697,563)
Proceeds from issuance of long-term debt	23,704,720	3,460,280
Repayment of long-term debt	(2,345,000)	(2,165,000)
Payment of debt financing costs	(575,165)	(50,650)
Proceeds from restricted contributions	1,190,131	1,779,798
Net advance from federal government for student loans	(11,901)	(36,021)
Net cash provided by financing activities	<u>24,887,643</u>	<u>2,290,844</u>
<b>Net Change in Cash and Cash Equivalents</b>	(227,935)	434,240
<b>Cash and Cash Equivalents, Beginning</b>	1,061,501	627,261
<b>Cash and Cash Equivalents, Ending</b>	<u>\$ 833,566</u>	<u>\$ 1,061,501</u>
<b>Supplemental Disclosure of Cash Flow Information</b>		
Cash paid for interest	<u>\$ 1,770,438</u>	<u>\$ 1,374,843</u>
<b>Supplemental Disclosure of Noncash Investing and Financing Activities</b>		
Long-term debt refinanced	<u>\$ 49,493,543</u>	<u>\$ -</u>
Land, buildings and equipment acquired through partnership investment	<u>\$ 13,200,000</u>	<u>\$ -</u>
Land, buildings and equipment in accounts payable	<u>\$ 273,723</u>	<u>\$ 1,820,732</u>

See notes to financial statements

## 1. Nature of Operations and Summary of Significant Accounting Policies

### Nature of Operations

King's College (the "College") is a not-for-profit educational institution which provides undergraduate, graduate and professional education to its students. The College was founded in 1946 by the Congregation of Holy Cross as an independent four-year institution of higher education. The College welcomes students into its community without regard to gender, race, religion, disability or national origin, and seeks to assist talented students of modest financial means.

The College seeks to develop mutually beneficial and cooperative ties to the wider society, and particularly to the civic, cultural, and religious communities of Northeastern Pennsylvania. The broader community offers resources that support and compliment the educational mission of the College, which in turn is a resource to the community through the specialized competencies of its faculty and staff, the volunteer service of students, and through a diverse series of public lectures and religious, cultural and athletic events.

The College is dependent on continuing cash flows from operations to provide adequate liquidity to support its operations.

The accompanying financial statements includes certain accounts of RPG Kings Associates, L.P. ("RPG"), a limited partnership whose sole activity consists of leasing a building to the College, to effect the substance of a transaction more fully discussed in Note 2.

### Donor-Restricted Gifts/Contributions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily or permanently restricted support which increases those net asset classes. When a donor restriction expires, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets released from restrictions, satisfaction of program restrictions. However, if a restriction is satisfied in the same fiscal period in which the contribution is received, the College reports the support as unrestricted.

### Promises to Give

Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. Discounts on those amounts are computed using a risk-adjusted interest rate applicable to individual donors as determined by management. Risk adjusted rates are determined based on an analysis of individual donors ability to satisfy the obligations and current market rates. Amortization of the discount is included in contribution revenue.

### Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the College has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the College in perpetuity.

# King's College

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Notes to Financial Statements  
June 30, 2015 and 2014

## **Cash and Cash Equivalents**

For purposes of the statement of cash flows, the College considers all highly liquid investments with original maturities of 90 days or less to be cash equivalents.

## **Accounts Receivable**

Students and other accounts receivable are reported at net realizable value. Student accounts are written off when they are determined to be uncollectible based upon management's assessment of individual accounts. The allowance for doubtful student accounts is estimated based on the College's historical losses and periodic review of individual accounts. Other receivables are written off when they are determined to be uncollectible based on management's review of individual balances. Management considers other accounts receivable fully collectible and an allowance is not considered necessary.

## **Restricted Cash and Investments**

Restricted cash consists of mutual funds held by the trustee as unspent debt proceeds and are carried at cost which approximates fair value. Such funds are restricted for capital projects.

## **Investments**

Equity securities are valued at fair value based on quoted market prices as reported by the College's investment custodians. The alternative investments, which are not readily marketable, are carried at net asset values as provided by the investment managers. The beneficial interest in assets held by others is carried at fair value based on the unitized value of the pool's underlying investments. The College reviews and evaluates the values provided by the investment managers and agrees with the valuation methods and assumptions used to determine the fair value of the alternative investments. The estimated fair values include assumptions made by management which could have differed significantly had an active market for these securities existed. Adjustments to reflect increases or decreases in market value, referred to as unrealized gains and losses, are reported in the statement of activities.

The College's investments are comprised of a variety of financial instruments and are managed by investment advisors. The fair values reported in the statement of financial position are exposed to various risks including changes in the equity markets, the interest rate environment, and general economic conditions. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the fair value of investment securities, it is reasonably possible that the amounts reported in the accompanying financial statements could change materially in the near term.

The cost of investments received as gifts is fair value as determined upon receipt. The cost of investments sold is determined by use of the specific identification method.

All realized gains and losses arising from the sale of investments and ordinary income from investments are reported as changes in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor imposed stipulations.

## Short-Term Investments

Short-term investments consist primarily of exchange traded funds and are carried at fair value. Interest and dividend income and gains and losses on these investments are included in other sources in the statement of activities. These investments are used primarily for operating activities at the College.

## Beneficial Interest in Assets Held by Others

The College invests a portion of its endowment with the University of Notre Dame du Lac ("Notre Dame"), a religious affiliate that shares the College's Catholic ministry and educational mission. These assets are held in Notre Dame's endowment pool and are invested for the College's benefit. No variance power has been granted to Notre Dame. The endowment pool is managed to provide a stable source of financial support. In order to meet this objective the funds are invested in a diversified asset allocation with an emphasis on equity-based instruments to obtain capital appreciation and current yield. Investments held in the affiliate's endowment pool include U.S. public equities, non-U.S. public equities, long/short public equities, fixed income securities, marketable alternatives, private equity, real estate, and other real assets. The College has no unfunded commitments related to its beneficial interest in assets held by others as of June 30, 2015.

The College may redeem its interest as necessary. Whenever a request is made, the affiliate is required to distribute the funds within thirty days if the redemption value does not exceed \$10,000,000, within ninety days if the redemption value exceeds \$10,000,000 but does not exceed \$50,000,000, and within one hundred eighty days if the redemption value exceeds \$50,000,000.

## Land, Buildings, and Equipment

Land, buildings, and equipment are stated at cost, or estimated cost, less accumulated depreciation, computed on a straight-line basis over the estimated useful lives of buildings (25-50 years) and furniture and equipment (3-10 years). Maintenance and repairs are charged to expense as incurred; replacements and betterments are capitalized.

Contributed property and equipment is recorded at fair value at the date of donation. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support.

## Deferred Revenue

Tuition, fees, and room and board from currently enrolled students is billed in advance and is recognized as revenue when earned.

## Deferred Financing Costs

Costs incurred in connection with debt financing have been deferred and are amortized over the term of the related debt using the interest method. Such costs are reported as an offset to long-term debt in the statement of financial position.

## Refundable Advances

Operating funds designated by government funding agencies for particular operating purposes are deemed to be earned and reported as revenue when the College has incurred expenses in compliance with the contract. Amounts received but not yet earned are reported as refundable advances.

## Income Taxes

The Internal Revenue Service (“IRS”) has ruled that the College is tax-exempt as a not-for-profit organization under Section 501(c)(3) of the Internal Revenue Code.

The College accounts for uncertainty in income taxes using a recognition threshold of more-likely-than-not to be sustained upon examination by the appropriate taxing authority. Measurement of the tax uncertainty occurs if the recognition threshold is met. Management determined that there were no tax uncertainties that met recognition threshold in fiscal year 2015 and 2014.

The College’s policy is to recognize interest related to unrecognized tax benefits in interest expense and penalties in operating expenses.

The College’s federal Exempt Organization Business Income Tax Returns for the years ended June 30, 2014, 2013, and 2012 remain subject to examination by the IRS.

## Use of Estimates

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management’s estimates.

## Derivative Financial Instruments

The College has entered into interest rate swap agreements, which are considered derivative financial instruments, to manage its exposure on its variable rate bonds payable. The interest rate swap agreements are reported at fair value on the statement of financial position; related changes in fair value are reported in the statement of activities as an unrealized gain (loss) on interest rate swaps.

## Title IV Requirements

The College participates in Government Student Financial Assistance Programs (“Title IV”) administered by the U.S. Department of Education (“ED”) for the payment of student tuitions. Substantial portions of the revenue and collection of accounts receivable as of June 30, 2015 and 2014, are dependent upon the College’s continued participation in the Title IV programs.

Institutions participating in Title IV programs are required by ED to demonstrate financial responsibility. ED determines an institution's financial responsibility through the calculation of a composite score based upon certain financial ratios as defined in regulations. Institutions receiving a composite score of 1.5 or greater are considered fully financially responsible. Institutions receiving a composite score between 1.0 and 1.4 are subject to additional monitoring and institutions receiving a score below 1.0 are required to submit financial guarantees in order to continue participation in the Title IV programs. As of and for the years ended June 30, 2015 and 2014, the College's composite score exceeded 1.5.

## **Investment Policy**

The College has a formal investment policy that enables it to utilize a portion of investment return for operating purposes. The College's Board of Directors sets the level of distribution within the limitation imposed by Pennsylvania statute.

## **Nonoperating Activities**

For the purpose of the statement of activities, the College considers its changes in net assets to be operational changes, except for changes related to realized and unrealized gains and losses on investments, net of the College spending policy, permanently restricted contributions, the change in value of beneficial interests in perpetual trusts, losses on debt refundings and the changes in the value of the College's interest rate swap agreements.

## **Advertising**

Advertising expenses are recorded as incurred and were approximately \$294,000 and \$283,000 in 2015 and 2014, respectively.

## **Fundraising Expenses**

Fundraising expenses are included in the institutional support classification on the statement of activities. Fundraising expenses of approximately \$1,318,000 and \$1,311,000 were incurred for the years ended June 30, 2015 and 2014, respectively.

## **Fair Value Measurements**

Financial assets and liabilities measured at fair value are categorized based upon the following characteristics or inputs to the valuation techniques:

Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 - Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument;

Level 3 - Prices or valuation techniques that are unobservable in the market and require significant management judgment or estimation to measure fair value.

A financial asset's or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.



## Reclassifications

Certain amounts relating to 2014 have been reclassified to conform to the 2015 reporting format.

## Net Assets Released From Restrictions

Net assets released from restrictions include amounts related to satisfaction of program restrictions, expiration of time restrictions and endowment spending policy allocations.

## New Accounting Pronouncements

In April 2015, the Financial Accounting Standards Board ("FASB") issued ASU 2015-03, *Interest - Imputation of Interest (Topic 835-30): Simplifying the Presentation of Debt Issuance Costs*. This guidance requires that debt issuance costs related to a recognized debt liability be presented as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected. While effective for fiscal years beginning after December 15, 2015, early adoption is permitted. The College elected to early adopt this guidance in 2015 by retroactively reporting deferred financing costs of \$230,271 (previously reported in 2014 as deferred financing costs) as a deduction from long-term debt (see Note 9) at June 30, 2014 in the statement of financial position. The adoption had no impact on the College's financial position or result of operations.

In May 2015, FASB issued ASU 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent)*. This guidance removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value ("NAV") per share practical expedient. It also removes the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the NAV per share practical expedient. The guidance is effective for fiscal years beginning after December 15, 2015 (fiscal 2017 for the College). Management is currently evaluating the impact of this guidance on the College's financial statements.

## Subsequent Events

The College evaluated subsequent events for recognition or disclosure through October 15, 2015, the date the financial statements were issued.

## 2. O'Hara Hall Acquisition

RPG owns the building known as O'Hara Hall located adjacent to the College's campus. Since 2009, the College leased O'Hara Hall from RPG subject to the terms of several operating lease agreements. The College recognized rent expense of approximately \$1,400,000 in 2015 and \$1,700,000 in 2014 related to these leases.

Beginning in 2014, the College engaged in negotiations with RPG and a second entity (Kinship Square) to acquire the building. Kinship Square owned the land on which the building is situated and leased the land to RPG through a ground lease agreement. The ground lease agreement contains an option to purchase RPG's interest in the building. In April 2015, Kinship Square conveyed the land to the College and assigned the ground lease to the College.

# King's College

Notes to Financial Statements  
June 30, 2015 and 2014

In order to retain favorable tax benefits for RPG, the College did not completely exercise its purchase option. Rather, the College acquired an 89% limited partnership interest in RPG for approximately \$1,600,000 in April 2015. In addition, the College loaned \$162,000 to a party who owns or controls another 10% of RPG as either general partner or limited partner. This loan is secured by the interests in RPG. The amounts paid or loaned were in accordance with the terms of the purchase option noted above. In December 2015, when the tax benefits are fully realized, the College expects to pay off RPG's \$13,200,000 construction note payable and take title to the building. In April 2015, the College agreed to guarantee the payment of the construction note payable. RPG will terminate as a partnership in a future period.

A portion of the College's 2014 College Revenue Notes were issued to provide funds for the acquisition of O'Hara Hall. The unspent proceeds earmarked for the loan payoff are included in restricted cash in the statement of financial position.

At June 30, 2015, the College has recognized the building and related construction note payable of RPG in its financial statements. RPG also has a \$3,300,000 note payable related to the issuance of certain tax credits. This loan will be forgiven in December 2015 upon full realization of the tax credits. However, in the event the tax credits are not fully realized, RPG would have to fund the payoff of the note payable. The College, as an 89% interest in RPG, is contingently liable for the note payable in the event the tax credits are not fully realized. The College has not received, or expects to receive, any benefit from the tax credits. The College believes the probability it will be liable for repayment of the note is remote. As such, the College has not recognized the \$3,300,000 note payable in the accompanying statement of financial position.

A noncontrolling interest in RPG has not been recognized in the financial statements as such amount is considered immaterial.

### 3. Accounts Receivable, Students

Students accounts receivable represent amounts due for tuition, fees, and room and board from currently enrolled and former students. The College extends unsecured credit to students and parents of dependent students in connection with their studies. Some of those students are no longer enrolled or have completed their degrees. Student accounts receivable consists of the following at June 30:

	<u>2015</u>	<u>2014</u>
Accounts receivable	\$ 1,441,220	\$ 1,271,029
Less allowance for doubtful accounts	<u>385,000</u>	<u>365,000</u>
Total	<u>\$ 1,056,220</u>	<u>\$ 906,029</u>

# King's College

Notes to Financial Statements  
June 30, 2015 and 2014

## 4. Contributions Receivable

Contributions receivable at June 30 are summarized as follows:

	<u>2015</u>	<u>2014</u>
In one year or less	\$ 451,010	\$ 358,909
Between one year and five years	1,064,650	858,650
Between six years and ten years	<u>6,355,755</u>	<u>6,286,035</u>
Gross contributions receivable	7,871,415	7,503,594
Less discount and allowance for doubtful collections	<u>3,709,693</u>	<u>3,369,804</u>
Contributions receivable, net	<u>\$ 4,161,722</u>	<u>\$ 4,133,790</u>
Temporarily restricted:		
Land, buildings and equipment	\$ 226,440	\$ 27,740
Programs and other purposes	69,586	398,429
Time	<u>2,507,184</u>	<u>2,526,194</u>
Total temporarily restricted	2,803,210	2,952,363
Permanently restricted for endowment purposes	<u>1,358,512</u>	<u>1,181,427</u>
Total	<u>\$ 4,161,722</u>	<u>\$ 4,133,790</u>

These contributions have been made by businesses, individuals, and related parties primarily located in Pennsylvania. Approximately 94% of gross contributions receivable at June 30, 2015 are due from four individuals.

Management believes the College's allowance for doubtful collections, which is an estimate based on management's periodic assessment of the risk of collectability of each gift, is adequate based upon information currently known at June 30, 2015 and 2014. However, events impacting donors' ability to satisfy their commitments can occur in subsequent years which may result in a material change in the allowance for doubtful collections.

## 5. Student Loans Receivable

These loans are made with funds advanced to the College by the federal government under the Perkins Student Loan Program (the "Program"). Such funds may be reloaned by the College after collection, but in the event that the College no longer participates in the Program, the amounts are refundable to the federal government. The College contributes one third of the amount contributed by the U.S. government as a match to the Program.

The prescribed practices for the Program do not provide for accrual of interest on student loans receivable or for a provision of allowance for doubtful loans. Accordingly, interest on loans is recorded as received; uncollectible loans are not recognized until the loans are canceled or written-off in conformity with Program requirements. The impact of recording interest income on a cash basis is not considered significant. In addition, the credit quality of the student is not evaluated after the initial approval and calculation of the loans. Delinquent loans and the allowance for losses on loans receivable are reviewed by management, but are not material to the overall financial statements.

## King's College

Notes to Financial Statements  
June 30, 2015 and 2014

### 6. Investments

Investments at June 30 are summarized as follows:

	<u>2015</u>	<u>2014</u>
Cash equivalents	\$ 941,357	\$ 845,017
Domestic equity large cap funds	-	1,444,588
Hedge funds	32,087	78,223
Alternative investments:		
Natural resources	941,049	1,131,271
Private equity	1,773,462	4,270,309
Real estate	667,034	1,180,557
Venture capital	1,218,726	1,353,065
Beneficial interest in assets held by others	56,617,527	49,962,346
	<u>56,617,527</u>	<u>49,962,346</u>
Total	<u>\$ 62,191,242</u>	<u>\$ 60,265,376</u>

The College's principal financial instruments subject to credit risk are its investments. The investments are managed by professional advisors subject to the College's investment policy. The degree and concentration of credit risk varies by type of investment.

Certain investments are pooled on a market value basis with each individual fund subscribing to or disposing of units on the basis of the market value per unit at the beginning of the calendar month in which the transaction takes place.

The components of total investment return are reflected below:

	<u>2015</u>	<u>2014</u>
Interest and dividends	\$ 262,143	\$ 933,372
Net realized and unrealized gains	3,611,791	8,034,264
	<u>3,611,791</u>	<u>8,034,264</u>
Total	<u>\$ 3,873,934</u>	<u>\$ 8,967,636</u>

The above amounts are reported in the statement of activities under the following:

	<u>2015</u>	<u>2014</u>
Endowment spending policy	\$ 2,885,229	\$ 2,789,178
Endowment income in excess of spending policy	988,705	6,178,458
	<u>988,705</u>	<u>6,178,458</u>
Total	<u>\$ 3,873,934</u>	<u>\$ 8,967,636</u>

# King's College

Notes to Financial Statements

June 30, 2015 and 2014

## 7. Beneficial Interest in Perpetual Trusts

The College receives income from various perpetual trusts held by third parties. Under the terms of the trusts, the College has the irrevocable right to receive a portion of the income earned on these trust assets in perpetuity, but never receives the assets held in the trust.

Distributions from these trusts are recorded as unrestricted or restricted investment income in the statement of activities based on donor stipulations. The change in value of the perpetual trusts is reported as changes in permanently restricted net assets based on explicit donor stipulations.

## 8. Land, Buildings, and Equipment

Land, buildings, and equipment at June 30 is summarized as follows:

	<u>2015</u>	<u>2014</u>
Land	\$ 17,035,544	\$ 14,004,593
Land improvements	3,432,088	3,253,715
Buildings	104,460,360	92,618,905
Furniture, fixtures, and equipment	32,017,821	29,846,395
Construction in progress	<u>17,111,706</u>	<u>13,092,785</u>
Total	174,057,519	152,816,393
Less accumulated depreciation	<u>62,697,390</u>	<u>58,742,986</u>
Net	<u>\$ 111,360,129</u>	<u>\$ 94,073,407</u>

# King's College

Notes to Financial Statements  
June 30, 2015 and 2014

## 9. Long-Term Debt

Long-term debt at June 30 is as follows:

	<u>2015</u>	<u>2014</u>
<b>College:</b>		
\$7,000,000 revolving line of credit, maturing April 2019. Interest is payable monthly based on 1-month LIBOR plus 1.17% (1.375% at June 30, 2015).	\$ 3,654,298	\$ 729,440
College Revenue Notes, Series A of 2014, payable in annual principal installments through May 2031. Interest is payable monthly at 70% of the 1-month LIBOR plus 1.25% (1.38% as of June 30, 2015).	17,020,000	-
College Revenue Notes, Series B of 2014, payable in annual principal installments through May 2044. Interest is payable monthly at 70% of the 1-month LIBOR plus 1.25% (1.38% as of June 30, 2015).	50,635,000	-
Debt repaid in 2015	-	<u>46,295,280</u>
Subtotal	71,309,298	47,024,720
Less unamortized financing costs	<u>(242,981)</u>	<u>(230,271)</u>
Total long-term debt - College	71,066,317	46,794,449
<b>RPG:</b>		
Construction loan, payable in full on December 30, 2015. Interest is payable monthly at 1-month LIBOR plus 3.05% (3.25% at June 30, 2015)	<u>13,200,000</u>	-
Total long-term debt	<u>\$ 84,266,317</u>	<u>\$ 46,794,449</u>

In October 2014, the Dallas Area Municipal Authority (the "Authority") issued \$18,450,000 of College Revenue Notes, Series A of 2014 and \$51,550,000 of College Revenue Notes, Series B of 2014. The proceeds of the notes issued were then loaned to the College by the Authority under the terms of a loan agreement between the two parties. The notes were then purchased from the Authority by various banks and the College has agreed to pay the Authority's obligations under the notes to the banks. The proceeds of the notes were used to currently refund the College's existing revenue notes and to finance various capital projects. The notes and revolving line of credit are collateralized by a security interest in the College's gross revenues.

The line of credit and security agreements require the College to meet certain financial covenants.

## King's College

Notes to Financial Statements  
June 30, 2015 and 2014

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The scheduled future principal payments on the long-term debt are as follows:

Years ending June 30:	
2016	\$ 15,240,000
2017	1,955,000
2018	1,480,000
2019	5,184,298
2020	1,580,000
Thereafter	<u>59,070,000</u>
Total	<u>\$ 84,509,298</u>

Interest expense with regard to all debt was approximately \$1,792,000 and \$1,444,000 in 2015 and 2014, respectively. Interest expense reported is net of capitalized interest of approximately \$78,000 in 2015 and \$91,000 in 2014.

The effective interest rate on all long-term debt approximates the stated rate.

### 10. Operating Leases

The College leases equipment under noncancelable operating leases with terms of 24 to 60 months. The following is a schedule of the future annual minimum rentals on these leases as of June 30, 2015:

Years ending June 30:	
2016	\$ 764,180
2017	616,173
2018	445,922
2019	298,882
2020	<u>87,964</u>
Total	<u>\$ 2,213,121</u>

Rent expense on the above leases was approximately \$848,000 in 2015 and \$676,000 in 2014.

### 11. Pension

The College sponsors a defined contribution pension plan. Pension expense was approximately \$1,535,000 in 2015 and \$1,449,000 in 2014.

### 12. Government Grants and Student Aid

The government grants and student aid amounts do not include funds credited to student accounts under various federal and state grant programs. These grants are similar to agency funds as the College acts only as custodian and disbursing agent. Had these amounts been included, revenues and expenses would have increased by approximately \$4,767,000 in 2015 and \$5,219,000 in 2014.

## King's College

Notes to Financial Statements  
June 30, 2015 and 2014

### 13. Significant Group Concentration of Credit Risk

The College maintains its cash accounts in commercial banks located in Pennsylvania. Accounts are insured up to limits established by the Federal Deposit Insurance Corporation.

### 14. Net Assets

Unrestricted net assets are designated for the following as of June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Long-term investments	\$ 19,095,693	\$ 19,157,528
Plant facilities	37,507,806	37,880,729
Other	1,480,451	713,375
Total	<u>\$ 58,083,950</u>	<u>\$ 57,751,632</u>

Temporarily restricted net assets are available for the following purpose or in future periods as of June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Specified purposes	\$ 1,263,927	\$ 2,017,541
Time	2,507,184	2,526,194
Accumulated unspent endowment earnings	17,621,775	16,548,829
Total	<u>\$ 21,392,886</u>	<u>\$ 21,092,564</u>

Permanently restricted net assets are restricted for the following as of June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Beneficial interests in perpetual trusts	\$ 6,923,796	\$ 7,160,689
Assets held in perpetuity	26,523,998	25,740,446
Total	<u>\$ 33,447,794</u>	<u>\$ 32,901,135</u>



## 15. Endowment Funds

The College's endowment consists of approximately 300 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the College has developed a policy 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 interpreted through review of current Pennsylvania laws. As a result of this interpretation, the College 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 either temporarily restricted or unrestricted net assets based on the existence of donor restrictions or by law.

The College considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the College and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the College
7. The investment policies of the College

The College 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 College must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk. The College expects its endowment funds, over time, to provide an average rate of return of approximately 4%, plus inflation, annually.

## King's College

Notes to Financial Statements  
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To satisfy its long-term rate-of-return objectives, the College 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 College 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 College has a policy of appropriating for distribution each year 5% of its endowment fund's average fair value over the prior 12 quarters through the calendar year-end proceeding the fiscal year in which the distribution is planned. In establishing this policy, the College considered the long-term expected return on its endowment. This is consistent with the College's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

The permanently restricted category includes the value of interest in various trust accounts established by donors. The assets of the trusts are held by independent trustees in perpetuity. The College has an interest in the income generated from these trusts, but will never receive the assets held in the trusts. These assets are not governed by the College's investment policy. All investment decisions and distributions are governed by trust documents and the trustee.

Endowment net asset composition by type of fund as of June 30, 2015:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 17,621,775	\$ 33,447,794	\$ 51,069,569
Board-designated endowment funds	19,095,693	-	-	19,095,693
Total endowment funds	<u>\$ 19,095,693</u>	<u>\$ 17,621,775</u>	<u>\$ 33,447,794</u>	<u>\$ 70,165,262</u>

Endowment net asset composition by type of fund as of June 30, 2014:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (7,394)	\$ 16,548,829	\$ 32,901,135	\$ 49,442,570
Board-designated endowment funds	19,164,922	-	-	19,164,922
Total endowment funds	<u>\$ 19,157,528</u>	<u>\$ 16,548,829</u>	<u>\$ 32,901,135</u>	<u>\$ 68,607,492</u>

## King's College

Notes to Financial Statements  
June 30, 2015 and 2014

Changes in endowment net assets for the year ended June 30, 2015 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 19,157,528	\$ 16,548,829	\$ 32,901,135	\$ 68,607,492
Investment return:				
Interest and dividends	85,954	176,189	-	262,143
Net realized and unrealized gains	<u>970,371</u>	<u>2,661,987</u>	<u>(236,893)</u>	<u>3,395,465</u>
Total investment return	1,056,325	2,838,176	(236,893)	3,657,608
Contributions	1,839	-	783,552	785,391
Appropriation of endowment assets per spending policies	(1,127,393)	(1,757,836)	-	(2,885,229)
Other changes:				
Reclassification of underwater endowment net assets	<u>7,394</u>	<u>(7,394)</u>	<u>-</u>	<u>-</u>
Endowment net assets, end of year	<u>\$ 19,095,693</u>	<u>\$ 17,621,775</u>	<u>\$ 33,447,794</u>	<u>\$ 70,165,262</u>

## King's College

Notes to Financial Statements  
June 30, 2015 and 2014

Changes in endowment net assets for the year ended June 30, 2014 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 16,954,933	\$ 12,637,911	\$ 31,805,320	\$ 61,398,164
Investment return:				
Interest and dividends	527,203	406,169	-	933,372
Net realized and unrealized gains	<u>2,641,882</u>	<u>5,290,579</u>	<u>761,875</u>	<u>8,694,336</u>
Total investment return	3,169,085	5,696,748	761,875	9,627,708
Contributions	36,858	-	333,940	370,798
Appropriation of endowment assets per spending policies	(1,175,609)	(1,613,569)	-	(2,789,178)
Other changes:				
Reclassification of underwater endowment net assets	<u>172,261</u>	<u>(172,261)</u>	<u>-</u>	<u>-</u>
Endowment net assets, end of year	<u>\$ 19,157,528</u>	<u>\$ 16,548,829</u>	<u>\$ 32,901,135</u>	<u>\$ 68,607,492</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 law requires the College to retain as a fund of perpetual duration. In accordance with U.S. GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$7,394 as of June 30, 2014. There were no such deficiencies as of June 30, 2015. The deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that were deemed prudent by the Board of Directors.

## 16. Commitments and Contingencies

The College has approximately \$695,000 in unfunded capital calls and approximately \$836,000 in distributions subject to recall related to various alternative and venture capital investments at June 30, 2015. These commitments can be funded through liquidation of current investments.

The College is subject to legal proceedings generally incidental to its business. Although the final outcome of any legal proceedings is subject to many variables and cannot be predicted with any degree of certainty, the College presently believes that the ultimate outcome resulting from those proceedings would not have a material effect on the College's financial position or changes in its net assets.

The College is self-insured for employees' medical insurance. The College has limited its self-insurance liability through the purchase of catastrophic reinsurance coverage which will reimburse the College for any claims in excess of policy limits incurred in any plan year. Self insurance costs are accrued based on claims reported as of the statement of financial position date as well as an estimated liability for claims incurred but not reported. The total accrued liability for self-insurance costs, included with accounts payable and accrued liabilities in the statement of financial position, was approximately \$1,015,000 and \$928,000 at June 30, 2015 and 2014, respectively. The cost of medical coverage for employees amounted to approximately \$2,885,000 and \$2,835,000 for the years ended June 30, 2015 and 2014, respectively.

The College owns several buildings constructed prior to the passage of the Clean Air Act that contain encapsulated asbestos material. Current law requires that this asbestos be removed in an environmentally safe manner prior to demolition or renovation of the buildings. The College has not recognized the asset retirement obligation for asbestos removal in its financial statements because it currently has no plans to demolish or renovate these buildings and as such, cannot reasonably estimate the fair value of the obligation. If plans change with respect to the use of the buildings and sufficient information becomes available to estimate the liability, it will be recognized at that time.

## 17. Interest Rate Swaps/Subsequent Event

The College has entered into interest rate swap agreements in connection with its College Revenue Notes which are considered derivative financial instruments. The counterparties for the swap agreements are First National Bank and M&T Bank, financial institutions with which the College has other financial relationships (the "Banks"). The objective of the swap agreements is to minimize the risks associated with financing activities by reducing the impact of changes in interest rates. The swap agreements are not designated as hedging instruments. The swap agreements are contracts to exchange variable rate for fixed rate interest payments over the life of the agreements without the exchange of the underlying notional amount. The notional amount of the swap agreements are used to measure the interest to be paid or received and does not represent the amount of exposure to credit loss. Exposure to credit loss is limited to the receivable amount, if any, which may be generated as a result of the swap agreements. Management believes that losses related to credit risk are remote. The net cash paid or received under the swap agreements is recognized as an adjustment to interest expense and resulted in an increase in interest expense of approximately \$820,000 in 2015 and \$750,000 in 2014.

The College does not utilize interest rate swaps or other financial instruments for trading or other speculative purposes.

# King's College

## Notes to Financial Statements June 30, 2015 and 2014

At June 30, 2015, the following interest rate swaps are in effect:

Effective notional amount	\$ 18,450,000	\$ 9,825,000	\$ 9,825,000	\$ 3,930,000	\$ 6,877,500
Strike rate	4.032%	1.450%	1.430%	1.400%	1.370%
Period	May 2013 to May 2031	February 2015 to May 2024	March 2015 to May 2024	March 2015 to May 2024	April 2015 to May 2024

The fair value of the interest rate swap agreements is the amount that the College would receive or pay to terminate the swap agreements at the reporting date. The College estimates that it would have paid approximately \$3,247,000 and \$3,385,000 on June 30, 2015 and 2014, respectively, to terminate these agreements.

In August 2015, the College entered into an interest rate swap agreement with M&T Bank related to its College Revenue Notes. The notional amount is \$10,000,000. The strike rate is 1.43%. The agreement runs from September 2015 through May 2024.

### 18. Fair Value Disclosures

The carrying amount and estimated fair value of the College's financial instruments, other than those measured at fair value, at June 30, 2015 and 2014 are as follows:

	<b>2015</b>				
	<b>Carrying Amount</b>	<b>Fair Value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Assets:</b>					
Cash and cash equivalents	\$ 833,566	\$ 833,566	\$ 833,566	\$ -	\$ -
Contributions receivable	4,161,722	4,161,722	-	-	4,161,722
Student and other loans receivable	2,417,852	2,417,852	-	2,417,852	-
<b>Liabilities:</b>					
Long-term debt	84,266,317	84,509,298	-	84,509,298	-
<b>2014</b>					
<b>Assets:</b>					
Cash and cash equivalents	\$ 1,061,501	\$ 1,061,501	\$ 1,061,501	\$ -	\$ -
Contributions receivable	4,133,790	4,133,790	-	-	4,133,790
Student and other loans receivable	2,474,413	2,474,413	-	2,474,413	-
<b>Liabilities:</b>					
Long-term debt	46,794,449	47,024,720	-	47,024,720	-

## King's College

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### Notes to Financial Statements

June 30, 2015 and 2014

Cash and cash equivalents: Carried at cost which approximates fair value due to its short-term nature of that instrument.

Contributions receivable: The carrying amount approximates fair value as the carrying amount is based on the present value of estimated future cash flows discounted at risk adjusted rates.

Student and other loans receivables: The carrying amount approximates fair value based on current rates offered for similar loans with similar maturities.

Refundable advances from federal government for student loans: Due to significant restrictions that apply to government sponsored student loans, determining the fair value of the refundable advances was not considered practical and, as such, it is not included in the above tables.

Long-term debt: The fair value is estimated based on discounted cash flows using borrowing rates currently available to the College for similar types of borrowing arrangements.

# King's College

Notes to Financial Statements  
June 30, 2015 and 2014

The College measures its long-term investments, beneficial interest in perpetual trusts and interest rate swaps at fair value on a recurring basis. These items were measured with the following inputs at June 30, 2015 and 2014:

	2015			
	Total	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Restricted cash and investments:				
Money market mutual funds	\$ 18,672,451	\$ 18,672,451	\$ -	\$ -
Mutual funds, equities	70,936	70,936	-	-
Mutual funds, fixed income	304,817	304,817	-	-
Total restricted cash and investments	19,048,204	19,048,204	-	-
Short-term investments,				
Money market mutual funds	39,937	39,937	-	-
Exchange traded funds, equities	135,089	135,089	-	-
Exchange traded funds, fixed income	229,754	229,754	-	-
Total short-term investments	404,780	404,780	-	-
Investments:				
Cash equivalents	941,357	941,357	-	-
Hedge funds	32,087	-	-	32,087
Alternative:				
Natural resources	941,049	-	-	941,049
Private equity	1,773,462	-	-	1,773,462
Real estate	667,034	-	-	667,034
Venture capital	1,218,726	-	-	1,218,726
Beneficial interest in assets held by others	56,617,527	-	-	56,617,527
Total investments	62,191,242	941,357	-	61,249,885
Beneficial interests in perpetual trusts	6,923,796	-	-	6,923,796
Total	\$ 88,568,022	\$ 20,394,341	\$ -	\$ 68,173,681
Liability,				
Interest rate swaps	\$ 3,247,140	\$ -	\$ 3,247,140	\$ -



# King's College

Notes to Financial Statements  
June 30, 2015 and 2014

	2014			
	Total	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Restricted cash, Money market mutual funds	\$ 1,025,644	\$ 1,025,644	\$ -	\$ -
Short-term investments, Exchange traded funds	400,409	400,409	-	-
Investments:				
Cash equivalents	845,017	845,017	-	-
Domestic equity large cap mutual funds	1,444,588	1,444,588	-	-
Hedge funds	78,223	-	-	78,223
Alternative:				
Natural resources	1,131,271	-	-	1,131,271
Private equity	4,270,309	-	-	4,270,309
Real estate	1,180,557	-	-	1,180,557
Venture capital	1,353,065	-	-	1,353,065
Beneficial interest in assets held by others	49,962,346	-	-	49,962,346
Total investments	60,265,376	2,289,605	-	57,975,771
Beneficial interests in perpetual trusts	7,160,689	-	-	7,160,689
Total	\$ 68,852,118	\$ 3,715,658	\$ -	\$ 65,136,460
Liability, Interest rate swap	\$ 3,384,614	\$ -	\$ 3,384,614	\$ -

The following tables present a reconciliation of the beginning and ending balances of assets with fair value measurements using significant unobservable inputs (Level 3) as of June 30, 2015 and 2014:

	July 1, 2014	Purchases	Sales	Issuances	Settlements	Unrealized	June 30, 2015
Hedge funds	\$ 78,223	\$ -	\$ -	\$ -	\$ (52,068)	\$ 5,932	\$ 32,087
Alternative investments	6,582,137	17,880	(1,876,910)	-	(987,835)	(353,727)	3,381,545
Venture capital	1,353,065	-	-	-	(118,830)	(15,509)	1,218,726
Total	\$ 8,013,425	\$ 17,880	\$ (1,876,910)	\$ -	\$ (1,158,733)	\$ (363,304)	\$ 4,632,358
Beneficial interest in assets held by others	\$ 49,962,349	\$ 2,400,000	\$ -	\$ -	\$ 1,920,166	\$ 2,335,012	\$ 56,617,527
Beneficial interests in perpetual trusts	\$ 7,160,689	\$ -	\$ -	\$ -	\$ -	\$ (236,893)	\$ 6,923,796

# King's College

## Notes to Financial Statements

June 30, 2015 and 2014

	<u>July 1, 2013</u>	<u>Purchases</u>	<u>Sales</u>	<u>Issuances</u>	<u>Settlements</u>	<u>Unrealized</u>	<u>June 30, 2014</u>
Hedge funds	\$ 110,284	\$ -	\$ (62,223)	\$ -	\$ -	\$ 30,162	\$ 78,223
Alternative investments	7,043,277	22,357	(1,064,098)	-	231,347	349,254	6,582,137
Venture capital	1,431,871	-	(295,395)	-	87,931	128,658	1,353,065
Total	<u>\$ 8,585,432</u>	<u>\$ 22,357</u>	<u>\$ (1,421,716)</u>	<u>\$ -</u>	<u>\$ 319,278</u>	<u>\$ 508,074</u>	<u>\$ 8,013,425</u>
Beneficial interest in assets held by others	<u>\$ 42,110,245</u>	<u>\$ 500,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,385,319</u>	<u>\$ 3,966,785</u>	<u>\$ 49,962,349</u>
Beneficial interests in perpetual trusts	<u>\$ 6,398,814</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 761,875</u>	<u>\$ 7,160,689</u>

Gains and losses (realized and unrealized) included in changes in net assets for the period are reported in nonoperating revenues.

Investments: The fair values are based on values reported by external investment managers. Quoted market prices for identical assets are used to measure fair value of equity and fixed income mutual funds and are classified within Level 1 of the valuation hierarchy. Fair value of investments within the Level 2 valuation hierarchy are based on pricing for similar assets with similar terms in actively traded markets or valued at the respective net asset values based on the underlying assets of the funds. The College's investment in hedge funds, natural resources, real estate, private equity and venture capital investments are valued at net asset value and are considered Level 3 inputs based on the investments not having an observable market and the need for significant estimation to measure fair value.

Beneficial interest in assets held by others: Fair value is based on the net asset value of the College's units as reported by the affiliate, unless specific evidence indicates that net asset value should be adjusted. This may involve using significant unobservable inputs. The valuation methods utilized by the affiliate are subject to regular review by the College.

Beneficial interests in perpetual trusts: The fair value is estimated using the College's percentage of the underlying assets, which approximates the present value of estimated future cash flows to be received from the trust.

The College measures its derivative financial instrument at fair value based on proprietary models of an independent third party valuation specialist. The fair value takes into consideration the prevailing interest rate environment and the specific terms and conditions of the derivative financial instrument. The fair value was estimated using the zero-coupon discounting method and considers the credit risk of the College and the counterparty. This method calculates the future payments required by the derivative financial instruments, assuming that the current, forward rates implied by the yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rate implied by the current yield curve for a hypothetical zero coupon rate bond due on the date of each future net settlement payment on the derivative financial instruments. The value represents the estimated exit price the College would pay to terminate the agreements.

# King's College

## Notes to Financial Statements

June 30, 2015 and 2014

The College has a policy which permits investments that do not have a readily determinable fair value, and as such, has elected to use the net asset value per share (“NAV”) as calculated on the reporting entity’s measurement date as the fair value of the investment. The College measures the fair value of an investment that does not have a readily determinable fair value, based on the NAV of the investment as a practical expedient, without further adjustment, unless it is probable that the investment will be sold at a value significantly different than the NAV. If the practical expedient NAV is not as of the reporting entity’s measurement date, then the NAV is adjusted to reflect any significant events that would materially affect the value of the security and the NAV of the College as of the valuation date. In using the NAV as a practical expedient, certain attributes of the investment, that may impact the fair value of the investment, are not considered in measuring fair value. Attributes of those investments include the investment strategies of the investees and may also include, but are not limited to, restrictions on the investor’s ability to redeem its investments at the measurement date at NAV as well as any unfunded commitments. A listing of the investments held by the College and their attributes, that may qualify for these valuations consist of the following as of June 30:

2015					
Investment Category	Investment Strategy	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Natural resources (a)	Investment of funds in limited partnerships, which in turn, make oil, gas, timber and other natural resource-related investments with the objective of obtaining long-term growth of capital.	\$ 941,049	\$ 122,500	Quarterly income distributions. No ability to redeem ownership until termination of Limited Partnership, as stated in the agreements. Termination dates range from February 2017 through August 2020.	N/A
Real estate loans (b)	Purpose is to originate and manage a portfolio of multifamily and commercial real estate loans, preferred equity investments and structured finance transactions secured by mortgages and other interests in real estate.	667,034	200,000	Quarterly income distributions. No ability to redeem ownership until termination of Limited Partnership, as stated in the agreements. Termination dates range from January 2011 through January 2017.	N/A

# King's College

## Notes to Financial Statements

June 30, 2015 and 2014

Investment Category	Investment Strategy	2015		Redemption Frequency	Redemption Notice Period
		Fair Value	Unfunded Commitments		
Venture capital (a)	Invests primarily in other limited partnerships formed for the purpose of making venture capital investments in emerging growth companies. Generally, these investments may not be transferred or withdrawn prior to the termination of limited partnerships, which generally have a term of ten years.	\$ 1,218,726	\$ 93,412	Quarterly income distributions. No ability to redeem ownership until termination of Limited Partnership, as stated in the agreements. Termination dates range from January 2012 through March 2017.	N/A
Private equity (a)	Invests primarily in other limited partnerships formed for the purpose of making investments in equity securities, warrants or other options, focused either domestically or internationally, that are generally not actively traded at the time of investment. Generally, these investments may not be transferred or withdrawn prior to the termination of limited partnerships, which generally have a term of ten years.	1,773,462	278,888	Quarterly income distributions. No ability to redeem ownership until termination of Limited Partnership, as stated in the agreements. Termination dates are scheduled for March 2017.	Up to 90 days
Global equity and debt (a) (d)	Fund is a multi-strategy fund specializing in arbitrage and absolute return investment strategies in the global equity and corporate debt securities markets and seeks to deliver consistent returns with low volatility.	32,087	-	Annual	Requires approval of Board of Directors
Beneficial interest in assets held by others	Fund is independently managed fund. Asset allocation determined by fund management.	56,617,527	-	At College's discretion	Disclosed in accounting policy note
Beneficial interest in perpetual trusts (e)		6,923,796	-	Semi-annual or annual income distributions	N/A

# King's College

## Notes to Financial Statements June 30, 2015 and 2014

2014					
Investment Category	Investment Strategy	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Natural resources (a)	Investment of funds in limited partnerships, which in turn, make oil, gas, timber and other natural resource-related investments with the objective of obtaining long-term growth of capital.	\$ 1,131,271	\$ 168,750	Quarterly income distributions. No ability to redeem ownership until termination of Limited Partnership, as stated in the agreements. Termination dates range from February 2017 through August 2020.	N/A
Real estate loans (b)	Purpose is to originate and manage a portfolio of multifamily and commercial real estate loans, preferred equity investments and structured finance transactions secured by mortgages and other interests in real estate.	1,177,855	200,000	Quarterly income distributions. No ability to redeem ownership until termination of Limited Partnership, as stated in the agreements. Termination dates range from January 2011 through January 2017.	N/A
Real estate operations (c)	Invests in a diversified pool of real estate investments over time, within seven regional targeted markets.	2,702	-	Annually on September 30	30 days
Venture capital (a)	Invests primarily in other limited partnerships formed for the purpose of making venture capital investments in emerging growth companies. Generally, these investments may not be transferred or withdrawn prior to the termination of limited partnerships, which generally have a term of ten years.	1,353,065	105,912	Quarterly income distributions. No ability to redeem ownership until termination of Limited Partnership, as stated in the agreements. Termination dates range from January 2012 through March 2017.	N/A
Private equity (a)	Invests primarily in other limited partnerships formed for the purpose of making investments in equity securities, warrants or other options, focused either domestically or internationally, that are generally not actively traded at the time of investment. Generally, these investments may not be transferred or withdrawn prior to the termination of limited partnerships, which generally have a term of ten years.	4,270,309	295,362	Quarterly income distributions. No ability to redeem ownership until termination of Limited Partnership, as stated in the agreements. Termination dates are scheduled for March 2017.	Up to 90 days

# King's College

## Notes to Financial Statements

June 30, 2015 and 2014

2014					
Investment Category	Investment Strategy	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Global equity and debt (a) (d)	Fund is a multi-strategy fund specializing in arbitrage and absolute return investment strategies in the global equity and corporate debt securities markets and seeks to deliver consistent returns with low volatility.	\$ 78,223	\$ -	Annual	Requires approval of Board of Directors
Beneficial interest in assets held by others	Fund is independently managed fund. Asset allocation determined by fund management.	49,962,346	-	At College's discretion	Disclosed in accounting policy note
Beneficial interest in perpetual trusts (e)		7,160,689	-	Semi-annual or annual income distributions	N/A

- (a) Investment is a feeder fund for other limited partnerships, limited liability corporations, offshore corporations or other foreign investment vehicles.
- (b) Underlying investments primarily include loans and other debt instruments that are secured by real estate or other physical assets.
- (c) Underlying investments are primarily operating real estate projects or undeveloped land held for future development or sale.
- (d) Represents a hedge fund focused in international markets.
- (e) Underlying investments are held by trustees, which hold exclusive rights to determine asset allocation. Payments of income are determined by the Trustee, based on the trust document and relevant law.

### 19. Functional Allocation

The College adheres to the AICPA Industry Audit Guide in reporting expenses by their functional classification. Accordingly, depreciation, interest and other expenses have been allocated to functional classifications based on square footage, use of bond proceeds, or other factors.

## 20. Related Party Transactions

The College has entered into transactions with entities which members of the Board of Directors have relationships as owners or officers. During the years ended June 30, 2015 and 2014 the College engaged in the following related party transactions:

- The College is invested in an alternative investment managed by a member of the Board. The fair value of that investment was approximately \$398,000 and \$611,000 at June 30, 2015 and 2014, respectively.
- The College paid insurance premiums of approximately \$132,000 in 2015 and 2014, to a company which has an officer who is also a member of the Board.
- The College paid service fees and insurance premiums to an insurance company, which has an officer who is also a member of the Board, of approximately \$496,000 and \$464,000 for 2015 and 2014, respectively.
- The College paid transportation costs to a company, which has an officer who is also a member of the Board, of approximately \$119,000 and \$113,000 for 2015 and 2014, respectively.
- The College paid legal and professional fees to a firm, which has a principal who is also a member of the Board, of approximately \$106,000 and \$111,000 for 2015 and 2014, respectively.

During 2004, the College entered into an agreement with the Congregation of Holy Cross to lease land located on the College's campus. The term of the lease is approximately 30 years at a rate of \$10 per year, payable by December 1st of each year. If at any time during the lease period, the lessee decides to sell the buildings and improvements constructed on the leased land, the College has the first option to purchase such buildings and improvements at market value.

**King's College**  
Financial Statements  
June 30, 2016 and 2015



Candor. Insight. Results.



# King's College

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## **Independent Auditors' Report**

Board of Directors  
King's College

We have audited the accompanying financial statements of King's College, which comprise the statement of financial position as of June 30, 2016 and 2015, 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.

### **Auditors' 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. 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 King's College as of June 30, 2016 and 2015, 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.

*Baker Tilly Viechow Krause, LLP*

Wilkes-Barre, Pennsylvania  
October 10, 2016

# King's College

## Statement of Financial Position

June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 1,751,873	\$ 833,566
Short-term investments	908,842	404,780
Accounts receivable:		
Students, net	1,424,092	1,056,220
Other	3,983,985	1,058,356
Other assets	325,964	362,828
Contributions receivable, net	3,591,064	4,161,722
Restricted cash and investments	6,467,789	19,048,204
Investments	60,585,546	62,191,242
Student and other loans receivable	2,195,083	2,417,852
Land, buildings and equipment, net	110,952,962	111,360,129
Beneficial interest in perpetual trusts	6,426,133	6,923,796
	<u>198,613,333</u>	<u>209,818,695</u>
Total assets	\$ 198,613,333	\$ 209,818,695
<b>Liabilities and Net Assets</b>		
Accounts payable and accrued liabilities	\$ 6,233,552	\$ 4,431,033
Deferred revenue and deposits	2,181,548	2,550,209
Agency funds payable	558,431	518,860
Long-term debt	68,261,002	84,266,317
Interest rate swaps	6,407,975	3,247,140
Refundable advances from federal government for student loans	1,861,736	1,880,506
	<u>85,504,244</u>	<u>96,894,065</u>
Total liabilities	85,504,244	96,894,065
<b>Net Assets</b>		
Unrestricted	59,542,241	58,083,950
Temporarily restricted	19,985,352	21,392,886
Permanently restricted	33,581,496	33,447,794
	<u>113,109,089</u>	<u>112,924,630</u>
Total net assets	113,109,089	112,924,630
Total liabilities and net assets	<u>\$ 198,613,333</u>	<u>\$ 209,818,695</u>

See notes to financial statements

**King's College**

## Statement of Activities

Year Ended June 30, 2016, With Summarized Information for the Year Ended June 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	<u>6/30/2015</u>
<b>Operating Revenues</b>					
Student tuition and fees	\$ 65,151,077	\$ -	\$ -	\$ 65,151,077	\$ 62,161,981
Internal student aid	(24,589,680)			(24,589,680)	(23,335,223)
Student tuition and fees, net	40,561,397	-	-	40,561,397	38,826,758
Auxiliary enterprises	12,844,502	-	-	12,844,502	11,966,857
Private gifts and grants	1,019,224	550,122	-	1,569,346	1,627,751
Endowment spending policy	1,129,226	1,816,103	-	2,945,329	2,885,229
Federal and state grants	1,468,611	-	-	1,468,611	1,541,249
Other sources	101,578	-	-	101,578	103,002
Net assets released from restrictions	2,398,877	(2,398,877)	-	-	-
Total operating revenues	<u>59,523,415</u>	<u>(32,652)</u>	<u>-</u>	<u>59,490,763</u>	<u>56,950,846</u>
<b>Operating Expenses</b>					
Instructional	23,727,578	-	-	23,727,578	22,885,157
Public services	710,754	-	-	710,754	740,841
Academic support	5,303,863	-	-	5,303,863	5,481,167
Student services	9,602,989	-	-	9,602,989	8,360,829
Institutional support	10,096,513	-	-	10,096,513	8,893,341
Student aid	356,468	-	-	356,468	518,443
Auxiliary enterprises	8,707,759	-	-	8,707,759	9,747,529
Total operating expenses	<u>58,505,924</u>	<u>-</u>	<u>-</u>	<u>58,505,924</u>	<u>56,627,307</u>
<b>Change in Net Assets from</b>					
<b>Operating Activities</b>	<u>1,017,491</u>	<u>(32,652)</u>	<u>-</u>	<u>984,839</u>	<u>323,539</u>
<b>Nonoperating</b>					
Endowment (loss) income in excess of spending policy	(593,571)	(1,374,882)	-	(1,968,453)	988,705
Unrealized (loss) gain on interest rate swaps	(3,160,835)	-	-	(3,160,835)	137,474
State capital grants	3,299,428	-	-	3,299,428	-
Loss on debt refunding	-	-	-	-	(509,298)
Contributions	895,778	-	631,365	1,527,143	475,772
Change in beneficial interest in perpetual trusts	-	-	(497,663)	(497,663)	(236,893)
<b>Change in Net Assets from     Nonoperating Activities</b>	<u>440,800</u>	<u>(1,374,882)</u>	<u>133,702</u>	<u>(800,380)</u>	<u>855,760</u>
<b>Change in Net Assets</b>	<u>1,458,291</u>	<u>(1,407,534)</u>	<u>133,702</u>	<u>184,459</u>	<u>1,179,299</u>
<b>Net Assets, Beginning</b>	<u>58,083,950</u>	<u>21,392,886</u>	<u>33,447,794</u>	<u>112,924,630</u>	<u>111,745,331</u>
<b>Net Assets, Ending</b>	<u>\$ 59,542,241</u>	<u>\$ 19,985,352</u>	<u>\$ 33,581,496</u>	<u>\$ 113,109,089</u>	<u>\$ 112,924,630</u>

See notes to financial statements

# King's College

Statement of Activities  
Year Ended June 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Operating Revenues</b>				
Student tuition and fees	\$62,161,981	\$ -	\$ -	\$ 62,161,981
Internal student aid	(23,335,223)	-	-	(23,335,223)
Student tuition and fees, net	38,826,758	-	-	38,826,758
Auxiliary enterprises	11,966,857	-	-	11,966,857
Private gifts and grants	1,208,536	419,215	-	1,627,751
Endowment spending policy	1,127,393	1,757,836	-	2,885,229
Federal and state grants	1,541,249	-	-	1,541,249
Other sources	103,002	-	-	103,002
Net assets released from restrictions	2,929,108	(2,929,108)	-	-
Total operating revenues	57,702,903	(752,057)	-	56,950,846
<b>Operating Expenses</b>				
Instructional	22,885,157	-	-	22,885,157
Public services	740,841	-	-	740,841
Academic support	5,481,167	-	-	5,481,167
Student services	8,360,829	-	-	8,360,829
Institutional support	8,893,341	-	-	8,893,341
Student aid	518,443	-	-	518,443
Auxiliary enterprises	9,747,529	-	-	9,747,529
Total operating expenses	56,627,307	-	-	56,627,307
<b>Change in Net Assets from Operating Activities</b>	1,075,596	(752,057)	-	323,539
<b>Nonoperating</b>				
Endowment (loss) income in excess of spending policy	(63,674)	1,052,379	-	988,705
Unrealized gain on interest rate swaps	137,474	-	-	137,474
Loss on debt refunding	(509,298)	-	-	(509,298)
Contributions	(307,780)	-	783,552	475,772
Change in beneficial interest in perpetual trusts	-	-	(236,893)	(236,893)
<b>Change in Net Assets from Nonoperating Activities</b>	(743,278)	1,052,379	546,659	855,760
<b>Change in Net Assets</b>	332,318	300,322	546,659	1,179,299
<b>Net Assets, Beginning</b>	57,751,632	21,092,564	32,901,135	111,745,331
<b>Net Assets, Ending</b>	\$58,083,950	\$21,392,886	\$33,447,794	\$112,924,630

See notes to financial statements

**King's College**

## Statement of Cash Flows

Years Ended June 30, 2016 and 2015

	<b>2016</b>	<b>2015</b>
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ 184,459	\$ 1,179,299
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	3,904,646	3,954,404
Amortization of deferred financing costs	47,015	53,157
State capital grant	(3,299,428)	-
Loss on debt refunding	-	509,298
Net realized and unrealized gains on investments	(233,394)	(2,739,590)
Restricted contributions	(1,181,487)	(1,202,767)
Change in beneficial interest in perpetual trusts	497,663	236,893
Unrealized loss (gain) on interest rate swaps	3,160,835	(137,474)
Gain on disposal of assets	(501,733)	-
Bad debt expense	208,005	180,748
Changes in assets and liabilities:		
Short-term investments	(504,062)	(4,371)
Accounts receivable	(501,506)	(451,441)
Contributions receivable	7,420	(15,296)
Other assets	36,864	(93,092)
Accounts payable and accrued liabilities	1,862,538	289,886
Agency funds payable	39,571	(44,040)
Deferred revenue and deposits	(368,661)	(90,782)
Net cash provided by operating activities	<u>3,358,745</u>	<u>1,624,832</u>
<b>Cash Flows from Investing Activities</b>		
Purchase of land, buildings, and equipment	(3,931,678)	(9,588,135)
Decrease (increase) in restricted cash and investments	12,580,415	(18,022,560)
Purchase of investments	(1,836,919)	(3,402,557)
Proceeds from sale of investments	3,676,009	4,216,281
Proceeds from sale of land, buildings and equipment	875,913	-
Disbursements of student and other loans	(245,333)	(418,900)
Repayments of student and other loans	468,102	475,461
Net cash provided by (used in) investing activities	<u>11,586,509</u>	<u>(26,740,410)</u>
<b>Cash Flows from Financing Activities</b>		
Change in line of credit	(812,330)	2,924,858
Proceeds from issuance of long-term debt	-	23,704,720
Repayment of long-term debt	(15,240,000)	(2,345,000)
Payment of debt financing costs	-	(575,165)
State capital grant	299,428	-
Proceeds from restricted contributions	1,744,725	1,190,131
Net advance from federal government for student loans	(18,770)	(11,901)
Net cash (used in) provided by financing activities	<u>(14,026,947)</u>	<u>24,887,643</u>
<b>Net Change in Cash and Cash Equivalents</b>	918,307	(227,935)
<b>Cash and Cash Equivalents, Beginning</b>	<u>833,566</u>	<u>1,061,501</u>
<b>Cash and Cash Equivalents, Ending</b>	<u>\$ 1,751,873</u>	<u>\$ 833,566</u>
<b>Supplemental Disclosure of Cash Flow Information</b>		
Cash paid for interest	<u>\$ 2,234,359</u>	<u>\$ 1,770,438</u>
<b>Supplemental Disclosure of Noncash Investing and Financing Activities</b>		
Long-term debt refinanced	<u>\$ -</u>	<u>\$ 49,493,543</u>
Land, buildings and equipment acquired through partnership investment	<u>\$ -</u>	<u>\$ 13,200,000</u>
Land, buildings and equipment in accounts payable	<u>\$ 213,705</u>	<u>\$ 273,723</u>
State capital grant receivable	<u>\$ 3,000,000</u>	<u>\$ -</u>

See notes to financial statements

## 1. Nature of Operations and Summary of Significant Accounting Policies

### Nature of Operations

King's College (the "College") is a not-for-profit educational institution which provides undergraduate, graduate and professional education to its students. The College was founded in 1946 by the Congregation of Holy Cross as an independent four-year institution of higher education. The College welcomes students into its community without regard to gender, race, religion, disability or national origin, and seeks to assist talented students of modest financial means.

The College seeks to develop mutually beneficial and cooperative ties to the wider society, and particularly to the civic, cultural, and religious communities of Northeastern Pennsylvania. The broader community offers resources that support and compliment the educational mission of the College, which in turn is a resource to the community through the specialized competencies of its faculty and staff, the volunteer service of students, and through a diverse series of public lectures and religious, cultural and athletic events.

The College is dependent on continuing cash flows from operations to provide adequate liquidity to support its operations.

The accompanying 2015 financial statements include certain accounts of RPG Kings Associates, L.P. ("RPG"), a limited partnership. The College acquired an 89% limited partnership interest in RPG during 2015 as part of a transaction to acquire a building known as O'Hara Hall. The transaction was completed during 2016 and the partnership was effectively dissolved. See Note 2 for further information.

### Donor-Restricted Gifts/Contributions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily or permanently restricted support which increases those net asset classes. When a donor restriction expires, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets released from restrictions, satisfaction of program restrictions. However, if a restriction is satisfied in the same fiscal period in which the contribution is received, the College reports the support as unrestricted.

### Promises to Give

Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. Discounts on those amounts are computed using a risk-adjusted interest rate applicable to individual donors as determined by management. Risk adjusted rates are determined based on an analysis of individual donors ability to satisfy the obligations and current market rates. Amortization of the discount is included in contribution revenue.

### Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the College has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the College in perpetuity.



## **Cash and Cash Equivalents**

For purposes of the statement of cash flows, the College considers all highly liquid investments with original maturities of 90 days or less to be cash equivalents.

## **Accounts Receivable**

Students and other accounts receivable are reported at net realizable value. Student accounts are written off when they are determined to be uncollectible based upon management's assessment of individual accounts. The allowance for doubtful student accounts is estimated based on the College's historical losses and periodic review of individual accounts. Other receivables are written off when they are determined to be uncollectible based on management's review of individual balances. Management considers other accounts receivable fully collectible and an allowance is not considered necessary.

## **Restricted Cash and Investments**

Restricted cash and investments consist of money market accounts and mutual and exchange traded funds held by the trustee as unspent debt proceeds and are carried at fair value. Such funds are restricted for capital projects.

## **Investments**

Equity securities, including mutual funds and exchange traded funds, are valued at fair value based on quoted market prices. The alternative investments, which are not readily marketable, are carried at net asset values as provided by the investment managers. The beneficial interest in assets held by others is carried at fair value based on the unitized value of the pool's underlying investments. The College reviews and evaluates the values provided by the investment managers and agrees with the valuation methods and assumptions used to determine the fair value of the alternative investments. The estimated fair values include assumptions made by management which could have differed significantly had an active market for these securities existed. Adjustments to reflect increases or decreases in market value, referred to as unrealized gains and losses, are reported in the statement of activities.

The College's investments are comprised of a variety of financial instruments and are managed by investment advisors. The fair values reported in the statement of financial position are exposed to various risks including changes in the equity markets, the interest rate environment, and general economic conditions. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the fair value of investment securities, it is reasonably possible that the amounts reported in the accompanying financial statements could change materially in the near term.

The cost of investments received as gifts is fair value as determined upon receipt. The cost of investments sold is determined by use of the specific identification method.

All realized gains and losses arising from the sale of investments and ordinary income from investments are reported as changes in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor imposed stipulations.

## Short-Term Investments

Short-term investments consist primarily of exchange traded funds and fixed income securities and are carried at fair value. Interest and dividend income and gains and losses on these investments are included in other sources in the statement of activities. These investments are used primarily for operating activities of the College.

## Beneficial Interest in Assets Held by Others

The College invests a portion of its endowment with the University of Notre Dame du Lac (the "Affiliate"), a religious affiliate that shares the College's Catholic ministry and educational mission. These assets are held in the Affiliate's endowment pool and are invested for the College's benefit. No variance power has been granted to the Affiliate. The endowment pool is managed to provide a stable source of financial support. In order to meet this objective the funds are invested in a diversified asset allocation with an emphasis on equity-based instruments to obtain capital appreciation and current yield. Investments held in the affiliate's endowment pool include U.S. public equities, non-U.S. public equities, long/short public equities, fixed income securities, marketable alternatives, private equity, real estate, and other real assets. The College has no unfunded commitments related to its beneficial interest in assets held by others as of June 30, 2016.

The College may redeem its interest as necessary, under the following terms:

- 2% of units may be redeemed once per calendar quarter to be paid within thirty (30) days of request.
- 12.5% of units may be redeemed upon written request. Redemption is payable on the last day of the quarter that occurs at least seventy-five (75) days following receipt of the request.
- Additional redemption requests of any or all of the remaining units owned by the College require approval of the Chief Investment Officer of the Affiliate.
- Redemption requests may be suspended indefinitely, at the sole discretion of the Chief Investment Officer of the Affiliate, during times of severe market distress.

Further, the Affiliate may initiate redemption of any or all units owned by the College, at its sole discretion. Payment for the redeemed units shall be made within one hundred eighty (180) days.

## Land, Buildings, and Equipment

Land, buildings, and equipment are stated at cost, or estimated cost, less accumulated depreciation, computed on a straight-line basis over the estimated useful lives of buildings (25-50 years) and furniture and equipment (3-10 years). Maintenance and repairs are charged to expense as incurred; replacements and betterments are capitalized.

Contributed property and equipment is recorded at fair value at the date of donation. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support.

**Deferred Revenue**

Tuition, fees, and room and board from currently enrolled students is billed in advance and is recognized as revenue when earned.

In March 2016, the College entered into a management service agreement with a food service provider (the "Provider"), which became effective July 1, 2016. The contract term is for a period of ten years ending June 30, 2026. In connection with this contract, the College received a signing bonus of \$1,200,000 in July 2016. The College has an obligation to repay a portion of the signing bonus, as determined by the contract terms, if the contract is terminated prior to July 1, 2019. Additionally, the Provider agreed to fund capital improvements and pre-opening costs in the amount \$2,150,000. Capital improvements commenced subsequent to July 1, 2016; therefore no amounts have been recognized as of June 30, 2016. Upon completion of the capital improvements, the College retains ownership of the improvements. The College has an obligation to repay a portion of the capital advance, as determined by the contract terms, if the contract is terminated prior to June 30, 2026.

**Deferred Financing Costs**

Costs incurred in connection with debt financing have been deferred and are amortized over the term of the related debt using the interest method. Such costs are reported as an offset to long-term debt in the statement of financial position.

**Refundable Advances**

Operating funds designated by government funding agencies for particular operating purposes are deemed to be earned and reported as revenue when the College has incurred expenses in compliance with the contract. Amounts received but not yet earned are reported as refundable advances.

**Income Taxes**

The Internal Revenue Service ("IRS") has ruled that the College is tax-exempt as a not-for-profit organization under Section 501(c)(3) of the Internal Revenue Code.

The College accounts for uncertainty in income taxes using a recognition threshold of more-likely-than-not to be sustained upon examination by the appropriate taxing authority. Measurement of the tax uncertainty occurs if the recognition threshold is met. Management determined that there were no tax uncertainties that met recognition threshold in fiscal year 2016 and 2015.

The College's policy is to recognize interest related to unrecognized tax benefits in interest expense and penalties in operating expenses.

The College's federal Exempt Organization Business Income Tax Returns for the years ended June 30, 2015, 2014, and 2013 remain subject to examination by the IRS.

## Use of Estimates

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's estimates.

## Derivative Financial Instruments

The College has entered into interest rate swap agreements, which are considered derivative financial instruments, to manage its exposure on its variable rate bonds payable. The interest rate swap agreements are reported at fair value on the statement of financial position; related changes in fair value are reported in the statement of activities as an unrealized gain (loss) on interest rate swaps.

## Title IV Requirements

The College participates in Government Student Financial Assistance Programs ("Title IV") administered by the U.S. Department of Education ("ED") for the payment of student tuitions. Substantial portions of the revenue and collection of accounts receivable as of June 30, 2016 and 2015, are dependent upon the College's continued participation in the Title IV programs.

Institutions participating in Title IV programs are required by ED to demonstrate financial responsibility. ED determines an institution's financial responsibility through the calculation of a composite score based upon certain financial ratios as defined in regulations. Institutions receiving a composite score of 1.5 or greater are considered fully financially responsible. Institutions receiving a composite score between 1.0 and 1.4 are subject to additional monitoring and institutions receiving a score below 1.0 are required to submit financial guarantees in order to continue participation in the Title IV programs. As of and for the years ended June 30, 2016 and 2015, the College's composite score exceeded 1.5.

## Investment Policy

The College has a formal investment policy that enables it to utilize a portion of investment return for operating purposes. The College's Board of Directors sets the level of distribution within the limitation imposed by Pennsylvania statute.

## Nonoperating Activities

For the purpose of the statement of activities, the College considers its changes in net assets to be operational changes, except for changes related to realized and unrealized gains and losses on investments, net of the College spending policy, contributions restricted for permanent endowments and capital purposes, the change in value of beneficial interests in perpetual trusts, grant revenues restricted for capital assets, loss on debt refunding and the changes in the value of the College's interest rate swap agreements.

## Advertising

Advertising expenses are recorded as incurred and were approximately \$613,000 and \$294,000 in 2016 and 2015, respectively.

## Fundraising Expenses

Fundraising expenses are included in the institutional support classification on the statement of activities. Fundraising expenses of approximately \$1,538,000 and \$1,318,000 were incurred for the years ended June 30, 2016 and 2015, respectively.

## Fair Value Measurements

Financial assets and liabilities measured at fair value are categorized based upon the following characteristics or inputs to the valuation techniques:

Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 - Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument;

Level 3 - Prices or valuation techniques that are unobservable in the market and require significant management judgment or estimation to measure fair value.

A financial asset's or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

## Reclassifications

Certain amounts relating to 2015 have been reclassified to conform to the 2016 reporting format.

## Net Assets Released From Restrictions

Net assets released from restrictions include amounts related to satisfaction of program restrictions, expiration of time restrictions and endowment spending policy allocations.

## New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers*. This guidance outlines a single comprehensive model for entities to use in accounting for revenue from contracts with customers. ASU No. 2014-09 is effective for the College for fiscal 2019. Early application is permitted for fiscal years beginning after December 15, 2016. Management is currently evaluating the impact of this guidance on the College's financial statements.

In May 2015, FASB issued ASU 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities the Calculate Net Asset Value per Share (or Its Equivalent)*. This guidance removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value ("NAV") per share practical expedient. It also removes the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the NAV per share practical expedient. The guidance is effective for the College for fiscal 2017. Management is currently evaluating the impact of this guidance on the College's financial statements.

In January 2016, FASB issued ASU 2016-01, *Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. This guidance is intended to improve the recognition and measurement of financial instruments and, among other things, eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost for Institutions that are not public business entities. ASU 2016-01 is effective for the College in fiscal 2020, with early adoption permitted in fiscal 2019. However, the new guidance permits the College to adopt, upon issuance, the provision that eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost. The College elected to adopt this provision in fiscal 2016. ASU 2016-01 is to be applied by means of a cumulative-effect adjustment to the statement of financial position as of the beginning of the fiscal year of adoption. The amendments related to equity securities without readily determinable fair values (including disclosure requirements) should be applied prospectively to equity investments that exist as of the date of adoption of ASU 2016-01. Management is currently evaluating the impact of the remainder of this guidance on the College's financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*. ASU No. 2016-02 was issued to increase transparency and comparability among entities. Lessees will need to recognize nearly all lease transactions (other than leases that meet the definition of a short-term lease) on the statement of financial position as a lease liability and a right-of-use asset (as defined). Lessor accounting under the new guidance will be similar to the current model. ASU No. 2016-02 is effective for the College for fiscal 2020. Early application is permitted. Upon adoption, lessees and lessors will be required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach, which includes a number of optional practical expedients that entities may elect to apply. Management is currently evaluating the impact of this guidance on the College's financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The new guidance is intended to improve and simplify the current net asset classification requirements and information presented in financial statements and notes that is useful in assessing a not-for-profit's liquidity, financial performance and cash flows. ASU 2016-14 is effective for the College for fiscal 2019, with early adoption permitted. ASU 2016-14 is to be applied retroactively with transition provisions. Management is currently evaluating the impact of this guidance on the College's financial statements.

### Subsequent Events

Subsequent events were evaluated for recognition or disclosure through October 10, 2016, the date the financial statements were issued.

## 2. O'Hara Hall Acquisition

RPG owned the building known as O'Hara Hall located adjacent to the College's campus. The College leased O'Hara Hall from RPG subject to the terms of several operating lease agreements. The College recognized rent expense of approximately \$1,400,000 in 2015 related to these leases prior to the events described below.

Beginning in 2014, the College engaged in negotiations with RPG and a second entity (Kinship Square) to acquire the building. Kinship Square owned the land on which the building is situated and leased the land to RPG through a ground lease agreement. The ground lease agreement contained an option to purchase RPG's interest in the building. In April 2015, Kinship Square conveyed the land to the College and assigned the ground lease to the College.

In order to retain favorable tax benefits for RPG, the College did not exercise the option to purchase the building. Rather, the College acquired an 89% limited partnership interest in RPG for approximately \$1,600,000 in April 2015. In addition, the College loaned \$162,000 to a party who owns or controls another 10% of RPG as either general partner or limited partner. This loan was secured by the interests in RPG. The amounts paid or loaned were in accordance with the terms of the purchase option noted above. In addition, in April 2015, the College agreed to guarantee the payment of RPG's note payable related to the construction of the building.

A portion of the College's 2014 College Revenue Notes were issued to provide funds for the acquisition of O'Hara Hall. The unspent proceeds earmarked for the acquisition are included in restricted cash and investments in the statement of financial position.

At June 30, 2015, the College recognized the building and related construction note payable of RPG in its financial statements in the amount of \$13,200,000. RPG also had a \$3,300,000 note payable related to the issuance of certain tax credits. This loan was subject to forgiveness in December 2015 upon full realization of the tax credits. However, in the event the tax credits are not fully realized, RPG would have to fund the payoff of the note payable. The College, as an 89% interest in RPG, was contingently liable for the note payable in the event the tax credits are not fully realized. The College did not receive, or expect to receive, any benefit from the tax credits. The College believed the probability it would be liable for repayment of the note was remote. As such, the College did not recognize the \$3,300,000 note payable in the accompanying statement of financial position at June 30, 2015.

A noncontrolling interest in RPG was not recognized in the 2015 financial statements as such interest was considered immaterial.

In December 2015, RPG defaulted on the construction note obligation, which required the College to honor the loan guarantee. The College acquired the senior and supplemental loan and loan documents from the lender under the terms of the loan guarantee for the amount equal to the payoff amount and closing costs. The supplemental loan was forgiven in December 2015 upon full realization of the tax credits. The College obtained the deed to the properties in lieu of foreclosure proceedings as of December 31, 2015.

# King's College

Notes to Financial Statements  
June 30, 2016 and 2015

### 3. Accounts Receivable

Students accounts receivable represent amounts due for tuition, fees, and room and board from currently enrolled and former students. The College extends unsecured credit to students and parents of dependent students in connection with their studies. Some of those students are no longer enrolled or have completed their degrees. Student accounts receivable consists of the following at June 30:

	<u>2016</u>	<u>2015</u>
Accounts receivable	\$ 1,924,092	\$ 1,441,220
Less allowance for doubtful accounts	<u>500,000</u>	<u>385,000</u>
Total	<u>\$ 1,424,092</u>	<u>\$ 1,056,220</u>

Other receivables as of June 30, 2016 include \$3,000,000 due from the Commonwealth of Pennsylvania's Redevelopment Assistance Capital Program related to the acquisition and renovation of the King's on the Square building. The project was completed and placed in service during 2015 and final funding approval was received in April 2016. Through the date of this report, the College has received \$2,925,000 of this amount. The balance is being withheld by the Commonwealth as retention until the final grant audit is completed.

### 4. Contributions Receivable/Subsequent Event

Contributions receivable at June 30 are summarized as follows:

	<u>2016</u>	<u>2015</u>
In one year or less	\$ 441,531	\$ 451,010
Between one year and five years	918,775	1,064,650
Between six years and ten years	<u>6,283,254</u>	<u>6,355,755</u>
Gross contributions receivable	7,643,560	7,871,415
Less discount and allowance for doubtful collections	<u>4,052,496</u>	<u>3,709,693</u>
Contributions receivable, net	<u>\$ 3,591,064</u>	<u>\$ 4,161,722</u>
Temporarily restricted:		
Land, buildings and equipment	\$ 205,334	\$ 226,440
Programs and other purposes	47,544	69,586
Time	<u>2,093,679</u>	<u>2,507,184</u>
Total temporarily restricted	2,346,557	2,803,210
Permanently restricted for endowment purposes	<u>1,244,507</u>	<u>1,358,512</u>
Total	<u>\$ 3,591,064</u>	<u>\$ 4,161,722</u>



These contributions have been made by businesses, individuals, and related parties primarily located in Pennsylvania. Approximately 94% of gross contributions receivable at June 30, 2016 are due from four individuals.

Management believes the College's allowance for doubtful collections, which is an estimate based on management's periodic assessment of the risk of collectability of each gift, is adequate based upon information currently known at June 30, 2016 and 2015. However, events impacting donors' ability to satisfy their commitments can occur in subsequent years which may result in a material change in the allowance for doubtful collections.

In a prior year, the College was notified it was the residual beneficiary of an estate. The College considers such bequests to be conditional promises to give pending the death of the donor, probate of the will and a final accounting of the estate. In July 2016, the College received notification of the court approval for the executor of the estate to begin distribution of the estate assets. The College expects to receive approximately \$3,000,000. As the conditions related to the promise to give were not fully satisfied until July 2016, the College will record the contribution in fiscal year 2017. The contribution is restricted for endowed scholarship purposes and, as such, will be reported as permanently restricted contribution revenue in 2017.

#### **5. Student Loans Receivable**

These loans are made with funds advanced to the College by the federal government under the Perkins Student Loan Program (the "Program"). Such funds may be re-loaned by the College after collection, but in the event that the College no longer participates in the Program, the amounts are refundable to the federal government. The College contributed one third of the amount contributed by the U.S. government as a match to the Program.

The prescribed practices for the Program do not provide for accrual of interest on student loans receivable or for a provision of allowance for doubtful loans. Accordingly, interest on loans is recorded as received; uncollectible loans are not recognized until the loans are canceled or written-off in conformity with Program requirements. The impact of recording interest income on a cash basis is not considered significant. In addition, the credit quality of the student is not evaluated after the initial approval and calculation of the loans. Delinquent loans and the allowance for losses on loans receivable are reviewed by management, but are not material to the overall financial statements.

## King's College

Notes to Financial Statements  
June 30, 2016 and 2015

### 6. Investments

Investments at June 30 are summarized as follows:

	<u>2016</u>	<u>2015</u>
Cash equivalents	\$ 473,564	\$ 941,357
Hedge funds	42,854	32,087
Alternative investments:		
Natural resources	783,519	941,049
Private equity	1,323,272	1,773,462
Real estate	558,858	667,034
Venture capital	928,411	1,218,726
Beneficial interest in assets held by others	<u>56,475,068</u>	<u>56,617,527</u>
 Total	 <u>\$ 60,585,546</u>	 <u>\$ 62,191,242</u>

The College's principal financial instruments subject to credit risk are its investments. The investments are managed by professional advisors subject to the College's investment policy. The degree and concentration of credit risk varies by type of investment.

Certain investments are pooled on a market value basis with each individual fund subscribing to or disposing of units on the basis of the market value per unit at the beginning of the calendar month in which the transaction takes place.

The components of total investment return are reflected below:

	<u>2016</u>	<u>2015</u>
Interest and dividends	\$ 743,520	\$ 479,828
Net realized and unrealized gains	<u>233,356</u>	<u>3,394,106</u>
 Total	 <u>\$ 976,876</u>	 <u>\$ 3,873,934</u>

The above amounts are reported in the statement of activities under the following:

	<u>2016</u>	<u>2015</u>
Endowment spending policy	\$ 2,945,329	\$ 2,885,229
Endowment (loss) income in excess of spending policy	<u>(1,968,453)</u>	<u>988,705</u>
 Total	 <u>\$ 976,876</u>	 <u>\$ 3,873,934</u>

# King's College

Notes to Financial Statements

June 30, 2016 and 2015

## 7. Beneficial Interest in Perpetual Trusts

The College receives income from various perpetual trusts held by third parties. Under the terms of the trusts, the College has the irrevocable right to receive a portion of the income earned on these trust assets in perpetuity, but never receives the assets held in the trust.

Distributions from these trusts are recorded as unrestricted or restricted investment income in the statement of activities based on donor stipulations. The change in value of the perpetual trusts is reported as changes in permanently restricted net assets based on explicit donor stipulations.

## 8. Land, Buildings, and Equipment

Land, buildings, and equipment at June 30 are summarized as follows:

	<u>2016</u>	<u>2015</u>
Land	\$ 18,573,559	\$ 17,035,544
Land improvements	3,452,096	3,432,088
Buildings	120,281,261	104,460,360
Furniture, fixtures, and equipment	32,493,816	32,017,821
Construction in progress	2,670,606	17,111,706
Total	177,471,338	174,057,519
Less accumulated depreciation	66,518,376	62,697,390
Net	<u>\$ 110,952,962</u>	<u>\$ 111,360,129</u>

## King's College

Notes to Financial Statements  
June 30, 2016 and 2015

### 9. Long-Term Debt/Subsequent Event

Long-term debt at June 30 is as follows:

	<u>2016</u>	<u>2015</u>
\$7,000,000 revolving line of credit, maturing April 2019. Interest is payable monthly based on 1-month LIBOR plus 1.17% (1.65% at June 30, 2016).	\$ 2,841,968	\$ 3,654,298
College Revenue Notes, Series A of 2014, payable in annual principal installments through May 2031. Interest is payable monthly at 70% of the 1-month LIBOR plus 1.25% (1.57% as of June 30, 2016).	15,550,000	17,020,000
College Revenue Notes, Series B of 2014, payable in annual principal installments through May 2044. Interest is payable monthly at 70% of the 1-month LIBOR plus 1.25% (1.57% as of June 30, 2016).	50,065,000	50,635,000
Debt repaid in 2016	-	13,200,000
Subtotal	68,456,968	84,509,298
Less unamortized financing costs	(195,966)	(242,981)
Total long-term debt	<u>\$ 68,261,002</u>	<u>\$ 84,266,317</u>

In October 2014, the Dallas Area Municipal Authority (the "Authority") issued \$18,450,000 of College Revenue Notes, Series A of 2014 and \$51,550,000 of College Revenue Notes, Series B of 2014. The proceeds of the notes issued were then loaned to the College by the Authority under the terms of a loan agreement between the two parties. The notes were then purchased from the Authority by various banks and the College has agreed to pay the Authority's obligations under the notes to the banks. The proceeds of the notes were used to currently refund the College's existing revenue notes and to finance various capital projects. The notes and revolving line of credit are collateralized by a security interest in the College's gross revenues. The line of credit and security agreements require the College to meet certain financial covenants.

The scheduled principal payments are as follows:

Years ending June 30:	
2017	\$ 1,955,000
2018	1,480,000
2019	1,530,000
2020	1,580,000
2021	1,630,000
Thereafter	<u>60,281,968</u>
Total	<u>\$ 68,456,968</u>

## King's College

Notes to Financial Statements  
June 30, 2016 and 2015

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Interest expense was approximately \$2,180,000 and \$1,792,000 in 2016 and 2015, respectively. Interest expense reported is net of capitalized interest of approximately \$68,000 in 2016 and \$78,000 in 2015.

The effective interest rate on all long-term debt approximates the stated rate.

In July 2016, the revolving line of credit agreement was amended to increase the total amount available to \$10,000,000 and extend the maturity date to July 2021.

### 10. Operating Leases

The College leases equipment under non-cancelable operating leases with terms of 24 to 60 months. The following is a schedule of the future annual minimum rentals on these leases as of June 30, 2016:

Years ending June 30:	
2017	\$ 712,406
2018	569,010
2019	421,970
2020	211,051
2021	36,708
	<hr/>
Total	\$ 1,951,145

Rent expense on the above leases was approximately \$838,000 in 2016 and \$848,000 in 2015.

### 11. Pension

The College sponsors a defined contribution pension plan. Pension expense was approximately \$1,624,000 in 2016 and \$1,535,000 in 2015.

### 12. Government Grants and Student Aid

The government grants and student aid amounts do not include funds credited to student accounts under various federal and state grant programs. These grants are similar to agency funds as the College acts only as custodian and disbursing agent. Had these amounts been included, revenues and expenses would have increased by approximately \$4,718,000 in 2016 and \$4,767,000 in 2015.

### 13. Significant Group Concentration of Credit Risk

The College maintains its cash accounts in commercial banks located in Pennsylvania. Accounts are insured up to limits established by the Federal Deposit Insurance Corporation.

# King's College

Notes to Financial Statements  
June 30, 2016 and 2015

## 14. Net Assets

Unrestricted net assets are designated for the following as of June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Long-term investments	\$ 18,427,857	\$ 19,095,693
Plant facilities	39,119,998	37,507,806
Other	<u>1,994,386</u>	<u>1,480,451</u>
Total	<u>\$ 59,542,241</u>	<u>\$ 58,083,950</u>

Temporarily restricted net assets are available for the following purpose or in future periods as of June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Specified purposes	\$ 2,013,000	\$ 1,263,927
Time	1,725,457	2,507,184
Accumulated unspent endowment earnings	<u>16,246,895</u>	<u>17,621,775</u>
Total	<u>\$ 19,985,352</u>	<u>\$ 21,392,886</u>

Permanently restricted net assets are restricted for the following as of June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Beneficial interests in perpetual trusts	\$ 6,426,133	\$ 6,923,796
Assets held in perpetuity	<u>27,155,363</u>	<u>26,523,998</u>
Total	<u>\$ 33,581,496</u>	<u>\$ 33,447,794</u>

## 15. Endowment Funds

The College's endowment consists of approximately 300 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the College has developed a policy 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 interpreted through review of current Pennsylvania laws. As a result of this interpretation, the College 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 either temporarily restricted or unrestricted net assets based on the existence of donor restrictions or by law.

The College considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the College and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the College
7. The investment policies of the College

The College 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 College must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk. The College expects its endowment funds, over time, to provide an average rate of return of approximately 4%, plus inflation, annually.

To satisfy its long-term rate-of-return objectives, the College 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 College 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.

## King's College

Notes to Financial Statements  
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The College has a policy of appropriating for distribution each year 5% of its endowment fund's average fair value over the prior 12 quarters through the calendar year-end proceeding the fiscal year in which the distribution is planned. In establishing this policy, the College considered the long-term expected return on its endowment. This is consistent with the College's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

The permanently restricted category includes the value of interest in various trust accounts established by donors. The assets of the trusts are held by independent trustees in perpetuity. The College has an interest in the income generated from these trusts, but will never receive the assets held in the trusts. These assets are not governed by the College's investment policy. All investment decisions and distributions are governed by trust documents and the trustee.

Endowment net asset composition by type of fund as of June 30, 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 16,246,895	\$ 33,581,496	\$ 49,828,391
Board-designated endowment funds	<u>18,427,857</u>	<u>-</u>	<u>-</u>	<u>18,427,857</u>
Total endowment funds	<u>\$ 18,427,857</u>	<u>\$ 16,246,895</u>	<u>\$ 33,581,496</u>	<u>\$ 68,256,248</u>

Endowment net asset composition by type of fund as of June 30, 2015:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 17,621,775	\$ 33,447,794	\$ 51,069,569
Board-designated endowment funds	<u>19,095,693</u>	<u>-</u>	<u>-</u>	<u>19,095,693</u>
Total endowment funds	<u>\$ 19,095,693</u>	<u>\$ 17,621,775</u>	<u>\$ 33,447,794</u>	<u>\$ 70,165,262</u>



## King's College

Notes to Financial Statements  
June 30, 2016 and 2015

Changes in endowment net assets for the year ended June 30, 2016 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	<u>\$ 19,095,693</u>	<u>\$ 17,621,775</u>	<u>\$ 33,447,794</u>	<u>\$ 70,165,262</u>
Investment return:				
Interest and dividends	382,306	284,360	-	666,666
Net realized and unrealized gains (losses)	<u>76,494</u>	<u>156,863</u>	<u>(497,663)</u>	<u>(264,306)</u>
Total investment return	458,800	441,223	(497,663)	402,360
Contributions	2,590	-	631,365	633,955
Appropriation of endowment assets per spending policies	<u>(1,129,226)</u>	<u>(1,816,103)</u>	<u>-</u>	<u>(2,945,329)</u>
Endowment net assets, end of year	<u>\$ 18,427,857</u>	<u>\$ 16,246,895</u>	<u>\$ 33,581,496</u>	<u>\$ 68,256,248</u>

## King's College

Notes to Financial Statements  
June 30, 2016 and 2015

Changes in endowment net assets for the year ended June 30, 2015 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	<u>\$ 19,157,528</u>	<u>\$ 16,548,829</u>	<u>\$ 32,901,135</u>	<u>\$ 68,607,492</u>
Investment return:				
Interest and dividends	157,333	322,495	-	479,828
Net realized and unrealized gains	<u>898,992</u>	<u>2,515,681</u>	<u>(236,893)</u>	<u>3,177,780</u>
Total investment return	1,056,325	2,838,176	(236,893)	3,657,608
Contributions	1,839	-	783,552	785,391
Appropriation of endowment assets per spending policies	(1,127,393)	(1,757,836)	-	(2,885,229)
Other changes:				
Reclassification of underwater endowment net assets	<u>7,394</u>	<u>(7,394)</u>	<u>-</u>	<u>-</u>
Endowment net assets, end of year	<u>\$ 19,095,693</u>	<u>\$ 17,621,775</u>	<u>\$ 33,447,794</u>	<u>\$ 70,165,262</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 law requires the College to retain as a fund of perpetual duration. There were no material deficiencies as of June 30, 2016 or 2015. Minimal deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that were deemed prudent by the Board of Directors.

**16. Commitments and Contingencies**

The College has approximately \$657,000 in unfunded capital calls and approximately \$1,040,000 in distributions subject to recall related to various alternative and venture capital investments at June 30, 2016. These commitments can be funded through liquidation of current investments.

The College is subject to legal proceedings generally incidental to its business. Although the final outcome of any legal proceedings is subject to many variables and cannot be predicted with any degree of certainty, the College presently believes that the ultimate outcome resulting from those proceedings would not have a material effect on the College's financial position or changes in its net assets.

The College is self-insured for employees' medical insurance. The College has limited its self-insurance liability through the purchase of catastrophic reinsurance coverage which will reimburse the College for any claims in excess of policy limits incurred in any plan year. Self-insurance costs are accrued based on claims reported as of the statement of financial position date as well as an estimated liability for claims incurred but not reported. The total accrued liability for self-insurance costs, included with accounts payable and accrued liabilities in the statement of financial position, was approximately \$1,085,000 and \$1,015,000 at June 30, 2016 and 2015, respectively. The cost of medical coverage for employees amounted to approximately \$3,199,000 and \$2,885,000 for the years ended June 30, 2016 and 2015, respectively.

The College owns several buildings constructed prior to the passage of the Clean Air Act that contain encapsulated asbestos material. Current law requires that this asbestos be removed in an environmentally safe manner prior to demolition or renovation of the buildings. The College has not recognized the asset retirement obligation for asbestos removal in its financial statements because it currently has no plans to demolish or renovate these buildings and as such, cannot reasonably estimate the fair value of the obligation. If plans change with respect to the use of the buildings and sufficient information becomes available to estimate the liability, it will be recognized at that time.

The College has entered into various contracts related to ongoing capital projects. Total project commitments total approximately \$3,477,000. As of June 30, 2016, the College has incurred approximately \$1,281,000 in costs related to these projects.

# King's College

Notes to Financial Statements  
June 30, 2016 and 2015

## 17. Interest Rate Swaps

The College has entered into interest rate swap agreements in connection with its College Revenue Notes which are considered derivative financial instruments. The counterparties for the swap agreements are First National Bank and M&T Bank, financial institutions with which the College has other financial relationships (the "Banks"). The objective of the swap agreements is to minimize the risks associated with financing activities by reducing the impact of changes in interest rates. The swap agreements are not designated as hedging instruments. The swap agreements are contracts to exchange variable rate for fixed rate interest payments over the life of the agreements without the exchange of the underlying notional amount. The notional amount of the swap agreements are used to measure the interest to be paid or received and does not represent the amount of exposure to credit loss. Exposure to credit loss is limited to the receivable amount, if any, which may be generated as a result of the swap agreements. Management believes that losses related to credit risk are remote. The net cash paid or received under the swap agreements is recognized as an adjustment to interest expense and resulted in an increase in interest expense of approximately \$1,153,000 in 2016 and \$820,000 in 2015.

The College does not utilize interest rate swaps or other financial instruments for trading or other speculative purposes.

At June 30, 2016, the following interest rate swaps are in effect:

Counterparty	Original Notional Amount	Effective Notional Amount	Strike Rate	Effective Date	Termination Date
First National Bank	\$ 18,450,000	\$ 15,550,000	4.032%	May 2013	May 2031
M&T Bank	10,000,000	9,715,000	1.450%	February 2015	May 2024
M&T Bank	10,000,000	9,715,000	1.430%	March 2015	May 2024
M&T Bank	4,000,000	3,886,000	1.400%	March 2015	May 2024
M&T Bank	7,000,000	6,800,500	1.370%	April 2015	May 2024
M&T Bank	10,000,000	9,825,000	1.430%	August 2015	May 2024
M&T Bank	10,177,500	10,123,500	1.450%	January 2016	May 2024

The fair value of the interest rate swap agreements is the amount that the College would receive or pay to terminate the swap agreements at the reporting date. The College estimates that it would have paid approximately \$6,408,000 and \$3,247,000 on June 30, 2016 and 2015, respectively, to terminate these agreements.

# King's College

Notes to Financial Statements  
June 30, 2016 and 2015

## 18. Fair Value Disclosures

The College measures its long-term investments, beneficial interest in perpetual trusts and interest rate swaps at fair value on a recurring basis. These items were measured with the following inputs at June 30, 2016 and 2015:

	2016			
	Total	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Restricted cash and investments:				
Money market accounts	\$ 5,390,933	\$ 5,390,933	\$ -	\$ -
Money market mutual funds	25,062	25,062	-	-
Mutual funds, equities	793,950	793,950	-	-
Exchange traded funds, equities	257,844	257,844	-	-
Total restricted cash and investments	6,467,789	6,467,789	-	-
Short-term investments,				
Money market accounts	142,271	142,271	-	-
Exchange traded funds, equities	137,706	137,706	-	-
Exchange traded funds, fixed income	238,743	238,743	-	-
Bonds	390,122	-	390,122	-
Total short-term investments	908,842	518,720	390,122	-
Investments:				
Money market accounts	473,564	473,564	-	-
Hedge funds	42,854	-	-	42,854
Alternative:				
Natural resources	783,519	-	-	783,519
Private equity	1,323,272	-	-	1,323,272
Real estate	558,858	-	-	558,858
Venture capital	928,411	-	-	928,411
Beneficial interest in assets held by others	56,475,068	-	-	56,475,068
Total investments	60,585,546	473,564	-	60,111,982
Beneficial interests in perpetual trusts	6,426,133	-	-	6,426,133
Total	\$ 74,388,310	\$ 7,460,073	\$ 390,122	\$ 66,538,115
Liability, Interest rate swaps	\$ 6,407,975	\$ -	\$ 6,407,975	\$ -

# King's College

Notes to Financial Statements  
June 30, 2016 and 2015

	2015			
	Total	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Restricted cash and investments:				
Money market mutual funds	\$ 18,672,451	\$ 18,672,451	\$ -	\$ -
Mutual funds, equities	70,936	70,936	-	-
Mutual funds, fixed income	304,817	304,817	-	-
Total restricted cash and investments	19,048,204	19,048,204	-	-
Short-term investments,				
Money market mutual funds	39,937	39,937	-	-
Exchange traded funds, equities	135,089	135,089	-	-
Exchange traded funds, fixed income	229,754	229,754	-	-
Total short-term investments	404,780	404,780	-	-
Investments:				
Cash equivalents	941,357	941,357	-	-
Hedge funds	32,087	-	-	32,087
Alternative:				
Natural resources	941,049	-	-	941,049
Private equity	1,773,462	-	-	1,773,462
Real estate	667,034	-	-	667,034
Venture capital	1,218,726	-	-	1,218,726
Beneficial interest in assets held by others	56,617,527	-	-	56,617,527
Total investments	62,191,242	941,357	-	61,249,885
Beneficial interests in perpetual trusts	6,923,796	-	-	6,923,796
Total	\$ 88,568,022	\$ 20,394,341	\$ -	\$ 68,173,681
Liability, Interest rate swaps	\$ 3,247,140	\$ -	\$ 3,247,140	\$ -

# King's College

## Notes to Financial Statements June 30, 2016 and 2015

The following tables present a reconciliation of the beginning and ending balances of assets with fair value measurements using significant unobservable inputs (Level 3) as of June 30, 2016 and 2015:

	<u>July 1, 2015</u>	<u>Purchases</u>	<u>Sales</u>	<u>Issuances</u>	<u>Settlements</u>	<u>Unrealized</u>	<u>June 30, 2016</u>
Hedge funds	\$ 32,087	\$ -	\$ -	\$ -	\$ -	\$ 10,767	\$ 42,854
Alternative investments	3,381,545	27,500	-	-	(436,020)	(307,376)	2,665,649
Venture capital	1,218,726	-	-	-	(159,103)	(131,212)	928,411
Total	<u>\$ 4,632,358</u>	<u>\$ 27,500</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (595,123)</u>	<u>\$ (427,821)</u>	<u>\$ 3,636,914</u>
Beneficial interest in assets held by others	<u>\$ 56,617,527</u>	<u>\$ 2,615,625</u>	<u>\$ (1,000,000)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,758,084)</u>	<u>\$ 56,475,068</u>
Beneficial interests in perpetual trusts	<u>\$ 6,923,796</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (497,663)</u>	<u>\$ 6,426,133</u>

  

	<u>July 1, 2014</u>	<u>Purchases</u>	<u>Sales</u>	<u>Issuances</u>	<u>Settlements</u>	<u>Unrealized</u>	<u>June 30, 2015</u>
Hedge funds	\$ 78,223	\$ -	\$ -	\$ -	\$ (52,068)	\$ 5,932	\$ 32,087
Alternative investments	6,582,137	17,880	(1,876,910)	-	(987,835)	(353,727)	3,381,545
Venture capital	1,353,065	-	-	-	(118,830)	(15,509)	1,218,726
Total	<u>\$ 8,013,425</u>	<u>\$ 17,880</u>	<u>\$ (1,876,910)</u>	<u>\$ -</u>	<u>\$ (1,158,733)</u>	<u>\$ (363,304)</u>	<u>\$ 4,632,358</u>
Beneficial interest in assets held by others	<u>\$ 49,962,349</u>	<u>\$ 2,400,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,920,166</u>	<u>\$ 2,335,012</u>	<u>\$ 56,617,527</u>
Beneficial interests in perpetual trusts	<u>\$ 7,160,689</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (236,893)</u>	<u>\$ 6,923,796</u>

Gains and losses (realized and unrealized) included in changes in net assets for the period are reported in nonoperating revenues.

Investments: The fair values are based on values reported by external investment managers. Quoted market prices for identical assets are used to measure fair value of equity and fixed income mutual funds and are classified within Level 1 of the valuation hierarchy. Fair value of investments within the Level 2 valuation hierarchy are based on pricing for similar assets with similar terms in actively traded markets or valued at the respective net asset values based on the underlying assets of the funds. The College's investment in hedge funds, natural resources, real estate, private equity and venture capital investments are valued at net asset value and are considered Level 3 inputs based on the investments not having an observable market and the need for significant estimation to measure fair value.

Beneficial interest in assets held by others: Fair value is based on the net asset value of the College's units as reported by the affiliate, unless specific evidence indicates that net asset value should be adjusted. This may involve using significant unobservable inputs. The valuation methods utilized by the affiliate are subject to regular review by the College.

Beneficial interests in perpetual trusts: The fair value is estimated using the College's percentage of the underlying assets, which approximates the present value of estimated future cash flows to be received from the trust.

# King's College

## Notes to Financial Statements

June 30, 2016 and 2015

The College measures its derivative financial instrument at fair value based on proprietary models of an independent third party valuation specialist. The fair value takes into consideration the prevailing interest rate environment and the specific terms and conditions of the derivative financial instrument. The fair value was estimated using the zero-coupon discounting method and considers the credit risk of the College and the counterparty. This method calculates the future payments required by the derivative financial instruments, assuming that the current, forward rates implied by the yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rate implied by the current yield curve for a hypothetical zero coupon rate bond due on the date of each future net settlement payment on the derivative financial instruments. The value represents the estimated exit price the College would pay to terminate the agreements.

The College has a policy which permits investments that do not have a readily determinable fair value, and as such, has elected to use the net asset value per share ("NAV") as calculated on the reporting entity's measurement date as the fair value of the investment. The College measures the fair value of an investment that does not have a readily determinable fair value, based on the NAV of the investment as a practical expedient, without further adjustment, unless it is probable that the investment will be sold at a value significantly different than the NAV. If the practical expedient NAV is not as of the reporting entity's measurement date, then the NAV is adjusted to reflect any significant events that would materially affect the value of the security and the NAV of the College as of the valuation date. In using the NAV as a practical expedient, certain attributes of the investment, that may impact the fair value of the investment, are not considered in measuring fair value. Attributes of those investments include the investment strategies of the investees and may also include, but are not limited to, restrictions on the investor's ability to redeem its investments at the measurement date at NAV as well as any unfunded commitments. A listing of the investments held by the College and their attributes, that may qualify for these valuations consist of the following as of June 30:

2016					
Investment Category	Investment Strategy	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Natural resources (a)	Investment of funds in limited partnerships, which in turn, make oil, gas, timber and other natural resource-related investments with the objective of obtaining long-term growth of capital.	\$ 783,519	\$ 105,000	Quarterly income distributions. No ability to redeem ownership until termination of Limited Partnership, as stated in the agreements. Termination dates range from February 2017 through August 2020.	N/A
Real estate loans (b)	Purpose is to originate and manage a portfolio of multifamily and commercial real estate loans, preferred equity investments and structured finance transactions secured by mortgages and other interests in real estate.	558,858	200,000	Quarterly income distributions. No ability to redeem ownership until termination of Limited Partnership, as stated in the agreements. Termination dates range from January 2011 through January 2017.	N/A



# King's College

## Notes to Financial Statements

June 30, 2016 and 2015

Investment Category	Investment Strategy	2016		Redemption Frequency	Redemption Notice Period
		Fair Value	Unfunded Commitments		
Venture capital (a)	Invests primarily in other limited partnerships formed for the purpose of making venture capital investments in emerging growth companies. Generally, these investments may not be transferred or withdrawn prior to the termination of limited partnerships, which generally have a term of ten years.	\$ 928,411	\$ 88,412	Quarterly income distributions. No ability to redeem ownership until termination of Limited Partnership, as stated in the agreements. Termination dates range from January 2012 through March 2017.	N/A
Private equity (a)	Invests primarily in other limited partnerships formed for the purpose of making investments in equity securities, warrants or other options, focused either domestically or internationally, that are generally not actively traded at the time of investment. Generally, these investments may not be transferred or withdrawn prior to the termination of limited partnerships, which generally have a term of ten years.	1,323,272	263,888	Quarterly income distributions. No ability to redeem ownership until termination of Limited Partnership, as stated in the agreements. Termination dates are scheduled for March 2017.	Up to 90 days
Global equity and debt (a) (d)	Fund is a multi-strategy fund specializing in arbitrage and absolute return investment strategies in the global equity and corporate debt securities markets and seeks to deliver consistent returns with low volatility.	42,854	-	Annual	Requires approval of Board of Directors
Beneficial interest in assets held by others	Fund is independently managed fund. Asset allocation determined by fund management.	56,475,068	-	Disclosed in accounting policy note	Disclosed in accounting policy note
Beneficial interest in perpetual trusts (e)		6,426,133	-	Monthly or annual income distributions	N/A

# King's College

## Notes to Financial Statements

June 30, 2016 and 2015

2015					
Investment Category	Investment Strategy	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Natural resources (a)	Investment of funds in limited partnerships, which in turn, make oil, gas, timber and other natural resource-related investments with the objective of obtaining long-term growth of capital.	\$ 941,049	\$ 122,500	Quarterly income distributions. No ability to redeem ownership until termination of Limited Partnership, as stated in the agreements. Termination dates range from February 2017 through August 2020.	N/A
Real estate loans (b)	Purpose is to originate and manage a portfolio of multifamily and commercial real estate loans, preferred equity investments and structured finance transactions secured by mortgages and other interests in real estate.	667,034	200,000	Quarterly income distributions. No ability to redeem ownership until termination of Limited Partnership, as stated in the agreements. Termination dates range from January 2011 through January 2017.	N/A
Venture capital (a)	Invests primarily in other limited partnerships formed for the purpose of making venture capital investments in emerging growth companies. Generally, these investments may not be transferred or withdrawn prior to the termination of limited partnerships, which generally have a term of ten years.	1,218,726	93,412	Quarterly income distributions. No ability to redeem ownership until termination of Limited Partnership, as stated in the agreements. Termination dates range from January 2012 through March 2017.	N/A
Private equity (a)	Invests primarily in other limited partnerships formed for the purpose of making investments in equity securities, warrants or other options, focused either domestically or internationally, that are generally not actively traded at the time of investment. Generally, these investments may not be transferred or withdrawn prior to the termination of limited partnerships, which generally have a term of ten years.	1,773,462	278,888	Quarterly income distributions. No ability to redeem ownership until termination of Limited Partnership, as stated in the agreements. Termination dates are scheduled for March 2017.	Up to 90 days

# King's College

## Notes to Financial Statements June 30, 2016 and 2015

2015					
Investment Category	Investment Strategy	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Global equity and debt (a) (d)	Fund is a multi-strategy fund specializing in arbitrage and absolute return investment strategies in the global equity and corporate debt securities markets and seeks to deliver consistent returns with low volatility.	\$ 32,087	\$ -	Annual	Requires approval of Board of Directors
Beneficial interest in assets held by others	Fund is independently managed fund. Asset allocation determined by fund management.	56,617,527	-	Disclosed in accounting policy note	Disclosed in accounting policy note
Beneficial interest in perpetual trusts (e)		6,923,796	-	Monthly or annual income distributions	N/A

- (a) Investment is a feeder fund for other limited partnerships, limited liability corporations, offshore corporations or other foreign investment vehicles.
- (b) Underlying investments primarily include loans and other debt instruments that are secured by real estate or other physical assets.
- (c) Underlying investments are primarily operating real estate projects or undeveloped land held for future development or sale.
- (d) Represents a hedge fund focused in international markets.
- (e) Underlying investments are held by trustees, which hold exclusive rights to determine asset allocation. Payments of income are determined by the Trustee, based on the trust document and relevant law.

### 19. Functional Allocation

The College adheres to the AICPA Industry Audit Guide in reporting expenses by their functional classification. Accordingly, depreciation, interest and other expenses have been allocated to functional classifications based on square footage, use of bond proceeds, or other factors.

## 20. Related Party Transactions

The College has entered into transactions with entities which members of the Board of Directors have relationships as owners or officers. During the years ended June 30, 2016 and 2015 the College engaged in the following related party transactions:

- The College paid service fees and insurance premiums to an insurance company, which has an officer who is also a member of the Board, of approximately \$483,000 and \$496,000 for 2016 and 2015, respectively.
- The College paid transportation costs to a company, which has an officer who is also a member of the Board, of approximately \$147,000 and \$119,000 for 2016 and 2015, respectively.
- The College paid legal and professional fees to a firm, which has a principal who is also a member of the Board, of approximately \$120,000 and \$106,000 for 2016 and 2015, respectively.

During 2004, the College entered into an agreement with the Congregation of Holy Cross to lease land located on the College's campus. The term of the lease is approximately 30 years at a rate of \$10 per year, payable by December 1st of each year. If at any time during the lease period, the lessee decides to sell the buildings and improvements constructed on the leased land, the College has the first option to purchase such buildings and improvements at market value.

**King's College**  
Financial Statements  
June 30, 2017 and 2016



Candor. Insight. Results.

# King's College

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## **Independent Auditors' Report**

Board of Directors  
King's College

We have audited the accompanying financial statements of King's College, 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.

### **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.

### **Auditors' 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. 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 King's College 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.

*Baker Tilly Virchow Krause, LLP*

Wilkes-Barre, Pennsylvania  
November 21, 2017



# King's College

## Statement of Financial Position

June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 1,998,680	\$ 1,751,873
Short-term investments	1,021,472	908,842
Accounts receivable:		
Students, net	1,393,856	1,424,092
Other	1,335,852	3,983,985
Other assets	40,138	325,964
Contributions receivable, net	4,021,410	3,591,064
Assets held for capital purposes	5,775,042	6,467,789
Investments	68,546,857	60,585,546
Student and other loans receivable	2,303,481	2,195,083
Land, buildings and equipment, net	114,162,069	110,952,962
Beneficial interest in perpetual trusts	6,819,228	6,426,133
	<u>207,418,085</u>	<u>198,613,333</u>
Total assets	<u>\$ 207,418,085</u>	<u>\$ 198,613,333</u>
<b>Liabilities and Net Assets</b>		
Accounts payable and accrued liabilities	\$ 5,576,745	\$ 6,233,552
Deferred revenue and deposits	4,822,363	2,181,548
Agency funds payable	554,243	558,431
Long-term debt	63,360,664	68,261,002
Interest rate swaps	3,417,742	6,407,975
Refundable advances from federal government for student loans	1,868,835	1,861,736
	<u>79,600,592</u>	<u>85,504,244</u>
Total liabilities	<u>79,600,592</u>	<u>85,504,244</u>
<b>Net Assets</b>		
Unrestricted	66,348,895	59,542,241
Temporarily restricted	22,674,581	19,985,352
Permanently restricted	38,794,017	33,581,496
	<u>127,817,493</u>	<u>113,109,089</u>
Total net assets	<u>127,817,493</u>	<u>113,109,089</u>
Total liabilities and net assets	<u>\$ 207,418,085</u>	<u>\$ 198,613,333</u>

See notes to financial statements

**King's College**

## Statement of Activities

Year Ended June 30, 2017

(With Comparative Totals for 2016)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2017 Total</u>	<u>2016 Total</u>
<b>Operating Revenues</b>					
Student tuition and fees	\$ 70,314,475	\$ -	\$ -	\$ 70,314,475	\$ 65,151,077
Internal student aid	(26,688,650)			(26,688,650)	(24,589,680)
Student tuition and fees, net	43,625,825	-	-	43,625,825	40,561,397
Auxiliary enterprises	12,507,273	-	-	12,507,273	12,844,502
Private gifts and grants	1,023,980	905,709	-	1,929,689	1,569,346
Endowment spending policy	984,828	2,299,959	-	3,284,787	2,945,329
Federal and state grants	1,223,279	-	-	1,223,279	1,468,611
Other sources	85,084	-	-	85,084	101,578
Net assets released from restrictions	3,221,327	(3,221,327)	-	-	-
Total operating revenues	62,671,596	(15,659)	-	62,655,937	59,490,763
<b>Operating Expenses</b>					
Instructional	24,794,576	-	-	24,794,576	23,727,578
Public services	648,222	-	-	648,222	710,754
Academic support	5,531,350	-	-	5,531,350	5,303,863
Student services	10,640,119	-	-	10,640,119	9,602,989
Institutional support	10,449,445	-	-	10,449,445	10,096,513
Student aid	462,846	-	-	462,846	356,468
Auxiliary enterprises	7,774,581	-	-	7,774,581	8,707,759
Total operating expenses	60,301,139	-	-	60,301,139	58,505,924
<b>Change in Net Assets from Operating Activities</b>	<u>2,370,457</u>	<u>(15,659)</u>	<u>-</u>	<u>2,354,798</u>	<u>984,839</u>
<b>Nonoperating</b>					
Endowment income (loss) in excess of spending policy	1,278,028	2,704,888	-	3,982,916	(2,045,308)
Unrealized gain (loss) on interest rate swaps	2,990,234	-	-	2,990,234	(3,160,835)
State capital grant	-	-	-	-	3,299,428
Unrealized gains on designated investments	167,935	-	-	167,935	76,855
Contributions	-	-	4,819,426	4,819,426	1,527,143
Change in beneficial interest in perpetual trusts	-	-	393,095	393,095	(497,663)
<b>Change in Net Assets from Nonoperating Activities</b>	<u>4,436,197</u>	<u>2,704,888</u>	<u>5,212,521</u>	<u>12,353,606</u>	<u>(800,380)</u>
<b>Change in Net Assets</b>	6,806,654	2,689,229	5,212,521	14,708,404	184,459
<b>Net Assets, Beginning</b>	<u>59,542,241</u>	<u>19,985,352</u>	<u>33,581,496</u>	<u>113,109,089</u>	<u>112,924,630</u>
<b>Net Assets, Ending</b>	<u>\$ 66,348,895</u>	<u>\$ 22,674,581</u>	<u>\$ 38,794,017</u>	<u>\$ 127,817,493</u>	<u>\$ 113,109,089</u>

See notes to financial statements

**King's College**

## Statement of Activities

Year Ended June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Operating Revenues</b>				
Student tuition and fees	\$ 65,151,077	\$ -	\$ -	\$ 65,151,077
Internal student aid	(24,589,680)	-	-	(24,589,680)
Student tuition and fees, net	40,561,397	-	-	40,561,397
Auxiliary enterprises	12,844,502	-	-	12,844,502
Private gifts and grants	1,019,224	550,122	-	1,569,346
Endowment spending policy	1,129,226	1,816,103	-	2,945,329
Federal and state grants	1,468,611	-	-	1,468,611
Other sources	101,578	-	-	101,578
Net assets released from restrictions	2,398,877	(2,398,877)	-	-
Total operating revenues	<u>59,523,415</u>	<u>(32,652)</u>	<u>-</u>	<u>59,490,763</u>
<b>Operating Expenses</b>				
Instructional	23,727,578	-	-	23,727,578
Public services	710,754	-	-	710,754
Academic support	5,303,863	-	-	5,303,863
Student services	9,602,989	-	-	9,602,989
Institutional support	10,096,513	-	-	10,096,513
Student aid	356,468	-	-	356,468
Auxiliary enterprises	8,707,759	-	-	8,707,759
Total operating expenses	<u>58,505,924</u>	<u>-</u>	<u>-</u>	<u>58,505,924</u>
<b>Change in Net Assets from Operating Activities</b>	<u>1,017,491</u>	<u>(32,652)</u>	<u>-</u>	<u>984,839</u>
<b>Nonoperating</b>				
Endowment loss in excess of spending policy	(670,426)	(1,374,882)	-	(2,045,308)
Unrealized loss on interest rate swaps	(3,160,835)	-	-	(3,160,835)
State capital grant	3,299,428	-	-	3,299,428
Unrealized gains on designated investments	76,855	-	-	76,855
Contributions	895,778	-	631,365	1,527,143
Change in beneficial interest in perpetual trusts	-	-	(497,663)	(497,663)
<b>Change in Net Assets from Nonoperating Activities</b>	<u>440,800</u>	<u>(1,374,882)</u>	<u>133,702</u>	<u>(800,380)</u>
<b>Change in Net Assets</b>	<u>1,458,291</u>	<u>(1,407,534)</u>	<u>133,702</u>	<u>184,459</u>
<b>Net Assets, Beginning</b>	<u>58,083,950</u>	<u>21,392,886</u>	<u>33,447,794</u>	<u>112,924,630</u>
<b>Net Assets, Ending</b>	<u>\$ 59,542,241</u>	<u>\$ 19,985,352</u>	<u>\$ 33,581,496</u>	<u>\$ 113,109,089</u>

See notes to financial statements

**King's College**

## Statement of Cash Flows

Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ 14,708,404	\$ 184,459
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	3,962,822	3,904,646
Amortization of deferred financing costs	54,939	47,015
State capital grant	-	(3,299,428)
Net realized and unrealized gains on investments	(6,826,106)	(310,210)
Restricted contributions	(4,819,426)	(631,365)
Change in beneficial interest in perpetual trusts	(393,095)	497,663
Unrealized (gain) loss on interest rate swaps	(2,990,233)	3,160,835
Gain on disposal of assets	-	(501,733)
Bad debt expense	260,665	208,005
Changes in assets and liabilities:		
Short-term investments	(112,630)	(504,062)
Accounts receivable	(507,296)	(501,506)
Contributions receivable	(5,028)	7,420
Other assets	283,452	36,864
Accounts payable and accrued liabilities	(642,954)	1,862,538
Agency funds payable	(4,188)	39,571
Deferred revenue and deposits	456,834	(368,661)
Net cash provided by operating activities	<u>3,426,160</u>	<u>3,832,051</u>
<b>Cash Flows from Investing Activities</b>		
Purchase of land, buildings, and equipment	(5,001,801)	(3,931,678)
Decrease in assets held for capital purposes	471,417	12,657,231
Purchase of investments	(9,526,054)	(1,836,919)
Proceeds from sale of investments	8,612,179	3,676,009
Proceeds from sale of land, buildings and equipment	-	875,913
Disbursements of student and other loans	(539,257)	(245,333)
Repayments of student and other loans	433,233	468,102
Net cash (used in) provided by investing activities	<u>(5,550,283)</u>	<u>11,663,325</u>
<b>Cash Flows from Financing Activities</b>		
Change in line of credit	(2,841,968)	(812,330)
Repayment of long-term debt	(1,955,000)	(15,240,000)
Payment of debt financing costs	(158,309)	-
State capital grant	2,925,000	299,428
Proceeds from restricted contributions	4,394,108	1,194,603
Net advance from federal government for student loans	7,099	(18,770)
Net cash provided by (used in) financing activities	<u>2,370,930</u>	<u>(14,577,069)</u>
<b>Net Change in Cash and Cash Equivalents</b>	246,807	918,307
<b>Cash and Cash Equivalents, Beginning</b>	<u>1,751,873</u>	<u>833,566</u>
<b>Cash and Cash Equivalents, Ending</b>	<u>\$ 1,998,680</u>	<u>\$ 1,751,873</u>
<b>Supplemental Disclosure of Cash Flow Information</b>		
Cash paid for interest	<u>\$ 2,292,627</u>	<u>\$ 2,234,359</u>
<b>Supplemental Disclosure of Noncash Investing and Financing Activities</b>		
Building improvements and equipment financed by food service provider	<u>\$ 2,183,981</u>	<u>\$ -</u>
Land, buildings and equipment in accounts payable	<u>\$ 227,558</u>	<u>\$ 213,705</u>
State capital grant receivable	<u>\$ -</u>	<u>\$ 3,000,000</u>

See notes to financial statements

## 1. Nature of Operations and Summary of Significant Accounting Policies

### Nature of Operations

King's College (the "College") is a not-for-profit educational institution which provides undergraduate, graduate and professional education to its students. The College was founded in 1946 by the Congregation of Holy Cross as an independent four-year institution of higher education. The College welcomes students into its community without regard to gender, race, religion, disability or national origin, and seeks to assist talented students of modest financial means.

The College seeks to develop mutually beneficial and cooperative ties to the wider society, and particularly to the civic, cultural, and religious communities of Northeastern Pennsylvania. The broader community offers resources that support and compliment the educational mission of the College, which in turn is a resource to the community through the specialized competencies of its faculty and staff, the volunteer service of students, and through a diverse series of public lectures and religious, cultural and athletic events.

The College is dependent on continuing cash flows from operations to provide adequate liquidity to support its operations.

### Donor-Restricted Gifts/Contributions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily or permanently restricted support which increases those net asset classes. When a donor restriction expires, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets released from restrictions, satisfaction of program restrictions. However, if a restriction is satisfied in the same fiscal period in which the contribution is received, the College reports the support as unrestricted.

### Promises to Give

Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. Discounts on those amounts are computed using a risk-adjusted interest rate applicable to individual donors as determined by management. Risk adjusted rates are determined based on an analysis of individual donors ability to satisfy the obligations and current market rates. Amortization of the discount is included in contribution revenue.

### Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the College has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the College in perpetuity.

### Cash and Cash Equivalents

For purposes of the statement of cash flows, the College considers all highly liquid investments with original maturities of 90 days or less to be cash equivalents.

**Accounts Receivable**

Students and other accounts receivable are reported at net realizable value. Student accounts are written off when they are determined to be uncollectible based upon management's assessment of individual accounts. The allowance for doubtful student accounts is estimated based on the College's historical losses and periodic review of individual accounts. Other receivables are written off when they are determined to be uncollectible based on management's review of individual balances. Management considers other accounts receivable fully collectible and an allowance is not considered necessary.

**Assets Held for Capital Purposes**

Assets held for capital purposes represents unrestricted funds designated by management for capital purposes and other College uses. Since such funds are unrestricted, management may, from time to time, use such funds for operating cash management purposes. At June 30, 2017, the College had used \$2,500,000 of these funds to cover short-term operating cash flow needs. The \$2,500,000 was replenished in August 2017.

Such funds consist of money market accounts and equity instruments subject to the College's investment policy statement. Such funds are carried at fair value.

**Investments**

Equity securities, including mutual funds and exchange traded funds, are valued at fair value based on quoted market prices. The alternative investments, which are not readily marketable, are carried at net asset values as provided by the investment managers. The beneficial interest in assets held by others is carried at net asset value as provided by the affiliate. The College reviews and evaluates the values provided by the investment managers and agrees with the valuation methods and assumptions used to determine the fair value of the alternative investments. The estimated fair values include assumptions made by management which could have differed significantly had an active market for these securities existed. Adjustments to reflect increases or decreases in market value, referred to as unrealized gains and losses, are reported in the statement of activities.

The College's investments are comprised of a variety of financial instruments and are managed by investment advisors. The fair values reported in the statement of financial position are exposed to various risks including changes in the equity markets, the interest rate environment, and general economic conditions. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the fair value of investment securities, it is reasonably possible that the amounts reported in the accompanying financial statements could change materially in the near term.

The cost of investments received as gifts is fair value as determined upon receipt. The cost of investments sold is determined by use of the specific identification method.

All realized gains and losses arising from the sale of investments and ordinary income from investments are reported as changes in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor imposed stipulations.

## Short-Term Investments

Short-term investments consist primarily of exchange traded funds and fixed income securities and are carried at fair value. Interest and dividend income and gains and losses on these investments are included in other sources in the statement of activities. These investments are used primarily for operating activities of the College.

## Beneficial Interest in Assets Held by Others

The College invests a portion of its endowment with the University of Notre Dame du Lac (the "Affiliate"), a religious affiliate that shares the College's Catholic ministry and educational mission. These assets are held in the Affiliate's endowment pool and are invested for the College's benefit. No variance power has been granted to the Affiliate. The endowment pool is managed to provide a stable source of financial support. In order to meet this objective the funds are invested in a diversified asset allocation with an emphasis on equity-based instruments to obtain capital appreciation and current yield. Investments held in the affiliate's endowment pool include U.S. public equities, non-U.S. public equities, long/short public equities, fixed income securities, marketable alternatives, private equity, real estate, and other real assets. The College has no unfunded commitments related to its beneficial interest in assets held by others as of June 30, 2017.

The College may redeem its interest as necessary, under the following terms:

- 2% of units may be redeemed once per calendar quarter to be paid within thirty (30) days of request.
- 12.5% of units may be redeemed upon written request. Redemption is payable on the last day of the quarter that occurs at least seventy-five (75) days following receipt of the request.
- Additional redemption requests of any or all of the remaining units owned by the College require approval of the Chief Investment Officer of the Affiliate.
- Redemption requests may be suspended indefinitely, at the sole discretion of the Chief Investment Officer of the Affiliate, during times of severe market distress.

Further, the Affiliate may initiate redemption of any or all units owned by the College, at its sole discretion. Payment for the redeemed units shall be made within one hundred eighty (180) days.

## Land, Buildings, and Equipment

Land, buildings, and equipment are stated at cost, or estimated cost, less accumulated depreciation, computed on a straight-line basis over the estimated useful lives of buildings (25-50 years) and furniture and equipment (3-10 years). Maintenance and repairs are charged to expense as incurred; replacements and betterments are capitalized.

Contributed property and equipment is recorded at fair value at the date of donation. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support.

## Deferred Revenue

Tuition, fees, and room and board from currently enrolled students is billed in advance and is recognized as revenue when earned.

In March 2016, the College entered into a management service agreement with a food service provider (the "Provider"), which became effective July 1, 2016. The contract term is for a period of ten years ending June 30, 2026. In connection with this contract, the College received a signing bonus of \$1,200,000 in July 2016. The College has an obligation to repay a portion of the signing bonus, as determined by the contract terms, if the contract is terminated prior to July 1, 2019. Additionally, the Provider agreed to fund capital improvements and pre-opening costs in the amount of \$2,150,000. Upon completion of the capital improvements, the College retains ownership of the improvements. The College has an obligation to repay a portion of the capital advance, as determined by the contract terms, if the contract is terminated prior to June 30, 2026. The unamortized portion of the signing bonus and the capital improvements total approximately \$800,000 and \$1,966,000, respectively, at June 30, 2017.

## Deferred Financing Costs

Costs incurred in connection with debt financing have been deferred and are amortized over the term of the related debt using the interest method. Such costs are reported as an offset to long-term debt in the statement of financial position.

## Refundable Advances

Operating funds designated by government funding agencies for particular operating purposes are deemed to be earned and reported as revenue when the College has incurred expenses in compliance with the contract. Amounts received but not yet earned are reported as refundable advances.

## Income Taxes

The Internal Revenue Service has ruled that the College is tax-exempt as a not-for-profit organization under Section 501(c)(3) of the Internal Revenue Code.

The College accounts for uncertainty in income taxes using a recognition threshold of more-likely-than-not to be sustained upon examination by the appropriate taxing authority. Measurement of the tax uncertainty occurs if the recognition threshold is met. Management determined that there were no tax uncertainties that met recognition threshold in fiscal year 2017 and 2016.

The College's policy is to recognize interest related to unrecognized tax benefits in interest expense and penalties in operating expenses.



## **Use of Estimates**

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's estimates.

## **Derivative Financial Instruments**

The College has entered into interest rate swap agreements, which are considered derivative financial instruments, to manage its exposure on its variable rate bonds payable. The interest rate swap agreements are reported at fair value on the statement of financial position; related changes in fair value are reported in the statement of activities as an unrealized gain (loss) on interest rate swaps.

## **Title IV Requirements**

The College participates in Government Student Financial Assistance Programs ("Title IV") administered by the U.S. Department of Education ("ED") for the payment of student tuitions. Substantial portions of the revenue and collection of accounts receivable as of June 30, 2017 and 2016, are dependent upon the College's continued participation in the Title IV programs.

Institutions participating in Title IV programs are required by ED to demonstrate financial responsibility. ED determines an institution's financial responsibility through the calculation of a composite score based upon certain financial ratios as defined in regulations. Institutions receiving a composite score of 1.5 or greater are considered fully financially responsible. Institutions receiving a composite score between 1.0 and 1.4 are subject to additional monitoring and institutions receiving a score below 1.0 are required to submit financial guarantees in order to continue participation in the Title IV programs. As of and for the years ended June 30, 2017 and 2016, the College's composite score exceeded 1.5.

## **Nonoperating Activities**

For the purpose of the statement of activities, the College considers its changes in net assets to be operational changes, except for changes related to realized and unrealized gains and losses on investments, net of the College spending policy, contributions restricted for permanent endowments, the change in value of beneficial interests in perpetual trusts, grant revenues restricted for capital assets, and the changes in the value of the College's interest rate swap agreements.

## **Advertising**

Advertising expenses are recorded as incurred and were approximately \$846,000 and \$613,000 in 2017 and 2016, respectively.

## Fundraising Expenses

Fundraising expenses are included in the institutional support classification on the statement of activities. Fundraising expenses of approximately \$1,547,000 and \$1,538,000 were incurred for the years ended June 30, 2017 and 2016, respectively.

## Fair Value Measurements

Financial assets and liabilities measured at fair value are categorized based upon the following characteristics or inputs to the valuation techniques:

Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 - Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument;

Level 3 - Prices or valuation techniques that are unobservable in the market and require significant management judgment or estimation to measure fair value.

A financial asset's or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

## Reclassifications

Certain amounts relating to 2016 have been reclassified to conform to the 2017 reporting format.

## Net Assets Released From Restrictions

Net assets released from restrictions include amounts related to satisfaction of program restrictions, expiration of time restrictions and endowment spending policy allocations.

## Accounting Pronouncement Adopted in 2017

In May 2015, FASB issued ASU 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent)*. ASU 2015-07 removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value ("NAV") per share practical expedient. It also removes the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the NAV per share practical expedient. The College adopted this guidance in 2017. The adoption had no impact on the College's financial position or results of operations.

## Accounting Pronouncements Not Yet Adopted

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers*. This new accounting guidance outlines a single comprehensive model for entities to use in accounting for revenue from contracts with customers. ASU No. 2014-09 is effective for the College for fiscal 2019. Early application is permitted for fiscal year 2018. The College is assessing the impact this new standard will have on its financial statements.

# King's College

Notes to Financial Statements  
June 30, 2017 and 2016

In February 2016, the FASB issued ASU No. 2016-02, *Leases*. ASU No. 2016-02 was issued to increase transparency and comparability among entities. Lessees will need to recognize nearly all lease transactions (other than leases that meet the definition of a short-term lease) on the statement of financial position as a lease liability and a right-of-use asset (as defined). Lessor accounting under the new guidance will be similar to the current model. ASU No. 2016-02 is effective for the College for fiscal 2020. Early application is permitted. Upon adoption, lessees and lessors will be required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach, which includes a number of optional practical expedients that entities may elect to apply. The College is assessing the impact this standard will have on its financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The new guidance is intended to improve and simplify the current net asset classification requirements and information presented in financial statements and notes that is useful in assessing a not-for-profit's liquidity, financial performance and cash flows. ASU 2016-14 is effective for the College for fiscal 2019, with early adoption permitted. ASU 2016-14 is to be applied retroactively with transition provisions. The College is assessing the impact this standard will have on its financial statements.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. The new guidance requires that a statement of cash flows explain the change in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents when reconciling the beginning and ending total amounts shown on the statement of cash flows. ASU 2016-18 is effective for the College for fiscal 2019, with early adoption permitted. The College is assessing the impact this standard will have on its statement of cash flows.

## Subsequent Events

Subsequent events were evaluated for recognition or disclosure through November 21, 2017, the date the financial statements were issued.

## 2. Accounts Receivable

Students accounts receivable represent amounts due for tuition, fees, and room and board from currently enrolled and former students. The College extends unsecured credit to students and parents of dependent students in connection with their studies. Some of those students are no longer enrolled or have completed their degrees. Student accounts receivable consists of the following at June 30:

	<u>2017</u>	<u>2016</u>
Accounts receivable	\$ 1,808,856	\$ 1,924,092
Less allowance for doubtful accounts	<u>415,000</u>	<u>500,000</u>
Total	<u>\$ 1,393,856</u>	<u>\$ 1,424,092</u>

# King's College

Notes to Financial Statements  
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Other receivables as of June 30, 2017 and 2016 include \$75,000 and \$3,000,000, respectively, due from the Commonwealth of Pennsylvania's Redevelopment Assistance Capital Program related to the acquisition and renovation of the King's on the Square building. The project was completed and placed in service during 2015 and final funding approval was received in April 2016. Through the date of this report, the College has received the balance of this amount.

### 3. Contributions Receivable

Contributions receivable at June 30 are summarized as follows:

	<u>2017</u>	<u>2016</u>
In one year or less	\$ 1,904,872	\$ 441,531
Between one year and five years	509,073	918,775
Between six years and ten years	<u>6,268,255</u>	<u>6,283,254</u>
Gross contributions receivable	8,682,200	7,643,560
Less discount and allowance for doubtful collections	<u>4,660,790</u>	<u>4,052,496</u>
Contributions receivable, net	<u>\$ 4,021,410</u>	<u>\$ 3,591,064</u>
Temporarily restricted:		
Land, buildings and equipment	\$ 183,707	\$ 205,334
Programs and other purposes	35,057	47,544
Time	<u>1,362,160</u>	<u>2,093,679</u>
Total temporarily restricted	1,580,924	2,346,557
Permanently restricted for endowment purposes	<u>2,440,486</u>	<u>1,244,507</u>
Total	<u>\$ 4,021,410</u>	<u>\$ 3,591,064</u>

These contributions have been made by businesses, individuals, and related parties primarily located in Pennsylvania. Approximately 97% of gross contributions receivable at June 30, 2017 are due from five individuals or estates. The College collected approximately \$1,600,000 from various estates included in pledges receivable in July 2017.

Management believes the College's allowance for doubtful collections, which is an estimate based on management's periodic assessment of the risk of collectability of each gift, is adequate based upon information currently known at June 30, 2017 and 2016. However, events impacting donors' ability to satisfy their commitments can occur in subsequent years which may result in a material change in the allowance for doubtful collections.

# King's College

Notes to Financial Statements  
June 30, 2017 and 2016

## 4. Student Loans Receivable

These loans are made with funds advanced to the College by the federal government under the Perkins Student Loan Program (the "Program"). Such funds may be re-loaned by the College after collection, but in the event that the College no longer participates in the Program, the amounts are refundable to the federal government. The College contributed one third of the amount contributed by the U.S. government as a match to the Program.

The prescribed practices for the Program do not provide for accrual of interest on student loans receivable or for a provision of allowance for doubtful loans. Accordingly, interest on loans is recorded as received; uncollectible loans are not recognized until the loans are canceled or written-off in conformity with Program requirements. The impact of recording interest income on a cash basis is not considered significant. In addition, the credit quality of the student is not evaluated after the initial approval and calculation of the loans. Delinquent loans and the allowance for losses on loans receivable are reviewed by management, but are not material to the overall financial statements.

## 5. Investments

Investments at June 30 are summarized as follows:

	<u>2017</u>	<u>2016</u>
Cash equivalents	\$ 817,481	\$ 473,564
Hedge funds	6,806	42,854
Alternative investments:		
Natural resources	798,106	783,519
Private equity	1,001,034	1,323,272
Real estate	357,537	558,858
Venture capital	750,061	928,411
Beneficial interest in assets held by others	64,815,832	56,475,068
Total	<u>\$ 68,546,857</u>	<u>\$ 60,585,546</u>

The College's principal financial instruments subject to credit risk are its investments. The investments are managed by professional advisors subject to the College's investment policy. The degree and concentration of credit risk varies by type of investment.

Certain investments are pooled on a market value basis with each individual fund subscribing to or disposing of units on the basis of the market value per unit at the beginning of the calendar month in which the transaction takes place.

# King's College

Notes to Financial Statements  
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The components of total investment return are reflected below:

	<u>2017</u>	<u>2016</u>
Interest and dividends	\$ 609,532	\$ 666,666
Net realized and unrealized gains – designated investments	167,935	76,855
Net realized and unrealized gains - endowment	<u>6,658,171</u>	<u>233,355</u>
Total	<u>\$ 7,435,638</u>	<u>\$ 976,876</u>

The above amounts are reported in the statement of activities under the following:

	<u>2017</u>	<u>2016</u>
Endowment spending policy	\$ 3,284,787	\$ 2,945,329
Endowment income (loss) in excess of spending policy	3,982,916	(2,045,308)
Unrealized gains on designated investments	<u>167,935</u>	<u>76,855</u>
Total	<u>\$ 7,435,638</u>	<u>\$ 976,876</u>

## 6. Beneficial Interest in Perpetual Trusts

The College receives income from various perpetual trusts held by third parties. Under the terms of the trusts, the College has the irrevocable right to receive a portion of the income earned on these trust assets in perpetuity, but never receives the assets held in the trust.

Distributions from these trusts are recorded as unrestricted or restricted investment income in the statement of activities based on donor stipulations. The change in value of the perpetual trusts is reported as changes in permanently restricted net assets based on explicit donor stipulations.

## 7. Land, Buildings, and Equipment

Land, buildings, and equipment at June 30 are summarized as follows:

	<u>2017</u>	<u>2016</u>
Land	\$ 18,599,501	\$ 18,573,559
Land improvements	3,465,452	3,452,096
Buildings	122,369,718	120,281,261
Furniture, fixtures, and equipment	34,110,728	32,493,816
Construction in progress	<u>6,018,753</u>	<u>2,670,606</u>
Total	184,564,152	177,471,338
Less accumulated depreciation	<u>70,402,083</u>	<u>66,518,376</u>
Net	<u>\$ 114,162,069</u>	<u>\$ 110,952,962</u>

## King's College

Notes to Financial Statements  
June 30, 2017 and 2016

### 8. Long-Term Debt

Long-term debt at June 30 is as follows:

	<u>2017</u>	<u>2016</u>
\$10,000,000 revolving line of credit, maturing July 2021. Interest is payable monthly based on 1-month LIBOR plus 1.17% (2.406% at June 30, 2017).	\$ -	\$ 2,841,968
College Revenue Notes, Series A of 2014, payable in annual principal installments through May 2031. Interest is payable monthly at 70% of the 1-month LIBOR plus 1.25% (1.9854% as of June 30, 2017).	14,045,000	15,550,000
College Revenue Notes, Series B of 2014, payable in annual principal installments through May 2044. Interest is payable monthly at 70% of the 1-month LIBOR plus 1.25% (1.9854% as of June 30, 2017).	<u>49,615,000</u>	<u>50,065,000</u>
Subtotal	63,660,000	68,456,968
Less unamortized financing costs	<u>(299,336)</u>	<u>(195,966)</u>
Total long-term debt	<u>\$ 63,360,664</u>	<u>\$ 68,261,002</u>

In October 2014, the Dallas Area Municipal Authority (the "Authority") issued \$18,450,000 of College Revenue Notes, Series A of 2014 and \$51,550,000 of College Revenue Notes, Series B of 2014. The proceeds of the notes issued were then loaned to the College by the Authority under the terms of a loan agreement between the two parties. The notes were then purchased from the Authority by various banks and the College has agreed to pay the Authority's obligations under the notes to the banks. The proceeds of the notes were used to currently refund the College's existing revenue notes and to finance various capital projects. The notes and revolving line of credit are collateralized by a security interest in the College's gross revenues. The line of credit and security agreements require the College to meet certain financial covenants.

The College used \$2,500,000 of unrestricted funds from Assets Held for Capital Purposes to meet short-term operating cash flow needs as of June 30, 2017 and replenished those funds in August 2017. In the past, the College used the revolving line of credit to meet these needs.

## King's College

Notes to Financial Statements  
June 30, 2017 and 2016

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The scheduled principal payments are as follows:

Years ending June 30:	
2018	\$ 1,480,000
2019	1,530,000
2020	1,580,000
2021	1,630,000
2022	1,685,000
Thereafter	<u>55,755,000</u>
Total	<u>\$ 63,660,000</u>

Interest expense was approximately \$2,175,000 and \$2,180,000 in 2017 and 2016, respectively. Interest expense is reported net of capitalized interest of approximately \$123,000 in 2017 and \$68,000 in 2016.

### 9. Operating Leases

The College leases equipment under non-cancelable operating leases with terms of 24 to 60 months. The following is a schedule of the future annual minimum rentals on these leases as of June 30, 2017:

Years ending June 30:	
2018	\$ 623,221
2019	476,181
2020	241,868
2021	79,362
2022	<u>16,043</u>
Total	<u>\$ 1,436,675</u>

Rent expense on the above leases was approximately \$741,000 in 2017 and \$838,000 in 2016.

### 10. Pension

The College sponsors a defined contribution pension plan. Pension expense was approximately \$1,606,000 in 2017 and \$1,624,000 in 2016.

### 11. Government Grants and Student Aid

The government grants and student aid amounts do not include funds credited to student accounts under various federal and state grant programs. These grants are similar to agency funds as the College acts only as custodian and disbursing agent. Had these amounts been included, revenues and expenses would have increased by approximately \$4,572,000 in 2017 and \$4,718,000 in 2016.



## King's College

Notes to Financial Statements  
June 30, 2017 and 2016

### 12. Significant Group Concentration of Credit Risk

The College maintains its cash accounts in commercial banks located in Pennsylvania. Accounts are insured up to limits established by the Federal Deposit Insurance Corporation.

### 13. Net Assets

Unrestricted net assets are designated for the following as of June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Long-term investments	\$ 20,060,769	\$ 18,427,857
Plant facilities	41,953,819	39,119,998
Other	4,334,307	1,994,386
Total	<u>\$ 66,348,895</u>	<u>\$ 59,542,241</u>

Temporarily restricted net assets are available for the following purpose or in future periods as of June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Specified purposes	\$ 2,710,157	\$ 2,013,000
Time	1,012,641	1,725,457
Accumulated unspent endowment earnings	18,951,783	16,246,895
Total	<u>\$ 22,674,581</u>	<u>\$ 19,985,352</u>

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

	<u>2017</u>	<u>2016</u>
Beneficial interests in perpetual trusts	\$ 6,819,228	\$ 6,426,133
Assets held in perpetuity	31,974,789	27,155,363
Total	<u>\$ 38,794,017</u>	<u>\$ 33,581,496</u>

## 14. Endowment Funds

The College's endowment consists of approximately 330 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the College has developed a policy 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 interpreted through review of current Pennsylvania laws. As a result of this interpretation, the College 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 either temporarily restricted or unrestricted net assets based on the existence of donor restrictions or by law.

The College considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the College and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the College
7. The investment policies of the College

The College 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 College must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk. The College expects its endowment funds, over time, to provide an average rate of return of approximately 5%, plus inflation, annually.

To satisfy its long-term rate-of-return objectives, the College 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 College 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.

# King's College

## Notes to Financial Statements

June 30, 2017 and 2016

The College has a policy of appropriating for distribution each year 5% of its endowment fund's average fair value over the prior 12 quarters through the calendar year-end proceeding the fiscal year in which the distribution is planned. In establishing this policy, the College considered the long-term expected return on its endowment. This is consistent with the College's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

The permanently restricted category includes the value of interest in various trust accounts established by donors. The assets of the trusts are held by independent trustees in perpetuity. The College has an interest in the income generated from these trusts, but will never receive the assets held in the trusts. These assets are not governed by the College's investment policy. All investment decisions and distributions are governed by trust documents and the trustee.

Endowment net asset composition by type of fund as of June 30, 2017:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 18,951,783	\$ 38,794,017	\$ 57,745,800
Board-designated endowment funds	<u>20,060,769</u>	<u>-</u>	<u>-</u>	<u>20,060,769</u>
Total endowment funds	<u>\$ 20,060,769</u>	<u>\$ 18,951,783</u>	<u>\$ 38,794,017</u>	<u>\$ 77,806,569</u>

Endowment net asset composition by type of fund as of June 30, 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 16,246,895	\$ 33,581,496	\$ 49,828,391
Board-designated endowment funds	<u>18,427,857</u>	<u>-</u>	<u>-</u>	<u>18,427,857</u>
Total endowment funds	<u>\$ 18,427,857</u>	<u>\$ 16,246,895</u>	<u>\$ 33,581,496</u>	<u>\$ 68,256,248</u>

## King's College

Notes to Financial Statements  
June 30, 2017 and 2016

Changes in endowment net assets for the year ended June 30, 2017 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	<u>\$ 18,427,857</u>	<u>\$ 16,246,895</u>	<u>\$ 33,581,496</u>	<u>\$ 68,256,248</u>
Investment return:				
Interest and dividends	126,408	483,124	-	609,532
Net realized and unrealized gains	<u>2,136,448</u>	<u>4,521,723</u>	<u>393,095</u>	<u>7,051,266</u>
Total investment return	2,262,856	5,004,847	393,095	7,660,798
Contributions	354,884	-	4,819,426	5,174,310
Appropriation of endowment assets per spending policies	<u>(984,828)</u>	<u>(2,299,959)</u>	<u>-</u>	<u>(3,284,787)</u>
Endowment net assets, end of year	<u>\$ 20,060,769</u>	<u>\$ 18,951,783</u>	<u>\$ 38,794,017</u>	<u>\$ 77,806,569</u>

## King's College

Notes to Financial Statements  
June 30, 2017 and 2016

Changes in endowment net assets for the year ended June 30, 2016 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	<u>\$ 19,095,693</u>	<u>\$ 17,621,775</u>	<u>\$ 33,447,794</u>	<u>\$ 70,165,262</u>
Investment return:				
Interest and dividends	382,306	284,360	-	666,666
Net realized and unrealized gains (losses)	<u>76,494</u>	<u>156,863</u>	<u>(497,663)</u>	<u>(264,306)</u>
Total investment return	458,800	441,223	(497,663)	402,360
Contributions	2,590	-	631,365	633,955
Appropriation of endowment assets per spending policies	<u>(1,129,226)</u>	<u>(1,816,103)</u>	<u>-</u>	<u>(2,945,329)</u>
Endowment net assets, end of year	<u>\$ 18,427,857</u>	<u>\$ 16,246,895</u>	<u>\$ 33,581,496</u>	<u>\$ 68,256,248</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 law requires the College to retain as a fund of perpetual duration. There were no material deficiencies as of June 30, 2017 or 2016. Minimal deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that were deemed prudent by the Board of Directors.

## 15. Commitments and Contingencies

The College has approximately \$573,000 in unfunded capital calls and approximately \$379,000 in distributions subject to recall related to various alternative and venture capital investments at June 30, 2017. These commitments can be funded through liquidation of current investments.

The College is subject to legal proceedings generally incidental to its business. Although the final outcome of any legal proceedings is subject to many variables and cannot be predicted with any degree of certainty, the College presently believes that the ultimate outcome resulting from those proceedings would not have a material effect on the College's financial position or changes in its net assets.

The College is self-insured for employees' medical insurance. The College has limited its self-insurance liability through the purchase of catastrophic reinsurance coverage which will reimburse the College for any claims in excess of policy limits incurred in any plan year. Self-insurance costs are accrued based on claims reported as of the statement of financial position date as well as an estimated liability for claims incurred but not reported. The total accrued liability for self-insurance costs, included with accounts payable and accrued liabilities in the statement of financial position, was approximately \$1,285,000 and \$1,085,000 at June 30, 2017 and 2016, respectively. The cost of medical coverage for employees amounted to approximately \$4,006,000 and \$3,199,000 for the years ended June 30, 2017 and 2016, respectively.

The College owns several buildings constructed prior to the passage of the Clean Air Act that contain encapsulated asbestos material. Current law requires that this asbestos be removed in an environmentally safe manner prior to demolition or renovation of the buildings. The College has not recognized the asset retirement obligation for asbestos removal in its financial statements because it currently has no plans to demolish or renovate these buildings and as such, cannot reasonably estimate the fair value of the obligation. If plans change with respect to the use of the buildings and sufficient information becomes available to estimate the liability, it will be recognized at that time.

The College has entered into various contracts related to ongoing capital projects. Total project commitments total approximately \$4,392,000. As of June 30, 2017, the College has incurred approximately \$3,825,000 in costs related to these projects.

# King's College

Notes to Financial Statements  
June 30, 2017 and 2016

## 16. Interest Rate Swaps

The College has entered into interest rate swap agreements in connection with its College Revenue Notes which are considered derivative financial instruments. The counterparties for the swap agreements are First National Bank and M&T Bank, financial institutions with which the College has other financial relationships (the "Banks"). The objective of the swap agreements is to minimize the risks associated with financing activities by reducing the impact of changes in interest rates. The swap agreements are not designated as hedging instruments. The swap agreements are contracts to exchange variable rate for fixed rate interest payments over the life of the agreements without the exchange of the underlying notional amount. The notional amount of the swap agreements are used to measure the interest to be paid or received and does not represent the amount of exposure to credit loss. Exposure to credit loss is limited to the receivable amount, if any, which may be generated as a result of the swap agreements. Management believes that losses related to credit risk are remote. The net cash paid or received under the swap agreements is recognized as an adjustment to interest expense and resulted in an increase in interest expense of approximately \$1,070,000 in 2017 and \$1,153,000 in 2016.

The College does not utilize interest rate swaps or other financial instruments for trading or other speculative purposes.

At June 30, 2017, the following interest rate swaps are in effect:

<u>Counterparty</u>	<u>Original Notional Amount</u>	<u>Effective Notional Amount</u>	<u>Strike Rate</u>	<u>Effective Date</u>	<u>Termination Date</u>
First National Bank	\$ 18,450,000	\$ 14,045,000	4.032%	May 2013	May 2031
M&T Bank	50,000,000	49,615,000	1.700%	January 2017	November 2031

The fair value of the interest rate swap agreements is the amount that the College would receive or pay to terminate the swap agreements at the reporting date. The College estimates that it would have paid approximately \$3,418,000 and \$6,408,000 on June 30, 2017 and 2016, respectively, to terminate these agreements.

# King's College

Notes to Financial Statements  
June 30, 2017 and 2016

## 17. Fair Value Disclosures

The College measures its long-term investments, beneficial interest in perpetual trusts and interest rate swaps at fair value on a recurring basis. These items were measured with the following inputs at June 30, 2017 and 2016:

	2017			
	Total	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets held for capital purposes:				
Money market accounts	\$ 4,961,128	\$ 4,961,128	\$ -	\$ -
Money market mutual funds	13,441	13,441	-	-
Mutual funds, fixed income	10,656	10,656	-	-
Mutual funds, equities	239,614	239,614	-	-
Equities, domestic	116,472	116,472	-	-
Exchange traded funds, equities	433,731	433,731	-	-
Total assets held for capital purposes	5,775,042	5,775,042	-	-
Short-term investments:				
Money market accounts	97,045	97,045	-	-
Exchange traded funds, equities	158,685	158,685	-	-
Exchange traded funds, fixed income	246,055	246,055	-	-
Bonds	519,687	-	519,687	-
Total short-term investments	1,021,472	501,785	519,687	-
Investments:				
Money market accounts	817,481	817,481	-	-
Investments measured at NAV:				
Hedge funds	6,806			
Alternative:				
Natural resources	798,106			
Private equity	1,001,034			
Real estate	357,537			
Venture capital	750,061			
Beneficial interest in assets held by others	64,815,832			
Total investments	68,546,857			
Beneficial interests in perpetual trusts	6,819,228	-	-	6,819,228
Total	\$ 82,162,599	\$ 7,094,308	\$ 519,687	\$ 6,819,228
Liability,				
Interest rate swaps	\$ 3,417,742	\$ -	\$ 3,417,742	\$ -



# King's College

## Notes to Financial Statements June 30, 2017 and 2016

	2016			
	Total	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets held for capital purposes:				
Money market accounts	\$ 5,390,933	\$ 5,390,933	\$ -	\$ -
Money market mutual funds	25,062	25,062	-	-
Mutual funds, equities	793,950	793,950	-	-
Exchange traded funds, equities	257,844	257,844	-	-
Total assets held for capital purposes	<u>6,467,789</u>	<u>6,467,789</u>	<u>-</u>	<u>-</u>
Short-term investments:				
Money market accounts	142,271	142,271	-	-
Exchange traded funds, equities	137,706	137,706	-	-
Exchange traded funds, fixed income	238,743	238,743	-	-
Bonds	390,122	-	390,122	-
Total short-term investments	<u>908,842</u>	<u>518,720</u>	<u>390,122</u>	<u>-</u>
Investments:				
Money market accounts	473,564	473,564	-	-
Investments measured at NAV:				
Hedge funds	42,854			
Alternative:				
Natural resources	783,519			
Private equity	1,323,272			
Real estate	558,858			
Venture capital	928,411			
Beneficial interest in assets held by others	56,475,068			
Total investments	<u>60,585,546</u>			
Beneficial interests in perpetual trusts	6,426,133	-	-	6,426,133
Total	<u>\$ 74,388,310</u>	<u>\$ 7,460,073</u>	<u>\$ 390,122</u>	<u>\$ 6,426,133</u>
Liability,				
Interest rate swaps	\$ 6,407,975	\$ -	\$ 6,407,975	\$ -

## King's College

Notes to Financial Statements  
June 30, 2017 and 2016

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The following table presents changes in the beneficial interest in perpetual trusts which are measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for 2017 and 2016.

Balance, July 1, 2015	\$ 6,923,796
Losses	<u>(497,663)</u>
Balance, June 30, 2016	6,426,133
Gains	<u>393,095</u>
Balance, June 30, 2017	<u>\$ 6,819,228</u>

Gains (losses) on the beneficial interest in perpetual trusts are included in the change in value of perpetual trusts in the statement of activities.

Investments: The fair values are based on values reported by external investment managers. Quoted market prices for identical assets are used to measure fair value of equity and fixed income mutual funds and are classified within Level 1 of the valuation hierarchy. Fair value of investments within the Level 2 valuation hierarchy are based on pricing for similar assets with similar terms in actively traded markets or valued at the respective net asset values based on the underlying assets of the funds. The College's investment in hedge funds, natural resources, real estate, private equity and venture capital investments are valued at NAV as provided by the investment managers.

Beneficial interest in assets held by others: Fair value is based on the NAV as reported by the affiliate, unless specific evidence indicates that NAV should be adjusted. This may involve using significant unobservable inputs. The valuation methods utilized by the affiliate are subject to regular review by the College.

Beneficial interests in perpetual trusts: The fair value is estimated using the College's percentage of the underlying assets, which approximates the present value of estimated future cash flows to be received from the trust.

The College measures its derivative financial instrument at fair value based on proprietary models of an independent third party valuation specialist. The fair value takes into consideration the prevailing interest rate environment and the specific terms and conditions of the derivative financial instrument. The fair value was estimated using the zero-coupon discounting method and considers the credit risk of the College and the counterparty. This method calculates the future payments required by the derivative financial instruments, assuming that the current, forward rates implied by the yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rate implied by the current yield curve for a hypothetical zero coupon rate bond due on the date of each future net settlement payment on the derivative financial instruments. The value represents the estimated exit price the College would pay to terminate the agreements.

# King's College

## Notes to Financial Statements

June 30, 2017 and 2016

The College has a policy which permits investments that do not have a readily determinable fair value, and as such, has elected to use the NAV as calculated on the reporting entity's measurement date as the fair value of the investment. The College measures the fair value of an investment that does not have a readily determinable fair value based on the NAV of the investment as a practical expedient, without further adjustment, unless it is probable that the investment will be sold at a value significantly different than the NAV. If the practical expedient NAV is not as of the reporting entity's measurement date, then the NAV is adjusted to reflect any significant events that would materially affect the value of the security and the NAV of the College as of the valuation date. In using the NAV as a practical expedient, certain attributes of the investment, that may impact the fair value of the investment, are not considered in measuring fair value. Attributes of those investments include the investment strategies of the investees and may also include, but are not limited to, restrictions on the investor's ability to redeem its investments at the measurement date at NAV as well as any unfunded commitments. A listing of the investments held by the College and their attributes, that may qualify for these valuations consist of the following as of June 30:

2017					
Investment Category	Investment Strategy	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Natural resources (a)	Investment of funds in limited partnerships, which in turn, make oil, gas, timber and other natural resource-related investments with the objective of obtaining long-term growth of capital.	\$ 798,106	\$ 63,000	Quarterly income distributions. No ability to redeem ownership until termination of Limited Partnership, as stated in the agreements. Termination dates through August 2020.	N/A
Real estate loans (b)	Purpose is to originate and manage a portfolio of multifamily and commercial real estate loans, preferred equity investments and structured finance transactions secured by mortgages and other interests in real estate.	357,537	200,000	Quarterly income distributions. No ability to redeem ownership until termination of Limited Partnership, as stated in the agreements. Termination date of December 2018.	N/A
Venture capital (a)	Invests primarily in other limited partnerships formed for the purpose of making venture capital investments in emerging growth companies. Generally, these investments may not be transferred or withdrawn prior to the termination of limited partnerships, which generally have a term of ten years.	750,061	65,912	Quarterly income distributions. No ability to redeem ownership until termination of Limited Partnership, as stated in the agreements. Termination dates through March 2020.	N/A

# King's College

## Notes to Financial Statements

June 30, 2017 and 2016

Investment Category	Investment Strategy	2017		Redemption Frequency	Redemption Notice Period
		Fair Value	Unfunded Commitments		
Private equity (a)	Invests primarily in other limited partnerships formed for the purpose of making investments in equity securities, warrants or other options, focused either domestically or internationally, that are generally not actively traded at the time of investment. Generally, these investments may not be transferred or withdrawn prior to the termination of limited partnerships, which generally have a term of ten years.	\$ 1,001,034	\$ 243,888	Quarterly income distributions. No ability to redeem ownership until termination of Limited Partnership, as stated in the agreements. Termination dates through March 2020.	Up to 90 days
Global equity and debt (a) (d)	Fund is a multi-strategy fund specializing in arbitrage and absolute return investment strategies in the global equity and corporate debt securities markets and seeks to deliver consistent returns with low volatility.	6,806	-	Annual	Requires approval of Board of Directors
Beneficial interest in assets held by others	Fund is independently managed fund. Asset allocation determined by fund management.	64,815,832	-	Disclosed in accounting policy note	Disclosed in accounting policy note

# King's College

## Notes to Financial Statements

June 30, 2017 and 2016

2016					
Investment Category	Investment Strategy	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Natural resources (a)	Investment of funds in limited partnerships, which in turn, make oil, gas, timber and other natural resource-related investments with the objective of obtaining long-term growth of capital.	\$ 783,519	\$ 105,000	Quarterly income distributions. No ability to redeem ownership until termination of Limited Partnership, as stated in the agreements. Termination dates through August 2020.	N/A
Real estate loans (b)	Purpose is to originate and manage a portfolio of multifamily and commercial real estate loans, preferred equity investments and structured finance transactions secured by mortgages and other interests in real estate.	558,858	200,000	Quarterly income distributions. No ability to redeem ownership until termination of Limited Partnership, as stated in the agreements. Termination dates through January 2017.	N/A
Venture capital (a)	Invests primarily in other limited partnerships formed for the purpose of making venture capital investments in emerging growth companies. Generally, these investments may not be transferred or withdrawn prior to the termination of limited partnerships, which generally have a term of ten years.	928,411	88,412	Quarterly income distributions. No ability to redeem ownership until termination of Limited Partnership, as stated in the agreements. Termination dates through March 2017.	N/A
Private equity (a)	Invests primarily in other limited partnerships formed for the purpose of making investments in equity securities, warrants or other options, focused either domestically or internationally, that are generally not actively traded at the time of investment. Generally, these investments may not be transferred or withdrawn prior to the termination of limited partnerships, which generally have a term of ten years.	1,323,272	263,888	Quarterly income distributions. No ability to redeem ownership until termination of Limited Partnership, as stated in the agreements. Termination dates through March 2017.	Up to 90 days

# King's College

## Notes to Financial Statements

June 30, 2017 and 2016

Investment Category	Investment Strategy	2016			Redemption Notice Period
		Fair Value	Unfunded Commitments	Redemption Frequency	
Global equity and debt (a) (d)	Fund is a multi-strategy fund specializing in arbitrage and absolute return investment strategies in the global equity and corporate debt securities markets and seeks to deliver consistent returns with low volatility.	\$ 42,854	\$ -	Annual	Requires approval of Board of Directors
Beneficial interest in assets held by others	Fund is independently managed fund. Asset allocation determined by fund management.	56,475,068	-	Disclosed in accounting policy note	Disclosed in accounting policy note

(a) Investment is a feeder fund for other limited partnerships, limited liability corporations, offshore corporations or other foreign investment vehicles.

(b) Underlying investments primarily include loans and other debt instruments that are secured by real estate or other physical assets.

(c) Underlying investments are primarily operating real estate projects or undeveloped land held for future development or sale.

(d) Represents a hedge fund focused in international markets.

### 18. Functional Allocation

The College adheres to the AICPA Industry Audit Guide in reporting expenses by their functional classification. Accordingly, depreciation, interest and other expenses have been allocated to functional classifications based on square footage, use of bond proceeds, or other factors.

## 19. Related Party Transactions

The College has entered into transactions with entities which members of the Board of Directors have relationships as owners or officers. During the years ended June 30, 2017 and 2016 the College engaged in the following related party transactions:

- The College paid service fees and insurance premiums to an insurance company, which has an officer who is also a member of the Board, of approximately \$478,000 and \$483,000 for 2017 and 2016, respectively.
- The College paid transportation costs to a company, which has an officer who is also a member of the Board, of approximately \$165,000 and \$147,000 for 2017 and 2016, respectively.
- The College paid legal and professional fees to a firm, which has a principal who is also a member of the Board, of approximately \$78,000 and \$120,000 for 2017 and 2016, respectively.

During 2004, the College entered into an agreement with the Congregation of Holy Cross to lease land located on the College's campus. The term of the lease is approximately 30 years at a rate of \$10 per year, payable by December 1st of each year. If at any time during the lease period, the lessee decides to sell the buildings and improvements constructed on the leased land, the College has the first option to purchase such buildings and improvements at market value.