

THE KING'S UNIVERSITY COLLEGE

Consolidated Financial Statements

Year Ended June 30, 2007

Index to the Consolidated Financial Statements

THE KING'S UNIVERSITY COLLEGE

June 30, 2007

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AUDITORS' REPORT

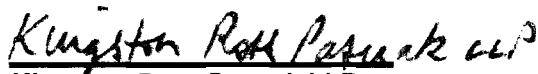
August 20, 2007
Edmonton, Alberta

To the Members of The King's University College

We have audited the consolidated statement of financial position of The King's University College as at June 30, 2007 and the consolidated statements of operations, changes in net assets and cash flows for the year then ended. These consolidated financial statements are the responsibility of the University College's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the University College as at June 30, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.


Kingston Ross Pasnak LLP
Chartered Accountants

Consolidated Statement of Financial Position

THE KING'S UNIVERSITY COLLEGE

June 30, 2007

| ASSETS | | 2007 | 2006 |
|--|----|-------------|---------------|
| CURRENT ASSETS | | | |
| Cash | \$ | 12,791 | \$ 21,290 |
| Accounts receivable | | 72,616 | 75,115 |
| Endowment receivable | | 10,000 | 10,000 |
| Bookstore inventory | | 119,101 | 120,407 |
| Prepaid expenses and deposits | | 238,294 | 198,832 |
| | | 452,802 | 425,644 |
| ENDOWMENT RECEIVABLE | | 60,000 | 70,000 |
| INVESTMENTS (Note 3) | | 2,382,394 | 2,033,019 |
| CAPITAL ASSETS (Note 4) | | 22,257,501 | 22,962,748 |
| | \$ | 25,152,697 | \$ 25,491,411 |
| LIABILITIES AND NET ASSETS | | | |
| CURRENT LIABILITIES | | | |
| Bank indebtedness (Note 5) | \$ | 428,840 | \$ 1,092,111 |
| Accounts payable and accrued liabilities | | 360,515 | 287,319 |
| Deferred revenue | | 440,365 | 375,774 |
| Deferred contributions (Note 6) | | 732,410 | 514,330 |
| Mortgage payable (Note 7) | | 9,781,789 | 9,381,140 |
| Debenture payable (Note 8) | | 4,465,000 | 4,700,000 |
| Current portion of long-term debt (Note 9) | | 1,146,842 | 1,300,114 |
| | | 17,355,761 | 17,650,788 |
| LONG-TERM DEBT (Note 9) | | 1,747,881 | 1,456,534 |
| DEFERRED CAPITAL CONTRIBUTIONS (Note 10) | | 3,160,086 | 3,262,477 |
| | | 22,263,728 | 22,369,799 |
| NET ASSETS | | | |
| Investment in capital assets | | 1,306,537 | 1,619,393 |
| Endowments (Note 11) | | 1,572,865 | 1,499,619 |
| Accumulated operating surplus | | 9,567 | 2,600 |
| | | 2,888,969 | 3,121,612 |
| | \$ | 25,152,697 | \$ 25,491,411 |

APPROVED BY THE BOARD

Jim Joosse Director

Bruce Adema Director

Consolidated Statement of Changes in Net Assets

THE KING'S UNIVERSITY COLLEGE

Year ended June 30, 2007

| | Investment in Capital Assets | Endowments | Accumulated Operating Surplus | 2007 Total | 2006 Total |
|---|---|---------------------|--|-----------------------|-----------------------|
| Deficiency of revenue over expenses | \$ - | \$ - | (293,785) | \$ (293,785) | \$ (32,829) |
| Endowment contributions | - | 61,142 | - | 61,142 | 395,776 |
| Transfer for: | | | | | |
| Internally restricted endowments | - | 12,104 | (12,104) | - | - |
| Acquisition of internally funded capital assets | 424,031 | - | (424,031) | - | - |
| Amortization of internally funded capital assets | (1,022,889) | - | 1,022,889 | - | - |
| Net book value of capital asset disposals | (3,998) | - | 3,998 | - | - |
| Increase in mortgage payable | (400,649) | - | 400,649 | - | - |
| Decrease in long-term debt related to capital assets | 86,925 | - | (86,925) | - | - |
| Decrease in capital line of credit (Note 5) | 603,725 | - | (603,725) | - | - |
| (DECREASE) INCREASE IN NET ASSETS | (312,856) | 73,246 | 6,967 | (232,643) | 362,947 |
| NET ASSETS, BEGINNING OF YEAR | 1,619,393 | 1,499,619 | 2,600 | 3,121,612 | 2,758,665 |
| NET ASSETS, END OF YEAR | \$ 1,306,537 | \$ 1,572,865 | 9,567 | \$ 2,888,969 | \$ 3,121,612 |

Consolidated Statement of Operations

THE KING'S UNIVERSITY COLLEGE

Year ended June 30, 2007

| | Budget | 2007 | 2006 |
|--|-----------------------|---------------------|--------------------|
| | (Note 13) | | |
| REVENUE | | | |
| Tuition fees | \$ 3,593,125 | \$ 3,652,932 | \$ 3,999,667 |
| Government grants | 3,517,185 | 3,577,529 | 3,040,239 |
| Donations | 1,743,550 | 2,054,013 | 1,833,594 |
| Residence and other sales | 1,450,030 | 1,372,078 | 1,360,778 |
| Research grants | 104,000 | 224,209 | 184,462 |
| Investment income (Note 12) | 67,850 | 83,554 | 93,580 |
| Other income | 22,850 | 49,323 | 49,985 |
| | 10,498,590 | 11,013,638 | 10,562,305 |
| EXPENSES | | | |
| Salaries and benefits | 6,415,091 | 6,227,870 | 6,274,055 |
| Amortization of capital assets | 1,217,900 | 1,217,860 | 1,079,829 |
| Operating supplies and services | 963,242 | 972,725 | 826,333 |
| Cost of goods sold | 646,100 | 681,160 | 672,404 |
| Utilities | 465,171 | 452,111 | 427,698 |
| Interest on mortgage payable | 434,000 | 380,650 | 264,579 |
| Interest on debenture payable | 286,000 | 312,622 | 133,175 |
| Travel, hospitality and conferences | 309,560 | 287,801 | 264,177 |
| Scholarships and awards | 245,205 | 268,111 | 213,437 |
| Maintenance and equipment rent | 214,449 | 259,893 | 206,510 |
| Insurance and taxes | 113,950 | 110,889 | 98,612 |
| Interest on long-term debt | 114,000 | 90,566 | 79,310 |
| Professional fees | 29,600 | 32,355 | 32,404 |
| Interest on other liabilities | 68,000 | 11,312 | 14,347 |
| Loss on disposal of capital assets | - | 1,498 | 8,264 |
| | 11,522,268 | 11,307,423 | 10,595,134 |
| DEFICIENCY OF REVENUE OVER EXPENSES | \$ (1,023,678) | \$ (293,785) | \$ (32,829) |

Consolidated Statement of Cash Flows

THE KING'S UNIVERSITY COLLEGE

Year ended June 30, 2007

| | 2007 | 2006 |
|--|-------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash received from students for tuition and fees | \$ 3,688,893 | \$ 3,975,061 |
| Cash received from governments | 3,751,893 | 3,193,312 |
| Cash received from donors | 1,974,847 | 1,730,877 |
| Cash received from sale of goods and services | 1,394,820 | 1,353,085 |
| Cash received from other sources | 63,963 | 48,343 |
| Cash paid to employees for salaries and benefits | (6,212,731) | (6,280,383) |
| Cash paid to suppliers for materials and services | (3,020,075) | (3,832,018) |
| Cash paid to creditors for interest | (414,499) | (223,949) |
| Net cash generated (used in) through operating activities | 1,227,111 | (35,672) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Cash received from long-term debt proceeds | 313,508 | 3,221,700 |
| Cash received for endowments | 61,142 | 395,775 |
| Cash paid for long-term debt repayments | (390,433) | (364,889) |
| Net cash (used in) generated through financing activities | (15,783) | 3,252,586 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Cash received from government restricted for equipment | 83,259 | 5,360 |
| Cash received from donors restricted for equipment | 9,321 | - |
| Cash received from income on investments (net of fees) | 112,312 | 48,483 |
| Cash received on disposal of capital assets | 2,500 | 200 |
| Cash applied to purchase of capital assets | (516,611) | (2,627,948) |
| Cash received (applied) to purchase of investments | 202,939 | (173,436) |
| Net cash used in investing activities | (106,280) | (2,747,341) |
| NET INCREASE IN CASH | 1,105,048 | 469,573 |
| BANK INDEBTEDNESS, BEGINNING OF YEAR | (962,120) | (1,431,693) |
| CASH (BANK INDEBTEDNESS), END OF YEAR | \$ 142,928 | \$ (962,120) |
| Cash and bank indebtedness comprised of: | | |
| Cash | \$ 12,791 | \$ 21,290 |
| Cash and cash equivalents included in investments | 558,977 | 108,701 |
| Bank indebtedness | (428,840) | (1,092,111) |
| | \$ 142,928 | \$ (962,120) |

Notes to the Consolidated Financial Statements

THE KING'S UNIVERSITY COLLEGE

June 30, 2007

Note 1 Authority and Purpose

The King's University College operates under the authority of The King's College Act, Statutes of Alberta 1979, as amended. The University College is a registered charity under the Income Tax Act (Canada) and is therefore exempt from the payment of income taxes. Its mission is to provide students with a university education from a Biblical perspective and strives to be an academic community which integrates the Christian faith with teaching, learning, research and college life, in an environment characterized by academic excellence and a personal approach to students.

Note 2 Significant Accounting Policies

Basis of Presentation

These consolidated financial statements include the accounts of The King's University College Foundation ("the Foundation"), which operates under the Companies Act of Alberta. The Foundation solicits and receives gifts and donations and provides grants and property to The King's University College to support and promote the educational and research activities of the University College. The Foundation is a registered charitable organization for purposes of the Income Tax Act (Canada) and, as such, is not liable for payment of income taxes.

Accordingly, the accounts of the two organizations have been consolidated to reflect the financial position and results of operations as though they were a single economic entity. Inter-entity balances and transactions have been eliminated on consolidation.

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Significant accounting policies are described below.

Revenue Recognition

The University College follows the deferral method of accounting for contributions. Contributions restricted for purposes other than endowments or the acquisition of capital assets are deferred and recognized as revenue in the year in which the related expenses are incurred. Contributions restricted for the acquisition of capital assets having limited lives are recorded as deferred capital contributions in the period in which they are received and are amortized to revenue over the useful lives of the related assets.

Unrestricted contributions are recognized as revenue when received or receivable. Endowment contributions are recognized as direct increases in net assets in the period in which they are received or receivable. Contributions restricted for the acquisition of non-amortizable capital assets are recognized as direct increases in net assets in the period in which they are expended.

Donated materials and services are recognized as revenue when they are received. Donated materials and services that would otherwise have been purchased are recorded at fair value when fair value can be reasonably determined. Pledges are recognized when collection is reasonably assured.

THE KING'S UNIVERSITY COLLEGE

June 30, 2007

Note 2
Significant
Accounting
Policies
continued...

Investment income includes dividend and interest income, and realized and unrealized investment gains and losses. Unrealized gains and losses on held-for-trading financial assets are included in investment income and recognized as revenue in the statement of operations, deferred or reported directly in net assets, depending on the nature of any external restrictions imposed on the investment income. Restricted investment income is recognized as revenue in the year in which the related expenses are incurred. Other unrestricted investment income is recognized as revenue when earned.

Tuition and residence fees are recognized as revenue when the instruction and services are delivered. Government grants are recognized as revenue in the year to which they relate. Revenue received for other services and products are recognized when the services and products are provided. Deferred revenue consists of tuition, residence fees and facility rental income received in advance.

Investments

The University College's investments are classified as held-for-trading, recorded at fair value and consist of money market, fixed income, and equity based instruments. The investment portfolio is managed by a third party investment manager and is subject to an investment policy set by the Board of Governors and which has as its main objective the growth and preservation of capital. The fixed income investments which consist of federal, provincial and corporate bonds are capable of prompt liquidation. The equity based investments are widely held and diversified and are traded on a regular basis on the recommendation of the investment manager and approval of the University College.

Endowments

Endowments represent restricted contributions of which the principal is to be held intact. Investment earnings on externally designated endowments are included in deferred contributions and must be used in accordance with the conditions imposed by the donor's terms of reference. Investment earnings on internally designated endowments are recognized as revenue when received or receivable. Investment earnings to be added to endowment principal are recorded as direct increases in net assets.

Inventory

Inventory of merchandise held for resale is recorded at the lower of cost and net realizable value, with cost being determined periodically on an average cost basis.

Capital Assets

Purchased capital assets are recorded at cost. Contributed capital assets are recorded at fair value at the date of contribution.

Capital assets are amortized on a straight-line basis over the assets' estimated useful lives as follows:

| | <u>Years</u> |
|---------------------------------|--------------|
| Buildings and site improvements | 10 – 40 |
| Furniture and equipment | 5 - 20 |
| Library materials | 5 - 10 |

THE KING'S UNIVERSITY COLLEGE

June 30, 2007

Note 2

Significant
Accounting
Policies
continued...

Leases

Leases are classified as capital or operating leases. A lease that transfers substantially all of the benefits and risks incident to the ownership of property is classified as a capital lease. All other leases are accounted for as operating leases, wherein rental payments are expensed as incurred.

Employee Future Benefits

The University College participates with other employees in the Canadian Christian School Pension Plan and Trust Fund (the "Plan"). The Plan is a contributory, defined benefit pension plan that provides pensions for the University College's eligible employees based on their years of service and earnings.

Pension cost is disclosed as a part of salaries and wages and is comprised of the amount of employer contributions required for its employees during the year, based on rates that are expected to provide benefits payable under the Plan. The University College's portion of the pension plan's deficit or surplus is not recorded by the University College.

Measurement Uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ those estimates. The significant estimates pertain to the physical and economic lives of capital assets and the recoverability of accounts receivable.

Notes to the Consolidated Financial Statements

THE KING'S UNIVERSITY COLLEGE

June 30, 2007

Note 3
Investments

| | 2007 | | 2006 | |
|--|-------------|------------------|-------------|------------------|
| | Fair Value | | Fair Value | |
| Corporate notes | \$ | 661,301 | \$ | 736,071 |
| Pooled equity funds | | | | |
| Canadian | | 196,616 | | 374,642 |
| U. S. | | 174,774 | | 153,891 |
| Overseas | | 184,491 | | 152,472 |
| Emerging markets | | 101,759 | | 72,966 |
| Common shares | | 249,465 | | 205,066 |
| Deposit agreement | | 184,625 | | 161,519 |
| Government bonds | | 37,364 | | 37,346 |
| Cash surrender value of life insurance policy | | 33,022 | | 30,346 |
| Cash and cash equivalents | | 558,977 | | 108,700 |
| | \$ | <u>2,382,394</u> | \$ | <u>2,033,019</u> |

Investment earnings on \$300,000 (2006, \$300,000) have been restricted by the lender for the purpose of generating student financial aid. Investments include government bonds and corporate notes that mature at various dates to August 14, 2011. The remaining investments include equities publicly traded on Canadian, U.S., overseas and emerging markets, and are held by investment managers in equity fund portfolios. The University College's fixed income investments have an effective interest rate of 4.3%. The rate of return on the balance of the portfolio is dependent on the funds' performance.

Note 4
Capital Assets

| | | | 2007 | | 2006 | |
|---|----------------------|-----------------------------|----------------------|----------------------|----------------------|----------------------|
| | Cost | Accumulated Amortization | Net Book Value | Net Book Value | Net Book Value | Net Book Value |
| Land | \$ 1,852,592 | \$ - | \$ 1,852,592 | \$ 1,852,592 | \$ 1,852,592 | \$ 1,852,592 |
| Buildings and site improvements | 23,325,901 | 5,285,097 | 18,040,804 | 18,642,000 | 18,642,000 | 18,642,000 |
| Building improve- ments under capital lease | - | - | - | - | - | 41,298 |
| Furniture and equipment | 5,095,070 | 3,410,311 | 1,684,759 | 1,720,857 | 1,720,857 | 1,720,857 |
| Library materials | 2,552,481 | 1,873,135 | 679,346 | 706,001 | 706,001 | 706,001 |
| | \$ <u>32,826,044</u> | \$ <u>10,568,543</u> | \$ <u>22,257,501</u> | \$ <u>22,962,748</u> | \$ <u>22,962,748</u> | \$ <u>22,962,748</u> |

In January 2007, building improvements under capital lease were transferred to buildings and site improvements upon maturity of a capital lease.

Notes to the Consolidated Financial Statements

THE KING'S UNIVERSITY COLLEGE

June 30, 2007

Note 5
Bank Indebtedness

The ATB Financial line of credit bears interest at prime plus 0.25%, payable monthly and is secured by a General Security Agreement covering all assets of the University College.

Balance consists of:

| | 2007 | 2006 |
|-----------------------------------|-------------------|---------------------|
| Capital line of credit | \$ 1,109,367 | \$ 1,713,092 |
| Operating line of credit (unused) | (680,527) | (620,981) |
| | \$ 428,840 | \$ 1,092,111 |

Note 6
Deferred Contributions

Deferred contributions represent restricted investment income and unspent resources externally restricted for research grants, scholarships and designated donations. Changes in the deferred contributions balance are as follows:

| | 2007 | 2006 |
|--|-------------------|-------------------|
| Beginning balance, related to operating funding | \$ 405,627 | \$ 390,868 |
| Add: Restricted donations | 176,517 | 80,757 |
| Research grants | 183,780 | 147,405 |
| | 360,297 | 228,162 |
| Less: Donations recognized as revenue | 137,034 | 66,101 |
| Research grants recognized as revenue | 100,650 | 98,756 |
| Amounts transferred to deferred capital contributions | 26,759 | 4,546 |
| Amounts transferred to endowments | 16,850 | 15,000 |
| Amounts transferred to deferred revenue | - | 29,000 |
| | 281,293 | 213,403 |
| Ending balance, related to operating funding | 484,631 | 405,627 |
| Beginning balance, related to investment income | 108,703 | 42,298 |
| Add: Dividend and interest income earned | 129,467 | 66,722 |
| Changes in unrealized gains | 102,038 | 107,282 |
| | 231,505 | 174,004 |
| Less: Amount recognized as investment income in the year | 83,554 | 93,580 |
| Amount included directly in the statement of changes in net assets | 8,875 | 14,019 |
| | 92,429 | 107,599 |
| Ending balance, related to investment income | 247,779 | 108,703 |
| | \$ 732,410 | \$ 514,330 |

Notes to the Consolidated Financial Statements

THE KING'S UNIVERSITY COLLEGE

June 30, 2007

Note 7

Mortgage Payable

The mortgage payable to The King's Group Registered Retirement Savings Plan (RRSP) is secured by a second mortgage against the land and buildings. The Plan is trustee by Concentra Trust. Funds may be advanced to a maximum of \$15 million bearing interest at a variable rate set quarterly at least equivalent to Bank of Montreal rates for one-year, non-redeemable guaranteed investment certificates under \$100,000. The mortgage payable matures on the first day of April 2014. Interest is compounded quarterly and reinvested in the mortgage until the full advance has been made.

Due to the legal right of planholders to demand repayment, the mortgage payable has been classified as a current liability. Since the Plan's inception in 1992, however, advances on the mortgage have exceeded repayments.

Scheduled minimum repayments related to Registered Retirement Income Fund (RRIF) plans in each of the next five years are approximately as follows:

| | | |
|------------------|----|------------------|
| 2008 | \$ | 200,000 |
| 2009 | | 198,400 |
| 2010 | | 204,700 |
| 2011 | | 243,400 |
| 2012 | | 271,336 |
| Subsequent years | | 8,663,953 |
| | \$ | <u>9,781,789</u> |

Note 8

Debenture Payable

Debenture payable to ATB Financial of \$4,465,000 (2006, \$4,700,000) is secured by a first fixed charge against the land and buildings, and a General Security Agreement covering all assets. Interest at prime plus 0.75% is payable monthly. Annual principal repayments of \$235,000 are required. Prepayments and payouts in full are permitted at anytime without penalty or bonus. The debenture is due on demand.

Notes to the Consolidated Financial Statements

THE KING'S UNIVERSITY COLLEGE

June 30, 2007

Note 9

Long -Term Debt

| | 2007 | 2006 |
|--|---------------------|---------------------|
| Various notes payable, unsecured, carrying variable interest rates from 0% to 5.25% and repayment terms due at various dates through to June 24, 2012. | \$ 2,524,723 | \$ 2,369,515 |
| Private 10-year term note payable, unsecured, bearing no interest, due September 1, 2007. | 300,000 | 300,000 |
| Private agreement payable, unsecured, bearing no interest with principal repayments of \$10,000 annually to May 2014. | 70,000 | 80,000 |
| Obligation under capital lease for building operating system matured January 31, 2007. | - | 7,133 |
| | <u>2,894,723</u> | <u>2,756,648</u> |
| Less current portion | 1,146,842 | 1,300,114 |
| | <u>\$ 1,747,881</u> | <u>\$ 1,456,534</u> |

Principal repayments in each of the next five years are approximately as follows:

| | |
|------------------|---------------------|
| 2008 | \$ 1,146,842 |
| 2009 | 609,380 |
| 2010 | 207,854 |
| 2011 | 175,080 |
| 2012 | 735,567 |
| Subsequent years | 20,000 |
| | <u>\$ 2,894,723</u> |

Notes to the Consolidated Financial Statements

THE KING'S UNIVERSITY COLLEGE

June 30, 2007

Note 10

Deferred Capital Contributions

Deferred capital contributions represent the net book value of contributed capital assets and capital assets purchased with restricted contributions. The changes in the deferred capital contributions balance are as follows:

| | 2007 | 2006 |
|---------------------------------------|--------------|--------------|
| Balance, beginning of year | \$ 3,262,477 | \$ 3,448,293 |
| Capital contributions from donors | 9,321 | - |
| Capital contributions from government | 83,259 | 5,360 |
| Amounts amortized to revenue | (194,971) | (191,176) |
| | (102,391) | (185,816) |
| Balance, end of year | \$ 3,160,086 | \$ 3,262,477 |

Note 11

Endowments

| | 2007 | 2006 |
|------------------------------------|--------------|--------------|
| Balance, beginning of year | \$ 1,499,619 | \$ 1,098,876 |
| Contributions restricted by donors | 61,142 | 395,776 |
| Transfer of bequests to endowments | 12,104 | 4,967 |
| | 73,24 | 400,743 |
| Balance, end of year | \$ 1,572,865 | \$ 1,499,619 |

Included in the endowment balance is \$180,301 (2006, \$147,684) in endowments that have been internally restricted.

Balance consists of the following:

| | 2007 | 2006 |
|---|--------------|--------------|
| Designated for scholarships, bursaries or awards in | | |
| Music | \$ 260,606 | \$ 237,870 |
| Social Sciences | 171,965 | 166,679 |
| Education | 163,464 | 157,954 |
| Business | 150,301 | 143,520 |
| Christian ministry or service | 178,025 | 173,420 |
| Various disciplines | 331,740 | 305,166 |
| Mephibosheth Scholarship | 92,159 | 92,159 |
| Alumni Student Assistance Program | 99,657 | 84,007 |
| Other | 124,948 | 138,844 |
| | \$ 1,572,865 | \$ 1,499,619 |

Notes to the Consolidated Financial Statements

THE KING'S UNIVERSITY COLLEGE

June 30, 2007

Note 12
Investment Income

| | 2007 | 2006 |
|---|------------------|------------------|
| Dividend and interest income earned in the year | \$ 129,472 | \$ 66,721 |
| Add: Changes in unrealized gains (losses) | 102,038 | 107,282 |
| Less: Amounts deferred | (139,081) | (66,404) |
| Amounts included directly in statement of changes in net assets | (8,875) | (14,019) |
| Investment income recognized as revenue | <u>\$ 83,554</u> | <u>\$ 93,580</u> |

Note 13
Budget

The budget was approved by the Board of Governors on April 22, 2006 with revisions approved on September 22, 2006.

Note 14
Pension Plan

The pension expense recorded in these financial statements is equivalent to the University College's annual contributions payable of \$267,482 for the year ended June 30, 2007 (2006, \$274,590).

An actuarial valuation of the Canadian Christian School Pension Plan and Trust Fund (the Plan) is prepared on a tri-annual basis. The most recent valuation was done on August 31, 2004 whereby the Plan reported a shortfall of approximately \$10 million in a fund with assets of approximately \$114 million. The Plan's trustees decided to adopt a consent amendment to the Plan that changes how the cost of early retirement subsidies is determined when a valuation is conducted. Actual benefits paid to participants will not be affected. The Plan's trustees expected that the current deficit would be eliminated over the next few years from the last actuarial valuation.

The actuarial valuations for the pension plan are determined using the projected unit credit method prorated on services. Assumptions used in the valuations are based on the Plan Administrator's best estimate of future events. The Plan's future experience may differ, perhaps significantly, from the assumptions.

THE KING'S UNIVERSITY COLLEGE

June 30, 2007

Note 15
Financial Instruments

Fair Value

The carrying values of cash, accounts receivable, accounts payable and accrued liabilities approximate their fair values due to the short-term maturity of these instruments. Financial instruments also include term debt and mortgage payable. Management considers that no events have occurred subsequent to the arrangement of these loans that would indicate that fair value differs substantially from carrying value.

Credit Risk

Financial instruments that potentially subject the University College to concentrations of credit risk consist primarily of accounts receivable. In the normal course of business, the University College evaluates the financial condition of its customers on a continuing basis and reviews the credit worthiness of all new customers. Management assesses the need for allowances for potential credit losses by considering the credit risk of specific customers, historical trends, and other information.

Interest Rate Risk

The University College is subject to interest risk on its \$428,840 line of credit, \$9,781,789 mortgage payable and \$7,359,723 term debt which are floating rate instruments. The University College has not entered into financial instruments to hedge against this risk.

Note 16
Related Party
Transactions

During the year the University College received a loan from a director for \$25,000. This balance is included in the current portion of long-term debt as at June 30, 2007.

Consolidated Statement of Operations by Function

THE KING'S UNIVERSITY COLLEGE

Year ended June 30, 2007

| | Budget | 2007 | 2006 |
|---|-----------------------|---------------------|--------------------|
| | (Note 13) | | |
| REVENUE | | | |
| Tuition fees | \$ 3,593,125 | \$ 3,652,932 | \$ 3,999,669 |
| Government grants | 3,517,185 | 3,577,529 | 3,040,239 |
| Donations | 1,743,550 | 2,054,013 | 1,833,594 |
| Residence and other sales | 1,450,030 | 1,372,078 | 1,360,778 |
| Research grants | 104,000 | 224,209 | 184,461 |
| Investment income (Note 12) | 67,850 | 83,554 | 93,579 |
| Other income | 22,850 | 49,323 | 49,985 |
| | 10,498,590 | 11,013,638 | 10,562,305 |
| EXPENSES | | | |
| Instruction | 3,550,526 | 3,484,587 | 3,599,110 |
| Ancillary services | 1,539,454 | 1,566,189 | 1,465,285 |
| Student services | 1,444,568 | 1,378,033 | 1,409,884 |
| Physical plant | 1,210,597 | 1,236,412 | 1,106,765 |
| Institutional support | 1,147,651 | 1,167,084 | 802,469 |
| Interest on long-term and other liabilities | 902,000 | 795,148 | 491,412 |
| Academic support and library | 820,431 | 791,180 | 771,426 |
| Computing services | 462,019 | 407,198 | 353,773 |
| Research | 180,929 | 291,691 | 231,659 |
| Fund raising | 264,093 | 189,901 | 363,351 |
| | 11,522,268 | 11,307,423 | 10,595,135 |
| EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES | \$ (1,023,678) | \$ (293,785) | \$ (32,830) |