

The King's College and Affiliate

**Consolidated Financial Statements
and
Auditor's Report**

Year Ended August 31, 2008

The Board of Trustees
The King's College and Affiliate

Independent Auditor's Report

We have audited the accompanying consolidated statement of financial position of The King's College (the College) and Affiliate as of August 31, 2008 and the related statement of activities and of cash flows for the year then ended. These consolidated financial statements are the responsibility of the management of The King's College. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The prior year summarized comparative information has been derived from the organization's August 31, 2007 financial statements and, in our report dated October 9, 2007, we expressed an unqualified opinion on those financial statements.

We conducted our audit 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 consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The King's College and Affiliate at August 31, 2008 and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The supplementary information in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

Lambrides, Lamos, Moulthrop LLP

October 22, 2008

The King's College and Affiliate
Consolidated Statement of Financial Position
August 31, 2008
With Comparative Amounts at August 31, 2007

	2008	2007
ASSETS		
Cash and cash equivalents	\$ 265,905	\$ 1,793,098
Accounts receivable (less allowance for doubtful accounts of \$187,393 - 2008; \$160,813 - 2007)	263,985	245,080
Pledges receivable (less allowance for doubtful pledges of \$477,751 - 2008; \$158,175 - 2007)	4,618,513	1,937,035
Inventory	7,431	12,887
Deposits and prepaid expenses	241,808	130,517
Investments	548,259	604,383
Beneficial interest in perpetual trusts	315,444	350,876
Property, plant and equipment (net of accumulated depreciation)	<u>2,478,074</u>	<u>2,880,846</u>
Total assets	<u>\$ 8,739,419</u>	<u>\$ 7,954,722</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 620,311	\$ 488,892
Deferred revenue	1,215,099	1,233,233
Note payable	2,800,000	1,750,000
Annuities payable	<u>76,661</u>	<u>77,023</u>
Total liabilities	<u>4,712,071</u>	<u>3,549,148</u>
Net assets:		
Unrestricted	3,165,589	3,425,068
Temporarily restricted	112,650	246,833
Permanently restricted	<u>749,109</u>	<u>733,673</u>
Total net assets	<u>4,027,348</u>	<u>4,405,574</u>
Total liabilities and net assets	<u>\$ 8,739,419</u>	<u>\$ 7,954,722</u>

See notes to consolidated financial statements.

**The King's College and Affiliate
Consolidated Statement of Activities
For the Year Ended August 31, 2008
With Summarized Comparative Amounts for the Year Ended August 31, 2007**

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	2008 Totals	2007 Totals
Income and releases:					
Tuition and fees	\$ 4,427,205			\$ 4,427,205	\$ 4,336,130
Discretionary discounts - tuition and fees	(2,272,213)			(2,272,213)	(2,261,992)
Student housing (auxiliary)	2,484,888			2,484,888	2,234,471
Discretionary discounts - student housing	<u>(394,446)</u>			<u>(394,446)</u>	<u>(436,346)</u>
Net tuition, fees and student housing	4,245,434			4,245,434	3,872,263
Contributions	5,170,184	\$ 279,240	\$ 50,867	5,500,291	1,428,871
Auxiliary enterprises (exclusive of student housing)	32,652			32,652	9,240
Investment income	2,927	28,577		31,504	85,528
Loss on beneficial interest in perpetual trusts			(35,431)	(35,431)	22,131
Gift annuity income (loss)	(4,111)			(4,111)	12,704
Other income	<u>155,285</u>			<u>155,285</u>	<u>192,261</u>
Total income	9,602,371	307,817	15,436	9,925,624	5,622,998
Net assets released from restrictions	<u>442,000</u>	<u>(442,000)</u>			
Total income and releases	<u>10,044,371</u>	<u>(134,183)</u>	<u>15,436</u>	<u>9,925,624</u>	<u>5,622,998</u>
Expenses:					
Program services:					
Instruction	2,778,111			2,778,111	2,667,723
Academic support	791,010			791,010	789,902
Student services	2,430,252			2,430,252	2,195,382
Auxiliary enterprises	2,204,362			2,204,362	2,094,024
General and administration	919,581			919,581	736,851
Fund raising	<u>1,180,534</u>			<u>1,180,534</u>	<u>1,261,795</u>
Total expenses	<u>10,303,850</u>			<u>10,303,850</u>	<u>9,745,677</u>
Change in net assets before other changes in net assets	(259,479)	(134,183)	15,436	(378,226)	(4,122,679)
Other changes in net assets:					
Return of gift to donor					<u>(10,842)</u>
Change in net assets	(259,479)	(134,183)	15,436	(378,226)	(4,133,521)
Net assets at beginning of year	<u>3,425,068</u>	<u>246,833</u>	<u>733,673</u>	<u>4,405,574</u>	<u>8,539,095</u>
Net assets at end of year	<u>\$ 3,165,589</u>	<u>\$ 112,650</u>	<u>\$ 749,109</u>	<u>\$ 4,027,348</u>	<u>\$ 4,405,574</u>

See notes to consolidated financial statements.

**The King's College and Affiliate
Consolidated Statement of Cash Flows
For the Year Ended August 31, 2008
With Comparative Amounts for the Year Ended August 31, 2007**

	2008	2007
Cash flows from operating activities:		
Change in net assets	\$ (378,226)	\$(4,133,521)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Amortization and depreciation	660,606	609,420
Contributions restricted for investment in endowments	(50,867)	(102,166)
(Gain) loss on beneficial interest in perpetual trusts	35,432	(22,131)
Gifts in kind		(382,538)
Realized and unrealized (gains) losses on investments	2,916	(4,966)
Adjustment to actuarial liability	(362)	(9,959)
(Increase) decrease in:		
Accounts receivable	(18,905)	(91,283)
Pledges receivable	(2,681,478)	816,671
Inventory	5,456	4,810
Deposits and prepaid expenses	(111,291)	68,248
Increase (decrease) in:		
Accounts payable and accrued expenses	131,419	50,545
Deferred revenue	(18,134)	279,663
Net cash used by operating activities	<u>(2,423,434)</u>	<u>(2,917,207)</u>
Cash flows from investing activities:		
Acquisition of fixed assets	(257,834)	(76,700)
Proceeds from sale of investments	873,391	1,293,882
Purchase of investments	(820,183)	(760,914)
Net cash provided (used) by investing activities	<u>(204,626)</u>	<u>456,268</u>
Cash flows from financing activities:		
Proceeds from contributions restricted for endowments	50,867	102,166
Proceeds from new debt	4,400,000	4,950,000
Repayment of principal	(3,350,000)	(3,272,143)
Net cash provided by financing activities	<u>1,100,867</u>	<u>1,780,023</u>
Net decrease in cash and cash equivalents	(1,527,193)	(680,916)
Cash and cash equivalents at beginning of year	<u>1,793,098</u>	<u>2,474,014</u>
Cash and cash equivalents at end of year	<u>\$ 265,905</u>	<u>\$ 1,793,098</u>
Supplemental Disclosures:		
Interest paid	<u>\$ 97,969</u>	<u>\$ 20,908</u>

See notes to consolidated financial statements.

The King's College and Affiliate
Notes to the Consolidated Financial Statements
August 31, 2008

1. Organization:

The King's College (the College) is a Christian College exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In 1997, the College entered into an agreement that established it as a division of Campus Crusade for Christ, Inc.

2. Summary of Significant Accounting Policies:

The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

a. Accrual Basis Financial Statements

The accompanying financial statements have been prepared on the accrual basis and conform to accounting principles generally accepted in the United States of America and in accordance with the principles of not-for-profit accounting.

b. Net Assets

The net assets of the College and changes therein are classified and reported as follows:

- Unrestricted net assets include all resources which are not subject to donor-imposed restrictions of a more specific nature than those which only obligate the College to utilize funds in furtherance of its mission.
- Temporarily restricted net assets carry specific, donor-imposed restrictions on the expenditure or other use of contributed funds. Temporary restrictions may expire either because certain actions are taken by the organization which fulfill the restrictions or because of the passage of time. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.
- Permanently restricted net assets are those that are subject to donor-imposed restrictions which will never lapse, thus requiring that the funds be permanently retained. Generally, the donors of these funds permit the organization to use all or part of the income earned on related investments, and the net capital appreciation thereon, for general or specific purposes.

c. Contributions

Contributions are recorded as revenue upon receipt of cash or unconditional promises to give (pledges). Contributions are considered available for unrestricted use unless specifically restricted by the donor.

The King's College and Affiliate
Notes to the Consolidated Financial Statements
August 31, 2008

2. Summary of Significant Accounting Policies: (Continued)

d. Promises to Give

Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the pledges are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

e. Cash and Cash Equivalents

Cash and cash equivalents include cash on deposit and cash on hand. Certificates of deposit with maturity of three months or less when purchased are considered to be cash equivalents.

f. Investments

Investments in equity securities with readily determinable fair market values and all investments in debt securities are reported at fair market value, with gains and losses included in the statement of activities. Donated investments are reflected as contributions at their market values at date of receipt.

g. Inventory

Inventory is stated at the lower of cost or market, determined by the first-in, first-out method.

h. Physical Properties

Recorded amounts for College property are stated principally at cost or fair market value at the date of gift. Provision for depreciation is recognized on physical properties by the straight-line method based upon the estimated useful lives as follows:

Buildings	30 – 40 years
Leasehold improvements	Remaining life of lease
Equipment, furniture and fixtures	5 – 10 years
Library books and media	10 years

i. Annuities Payable

The annuity liability is calculated on the Standard Annuity Table, with an additional 10% minimum surplus added.

j. Functional Allocation of Expenses

Directly identifiable expenses are charged to program services, general and administration, and fund raising. Expenses related to more than one function are charged to program services, general and administration, and fund raising on the basis of periodic time and expense studies. General and administration expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the College.

The King's College and Affiliate
Notes to the Consolidated Financial Statements
August 31, 2008

2. Summary of Significant Accounting Policies: (Continued)

k. Prior Year Summarized Comparative Information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the College's financial statements for the year ended August 31, 2007, from which the summarized information was derived.

l. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from their estimates.

m. New York Foundation for Leadership

The consolidated financial statements include the accounts of the New York Foundation for Leadership. All material interorganization transactions have been eliminated in consolidation.

3. Investments:

Investments are presented in the financial statements at market value and as of August 31, 2008 consist of the following:

Money market funds	\$523,259
Stocks	<u>25,000</u>
Total	<u>\$548,259</u>

Restrictions on investments are as follows:

Gift annuities	\$ 92,488
Endowment	<u>455,771</u>
Total	<u>\$548,259</u>

Investment income consists of the following:

Realized gain on investments	\$ (2,936)
Interest and dividend income	<u>34,440</u>
Total investment income	<u>\$31,504</u>

4. Beneficial Interest in Perpetual Trusts – Permanently Restricted:

The College is a beneficiary of permanently restricted trusts. The principal must be held in perpetuity by trustees, and the earnings will be distributed annually to the College. During 2008 the earnings received from these trusts were approximately \$14,819.

The King's College and Affiliate
Notes to the Consolidated Financial Statements
August 31, 2008

5. Property, Plant and Equipment:

A summary of the College's property, plant and equipment is as follows:

	Cost	Accumulated Depreciation	Net
Capital lease	\$ 240,283	\$ 216,255	\$ 24,028
Leasehold improvements	4,487,330	2,740,017	1,747,313
Furniture and equipment	1,866,440	1,237,744	628,696
Library books and media	<u>275,078</u>	<u>197,043</u>	<u>78,035</u>
Total	<u>\$6,869,131</u>	<u>\$4,391,059</u>	<u>\$2,478,072</u>

Total expenses include depreciation expense of \$660,606.

6. College Donation of Books:

The College donated 55,450 fully depreciated books that were deemed no longer suitable for the library to Better World Books (BWB). BWB will attempt to sell the volumes they deem sellable and give the College 15% of any profit. During the current year, \$3,605 was received by the College.

7. Pledges Receivable:

Pledges are expected to be received as follows:

In less than one year	\$ 713,597
In one to five years	<u>4,948,572</u>
Subtotal	5,662,169
Less unamortized discount	(565,905)
Less allowance for uncollectible pledges	<u>(477,751)</u>
Net pledges receivable	<u>\$4,618,513</u>

8. Note Payable:

Line of credit in the amount up to \$5,000,000. Interest payments are calculated monthly at a variable rate equal to 2.25% over the one month LIBOR. Principal payments are due from time to time such that the outstanding balance does not exceed the maximum. Interest payments are due monthly based on the daily outstanding balance for each day in that month. Beginning March 16, 2011 the available line of credit will be reduced by \$1,000,000 to \$4,000,000. Beginning March 16, 2012 the available line of credit will be reduced by \$2,000,000 to \$2,000,000. \$2,800,000

9. Temporarily Restricted Net Assets:

Temporarily restricted net assets are available for the following purposes:

Scholarships	\$ 51,750
Student services and activities	32,836
Distance learning	19,398
Annuity reserve	7,666
Alumni center	<u>1,000</u>
Total	<u>\$112,650</u>

The King's College and Affiliate
Notes to the Consolidated Financial Statements
August 31, 2008

10. Contributions - Donated Materials and Equipment:

Donated materials and equipment are reflected as contributions in the accompanying statements only if it is deemed reasonable to obtain an independent appraisal, in which case they would be recorded at the appraised values at date of receipt. No amounts have been reflected in the statements for donated services inasmuch as no objective basis is available to measure the value of such services; however, volunteers have donated significant amounts of their time.

11. Operating Leases:

The College leases certain space in both the Empire State Building in addition to another nearby location in New York City under operating lease agreements expiring in 2013 through 2018. Rent expense for 2008 was \$1,512,993. The annual future minimum lease payments under these operating leases are approximately as follows:

Year Ending August 31,	
2009	\$ 1,347,208
2010	1,935,070
2011	1,979,645
2012	2,025,288
2013 and later	<u>4,628,270</u>
	<u>\$11,915,481</u>

The College leased space in a building for storage under an operating lease agreement that expired in 2008. Rent expense for 2008 was \$12,400. The College did not renew this lease at the end of its term.

The College also leases various apartments to house students. These leases are renewed annually with the number of units rented determined by the number of students that need housing. The total rent expense for 2008 was \$1,898,759.

12. Related Party Transactions:

The King's College receives contributions through contacts initially made through Campus Crusade for Christ. These contributions, when received by the College, are subject to an administrative charge paid to Campus Crusade. During 2008, the College paid \$1,220.

13. Concentration of Risk:

The College's cash and cash equivalents are located in various institutions. The amount on deposit in one institution exceeds the \$250,000 federally insured limit by \$112,793.

14. Contingent Liability:

The College participates in a program whereby its student loans are administered by First Marblehead through their GATE program. To protect against defaults and the present value of released recoveries, the College has a contingent liability of \$83,652.

The King's College and Affiliate
Consolidated Statement of Functional Expenses
For the Year Ended August 31, 2008
With Summarized Comparative Amounts for the Year Ended August 31, 2007

	Program Services	General & Admin	Fund Raising	2008 Totals	2007 Totals
Salaries and benefits	\$3,096,582	\$502,807	\$ 702,731	\$ 4,302,120	\$4,225,313
Consulting services	197,145	10,904	39,459	247,508	172,325
Professional fees	3,942	55,856	313	60,111	44,582
Rent and utilities	3,377,965	191,092	159,653	3,728,710	3,426,372
Travel and entertainment	160,665	15,680	152,231	328,576	463,062
Advertising	62,086		3,761	65,847	60,709
Printing	80,911	525	7,659	89,095	36,412
Postage	39,284	(1,957)	8,289	45,616	50,591
Supplies	33,656	3,468	9,265	46,389	61,349
Amortization & depreciation expense	590,434	39,564	30,608	660,606	609,420
Telephone	72,021	5,627	11,993	89,641	80,294
Cost of sales	5,048			5,048	3,616
Interest	79,355	9,699	8,915	97,969	20,909
Meetings, seminars & conferences	15,585	2,022	4,479	22,086	37,370
Insurance	15,219	1,860	1,710	18,789	30,310
Other expenses	373,837	82,434	38,248	494,519	421,608
Administrative fee - Campus Crusade			1,220	1,220	1,435
Sub-total	8,203,735	919,581	1,180,534	10,303,850	9,745,677
Return of gift to donor					10,842
Total functional expenses	<u>\$8,203,735</u>	<u>\$919,581</u>	<u>\$1,180,534</u>	<u>\$10,303,850</u>	<u>\$9,756,519</u>

See auditor's report on supplementary information.