

**THE KING'S UNIVERSITY**  
**Consolidated Financial Statements**  
**Year Ended March 31, 2016**

**THE KING'S UNIVERSITY**  
**Index to Consolidated Financial Statements**  
**Year Ended March 31, 2016**

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June 17, 2016

## **INDEPENDENT AUDITOR'S REPORT**

Edmonton, Alberta

To the Members of The King's University

We have audited the accompanying consolidated financial statements of The King's University, which comprise the consolidated statement of financial position as at March 31, 2016 and the consolidated statements of operations, changes in net assets and cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of The King's University as at March 31, 2016 and the results of its operations and its cash flow for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

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**Kingston Ross Pasnak LLP**  
Chartered Professional Accountants

**THE KING'S UNIVERSITY**  
**Consolidated Statement of Financial Position**  
**March 31, 2016**

	2016	2015
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash	\$ 919,287	\$ 1,066,145
Accounts receivable (Note 3)	147,488	176,723
Bookstore inventory	266,844	175,768
Prepaid expenses and deposits	273,644	301,491
Short term investments (Note 4)	856,609	569,687
Goods and Services Tax receivable	18,117	7,703
	<b>2,481,989</b>	<b>2,297,517</b>
INVESTMENTS (Note 4)	6,198,146	5,700,559
PROPERTY AND EQUIPMENT (Note 5)	20,684,751	21,012,565
	<b>\$ 29,364,886</b>	<b>\$ 29,010,641</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT</b>		
Accounts payable and accrued liabilities	\$ 1,088,418	\$ 979,445
Government remittances payable (Note 6)	233,982	230,922
Deferred revenue	1,473,859	1,253,062
Deferred contributions (Note 7)	4,119,894	3,630,104
Mortgage payable (Note 8)	11,119,974	11,315,686
Debenture payable (Note 9)	2,568,929	2,683,214
Current portion of long term debt (Note 10)	1,277,381	892,014
	<b>21,882,437</b>	<b>20,984,447</b>
LONG TERM DEBT (Note 10)	2,011,747	2,164,444
DEFERRED CAPITAL CONTRIBUTIONS (Note 11)	3,045,707	3,348,474
	<b>26,939,891</b>	<b>26,497,365</b>
<b>NET ASSETS</b>		
Investment in property and equipment	980,218	927,935
Endowments (Note 12)	2,589,630	2,486,673
Internally restricted (Note 13)	282,459	282,459
Accumulated operating deficit	(1,427,312)	(1,183,791)
	<b>2,424,995</b>	<b>2,513,276</b>
	<b>\$ 29,364,886</b>	<b>\$ 29,010,641</b>

**ON BEHALF OF THE BOARD**

\_\_\_\_\_  
Director

**THE KING'S UNIVERSITY**  
**Consolidated Statement of Changes in Net Assets**  
**Year Ended March 31, 2016**

	Investment in Property and Equipment	Endowments	Internally Restricted	Accumulated Operating Deficit	2016	2015
<b>NET ASSETS - BEGINNING OF YEAR</b>	\$ 927,935	\$ 2,486,673	\$ 282,459	\$ (1,183,791)	<b>\$ 2,513,276</b>	\$ 2,279,988
Deficiency of revenue over expenditures	-	-	-	(191,238)	<b>(191,238)</b>	(108,900)
Endowment contributions	-	102,957	-	-	<b>102,957</b>	342,188
Transfer for:						
Acquisition of internally funded property and equipment	1,261,656	-	-	(1,261,656)	-	-
Amortization of internally funded property and equipment	(1,280,784)	-	-	1,280,784	-	-
Net book value of property and equipment disposals	(5,918)	-	-	5,918	-	-
Change in mortgage, debenture and long term debt payable	77,329	-	-	(77,329)	-	-
<b>NET ASSETS - END OF YEAR</b>	<b>\$ 980,218</b>	<b>\$ 2,589,630</b>	<b>\$ 282,459</b>	<b>\$ (1,427,312)</b>	<b>\$ 2,424,995</b>	<b>\$ 2,513,276</b>

**THE KING'S UNIVERSITY**  
**Consolidated Statement of Operations**  
**Year Ended March 31, 2016**

	Budget <i>(Note 17)</i>	2016	2015
<b>REVENUE</b>			
Tuition fees	\$ 7,183,511	\$ 7,771,554	\$ 6,936,814
Government grants	4,551,356	4,703,656	4,610,157
Donations	3,394,822	2,980,527	3,321,326
Residence and other sales <i>(Note 15)</i>	2,468,500	2,580,528	2,402,039
Research grants	189,891	336,099	391,759
Other income	54,500	158,699	108,347
Investment income <i>(Note 16)</i>	118,000	54,777	130,629
	17,960,580	18,585,840	17,901,071
<b>EXPENSES</b>			
Salaries and benefits	11,284,704	11,407,825	10,904,279
Operating supplies and services	1,615,524	2,113,089	1,917,397
Amortization	1,608,340	1,606,233	1,656,320
Cost of goods sold	878,000	962,632	960,642
Travel, hospitality and conferences	495,447	582,756	551,588
Scholarships and awards	572,000	536,721	467,197
Utilities	463,635	499,029	451,514
Maintenance and equipment rent	428,100	496,856	517,119
Interest on mortgage payable	261,130	212,231	228,882
Insurance and taxes	109,900	116,755	112,602
Interest on debenture payable	112,000	99,962	112,336
Interest on long term debt	83,000	82,161	86,349
Professional fees	48,800	56,226	47,229
Interest on line of credit	-	2,430	4,067
Loss (gain) on disposal of property and equipment	-	2,172	(7,550)
	17,960,580	18,777,078	18,009,971
<b>DEFICIENCY OF REVENUE OVER EXPENDITURES</b>	\$ -	\$ (191,238)	\$ (108,900)

**THE KING'S UNIVERSITY**  
**Consolidated Statement of Cash Flow**  
**Year Ended March 31, 2016**

	2016	2015
<b>OPERATING ACTIVITIES</b>		
Cash received from students for tuition and fees	\$ 7,924,640	\$ 6,949,119
Cash received from government	4,837,683	5,068,394
Cash received from donors	3,438,754	3,806,313
Cash received from sale of goods and services	2,637,613	2,436,173
Cash received from other sources	134,069	91,732
Cash paid to employees for salaries and benefits	(11,338,501)	(10,808,717)
Cash paid to suppliers for materials and services	(5,355,132)	(5,377,740)
Cash paid to creditors for interest	(184,553)	(202,755)
Cash flow from operating activities	<b>2,094,573</b>	1,962,519
<b>INVESTING ACTIVITIES</b>		
Cash received from donors restricted for property and equipment	22,683	182,434
Cash received from income on investments	145,973	144,067
Cash received on disposal of property and equipment	3,747	8,500
Cash applied to purchase of property and equipment	(1,284,339)	(1,536,037)
Cash invested in investments	(768,820)	(811,599)
Cash flow used by investing activities	<b>(1,880,756)</b>	(2,012,635)
<b>FINANCING ACTIVITIES</b>		
Cash received from long term debt proceeds	306,765	289,386
Cash received from endowments	91,969	278,458
Cash paid for long term debt repayments	(596,325)	(793,425)
Cash flow used by financing activities	<b>(197,591)</b>	(225,581)
<b>INCREASE (DECREASE) IN CASH</b>	<b>16,226</b>	(275,697)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	1,152,270	1,427,967
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<b>\$ 1,168,496</b>	<b>\$ 1,152,270</b>
<b>CASH AND CASH EQUIVALENTS CONSISTS OF:</b>		
Cash	\$ 919,287	\$ 1,066,145
Cash and cash equivalents included in short term investments	249,209	86,125
	<b>\$ 1,168,496</b>	<b>\$ 1,152,270</b>

**THE KING'S UNIVERSITY**  
**Notes to Consolidated Financial Statements**  
**Year Ended March 31, 2016**

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1. AUTHORITY AND PURPOSE

The King's University (the "University"), formerly The King's University College, operates under the authority of The King's College Act, Statutes of Alberta 1979, as amended. Its mission is to provide university education that inspires and equips learners to bring renewal and reconciliation to all walks of life as followers of Jesus Christ, the Servant King.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements include the accounts of The King's University College Foundation (the "Foundation") and Leder School of Business Consulting Services Ltd. ("Leder Consulting"). The Foundation, which operates under the Companies Act of Alberta, solicits and receives gifts and donations and provides grants and property to the University to support and promote the educational and research activities of the University. The King's University and the Foundation are registered charitable organizations for purposes of the Income Tax Act (Canada) and, as such, are not liable for the payment of income taxes. Leder Consulting, which operates under the Business Corporations Act of Alberta, was incorporated during the year and is a wholly owned subsidiary that provides consulting services on a fee for service basis. Leder Consulting is a company subject to income taxes.

The accounts of the three 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.

Cash and Cash Equivalents

Cash consists of cash and cash equivalents. Cash equivalents are investments in money market funds and are valued at cost plus accrued interest. The carrying amounts approximate fair value because they have maturities at the date of purchase of less than ninety days.

Investments

The University's investments are 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. The main objective of the investment policy is 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.

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**THE KING'S UNIVERSITY**  
**Notes to Consolidated Financial Statements**  
**Year Ended March 31, 2016**

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property and Equipment

Purchased property and equipment are recorded at cost less accumulated amortization. Contributed property and equipment are recorded at fair value at the date of contribution.

Property and equipment 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

Endowments

Endowments represent externally restricted contributions of which the principal is to be held intact. Investment earnings on 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 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 purchased cost and net realizable value, with cost being determined on an average cost basis. Total inventory expensed to cost of goods sold in the year is \$305,444 (2015 - \$303,781).

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**THE KING'S UNIVERSITY**  
**Notes to Consolidated Financial Statements**  
**Year Ended March 31, 2016**

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Revenue Recognition

The University follows the deferral method of accounting for contributions. Unrestricted contributions are recognized as revenue when received or receivable. Contributions restricted for purposes other than endowments or the acquisition of property and equipment are deferred and recognized as revenue in the year in which the related expenses are incurred. 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 property and equipment 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. Contributions restricted for the acquisition of property and equipment that will not be amortized are recognized as direct increases to net assets in the period in which they are expended.

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

Investment income includes dividend and interest income, and realized and unrealized investment gains and losses. Unrealized gains and losses on investments are either 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. Investment earnings on internally designated funds are recognized as revenue when received or receivable. Other unrestricted investment income is recognized as revenue when earned.

Tuition fees are recognized as revenue when the instruction is delivered and the tuition fees have been received or are considered receivable. Residence, food, conference, bookstore, other and consulting service sales are recognized as revenue when the product or service has been provided and the agreed upon amount is received or considered receivable.

Government grants are recognized as revenue in the year to which they relate.

Deferred revenue consists of tuition, residence fees, government grants and facility rental income received in advance.

Employee Future Benefits

The University participates with other employers 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's eligible employees based on their years of service and earnings.

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

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**THE KING'S UNIVERSITY**  
**Notes to Consolidated Financial Statements**  
**Year Ended March 31, 2016**

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Measurement Uncertainty

The preparation of financial statements in accordance with Canadian accounting standards 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 from those estimates. The significant estimates pertain to the physical and economic lives of property and equipment, the collectibility of accounts receivable and the allocation of costs to the Leder School of Business, for the purpose of recognizing deferred contributions.

Financial Instruments

Financial instruments are initially measured at fair value, and, unless otherwise noted, the University subsequently measures its financial instruments at amortized cost.

3. ACCOUNTS RECEIVABLE

	2016	2015
Allowance for doubtful accounts	\$ 107,197	\$ 89,421
Bad debt expense (recovery), included in Tuition fees	\$ 13,779	\$ (1,748)

**THE KING'S UNIVERSITY**  
**Notes to Consolidated Financial Statements**  
**Year Ended March 31, 2016**

4. INVESTMENTS

	2016	2015
<b>Short term investments</b>		
Corporate notes	\$ 607,400	\$ 483,562
Cash and cash equivalents	249,209	86,125
	<b>\$ 856,609</b>	<b>\$ 569,687</b>
<b>Long term investments</b>		
Equity funds - Canada	2,356,910	1,950,594
Corporate notes	1,679,411	1,753,520
Equity linked notes - Canada	656,967	661,407
Equity linked notes - U.S.	572,367	603,094
Equity funds - U.S.	366,278	164,727
Deposit agreement	287,009	272,209
Equity funds - Overseas	172,018	186,337
Cash surrender value of life insurance policies	62,179	58,472
Equity funds - Emerging Markets	45,007	50,199
	<b>6,198,146</b>	<b>5,700,559</b>
	<b>\$ 7,054,755</b>	<b>\$ 6,270,246</b>

Investments include government bonds and corporate notes that mature at various dates to October 22, 2022. The remaining investments include publicly traded equities and are held by investment managers in equity fund portfolios. The University's fixed income investments bear interest at rates of 1.85% to 2.60%. The rate of return on the remainder of the portfolio is dependent on the performance of the funds.

A portion of the investments are held in equity linked notes. Equity linked notes provide investments in a notional portfolio of shares selected using a quantitative model with the ability to allocate to fixed income investments based on the trend of the S&P/TSX Composite Index for Canada and S&P 500 Index for US. The goal of this strategy is to be exposed to the shares selected by the model when the trend is positive for the equity markets and to reduce or eliminate equity exposure as the trend for the equity markets becomes negative. At March 31, equity linked notes were 50% invested in equity and 50% invested in fixed income (2015 - 50% invested in equity and 50% invested in fixed income).

**THE KING'S UNIVERSITY**  
**Notes to Consolidated Financial Statements**  
**Year Ended March 31, 2016**

5. PROPERTY AND EQUIPMENT

	Cost	Accumulated amortization	2016 Net book value	2015 Net book value
Buildings and site improvements	\$ 28,772,801	\$ 12,382,336	\$ 16,390,465	\$ 16,604,214
Land	1,852,592	-	1,852,592	1,852,592
Furniture and equipment	8,829,219	7,033,250	1,795,969	1,908,034
Library materials	3,578,306	2,932,581	645,725	647,725
	\$ 43,032,918	\$ 22,348,167	\$ 20,684,751	\$ 21,012,565

6. GOVERNMENT REMITTANCES PAYABLE

	2016	2015
Payroll taxes	\$ 233,016	\$ 230,922
Income taxes	966	-
	\$ 233,982	\$ 230,922

**THE KING'S UNIVERSITY**  
**Notes to Consolidated Financial Statements**  
**Year Ended March 31, 2016**

7. 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:

	2016	2015
Beginning balance, related to operating funding	\$ 2,875,086	\$ 1,960,304
Add:		
Restricted donations	1,484,851	1,425,804
Restricted government grants	4,500	215,766
Restricted research grants	112,658	236,785
	<b>1,602,009</b>	<b>1,878,355</b>
Less:		
Donations recognized as revenue	(696,548)	(644,419)
Research grants recognized as revenue	(124,941)	(188,180)
Amounts transferred to deferred capital contributions	(22,682)	(116,707)
Government grants recognized as revenue	(86,857)	(14,267)
	<b>(931,028)</b>	<b>(963,573)</b>
Ending balance, related to operating fund	\$ 3,546,067	\$ 2,875,086
Beginning balance, related to investment income	\$ 755,018	\$ 529,906
Add:		
Changes in unrealized (losses) gains	(265,156)	242,771
Dividend and interest income earned	145,971	172,885
	<b>(119,185)</b>	<b>415,656</b>
Less:		
Amount recognized as investment income in the period	(54,777)	(130,629)
Amount added directly to endowments	(7,229)	(59,915)
	<b>(62,006)</b>	<b>(190,544)</b>
Ending balance, related to investment income	\$ 573,827	\$ 755,018
	<b>\$ 4,119,894</b>	<b>\$ 3,630,104</b>

**THE KING'S UNIVERSITY**  
**Notes to Consolidated Financial Statements**  
**Year Ended March 31, 2016**

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8. MORTGAGE PAYABLE

The mortgage payable to The King's Group Registered Retirement Savings Plan (King's RRSP) is secured by a second mortgage against the land and buildings. The King's RRSP is trusted 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 rate for one year on non-redeemable guaranteed investment certificates under \$100,000. For the quarter ended March 31, 2016, the rate was 1.85% (2015 - 2.00%). Interest is compounded quarterly and reinvested in the mortgage until the full advance has been paid.

Due to the legal right of planholders to demand repayment, the mortgage payable has been classified as a current liability.

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

	<b>2016</b>
2017	<b>\$ 337,300</b>
2018	<b>366,200</b>
2019	<b>363,900</b>
2020	<b>385,600</b>
2021	<b>417,600</b>
Subsequent years	<b>9,249,374</b>
	<b>\$ 11,119,974</b>

**THE KING'S UNIVERSITY**  
**Notes to Consolidated Financial Statements**  
**Year Ended March 31, 2016**

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9. DEBENTURE PAYABLE

Debenture payable to ATB Financial is secured by a General Security Agreement covering all assets of the University and a debenture agreement in the amount of \$10,000,000 providing a floating charge over all undertakings of the University and a fixed charge on specified lands. Interest at bank prime plus 1.00% is payable monthly.

There are two loan facilities outstanding: Facility 1 for \$1,997,500 and Facility 2 for \$685,714.

Facility 1 requires annual principal repayments of \$235,000. Prepayments and payouts in full are permitted at anytime without penalty or bonus. During the year, no principal repayment was made due to the University having prepaid required principal repayments during previous years. The next required principal repayment is due in the 2017 fiscal year.

Facility 2 requires annual principal repayments of \$114,285 over the next 5 years.

The debenture is due on demand. At March 31, 2016, the effective interest rate was 3.70% (2015 - 3.85%). The University is required to maintain a debt service coverage ratio of 1.5:1.

Minimum repayments are as follows:

2017	\$	231,786
2018		349,285
2019		349,285
2020		349,285
2021		349,285
Thereafter		940,003
		<u>\$ 2,568,929</u>



**THE KING'S UNIVERSITY**  
**Notes to Consolidated Financial Statements**  
**Year Ended March 31, 2016**

10. LONG TERM DEBT	2016	2015
Various notes payable, unsecured, at variable interest rates from 0% to 3.25%, are repayable at various maturity dates through to February 17, 2021.	\$ 3,289,128	\$ 3,056,458
Amounts payable within one year	(1,277,381)	(892,014)
	<b>\$ 2,011,747</b>	<b>\$ 2,164,444</b>

Principal repayment terms are approximately as follows:

2017	\$ 1,277,381
2018	634,896
2019	526,394
2020	645,821
2021	204,636
	<u>\$ 3,289,128</u>

**11. DEFERRED CAPITAL CONTRIBUTIONS**

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

	2016	2015
Balance, beginning of period	\$ 3,348,474	\$ 3,434,846
Capital contributions from donors	22,683	268,967
Capital contributions from government	-	15,086
Amounts amortized to revenue	(325,450)	(370,425)
Balance, end of period	<b>\$ 3,045,707</b>	<b>\$ 3,348,474</b>

**THE KING'S UNIVERSITY**  
**Notes to Consolidated Financial Statements**  
**Year Ended March 31, 2016**

12. ENDOWMENTS

	2016	2015
Balance, beginning of period	\$ 2,486,673	\$ 2,144,485
Contributions restricted by donors	102,957	342,188
Balance, end of period	<b>\$ 2,589,630</b>	<b>\$ 2,486,673</b>

Balance consists of the following:

Designated for scholarships, bursaries or awards in:		
Various disciplines	\$ 380,162	\$ 356,766
Music	333,983	332,535
Christian ministry or service	259,054	256,800
Arts	243,546	240,060
Commerce	243,255	177,050
Education	239,689	237,066
Natural Sciences	176,073	175,280
Political Science, History, Economics	163,397	163,160
Social Sciences	122,008	120,800
Environmental Studies	118,207	118,099
Mephibosheth Scholarship	107,554	107,554
Alumni Student Assistance Program	96,157	96,157
Other	55,055	53,856
Micah Centre	51,490	51,490
	<b>\$ 2,589,630</b>	<b>\$ 2,486,673</b>

13. INTERNALLY RESTRICTED NET ASSETS

Internally restricted net assets represent funds designated by the Board of Governors. The principal is to be held intact and investment earnings on the principal are to be used for scholarships, bursaries and awards.

14. BANK INDEBTEDNESS

The line of credit with ATB Financial bears interest at bank prime plus 0.50%, payable monthly, has an authorized limit of \$2,000,000 and is secured by the same terms as the debenture payable (Note 9). At March 31, 2016, the effective interest rate was 3.20% and the facility was not drawn upon.

**THE KING'S UNIVERSITY**  
**Notes to Consolidated Financial Statements**  
**Year Ended March 31, 2016**

15. RESIDENCE AND OTHER SALES

	2016	2015
Residence	\$ 820,423	\$ 766,336
Food services	724,088	705,885
Conference services	446,370	429,932
Bookstore	404,044	378,998
Other	121,836	120,888
Leder Consulting Services	63,767	-
	<b>\$ 2,580,528</b>	<b>\$ 2,402,039</b>

16. INVESTMENT INCOME

	2016	2015
Dividend and interest income earned in the period	\$ 145,973	\$ 172,885
Changes in unrealized (losses) gains	(265,156)	242,771
Amounts added directly to endowments	(7,229)	(59,915)
Amounts deferred	181,189	(225,112)
	<b>\$ 54,777</b>	<b>\$ 130,629</b>

17. BUDGET

The budget was approved by the Board of Governors on March 14, 2015. The budgeted amounts have been provided for information purposes only and are unaudited.

18. PENSION PLAN

The pension expense recorded in these financial statements represents the University's annual contributions payable of \$661,080 for the year ended March 31, 2016 (2015 - \$647,840).

An actuarial valuation of the Canadian Christian School Pension Plan and Trust Fund (the Plan) was to be prepared on a tri-annual basis. However, during the 2011 fiscal year, the Plan dropped below the 85% funded level; as a result, actuarial valuations will be performed on a yearly basis when the Plan is below the 85% funded level. The most recent valuation was done on August 31, 2014. In 2015, the Plan reported a deficit of approximately \$22 million in a fund with net assets available for benefits of approximately \$298 million and pension obligations of \$320 million.

The calculation of the estimated present value of vested benefits under the Plan at August 31, 2015 and 2014 was made by consulting enrolled actuaries Mercer Human Resource Consulting.

**THE KING'S UNIVERSITY**  
**Notes to Consolidated Financial Statements**  
**Year Ended March 31, 2016**

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19. FINANCIAL INSTRUMENTS

The University is exposed to various risks through its financial instruments. The following analysis provides information about the University's risk exposure and concentration as of March 31, 2016. Unless otherwise noted, the University's risk exposure has not changed from the prior year.

Credit risk

Credit risk arises from the potential that a counter party will fail to perform its obligations. The University is exposed to credit risk from students and customers, and the maximum exposure to this risk is the carrying value of accounts receivable on the balance sheet. The University has a significant number of students and customers which minimizes concentration of credit risk.

Liquidity risk

Liquidity risk is the risk that the University will encounter difficulty in meeting its financial obligations as they become due. Cash flow from operations provides a substantial portion of the University's cash requirements, and additional requirements are met with the use of the available credit facilities.

Currency risk

Currency risk is the risk to the University's earnings that arise from fluctuations of foreign exchange rates and the degree of volatility of these rates. The University is exposed to foreign currency exchange risk on cash, accounts receivable, and accounts payable held in U.S. dollars. These amounts are of a short duration, which minimizes the University's exposure to foreign currency fluctuations.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in market interest rates. The University is exposed to interest rate risk primarily through its floating interest rate bank indebtedness, credit facilities and locked in guaranteed investment certificates.

20. COMPARATIVE FIGURES

Some of the comparative figures have been reclassified to conform to the current year's presentation.

**THE KING'S UNIVERSITY**  
**Consolidated Statement of Operations by Function**  
**Year Ended March 31, 2016**

	Budget (Note 17)	2016	2015
<b>REVENUE</b>			
Tuition fees	\$ 7,183,511	\$ 7,771,554	\$ 6,936,814
Government grants	4,551,356	4,703,656	4,610,157
Donations	3,394,822	2,980,527	3,321,326
Residence and other sales (Note 15)	2,468,500	2,580,528	2,402,039
Research grants	189,892	336,099	391,759
Other income	54,500	158,699	108,347
Investment income (Note 16)	118,000	54,777	130,629
	17,960,581	18,585,840	17,901,071
<b>EXPENDITURES</b>			
Instruction	6,555,176	6,588,114	6,343,894
Student services	2,765,386	3,115,050	2,805,911
Ancillary services	2,171,895	2,415,744	2,319,352
Physical plant	1,576,894	1,482,056	1,502,397
Institutional advancement	1,297,478	1,373,677	1,341,205
Institutional support	1,197,928	1,326,515	981,534
Academic support and library	884,934	905,259	1,037,121
Computing services	827,787	868,749	861,652
Interest on long term and other liabilities	456,130	396,519	431,589
Research	226,973	305,395	385,316
	17,960,581	18,777,078	18,009,971
<b>DEFICIENCY OF REVENUE OVER EXPENDITURES</b>	\$ -	\$ (191,238)	\$ (108,900)