

Pembroke Hill School

Financial Report
June 30, 2013



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Independent Auditor's Report

To the Board of Trustees
Pembroke Hill School
Kansas City, Missouri

Report on the Financial Statements

We have audited the accompanying financial statements of Pembroke Hill School (the School) which comprise the statements of financial position as of June 30, 2013 and 2012, the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 Pembroke Hill School as of June 30, 2013 and 2012, 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.

McGladrey LLP

Kansas City, Missouri
November 12, 2013

Pembroke Hill School

**Statements of Financial Position
June 30, 2013 and 2012**

Assets	2013	2012
Cash and cash equivalents (Note 12)	\$ 4,831,577	\$ 1,140,058
Investments (Notes 2, 3, and 6)	60,652,960	57,681,367
Receivables:		
Tuition, fees and other	123,183	121,366
Pledges, net (Note 4)	4,841,165	2,008,400
Student loans	52,031	139,425
Inventories	93,207	85,197
Prepaid expenses and other	337,392	357,339
Property and equipment, net (Notes 5 and 6)	38,036,644	38,674,386
	<u>\$ 108,968,159</u>	<u>\$ 100,207,538</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 1,001,663	\$ 830,058
Accrued salaries	999,329	979,975
Other accrued expenses	350,607	221,855
Deferred revenue	3,822,745	3,481,418
Bonds payable (Note 6)	25,193,500	27,480,000
Interest rate swap liability (Notes 3 and 7)	2,859,361	4,120,618
Total liabilities	<u>34,227,205</u>	<u>37,113,924</u>
Net assets (Notes 8, 9 and 10):		
Unrestricted	44,265,572	38,381,790
Temporarily restricted	13,311,363	9,614,915
Permanently restricted	17,164,019	15,096,909
Total net assets	<u>74,740,954</u>	<u>63,093,614</u>
	<u>\$ 108,968,159</u>	<u>\$ 100,207,538</u>

See Notes to Financial Statements.

Pembroke Hill School

**Statement of Activities
Year Ended June 30, 2013**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2013
Revenue and Support				
Student tuition and fees, net of financial aid of \$1,616,493	\$ 18,011,090	\$ -	\$ -	\$ 18,011,090
Contributions	3,080,234	1,819,893	2,067,110	6,967,237
Food Service	1,083,555	-	-	1,083,555
Bookstore	692,894	-	-	692,894
Other Programs	1,773,809	-	-	1,773,809
Investment income (Note 2)	3,235,311	3,521,881	-	6,757,192
Total revenue and support	27,876,893	5,341,774	2,067,110	35,285,777
Net Assets Released from Restrictions (Note 10)	1,645,326	(1,645,326)	-	-
Total revenue, support, and net assets released from restrictions	29,522,219	3,696,448	2,067,110	35,285,777
Expenses				
Instructional				
Salaries and benefits	9,643,481	-	-	9,643,481
Employee discounts and financial aid	863,273	-	-	863,273
Supplies and services	1,152,466	-	-	1,152,466
	11,659,220	-	-	11,659,220
Student Activities	1,733,158	-	-	1,733,158
Supporting services				
General and administrative	4,147,661	-	-	4,147,661
Depreciation	1,851,671	-	-	1,851,671
Supplies, services, and repairs	2,868,331	-	-	2,868,331
Interest and bond issue costs	557,315	-	-	557,315
Change in fair value of swap instrument and related settlements (Note 7)	(683,679)	-	-	(683,679)
Food Service	961,942	-	-	961,942
Bookstore	542,818	-	-	542,818
Total supporting services	10,246,059	-	-	10,246,059
Total expenses	23,638,437	-	-	23,638,437
Increase in net assets	5,883,782	3,696,448	2,067,110	11,647,340
Net Assets				
Beginning	38,381,790	9,614,915	15,096,909	63,093,614
Ending	\$ 44,265,572	\$ 13,311,363	\$ 17,164,019	\$ 74,740,954

See Notes to Financial Statements.

Pembroke Hill School

**Statement of Activities
Year Ended June 30, 2012**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2012
Revenue and Support				
Student tuition and fees, net of financial aid of \$1,639,576	\$ 17,902,502	\$ -	\$ -	\$ 17,902,502
Contributions	944,542	105,901	1,154,851	2,205,294
Food Service	1,074,820	-	-	1,074,820
Bookstore	715,562	-	-	715,562
Other Programs	1,648,557	-	-	1,648,557
Investment income (Note 2)	(638,902)	(82,786)	-	(721,688)
Total revenue and support	21,647,081	23,115	1,154,851	22,825,047
Net Assets Released from Restrictions (Note 10)	2,317,416	(2,317,416)	-	-
Total revenue, support, and net assets released from restrictions	23,964,497	(2,294,301)	1,154,851	22,825,047
Expenses				
Instructional				
Salaries and benefits	9,311,286	-	-	9,311,286
Employee discounts and financial aid	844,422	-	-	844,422
Supplies and services	1,252,348	-	-	1,252,348
	<u>11,408,056</u>	<u>-</u>	<u>-</u>	<u>11,408,056</u>
Student Activities	1,981,742	-	-	1,981,742
	<u>13,389,808</u>	<u>-</u>	<u>-</u>	<u>13,389,808</u>
Supporting services				
General and administrative	3,941,613	-	-	3,941,613
Depreciation	1,829,715	-	-	1,829,715
Supplies, services, and repairs	2,833,507	-	-	2,833,507
Interest and bond issue costs	627,300	-	-	627,300
Change in fair value of swap instrument and related settlements (Note 7)	2,355,189	-	-	2,355,189
Food Service	1,035,289	-	-	1,035,289
Bookstore	508,359	-	-	508,359
Total supporting services	<u>13,130,972</u>	<u>-</u>	<u>-</u>	<u>13,130,972</u>
Total expenses	<u>26,520,770</u>	<u>-</u>	<u>-</u>	<u>26,520,770</u>
Increase (decrease) in net assets	(2,556,273)	(2,294,301)	1,154,851	(3,695,723)
Net Assets				
Beginning	40,938,063	11,909,216	13,942,058	66,789,337
Ending	<u>\$ 38,381,790</u>	<u>\$ 9,614,915</u>	<u>\$ 15,096,909</u>	<u>\$ 63,093,614</u>

See Notes to Financial Statements.

Pembroke Hill School

Statements of Cash Flows

Years Ended June 30, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 11,647,340	\$ (3,695,723)
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation expense	1,851,671	1,829,715
Contributions restricted for long-term investment	(1,067,110)	(831,532)
Realized and unrealized gain on investments	(5,608,322)	1,692,955
Amortization of pledge discount	45,413	(97,743)
Amortization of debt issuance costs	13,227	13,227
Change in fair value of swap instruments	(1,261,257)	1,769,066
Change in certain assets and liabilities:		
(Increase) decrease in:		
Tuition, fees, student loans and other	85,577	1,013
Inventories	(8,010)	2,576
Pledges receivable, net of discounts	(2,878,178)	1,243,666
Prepaid expenses and other	6,720	5,298
Increase (decrease) in:		
Accounts payable and accrued expenses	319,711	(134,399)
Deferred revenue	341,327	(109,893)
Net cash provided by operating activities	3,488,109	1,688,226
Cash flows from investing activities:		
Purchases of property and equipment	(1,213,931)	(524,440)
Proceeds from sale of investments	7,811,989	6,199,599
Purchase of investments	(5,175,258)	(8,895,510)
Net cash provided by (used in) investing activities	1,422,800	(3,220,351)
Cash flows from financing activities:		
Contributions restricted for long-term investments	1,067,110	831,532
Principal payments on bonds payable	(2,286,500)	(2,280,000)
Net cash (used in) financing activities	(1,219,390)	(1,448,468)
Net increase (decrease) in cash and cash equivalents	3,691,519	(2,980,593)
Cash and cash equivalents:		
Beginning	1,140,058	4,120,651
Ending	\$ 4,831,577	\$ 1,140,058
Supplemental Disclosure of Cash Flow Information:		
Cash payments for interest	\$ 918,710	\$ 967,171

See Notes to Financial Statements.

Pembroke Hill School

Notes to Financial Statements

Note 1. Nature of Organization and Significant Accounting Policies

Nature of organization: The Pembroke Hill School (the School) is a private, not-for-profit corporation organized to provide educational services in Kansas City, Missouri for preschool to 12th grade. The primary sources of funds for the School are tuition fees. The School also receives support from contributions, investment income, and other support.

A summary of the School's significant accounting policies follows:

Basis of presentation: The accompanying financial statements are presented using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Net assets and revenues, expenses, gains, and losses are required to be classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the School and changes therein are classified and reported as follows:

- *Unrestricted net assets* – net assets that are not subject to donor-imposed stipulations.
- *Temporarily restricted net assets* – net assets subject to donor-imposed stipulations that may or will be met either by actions of the School and/or the passage of time.
- *Permanently restricted net assets* – net assets subject to donor-imposed stipulations that they be maintained permanently by the School. Generally, the donors of these assets permit the School to use all or part of the income earned on related investments for general or specific purposes.

Cash and cash equivalents: Cash and cash equivalents include cash and investments in highly liquid government securities and commercial paper with an initial maturity of three months or less. Cash equivalents that are considered investments are grouped with investments. From time to time, the School maintains balances in excess of federally insured limits. The School has not experienced any losses in such accounts.

Investments: Investments are stated at fair value. Investments consist of an intermediate cash fund, equity funds, fixed income funds, alternative investments, certificates of deposit, and cash surrender value of life insurance policies. The fair value of the intermediate cash fund, equity and fixed income funds, alternative investments, and certificates of deposit are generally based on quoted market prices for those or similar investments, or net asset values. The fair value of the cash surrender value of life insurance policies is provided by the insurance companies. Except for explicit donor stipulations, specifying reinvestment of some or all of net realized and unrealized gains, net realized and unrealized gains on permanently restricted net assets are reported as an increase in the unrestricted or temporarily restricted net assets, in accordance with donor stipulations.

Inventories: Inventories consist of course materials, supplies, food and books and are stated at the lower of cost (first-in, first-out) or market (net realizable value).

Restricted and unrestricted revenue and support: Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions.

Pembroke Hill School

Notes to Financial Statements

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

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

Promises to give and pledges receivable: Unconditional promises to give, less a present value discount and an allowance for uncollectible amounts, if considered appropriate, are recognized as revenue in the period when the promise is received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Tuition and fees accounts receivables: Tuition and fee accounts receivables are recorded at invoice cost less an allowance for uncollectible accounts. Management of the School determines the allowance for uncollectible tuition and fee accounts based upon current factors. There is no allowance at June 30, 2013 or 2012. Tuition receivables are written off when deemed uncollectible. Recoveries of tuition and fee accounts receivables previously written off are recorded when received. Interest is charged on 30 days past due accounts.

Property and equipment: Property and equipment are recorded at cost. Depreciation of buildings and equipment is provided over the following estimated useful lives on a straight-line basis:

Land improvements	15 years
Buildings	40 years
Furniture and equipment	5 - 7 years

Accounting for derivatives and hedging activities: All derivatives are recognized on the School's statement of financial position at their fair value. Changes in the fair value are reported in current-period earnings. The only derivatives the School has are interest rate swap agreements. The interest rate swap asset is recorded at fair value based upon derivatives with similar terms and maturities.

Accrued salaries: Faculty salaries are paid over a twelve-month contract period from September 1. The June 30 financial statements include accrued faculty salaries for July and August because substantially all services have been completed under the terms of the faculty contracts.

Deferred revenue: Deferred revenue consists of student enrollment deposits for the next School year and revenue related to summer programs.

Pembroke Hill School

Notes to Financial Statements

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

Income taxes: The School is a not-for-profit organization as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on related income. Uncertain tax provisions, if any, are recorded in accordance with accounting guidance for income taxes, which requires the recognition of a liability for tax provisions taken that do not meet the more-likely-than-not standard that the position will be sustained upon examination by the taxing authorities. There is no liability for uncertain tax positions recorded at June 30, 2013 or 2012.

Generally, the School is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before 2008.

Fund raising costs: Fund raising costs are expensed as incurred. Fund raising costs are included in general and administrative expenses on the statement of activities. Fund raising expense was approximately \$486,000 and \$480,000 for the years ended June 30, 2013 and 2012, respectively.

Donated or contributed services and materials: The School receives donated services from a variety of unpaid volunteers assisting the School in various activities. These amounts have not been recognized in the accompanying Statement of Activities because the criteria for recognition of such volunteer effort under FASB Accounting Standards Codification (ASC) Topic 958-605 have not been satisfied.

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

Note 2. Investments

Investments at June 30, 2013 and 2012 consisted of the following:

	2013	2012
Intermediate cash fund	\$ 28,783	\$ 76,340
Equity funds	31,644,640	26,721,636
Fixed income funds	11,695,067	12,831,720
Alternative investments	8,075,239	6,328,849
Cash surrender value of life insurance policies	77,312	75,898
Certificates of deposit	9,131,919	11,646,924
Total investments	<u>\$ 60,652,960</u>	<u>\$ 57,681,367</u>

Investment income for the years ended June 30, 2013 and 2012 consists of the following:

	2013	2012
Interest and dividends	\$ 1,148,870	\$ 971,267
Realized and unrealized gains, net	5,608,322	(1,692,955)
Total investment income (loss)	<u>\$ 6,757,192</u>	<u>\$ (721,688)</u>

Pembroke Hill School

Notes to Financial Statements

Note 3. Fair Value Measurements

The Fair Value Measurements and Disclosures Topic of the FASB ASC, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants and requires the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard, the topic establishes fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities would include highly liquid government bonds and exchange traded equities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flow. Level 2 securities would include U.S. agency securities, mortgage-backed agency securities, obligations of states and political subdivisions, and certain corporate, asset-backed and other securities.

The Commonfund equity fund, classified as Level 2 within the fair value hierarchy, is a pooled investment fund consisting of 6.9% and 7.6% Level 1 holdings, 88.44% and 88.63% Level 2 holdings, and 4.66% and 3.77% Level 3 holdings as of June 30, 2013 and 2012, respectively. Due to the investment being a pooled fund, the balance is classified in the level with the majority of the holdings.

The Commonfund fixed income fund, classified as Level 2 within the fair value hierarchy, is a pooled investment fund consisting of .00% and .08% Level 1 holdings, 99.19% and 98.85% Level 2 holdings, and .81% and 1.07% Level 3 holdings as of June 30, 2013 and 2012, respectively. Due to the investment being a pooled fund, the balance is classified in the level with the majority of the holdings.

Pembroke Hill School

Notes to Financial Statements

Note 3. Fair Value Measurements (Continued)

The following tables summarize the assets measured at fair value on a recurring basis as of June 30, 2013 and 2012, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value.

	June 30, 2013			Total
	Level 1	Level 2	Level 3	
Investments				
Intermediate cash fund	\$ 28,783	\$ -	\$ -	\$ 28,783
Equity funds:				
Commonfund	-	30,664,314	-	30,664,314
Domestic equity				
Exchange traded funds				
Large growth	7,275	-	-	7,275
Large blend	121,861	-	-	121,861
Mid cap	57,047	-	-	57,047
Mutual funds				
Large cap	260,713	-	-	260,713
Mid cap	147,863	-	-	147,863
Small cap	233,818	-	-	233,818
International developed	63,348	-	-	63,348
International equity				
Foreign common stocks	88,401	-	-	88,401
Fixed income funds:				
Commonfund		11,480,467	-	11,480,467
Taxable high yield funds	48,571	-	-	48,571
Diversified taxable mutual funds	105,862	-	-	105,862
Emerging markets	17,894	-	-	17,894
Investment grade taxable	42,273	-	-	42,273
Alternative investments:				
Commonfund	-	7,802,569	-	7,802,569
Hedge fund	-	272,670	-	272,670
Cash surrender value of life insurance policies	-	77,312	-	77,312
Certificates of deposit	-	9,131,919	-	9,131,919
	<u>1,223,709</u>	<u>59,429,251</u>	<u>-</u>	<u>60,652,960</u>
Swap Liability	-	(2,859,361)	-	(2,859,361)
	<u>\$ 1,223,709</u>	<u>\$ 56,569,890</u>	<u>\$ -</u>	<u>\$ 57,793,599</u>

Pembroke Hill School

Notes to Financial Statements

Note 3. Fair Value Measurements (Continued)

	June 30, 2012			
	Level 1	Level 2	Level 3	Total
Investments				
Intermediate cash fund	\$ 76,340	\$ -	\$ -	\$ 76,340
Equity funds:				
Commonfund	-	25,923,974	-	25,923,974
Domestic equity				
Exchange traded funds				
Large growth	6,322	-	-	6,322
Large blend	104,451	-	-	104,451
Mid cap	58,119	-	-	58,119
Mutual funds				
Large cap	241,135	-	-	241,135
Mid cap	133,681	-	-	133,681
Small cap	127,873	-	-	127,873
International developed	67,059	-	-	67,059
International equity				
Foreign common stocks	40,144	-	-	40,144
Exchange traded funds	18,878	-	-	18,878
Fixed income funds:				
Commonfund	-	12,430,402	-	12,430,402
Credit	119,271	-	-	119,271
Diversified taxable mutual funds	229,258	-	-	229,258
Emerging markets	18,611	-	-	18,611
Treasury Tips	34,178	-	-	34,178
Alternative investments:				
Commonfund	-	6,204,465	-	6,204,465
Hedge fund	-	124,384	-	124,384
Cash surrender value of life insurance policies	-	75,898	-	75,898
Certificates of deposit	-	11,646,924	-	11,646,924
	1,275,320	56,406,047	-	57,681,367
Swap Liability	-	(4,120,618)	-	(4,120,618)
	<u>\$ 1,275,320</u>	<u>\$ 52,285,429</u>	<u>\$ -</u>	<u>\$ 53,560,749</u>

Pembroke Hill School

Notes to Financial Statements

Note 3. Fair Value Measurements (Continued)

The following table sets forth additional disclosure of the School's investments whose fair value is estimated using net asset value (NAV) per share (or its equivalent) as of June 30, 2013 and 2012:

Investment	Fair Value at June 30, 2013	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
Investments:				
Commonfund equity funds:				
Equity fund (A)	\$ 30,664,314	\$ -	Monthly	Trade date minus 5 days
Commonfund fixed income fund (B)	11,480,467		Monthly	Trade date minus 5 days
Commonfund alternative investments:				
Emerging markets investors company (C)	1,312,354		Monthly	30 days
Multi-strategy commodities fund (D)	1,944,727		Monthly	Trade date minus 30 days
Global absolute alpha company (E)	4,545,488		Semi-annually	95 days
	<u>\$ 49,947,350</u>	<u>\$ -</u>		

Investment	Fair Value at June 30, 2012	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
Investments:				
Commonfund equity funds:				
Equity fund (A)	\$ 25,923,974	\$ -	Monthly	Trade date minus 5 days
Commonfund fixed income fund (B)	12,430,402		Monthly	Trade date minus 5 days
Commonfund alternative investments:				
Emerging markets investors company (C)	1,406,332		Monthly	30 days
Multi-strategy commodities fund (D)	2,096,542		Monthly	Trade date minus 30 days
Global absolute alpha company (E)	2,701,591		Semi-annually	95 days
	<u>\$ 44,558,841</u>	<u>\$ -</u>		

- (A) The investment objective of the Fund is to offer an investment program that will provide, in a single fund, broad exposure to global equity markets. The Fund seeks to add value above the return of the U.S. equity market as measured by the S&P 500 Index, net of fees, and to provide competitive returns relative to the Russell U.S. Large Cap Market Oriented Equity Universe. These funds can be redeemed monthly at the net asset value per share based on the fair value of the underlying assets. The fair value of this investment has been estimated using the net asset value per share of the investments provided by the fund manager.
- (B) The investment objective of the Fund is to offer an actively managed, multi-manager investment program that will provide, in a single fund, broad exposure to global debt markets. The Fund seeks to add value above the return of the broad U.S. bond market, as measured by the Barclays Capital U.S. Aggregate Bond Index, net of fees and to provide competitive returns relative to the Russell U.S. Core Plus Fixed Income Universe. These funds can be redeemed monthly at the net asset value per share based on the fair value of the underlying assets. The fair value of this investment has been estimated using the net asset value per share of the investments provided by the fund manager.
- (C) The investment objective of the Fund is to outperform its benchmark, the Morgan Stanley Capital International Emerging Markets Free Index, over a full market cycle while reducing risk through diversification of manager allocations. These funds can be redeemed monthly at the net asset value per share based on the fair value of the underlying assets. The fair value of this investment has been estimated using the net asset value per share of the investments provided by the fund manager.

Pembroke Hill School

Notes to Financial Statements

Note 3. Fair Value Measurements (Continued)

- (D) The investment objective of the Fund is to outperform the Dow Jones-UBS Commodity Index. The fund allocates assets across a broad spectrum of commodity-oriented asset categories and pursues a multi-strategy approach to investing in commodities markets. These funds can be redeemed monthly at the net asset value per share based on the fair value of the underlying assets. The fair value of this investment has been estimated using the net asset value per share of the investments provided by the fund manager.
- (E) The investment objective of the Fund is to deliver consistently positive returns regardless of the direction of broader markets. These funds can be redeemed every six months at the net asset value per share based on the fair value of the underlying assets. The fair value of this investment has been estimated using the net asset value per share of the investments provided by the fund manager.

Note 4. Pledges Receivable

Unconditional promises to give at June 30, 2013 and 2012 are as follows:

	2013	2012
Receivable in less than one year	\$ 1,750,000	\$ 1,343,167
Receivable in one to five years	3,167,845	746,500
Receivable in over five years	50,000	-
	<u>4,967,845</u>	<u>2,089,667</u>
Less present value discount	126,680	81,267
	<u>\$ 4,841,165</u>	<u>\$ 2,008,400</u>

Note 5. Property and Equipment

A summary of property and equipment at June 30, 2013 and 2012 is as follows:

	2013	2012
Land and land improvements	\$ 4,422,142	\$ 4,318,929
Buildings	55,810,523	55,529,230
Furniture and equipment	5,955,898	5,756,164
Construction in process	719,162	230,994
	<u>66,907,725</u>	<u>65,835,317</u>
Less accumulated depreciation	28,871,081	27,160,931
	<u>\$ 38,036,644</u>	<u>\$ 38,674,386</u>

Pembroke Hill School

Notes to Financial Statements

Note 6. Bonds Payable

Bonds payable consists of the following as of June 30, 2013 and 2012:

	2013	2012
Health and Educational Facilities Authority of the State of Missouri Variable Rate Demand Educational Facilities Revenue Bonds - Series 1998, comprised of variable rate serial bonds, bearing interest at a rate determined weekly that averaged .19% and .15% during the years ended June 30, 2013 and 2012, respectively, payable in annual installments through 2023.	\$ 9,815,000	\$ 10,765,000
Health and Educational Facilities Authority of the State of Missouri Variable Rate Demand Educational Facilities Revenue Bonds - Series 2001, comprised of variable rate serial bonds, bearing interest at a rate determined weekly that averaged .18% and .19% during the years ended June 30, 2013 and 2012, respectively, payable in annual installments through 2026.	6,950,000	7,100,000
Health and Educational Facilities Authority of the State of Missouri Educational Facilities Revenue Bonds - Series 2009, comprised of a bank qualified bond, bearing interest at a fixed rate of 3.28% through 2014, payable in annual installments through 2027.	8,428,500	9,615,000
Total bonds payable	<u>\$ 25,193,500</u>	<u>\$ 27,480,000</u>

Pembroke Hill School

Notes to Financial Statements

Note 6. Bonds Payable (Continued)

The bonds contain provisions that allow the bondholders to demand redemption at specified times. The bond agreements require certain covenants be maintained related to liquidity, building endowment coverage and fixed charge coverage. The School has entered into a \$17,865,000 letter of credit agreement for the 1998 and 2001 Series (which renews annually) in order to offer the bonds at the letter of credit provider's credit rating rather than the School obtaining their own rating. Should a bondholder elect to redeem their bond and if the bond is not purchased by any other investor, the letter of credit agreement would be activated and the letter-of-credit provider would become the owner of the bonds until the letter of credit provider demands redemption by the school or until such time as the bonds are purchased by another investor. Property and equipment and investments are secured on the bonds related letter of credit.

The aggregate maturities of long-term debt are as follows:

Year Ending June 30:	
2014	\$ 650,000
2015	650,000
2016	650,000
2017	650,000
2018	650,000
Thereafter	21,943,500
	<u>\$ 25,193,500</u>

Note 7. Derivative Instruments

The School has entered into interest-rate swap agreements to convert a portion of its variable-rate debt to fixed rates. The level of fixed-rate debt, after the effects of the interest-rate swap have been considered, was maintained at approximately 99% and 96% of the School's total debt at June 30, 2013 and 2012. At June 30, 2013 and 2012, the School was the fixed rate payer on interest rate swap agreements totaling \$16,500,000 and \$16,750,000, respectively. The first swap agreement of \$12,000,000 steps down each July 1st by \$250,000 and terminates on July 1, 2023. The second swap agreement terminates July 1, 2026 for \$5,000,000. At June 30, 2013 and 2012, the fair value of these interest-rate swap agreements recorded on the School's statements of financial position as a liability was \$2,859,361 and \$4,120,618, respectively.

The School's specific goal is to lower (where possible) the cost of its borrowed funds over borrowing term. Although the School believes its interest rate swap agreements are economic hedges, none have been designated as a hedge for accounting purposes and they are recorded on the statement of financial position as accrued loss on interest rate swaps at their fair market value, with changes in fair value recognized in the current period change in unrestricted net assets. The following amounts have been included in the statements of activities for the years ended June 30, 2013 and 2012:

	2013	2012
Swap settlements	\$ 577,578	\$ 586,123
Unrealized (gain) loss on interest rate swaps	(1,261,257)	1,769,066
Total	<u>\$ (683,679)</u>	<u>\$ 2,355,189</u>

Pembroke Hill School

Notes to Financial Statements

Note 8. Composition of Net Assets

Unrestricted net assets have not been designated by the board of trustees for any particular purpose.

Temporarily restricted net assets are available for the following purposes:

	2013	2012
Library	\$ 340,587	\$ 279,290
Student activities	42,117	52,429
Buildings and maintenance	953,668	643,118
Professional development	492,146	390,676
Time restrictions	4,426,594	3,008,400
Financial aid	3,091,645	2,069,108
Faculty salaries	441,578	348,899
Instructional programs	365,418	275,827
Athletic coaches	10,927	-
Any activities of the School	3,146,683	2,547,168
Total	<u>\$ 13,311,363</u>	<u>\$ 9,614,915</u>

Permanently restricted net assets include endowment funds restricted in perpetuity, the income from which is expendable to support:

	2013	2012
Financial aid	\$ 8,364,299	\$ 7,446,732
Faculty salaries	499,285	499,285
Buildings and maintenance	3,659,622	2,653,972
Professional development	556,450	556,450
Library	412,832	412,797
Instructional programs	538,130	529,088
Athletic coaches	100,000	100,000
Any activities of the School	3,033,401	2,898,585
Total	<u>\$ 17,164,019</u>	<u>\$ 15,096,909</u>

Note 9. Endowments

The Pembroke Hill School has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as adopted by the State of Missouri applies to the School and, in accordance with UPMIFA, consider the following factors in determining whether to expend or accumulate donor-restricted endowment funds:

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

Pembroke Hill School

Notes to Financial Statements

Note 9. Endowments (Continued)

Spending Policy

It is the policy of the School to annually distribute 4% of the trailing three-year average of the endowment's total asset value, with the expectation that, over time, the total real return (return net of inflation) from investments will exceed the endowment's pay-out rate, thus allowing for real growth of endowment assets.

Investment Return Objectives, Risk Parameters and Strategies

The School has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to support the School's operations while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the School must hold in perpetuity or for a donor-specified period. The School's objective is to earn, at a minimum, an average annual real return of 5%, net of fees, over the Consumer Price Index, with a long term annualized standard deviation of return in the range of 10-11%. The return objective is based on historical returns for the asset classes in the portfolio, as well as on other capital market assumptions of risk, correlation, and standard deviation.

The following is activity related to endowment net assets for the years ended June 30, 2013 and 2012:

	2013			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets, beginning of year	\$ 4,345,149	\$ 6,551,135	\$ 15,096,909	\$ 25,993,193
Investment return:				
Investment income	213,605	1,825,218	-	2,038,823
Net appreciation (realized and unrealized)	304,861	1,696,663	-	2,001,524
Contributions	1,850,502	-	1,067,110	2,917,612
Appropriation of endowment assets for expenditure	(27,563)	(1,233,690)	-	(1,261,253)
Endowment net assets, end of year	\$ 6,686,554	\$ 8,839,326	\$ 16,164,019	\$ 31,689,899

Pembroke Hill School

Notes to Financial Statements

Note 9. Endowments (Continued)

	2012			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets, beginning of year	\$ 3,910,045	\$ 7,998,382	\$ 13,942,058	\$ 25,850,485
Investment return:				
Investment income	161,416	1,564,164	-	1,725,580
Net depreciation (realized and unrealized)	(326,050)	(1,645,585)	-	(1,971,635)
Contributions	625,016	-	1,154,851	1,779,867
Appropriation of endowment assets for expenditure	(25,278)	(1,365,826)	-	(1,391,104)
Endowment net assets, end of year	<u>\$ 4,345,149</u>	<u>\$ 6,551,135</u>	<u>\$ 15,096,909</u>	<u>\$ 25,993,193</u>

Note 10. Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors:

	2013	2012
Library	\$ 61,399	\$ 38,242
Student activities	34,875	26,715
Buildings and maintenance	129,488	391,428
Time restrictions	400,000	945,924
Professional development	12,775	31,013
Technology	18,904	25,718
Financial aid	877,541	737,880
Faculty salaries	3,059	3,496
Instructional programs	102,461	112,176
Any Activities	4,824	4,824
	<u>\$ 1,645,326</u>	<u>\$ 2,317,416</u>

Pembroke Hill School

Notes to Financial Statements

Note 11. Employee Benefits

Substantially all of the School's faculty and administration participate in a contributory retirement plan. The School matched participants' contributions up to a maximum of 8% for 2013 and 2012. The School's contribution to the retirement plan was approximately \$705,000 and \$655,000 for the years ended June 30, 2013 and 2012, respectively.

Note 12. Concentrations

The School maintains most of its cash accounts with one banking institution. Because of the nature and size of the School's operations, cash deposits with this banking institution at times exceed federally insured limits. The School has not experienced any losses on these accounts.

The School relies on its tuition revenue, teachers, and other general labor from individuals living in the Kansas City, Missouri metropolitan area. Contributions are primarily from parents and alumni of the School living in the Kansas City, Missouri metropolitan area.

Note 13. Fair Value of Financial Instruments

The following methods and assumptions were used to estimate fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and cash equivalents: The carrying amount approximates fair value based on the short maturity of these instruments.

Investments: The carrying amount of investments is generally based on quoted market prices for similar investments or the net asset value.

Receivables: The carrying amount approximates fair value based on the short maturity of these instruments.

Bonds payable: Based on the borrowing rates available to the School for loans with similar terms, the carrying value approximates fair value as the bonds interest rates reprice weekly.

Interest rate swap asset or liability: Interest rate swap asset or liability is recorded at fair value based upon derivatives with similar terms and maturities.

Accounts payable: The carrying amount approximates fair value based on the short maturity of these instruments.

Note 14. Subsequent Events

Management has evaluated and disclosed events up to and including November 12, 2013, which is the date the financial statements were available to be issued.