

Pembroke Hill School

Financial Report
June 30, 2016



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RSM US LLP

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, 2016 and 2015; 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, 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.

RSM US LLP

Kansas City, Missouri
November 1, 2016

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Pembroke Hill School

**Statements of Financial Position
June 30, 2016 and 2015**

	2016	2015
Assets		
Cash and cash equivalents (Note 12)	\$ 3,216,610	\$ 2,186,086
Investments (Notes 2, 3 and 6)	63,756,675	61,864,757
Receivables:		
Tuition, fees and other	78,565	78,275
Pledges, net (Note 4)	1,241,383	2,290,861
Inventories	82,408	87,753
Prepaid expenses and other	352,175	391,225
Property and equipment, net (Notes 5 and 6)	35,459,076	36,964,607
	\$ 104,186,892	\$ 103,863,564
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 1,010,174	\$ 928,098
Accrued salaries	1,233,836	1,112,505
Other accrued expenses	230,087	222,095
Deferred revenue	4,477,689	4,294,992
Bonds payable (Note 6)	14,960,000	15,255,000
Total liabilities	21,911,786	21,812,690
Net assets (Notes 7, 8 and 9):		
Unrestricted	50,161,836	50,970,327
Temporarily restricted	13,054,620	12,870,981
Permanently restricted	19,058,650	18,209,566
Total net assets	82,275,106	82,050,874
	\$ 104,186,892	\$ 103,863,564

See notes to financial statements.

Pembroke Hill School

**Statement of Activities
Year Ended June 30, 2016**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and support:				
Student tuition and fees, net of financial aid of \$1,985,525	\$ 20,532,679	\$ -	\$ -	\$ 20,532,679
Contributions	1,006,207	2,225,000	849,084	4,080,291
Food service	1,265,810	-	-	1,265,810
Bookstore	723,238	-	-	723,238
Other programs	1,666,994	-	-	1,666,994
Investment income (loss) (Note 2)	(396,962)	(475,676)	-	(872,638)
Total revenue and support	24,797,966	1,749,324	849,084	27,396,374
Net assets released from restrictions (Note 9)	1,565,685	(1,565,685)	-	-
Total revenue, support and net assets released from restrictions	26,363,651	183,639	849,084	27,396,374
Expenses:				
Instructional:				
Salaries and benefits	10,812,632	-	-	10,812,632
Employee discounts and financial aid	1,078,476	-	-	1,078,476
Supplies and services	1,513,938	-	-	1,513,938
	13,405,046	-	-	13,405,046
Student activities	1,823,555	-	-	1,823,555
Supporting services:				
General and administrative	4,399,734	-	-	4,399,734
Depreciation	2,051,893	-	-	2,051,893
Supplies, services and repairs	3,341,955	-	-	3,341,955
Interest and bond issue costs	471,182	-	-	471,182
Food service	1,125,623	-	-	1,125,623
Bookstore	553,154	-	-	553,154
Total supporting services	11,943,541	-	-	11,943,541
Total expenses	27,172,142	-	-	27,172,142
Increase (decrease) in net assets	(808,491)	183,639	849,084	224,232
Net assets:				
Beginning	50,970,327	12,870,981	18,209,566	82,050,874
Ending	\$ 50,161,836	\$ 13,054,620	\$ 19,058,650	\$ 82,275,106

See notes to financial statements.

Pembroke Hill School

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and support:				
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
Total revenue and support	25,358,588	851,529	766,171	26,976,288
Net assets released from restrictions (Note 9)	2,765,963	(2,765,963)	-	-
Total revenue, support and net assets released from restrictions	28,124,551	(1,914,434)	766,171	26,976,288
Expenses:				
Instructional:				
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
Supporting services:				
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 6)	131,206	-	-	131,206
Food service	1,057,557	-	-	1,057,557
Bookstore	544,057	-	-	544,057
Total supporting services	12,024,065	-	-	12,024,065
Total expenses	26,779,835	-	-	26,779,835
Increase (decrease) in net assets	1,344,716	(1,914,434)	766,171	196,453
Net assets:				
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

**Statements of Cash Flows
Years Ended June 30, 2016 and 2015**

	2016	2015
Cash flows from operating activities:		
Increase in net assets	\$ 224,232	\$ 196,453
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation expense	2,051,893	2,044,195
Contributions restricted for long-term investment	(849,084)	(766,171)
Realized and unrealized losses on investments	2,180,198	264,789
Amortization of pledge discount	(23,570)	(35,713)
Amortization of debt issuance costs	7,338	179,289
Change in fair value of swap instruments	-	(10,718)
Changes in certain assets and liabilities:		
(Increase) decrease in:		
Tuition, fees and other	(290)	62,682
Inventories	5,345	(22,031)
Pledges receivable, net of discounts	1,073,048	903,822
Prepaid expenses and other	31,712	(182,245)
Increase in:		
Accounts payable and accrued expenses	211,399	(117,080)
Deferred revenue	182,697	287,775
Net cash provided by operating activities	5,094,918	2,805,047
Cash flows from investing activities:		
Purchases of property and equipment	(546,362)	(873,361)
Proceeds from sale of investments	2,970,594	13,309,786
Purchase of investments	(7,042,710)	(5,930,199)
Net cash provided by (used in) investing activities	(4,618,478)	6,506,226
Cash flows from financing activities:		
Contributions restricted for long-term investments	849,084	766,171
Principal payments on bonds payable	(295,000)	(23,725,650)
Payment on swap termination	-	(2,784,000)
Payments for bond issuance costs	-	(183,438)
Issuance of bonds payable	-	15,255,000
Net cash provided by (used in) financing activities	554,084	(10,671,917)
Net increase (decrease) in cash and cash equivalents	1,030,524	(1,360,644)
Cash and cash equivalents:		
Beginning	2,186,086	3,546,730
Ending	\$ 3,216,610	\$ 2,186,086
Supplemental disclosures of cash flow information:		
Cash payments for interest	\$ 462,546	\$ 620,041

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, nonprofit 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: 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

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 statements 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 fee 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, 2016 or 2015. 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

Accrued salaries: Faculty salaries are paid over a 12-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.

Income taxes: The School is a nonprofit 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, 2016 or 2015.

Pembroke Hill School

Notes to Financial Statements

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

Fundraising costs: Fundraising costs are expensed as incurred. Fundraising costs are included in general and administrative expenses on the statements of activities. Fundraising expense was approximately \$553,000 and \$508,000 for the years ended June 30, 2016 and 2015, 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 statements 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: In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The new standard changes presentation and disclosure requirements with the intention of helping not-for-profits provide more relevant information about their resources to donors, grantors, creditors and other financial statement users. This pronouncement decreases the number of net assets classes from three to two. The new classes will be net assets with donor restrictions and net assets without donor restrictions. The standard will take effect for annual financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. Therefore, this ASU will be effective for the School's fiscal year ending June 30, 2019. Management is in the process of evaluating the impact of this new guidance.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This guidance is intended to improve comparability of accounting treatment for revenue recognition across geographies and industries, and to provide more useful information to financial statement readers through enhanced disclosure requirements. It replaces industry-specific guidance with a principles-based approach for revenue recognition, and is a step toward convergence of U.S. GAAP and International Financial Reporting Standards. In general, it requires revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This ASU, as deferred one year by ASU No. 2015-14, is effective for annual reporting periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 31, 2019. Therefore, this ASU will be effective for the School for the fiscal year ending June 30, 2020. The ASU permits the use of either of two methods: a full retrospective or a retrospective with the cumulative effect and additional disclosures. Management has not yet selected a transition method, as the School is currently evaluating the impact of the new standard on its sources of support and financial statements, and is reviewing its revenue recognition policies and processes for any necessary amendments.

Pembroke Hill School

Notes to Financial Statements

Note 2. Investments

Investments at June 30, 2016 and 2015, consisted of the following:

	2016	2015
Intermediate cash fund	\$ 25,356	\$ 9,380
Equity funds	24,141,247	25,118,801
Fixed-income funds	10,659,318	9,960,004
Alternative investments	15,658,620	16,265,846
Cash surrender value of life insurance policies	70,667	81,182
Certificates of deposit	13,201,467	10,429,544
Total investments	<u>\$ 63,756,675</u>	<u>\$ 61,864,757</u>

Investment income (loss) for the years ended June 30, 2016 and 2015, consists of the following:

	2016	2015
Interest and dividends	\$ 1,307,560	\$ 1,170,295
Realized and unrealized losses, net	(2,180,198)	(264,789)
Total investment income (loss)	<u>\$ (872,638)</u>	<u>\$ 905,506</u>

Note 3. Fair Value Measurements

The Fair Value Measurements and Disclosures topic of the 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 a 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

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 within 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 9.23 percent and 9.17 percent Level 1 holdings, 90.77 percent and 90.83 percent alternative investment holdings reported at net asset value as of June 30, 2016 and 2015, 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, 2016 and 2015. 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, 2016 and 2015, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	June 30, 2016			
	Level 1	Level 2	Level 3	Total
Investments:				
Intermediate cash fund	\$ 25,356	\$ -	\$ -	\$ 25,356
Equity funds:				
Commonfund	-	23,186,707	-	23,186,707
Domestic equity:				
Exchange-traded funds:				
Large growth	42,651	-	-	42,651
Large blend	169,455	-	-	169,455
Large value	56,777	-	-	56,777
Mid cap	50,772	-	-	50,772
Mutual funds:				
Large cap	285,750	-	-	285,750
Mid cap	50,448	-	-	50,448
Small cap	68,042	-	-	68,042
International equity:				
Foreign mutual funds	230,645	-	-	230,645
Fixed-income funds:				
Commonfund	-	10,316,322	-	10,316,322
Taxable high-yield funds	20,834	-	-	20,834
Diversified taxable mutual funds	188,113	-	-	188,113
Emerging markets	10,430	-	-	10,430
Investment-grade taxable	87,534	-	-	87,534
Credit	36,085	-	-	36,085
Cash surrender value of life insurance policies	-	70,667	-	70,667
Certificates of deposit	-	13,201,467	-	13,201,467
	<u>\$ 1,322,892</u>	<u>\$ 46,775,163</u>	<u>\$ -</u>	<u>48,098,055</u>
Alternative investments:				
Commonfund				15,461,815
Hedge funds				196,805
Total investments				<u>\$ 63,756,675</u>

Pembroke Hill School

Notes to Financial Statements

Note 3. Fair Value Measurements (Continued)

	June 30, 2015			
	Level 1	Level 2	Level 3	Total
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
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>45,598,911</u>
Alternative investments:				
Commonfund				16,022,273
Hedge funds				243,573
Total investments				<u>\$ 61,864,757</u>

Pembroke Hill School

Notes to Financial Statements

Note 3. Fair Value Measurements (Continued)

The following tables set 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, 2016 and 2015:

Investment	Fair Value at June 30, 2016	Fair Value at June 30, 2015	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
Investments:					
Commonfund equity funds:					
Equity fund (A)	\$ 23,186,707	\$ 24,079,465	\$ -	Monthly	Trade date minus 5 days
Commonfund fixed-income fund (B)					
	10,316,322	9,660,750	-	Monthly	Trade date minus 5 days
Commonfund alternative investments:					
Emerging markets investors company (C)	2,216,510	2,510,246	-	Monthly	30 days
Multistrategy commodities fund (D)	1,722,042	1,960,712	-	Monthly	Trade date minus 30 days
Global absolute alpha company (E)	6,002,463	6,223,202	-	Semiannually	95 days
Multistrategy global hedged partners fund (F)	3,424,130	3,578,884	-	Semiannually	90 days
Real estate fund (G)	2,096,670	1,749,229	-	Monthly	Trade date minus 5 days
Hedge funds (H)	196,805	243,573	-	Monthly	None
	<u>\$ 49,161,649</u>	<u>\$ 50,006,061</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 NAV per share based on the fair value of the underlying assets. The fair value of this investment has been estimated using the NAV per share of the investments provided by the fund manager.
- (B) The investment objective of the fund is to offer an actively managed, multimanager 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 NAV per share based on the fair value of the underlying assets. The fair value of this investment has been estimated using the NAV 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 NAV per share based on the fair value of the underlying assets. The fair value of this investment has been estimated using the NAV 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 multistrategy approach to investing in commodities markets. These funds can be redeemed monthly at the NAV per share based on the fair value of the underlying assets. The fair value of this investment has been estimated using the NAV 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 NAV per share based on the fair value of the underlying assets. The fair value of this investment has been estimated using the NAV 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 500 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 NAV per share based on the fair value of the underlying assets. The fair value of this investment has been estimated using the NAV 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 multifamily, commercial and retail properties, primarily in the United States. These funds can be redeemed monthly at the NAV per share based on the fair value of the underlying assets. The fair value of this investment has been estimated using the NAV per share of the investments provided by the fund manager.
- (H) The investment objective of these funds is to invest with hedge funds that focus on long- and short-term equity investing in order to achieve a mix of value and growth, stock capitalizations and sector exposures.

Note 4. Pledges Receivable

Unconditional promises to give at June 30, 2016 and 2015, are as follows:

	2016	2015
Receivable in less than one year	\$ 1,031,897	\$ 1,109,770
Receivable in one to five years	205,000	1,190,175
Receivable in over five years	20,000	30,000
	1,256,897	2,329,945
Less present value discount	15,514	39,084
	<u>\$ 1,241,383</u>	<u>\$ 2,290,861</u>

Pembroke Hill School

Notes to Financial Statements

Note 5. Property and Equipment

A summary of property and equipment at June 30, 2016 and 2015, is as follows:

	2016	2015
Land and land improvements	\$ 5,281,075	\$ 5,281,075
Buildings	57,639,021	57,496,011
Furniture and equipment	6,533,609	6,189,076
Construction in process	56,823	102,019
	<u>69,510,528</u>	<u>69,068,181</u>
Less accumulated depreciation	34,051,452	32,103,574
	<u>\$ 35,459,076</u>	<u>\$ 36,964,607</u>

Note 6. Bonds Payable

Bonds payable consist of the following as of June 30, 2016 and 2015:

	2016	2015
Health and Educational Facilities Authority of the State of Missouri Educational Facilities Revenue Bonds—Series 2014; composed 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	\$ 14,960,000	\$ 15,255,000
Total bonds payable	<u>\$ 14,960,000</u>	<u>\$ 15,255,000</u>

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:

Years ending June 30:		
2017		\$ 430,000
2018		445,000
2019		460,000
2020		470,000
2021		485,000
Thereafter		12,670,000
		<u>\$ 14,960,000</u>

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 the year ended June 30, 2015, as part of the bond restructuring. Swap settlements of \$141,924 and an unrealized gain on interest rate swaps of \$10,718, are included on the statement of activities for the year ended June 30, 2015.

Pembroke Hill School

Notes to Financial Statements

Note 7. 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 at June 30, 2016 and 2015:

	2016	2015
Library	\$ 365,550	\$ 408,258
Student activities	78,480	72,990
Buildings and maintenance	3,392,538	1,468,478
Professional development	551,150	619,616
Time restrictions	723,963	960,686
Financial aid	3,525,212	4,386,712
Faculty salaries	490,956	556,799
Instructional programs	415,672	475,206
Athletic coaches	17,169	24,411
General activities of the School	3,492,526	3,897,825
Retirement	1,404	-
Total	<u>\$ 13,054,620</u>	<u>\$ 12,870,981</u>

Permanently restricted net assets include endowment funds restricted in perpetuity, the income from which is expendable to support the following at June 30, 2016 and 2015:

	2016	2015
Financial aid	\$ 9,912,503	\$ 9,091,719
Faculty salaries	574,285	574,285
Buildings and maintenance	3,676,122	3,670,622
Professional development	556,450	556,450
Library	415,363	413,683
Instructional programs	553,574	543,503
Athletic coaches	100,000	100,000
General activities of the School	3,270,353	3,259,304
Total	<u>\$ 19,058,650</u>	<u>\$ 18,209,566</u>

Note 8. Endowments

The School has interpreted that 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, considers 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 8. Endowments (Continued)

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 payout 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 percent to 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.

The following is activity related to endowment net assets for the years ended June 30, 2016 and 2015:

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets, beginning of year	\$ 8,368,944	\$ 11,777,859	\$ 18,209,566	\$ 38,356,369
Investment return:				
Investment income	326,108	2,109,719	-	2,435,827
Net appreciation (depreciation) (realized and unrealized)	(652,907)	(2,769,613)	-	(3,422,520)
Contributions	503,454	-	849,083	1,352,537
Appropriation of endowment assets for expenditure	(79,724)	(1,127,967)	-	(1,207,691)
Endowment net assets, end of year	<u>\$ 8,465,875</u>	<u>\$ 9,989,998</u>	<u>\$ 19,058,649</u>	<u>\$ 37,514,522</u>
	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
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>

Pembroke Hill School

Notes to Financial Statements

Note 9. 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 as follows during the years ended June 30, 2016 and 2015:

	2016	2015
Library	\$ 63,455	\$ 59,555
Student activities	28,168	28,337
Buildings and maintenance	35,693	49,529
Time restrictions	436,723	1,380,323
Professional development	11,588	7,005
Technology	27,268	143,628
Financial aid	849,221	849,821
Faculty salaries	4,650	5,673
Instructional programs	108,919	242,092
	<u>\$ 1,565,685</u>	<u>\$ 2,765,963</u>

Note 10. 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 2016 and 2015. The School's contribution to the retirement plan was approximately \$808,000 and \$783,000 for the years ended June 30, 2016 and 2015, respectively.

Note 11. 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 12. 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 NAV.

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

Pembroke Hill School

Notes to Financial Statements

Note 12. 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.

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

Note 13. Subsequent Events

Management has evaluated and disclosed events up to and including November 1, 2016, which is the date the financial statements were available to be issued.