

# Pembroke Hill School

Financial Report  
June 30, 2015



## Contents

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Independent Auditor's Report	1
<hr/>	
Financial Statements	
Statements of financial position	2
Statements of activities	3-4
Statements of cash flows	5
Notes to financial statements	6-21

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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, 2015 and 2014, 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, 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.

*McGladrey LLP*

Kansas City, Missouri  
October 21, 2015

**Pembroke Hill School**

**Statements of Financial Position  
June 30, 2015 and 2014**

<b>Assets</b>	<b>2015</b>	<b>2014</b>
Cash and cash equivalents (Note 12)	\$ 2,186,086	\$ 3,546,730
Investments (Notes 2, 3, and 6)	61,864,757	69,509,133
Receivables:		
Tuition, fees and other	66,006	111,735
Pledges, net (Note 4)	2,290,861	3,158,970
Student loans	12,269	29,222
Inventories	87,753	65,722
Prepaid expenses and other	391,225	204,831
Property and equipment, net (Notes 5 and 6)	36,964,607	38,135,441
	<u>\$ 103,863,564</u>	<u>\$ 114,761,784</u>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable	\$ 928,098	\$ 980,897
Accrued salaries	1,112,505	1,061,928
Other accrued expenses	222,095	336,953
Deferred revenue	4,294,992	4,007,217
Bonds payable (Note 6)	15,255,000	23,725,650
Interest rate swap liability (Notes 3 and 7)	-	2,794,718
Total liabilities	<u>21,812,690</u>	<u>32,907,363</u>
Net assets (Notes 8, 9 and 10):		
Unrestricted	50,970,327	49,625,611
Temporarily restricted	12,870,981	14,785,415
Permanently restricted	18,209,566	17,443,395
Total net assets	<u>82,050,874</u>	<u>81,854,421</u>
	<u>\$ 103,863,564</u>	<u>\$ 114,761,784</u>

See Notes to Financial Statements.

**Pembroke Hill School**

**Statement of Activities  
Year Ended June 30, 2015**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2015
<b>Revenue and Support</b>				
Student tuition and fees, net of financial aid of \$1,914,854	\$ 19,689,408	\$ -	\$ -	\$ 19,689,408
Contributions	1,201,080	152,500	766,171	2,119,751
Food Service	1,205,605	-	-	1,205,605
Bookstore	728,152	-	-	728,152
Other Programs	2,327,866	-	-	2,327,866
Investment income (Note 2)	206,477	699,029	-	905,506
<b>Total revenue and support</b>	<b>25,358,588</b>	<b>851,529</b>	<b>766,171</b>	<b>26,976,288</b>
Net Assets Released from Restrictions (Note 10)	2,765,963	(2,765,963)	-	-
<b>Total revenue, support, and net assets released from restrictions</b>	<b>28,124,551</b>	<b>(1,914,434)</b>	<b>766,171</b>	<b>26,976,288</b>
<b>Expenses</b>				
<b>Instructional</b>				
Salaries and benefits	10,243,270	-	-	10,243,270
Employee discounts and financial aid	1,053,587	-	-	1,053,587
Supplies and services	1,559,612	-	-	1,559,612
	12,856,469	-	-	12,856,469
Student Activities	1,899,301	-	-	1,899,301
<b>Supporting services</b>				
General and administrative	4,358,517	-	-	4,358,517
Depreciation	2,044,195	-	-	2,044,195
Supplies, services, and repairs	3,234,138	-	-	3,234,138
Interest and bond issue costs	654,395	-	-	654,395
Change in fair value of swap instrument and related settlements (Note 7)	131,206	-	-	131,206
Food Service	1,057,557	-	-	1,057,557
Bookstore	544,057	-	-	544,057
<b>Total supporting services</b>	<b>12,024,065</b>	<b>-</b>	<b>-</b>	<b>12,024,065</b>
<b>Total expenses</b>	<b>26,779,835</b>	<b>-</b>	<b>-</b>	<b>26,779,835</b>
<b>Increase (decrease) in net assets</b>	<b>1,344,716</b>	<b>(1,914,434)</b>	<b>766,171</b>	<b>196,453</b>
<b>Net Assets</b>				
Beginning	49,625,611	14,785,415	17,443,395	81,854,421
Ending	\$ 50,970,327	\$ 12,870,981	\$ 18,209,566	\$ 82,050,874

See Notes to Financial Statements.

**Pembroke Hill School**

**Statement of Activities  
Year Ended June 30, 2014**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2014
<b>Revenue and Support</b>				
Student tuition and fees, net of financial aid of \$1,776,455	\$ 18,662,461	\$ -	\$ -	\$ 18,662,461
Contributions	1,373,497	18,209	279,376	1,671,082
Food Service	1,136,797	-	-	1,136,797
Bookstore	729,366	-	-	729,366
Other Programs	1,544,471	-	-	1,544,471
Investment income (Note 2)	4,606,913	4,639,549	-	9,246,462
<b>Total revenue and support</b>	<b>28,053,505</b>	<b>4,657,758</b>	<b>279,376</b>	<b>32,990,639</b>
Net Assets Released from Restrictions (Note 10)	3,183,706	(3,183,706)	-	-
<b>Total revenue, support, and net assets released from restrictions</b>	<b>31,237,211</b>	<b>1,474,052</b>	<b>279,376</b>	<b>32,990,639</b>
<b>Expenses</b>				
<b>Instructional</b>				
Salaries and benefits	9,851,264	-	-	9,851,264
Employee discounts and financial aid	875,387	-	-	875,387
Supplies and services	1,519,495	-	-	1,519,495
	12,246,146	-	-	12,246,146
Student Activities	1,856,177	-	-	1,856,177
<b>Supporting services</b>				
General and administrative	4,253,746	-	-	4,253,746
Depreciation	1,956,271	-	-	1,956,271
Supplies, services, and repairs	2,968,997	-	-	2,968,997
Interest and bond issue costs	506,189	-	-	506,189
Change in fair value of swap instrument and related settlements (Note 7)	510,778	-	-	510,778
Food Service	1,004,663	-	-	1,004,663
Bookstore	574,205	-	-	574,205
<b>Total supporting services</b>	<b>11,774,849</b>	<b>-</b>	<b>-</b>	<b>11,774,849</b>
<b>Total expenses</b>	<b>25,877,172</b>	<b>-</b>	<b>-</b>	<b>25,877,172</b>
<b>Increase in net assets</b>	<b>5,360,039</b>	<b>1,474,052</b>	<b>279,376</b>	<b>7,113,467</b>
<b>Net Assets</b>				
Beginning	44,265,572	13,311,363	17,164,019	74,740,954
Ending	\$ 49,625,611	\$ 14,785,415	\$ 17,443,395	\$ 81,854,421

See Notes to Financial Statements.

**Pembroke Hill School**

**Statements of Cash Flows  
Years Ended June 30, 2015 and 2014**

	2015	2014
Cash flows From Operating Activities		
Increase in net assets	\$ 196,453	\$ 7,113,467
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation expense	2,044,195	1,956,271
(Gain) on disposal of assets	-	(6,150)
Contributions restricted for long-term investment	(766,171)	(479,376)
Realized and unrealized (gain) loss on investments	264,789	(7,918,486)
Amortization of pledge discount	(35,713)	(51,883)
Amortization of debt issuance costs	179,289	13,226
Change in fair value of swap instruments	(10,718)	(64,643)
Change in certain assets and liabilities:		
(Increase) decrease in:		
Tuition, fees, student loans and other	62,682	34,257
Inventories	(22,031)	27,485
Pledges receivable, net of discounts	903,822	1,734,078
Prepaid expenses and other	(182,245)	119,335
Increase in:		
Accounts payable and accrued expenses	(117,080)	28,179
Deferred revenue	287,775	184,472
<b>Net cash provided by operating activities</b>	<b>2,805,047</b>	<b>2,690,232</b>
Cash flows From Investing Activities:		
Purchases of property and equipment	(873,361)	(2,060,918)
Proceeds from sale of property and equipment	-	12,000
Proceeds from sale of investments	13,309,786	7,649,519
Purchase of investments	(5,930,199)	(8,587,206)
<b>Net cash provided by (used in) by investing activities</b>	<b>6,506,226</b>	<b>(2,986,605)</b>
Cash Flows From Financing Activities		
Contributions restricted for long-term investments	766,171	479,376
Principal payments on bonds payable	(23,725,650)	(1,467,850)
Payment on swap termination	(2,784,000)	-
Payments for bond issuance costs	(183,438)	-
Issuance of bonds payable	15,255,000	-
<b>Net cash (used in) financing activities</b>	<b>(10,671,917)</b>	<b>(988,474)</b>
<b>Net (decrease) in cash and cash equivalents</b>	<b>(1,360,644)</b>	<b>(1,284,847)</b>
Cash and Cash Equivalents		
Beginning	3,546,730	4,831,577
Ending	<b>\$ 2,186,086</b>	<b>\$ 3,546,730</b>
Supplemental Disclosure of Cash Flow Information		
Cash payments for interest	<b>\$ 620,041</b>	<b>\$ 861,715</b>

See Notes to Financial Statements.

## Pembroke Hill School

### Notes to Financial Statements

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#### 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 12<sup>th</sup> 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:* Unrestricted net assets are net assets that are not subject to donor-imposed stipulations.

*Temporarily restricted net assets:* Temporarily restricted net assets are 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:* Permanently restricted net assets are 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

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#### 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, 2015 or 2014. 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. The swap agreement was terminated on October 8, 2014 as part of the bond restructuring disclosed in Note 6.

**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

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#### 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, 2015 or 2014.

Generally, the School is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years 2011 and prior.

**Fundraising costs:** Fundraising costs are expensed as incurred. Fundraising costs are included in general and administrative expenses on the statement of activities. Fundraising expense was approximately \$508,000 and \$531,000 for the years ended June 30, 2015 and 2014, 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.

**Recent accounting pronouncements:** Accounting Standards Update (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 ASU removed the requirement to categorize within the fair value hierarchy investments for which fair values are measured at NAV using the practical expedient. Removing those investments from the fair value hierarchy not only eliminates the diversity in practice in how investments measured at NAV (or its equivalent) with future redemption dates are classified, but also ensures that all investments categorized in the fair value hierarchy are classified using a consistent approach. For all non-public entities, the ASU is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. A reporting entity should apply the amendments retrospectively to all periods presented. Early application is permitted. The School has elected early adoption of this ASU for the years ended June 30, 2015 and 2014.

## Pembroke Hill School

### Notes to Financial Statements

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#### Note 2. Investments

Investments at June 30, 2015 and 2014 consisted of the following:

	2015	2014
Intermediate cash fund	\$ 9,380	\$ 18,475
Equity funds	25,118,801	29,314,885
Fixed income funds	9,960,004	12,940,121
Alternative investments	16,265,846	18,654,671
Cash surrender value of life insurance policies	81,182	77,346
Certificates of deposit	10,429,544	8,503,635
Total investments	<u>\$ 61,864,757</u>	<u>\$ 69,509,133</u>

Investment income for the years ended June 30, 2015 and 2014 consists of the following:

	2015	2014
Interest and dividends	\$ 1,170,295	\$ 1,327,976
Realized and unrealized gains (losses), net	(264,789)	7,918,486
Total investment income	<u>\$ 905,506</u>	<u>\$ 9,246,462</u>

#### 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.

## Pembroke Hill School

### Notes to Financial Statements

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#### **Note 3. Fair Value Measurements (Continued)**

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. In certain cases where there is limited activity or transparency around inputs to the valuation, securities are classified with the Level 3 of the valuation hierarchy.

The Commonfund equity fund, classified as Level 2 within the fair value hierarchy, is a pooled investment fund consisting of 9.17 percent and 6.36 percent Level 1 holdings, 90.83 percent and 93.64 percent alternative investment holdings reported at net asset value as of June 30, 2015 and 2014, respectively. Due to the investment being a pooled fund, the balance is classified as a Level 2.

The Commonfund fixed income fund, classified as Level 2 within the fair value hierarchy, is a pooled investment fund consisting of 100 percent alternative investment holdings reported at net asset value as of June 30, 2015 and 2014, respectively. Due to the investment being a pooled fund, the balance is classified as Level 2.

**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, 2015 and 2014, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value.

	June 30, 2015			Total
	Level 1	Level 2	Level 3	
Investments				
Intermediate cash fund	\$ 9,380	\$ -	\$ -	\$ 9,380
Equity funds:				
Commonfund	-	24,079,465	-	24,079,465
Domestic equity				
Exchange traded funds				
Large growth	34,653	-	-	34,653
Large blend	206,527	-	-	206,527
Large value	51,575	-	-	51,575
Mid cap	49,451	-	-	49,451
Mutual funds				
Large cap	267,541	-	-	267,541
Mid cap	81,086	-	-	81,086
Small cap	86,067	-	-	86,067
International equity				
Foreign common stocks	262,436	-	-	262,436
Fixed income funds:				
Commonfund	-	9,660,750	-	9,660,750
Taxable high yield funds	29,637	-	-	29,637
Diversified taxable mutual funds	165,127	-	-	165,127
Emerging markets	10,040	-	-	10,040
Investment grade taxable	59,582	-	-	59,582
Credit	34,868	-	-	34,868
Alternative investments:				
Commonfund	-	-	-	16,022,273
Hedge fund	-	-	-	243,573
Cash surrender value of life insurance policies	-	81,182	-	81,182
Certificates of deposit	-	10,429,544	-	10,429,544
	<u>\$ 1,347,970</u>	<u>\$ 44,250,941</u>	<u>\$ -</u>	<u>\$ 61,864,757</u>

**Pembroke Hill School**

**Notes to Financial Statements**

**Note 3. Fair Value Measurements (Continued)**

	June 30, 2014			
	Level 1	Level 2	Level 3	Total
Investments				
Intermediate cash fund	\$ 18,475	\$ -	\$ -	\$ 18,475
Equity funds:				
Commonfund	-	28,236,814	-	28,236,814
Domestic equity				
Exchange traded funds				
Large growth	31,826	-	-	31,826
Large blend	151,776	-	-	151,776
Large value	45,572	-	-	45,572
Mid cap	39,271	-	-	39,271
Mutual funds				
Large cap	295,304	-	-	295,304
Mid cap	113,933	-	-	113,933
Small cap	79,922	-	-	79,922
International equity				
Foreign common stocks	320,467	-	-	320,467
Fixed income funds:				
Commonfund	-	12,708,831	-	12,708,831
Taxable high yield funds	7,681	-	-	7,681
Diversified taxable mutual funds	130,334	-	-	130,334
Emerging markets	11,004	-	-	11,004
Investment grade taxable	61,966	-	-	61,966
Credit	20,305	-	-	20,305
Alternative investments:				
Commonfund	-	-	-	18,313,064
Hedge fund	-	-	-	341,607
Cash surrender value of life insurance policies	-	77,346	-	77,346
Certificates of deposit	-	8,503,635	-	8,503,635
	1,327,836	49,526,626	-	69,509,133
Swap Liability	-	(2,794,718)	-	(2,794,718)
	\$ 1,327,836	\$ 46,731,908	\$ -	\$ 66,714,415

## 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, 2015 and 2014:

Investment	Fair Value at June 30, 2015	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
Investments:				
Commonfund equity funds:				
Equity fund (A)	\$ 24,079,465	\$ -	Monthly	Trade date minus 5 days
Commonfund fixed income fund (B)	9,660,750	-	Monthly	Trade date minus 5 days
Commonfund alternative investments:				
Emerging markets investors company (C)	2,510,246	-	Monthly	30 days
Multi-strategy commodities fund (D)	1,960,712	-	Monthly	Trade date minus 30 days
Global absolute alpha company (E)	6,223,202	-	Semi-annually	95 days
Multi-strategy global hedged partners fund (F)	3,578,884	-	Semi-annually	90 days
Real Estate Fund (G)	1,749,229	-	Monthly	Trade date minus 5 days
	<u>\$ 49,762,488</u>	<u>\$ -</u>		
Investment	Fair Value at June 30, 2014	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
Investments:				
Commonfund equity funds:				
Equity fund (A)	\$ 28,236,814	\$ -	Monthly	Trade date minus 5 days
Commonfund fixed income fund (B)	12,708,831	-	Monthly	Trade date minus 5 days
Commonfund alternative investments:				
Emerging markets investors company (C)	2,904,426	-	Monthly	30 days
Multi-strategy commodities fund (D)	2,295,158	-	Monthly	Trade date minus 30 days
Global absolute alpha company (E)	6,741,613	-	Semi-annually	95 days
Multi-strategy global hedged partners fund (F)	4,032,419	-	Semi-annually	90 days
Real Estate Fund (G)	2,339,448	-	Monthly	Trade date minus 5 days
	<u>\$ 59,258,709</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.

**Note 3. Fair Value Measurements (Continued)**

- (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.
- (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.
- (F) The investment objective of the Fund is to outperform its benchmark, the London Interbank Offered Rate (LIBOR) plus five hundred basis points. The Fund provides investment exposure across Europe, Asia, and North America, as well as emerging markets. The Fund invests primarily in offshore investment funds, investment partnerships, and pooled investment vehicles. 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.
- (G) The investment objective of the Fund is to outperform the Dow Jones U.S. Select Real Estate Securities Index. The Fund invests primarily in equity-oriented real estate investment trusts and real estate operating companies that own and operate multi-family, commercial, and retail properties, primarily in the United States. 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**

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**Note 4. Pledges Receivable**

Unconditional promises to give at June 30, 2015 and 2014 are as follows:

	2015	2014
Receivable in less than one year	\$ 1,109,770	\$ 1,110,839
Receivable in one to five years	1,190,175	2,082,928
Receivable in over five years	30,000	40,000
	<u>2,329,945</u>	<u>3,233,767</u>
Less present value discount	39,084	74,797
	<u>\$ 2,290,861</u>	<u>\$ 3,158,970</u>

**Note 5. Property and Equipment**

A summary of property and equipment at June 30, 2015 and 2014 is as follows:

	2015	2014
Land and land improvements	\$ 5,281,075	\$ 5,281,075
Buildings	57,496,011	56,817,210
Furniture and equipment	6,189,076	5,720,492
Construction in process	102,019	394,393
	<u>69,068,181</u>	<u>68,213,170</u>
Less accumulated depreciation	32,103,574	30,077,729
	<u>\$ 36,964,607</u>	<u>\$ 38,135,441</u>

**Pembroke Hill School**

**Notes to Financial Statements**

**Note 6. Bonds Payable**

Bonds payable consists of the following as of June 30, 2015 and 2014:

	2015	2014
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 .15% and .16% during the years ended June 30, 2015 and 2014, respectively. Bonds were paid off in October 2014 as part of the School's debt restructuring.	\$ -	\$ 9,565,000
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 .10% and .13% during the years ended June 30, 2015 and 2014, respectively. Bonds were paid off in October 2014 as part of the School's debt restructuring.	-	6,800,000
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. Bonds were paid off in October 2014 as part of the School's debt restructuring.	-	7,360,650
Health and Educational Facilities Authority of the State of Missouri Educational Facilities Revenue Bonds - Series 2014, comprised of a bank qualified bond, bearing interest at a fixed rate of 3.02% through 2024, payable in annual installments through 2039. The Bonds are secured by a pledge of the School's tuition and fees.	15,255,000	-
Total bonds payable	\$ 15,255,000	\$ 23,725,650

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 and fixed charge coverage.

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

Year Ending June 30:

2016	\$ 295,000
2017	430,000
2018	445,000
2019	460,000
2020	470,000
Thereafter	13,155,000
	\$ 15,255,000

## Pembroke Hill School

### Notes to Financial Statements

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#### Note 7. Derivative Instruments

In a previous year, the School entered into interest-rate swap agreements to convert a portion of its variable-rate debt to fixed rates. The swap agreements were paid off during year ended June 30, 2015 as part of the bond restructuring described in Note 6. The level of fixed-rate debt, after the effects of the interest-rate swap have been considered, was maintained at approximately 99 percent of the School's total debt at June 30, 2014. At June 30, 2014, the School was the fixed rate payer on interest rate swap agreements totaling \$16,250,000. At June 30, 2014, the fair value of these interest-rate swap agreements recorded on the School's statements of financial position as a liability was \$2,794,718.

The following amounts have been included in the statements of activities for the years ended June 30, 2015 and 2014:

	2015	2014
Swap settlements	\$ 141,924	\$ 575,421
Unrealized (gain) on interest rate swaps	(10,718)	(64,643)
Total	<u>\$ 131,206</u>	<u>\$ 510,778</u>

#### 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:

	2015	2014
Library	\$ 408,258	\$ 425,863
Student activities	72,990	55,281
Buildings and maintenance	1,468,478	1,503,414
Professional development	619,616	639,562
Time restrictions	960,686	2,341,009
Financial aid	4,386,712	4,717,568
Faculty salaries	556,799	574,981
Instructional programs	475,206	492,831
Athletic coaches	24,411	26,390
General activities of the School	3,897,825	4,008,516
Total	<u>\$ 12,870,981</u>	<u>\$ 14,785,415</u>

## Pembroke Hill School

### Notes to Financial Statements

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#### Note 8. Composition of Net Assets (Continued)

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

	2015	2014
Financial aid	\$ 9,091,719	\$ 8,492,057
Faculty salaries	574,285	524,285
Buildings and maintenance	3,670,622	3,665,122
Professional development	556,450	556,450
Library	413,683	413,183
Instructional programs	543,503	540,280
Athletic coaches	100,000	100,000
General activities of the School	3,259,304	3,152,018
Total	<u>\$ 18,209,566</u>	<u>\$ 17,443,395</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

**Spending Policy:** It is the policy of the School to annually distribute 4 percent 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 percent, net of fees, over the Consumer Price Index, with a long term annualized standard deviation of return in the range of 10-11 percent. 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.

**Pembroke Hill School**

**Notes to Financial Statements**

**Note 9. Endowments (Continued)**

The following is activity related to endowment net assets for the years ended June 30, 2015 and 2014:

	2015			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets, beginning of year	\$ 8,012,726	\$ 12,383,476	\$ 17,443,395	\$ 37,839,597
Investment return:				
Investment income	319,492	2,266,530	-	2,586,022
Net appreciation (realized and unrealized)	(386,128)	(1,489,117)	-	(1,875,245)
Contributions	497,632	-	766,171	1,263,803
Appropriation of endowment assets for expenditure	(74,778)	(1,383,030)	-	(1,457,808)
Endowment net assets, end of year	<u>\$ 8,368,944</u>	<u>\$ 11,777,859</u>	<u>\$ 18,209,566</u>	<u>\$ 38,356,369</u>
	2014			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 6,686,554	\$ 8,839,326	\$ 16,164,019	\$ 31,689,899
Investment return:				
Investment income	281,574	1,846,996	-	2,128,570
Net appreciation (realized and unrealized)	743,089	2,984,768	-	3,727,857
Contributions	577,704	-	1,279,376	1,857,080
Appropriation of endowment assets for expenditure	(276,195)	(1,287,614)	-	(1,563,809)
Endowment net assets, end of year	<u>\$ 8,012,726</u>	<u>\$ 12,383,476</u>	<u>\$ 17,443,395</u>	<u>\$ 37,839,597</u>

## Pembroke Hill School

### Notes to Financial Statements

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#### 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:

	2015	2014
Library	\$ 59,555	\$ 61,949
Student activities	28,337	25,086
Buildings and maintenance	49,529	32,395
Time restrictions	1,380,323	2,085,585
Professional development	7,005	2,031
Technology	143,628	19,867
Financial aid	849,821	832,395
Faculty salaries	5,673	4,297
Instructional programs	242,092	115,277
Any activities	-	4,824
	<u>\$ 2,765,963</u>	<u>\$ 3,183,706</u>

#### 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 percent for 2015 and 2014. The School's contribution to the retirement plan was approximately \$783,000 and \$758,000 for the years ended June 30, 2015 and 2014, 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.

**Pembroke Hill School**

**Notes to Financial Statements**

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**Note 13. Fair Value of Financial Instruments (Continued)**

**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 October 21, 2015, which is the date the financial statements were available to be issued.