
Financial Report

2017

PHILLIPS

EXETER

ACADEMY

PHILLIPS EXETER ACADEMY

FINANCIAL REPORT 2017

To the Academy Community,

The Academy's fiscal year ending June 30, 2017, was one of continued financial health, resulting in Standard & Poor's highest rating of AAA. The Academy increased tuition by 4.4 percent, which was within the range of our peer schools but maintained our standing of the lowest tuition charged across all of our peer schools. Unfortunately, the Academy experienced continued challenges during the fiscal year, legal and otherwise, which impacted our operating budget.

The management of Academy resources continues to be guided by the strongest possible commitment to student well-being, while maintaining our long-term vision to steward resources in a way that permits the highest level of accessibility and affordability for current and future students. Throughout FY2017, despite experiencing challenging issues, school leadership focused on programs and increased resources supporting the mental, physical and emotional health of students, including hiring a director of student wellness. We continued the strategic planning process and made progress toward a group of initiatives and ideas that will be rolled out across the Exeter community. Last year, we completed fundraising for the music building addition, which has been utilized actively by our students, educators and community members. The construction of two state-of-the-art buildings — the David E. Goel and Stacey L. Goel Center for Theater and Dance and a new fieldhouse — continued in earnest throughout the fiscal year, and both are on time and on budget.

The Academy continues its commitment to support faculty and staff through competitive salaries and benefits, while offering exceptional professional development opportunities across the globe. We also remain firmly committed to our financial aid program, awarding more than \$22 million to nearly 50 percent of our student body in FY2017, as we did in FY2016.

We continue to offer our students opportunities to see the world beyond Exeter, with hundreds of students participating in off-campus programs internationally, in places such as the U.K. and China, as well as in a dozen domestic U.S. locations. We continue to invest in our technology and infrastructure to ensure that the Academy remains a world-class institution, including adding and improving technology systems for student learning, alumni engagement and fundraising. We plan to continue our investments in these areas.

The annual income from the endowment continues to fund more than 50 percent of our annual operating costs, providing resources to support the Academy's mission and vision. Our fundraising success in support of The Exeter Fund also allows needed unrestricted cash and pledges to support our students and operations. We once again must thank our generous donors from around the globe who contribute resources that allow the Academy to provide an unmatched educational experience.

The following report provides additional details on the FY2017 financial results, as well as an overview of admissions, financial aid, philanthropy and the endowment.



Lisa MacFarlane
Principal



David Hanson
Chief Financial Officer

2017: A Closer Look

Operating Results

The Academy finished FY2017 with operating revenue of \$100.5 million and expenses of \$100.4 million, resulting in a surplus, which the Trustees voted to transfer to the reserve for plant replacement.

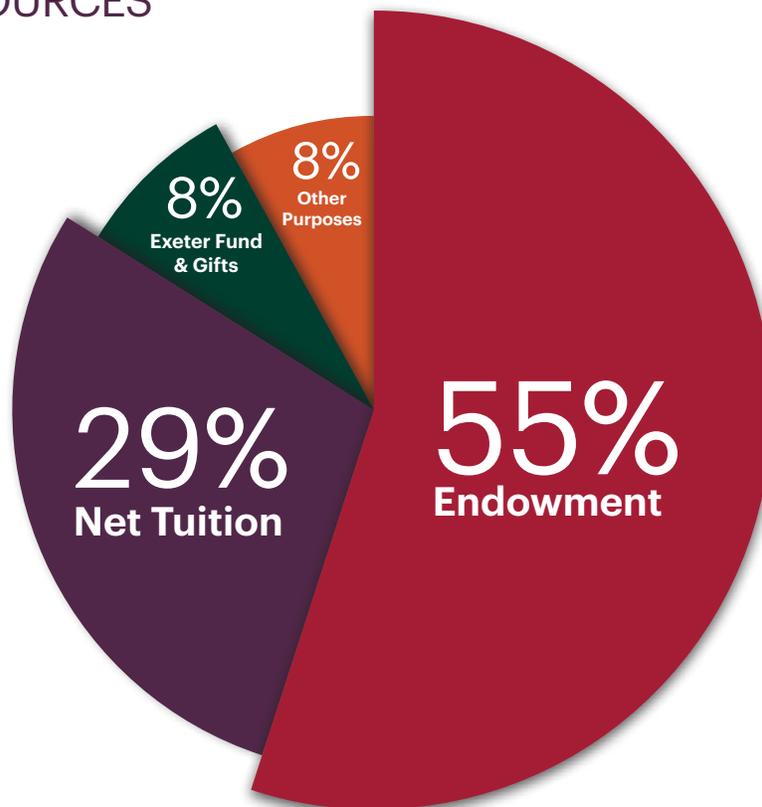
In FY2017, endowment revenue supported 55 percent of the Academy's operating expenses with an additional 8 percent of expenses funded by contributions to The Exeter Fund and other gifts for current operations. Between the endowment and current use gifts, past and present donors collectively support 63 percent of the resources necessary to provide students with the wide range of opportunities offered as part of the Exeter experience.

The Academy seeks out world-class educators. By offering competitive compensation, benefits and extraordinary professional development opportunities, the Academy is able to provide broad curriculum and enriching athletic,

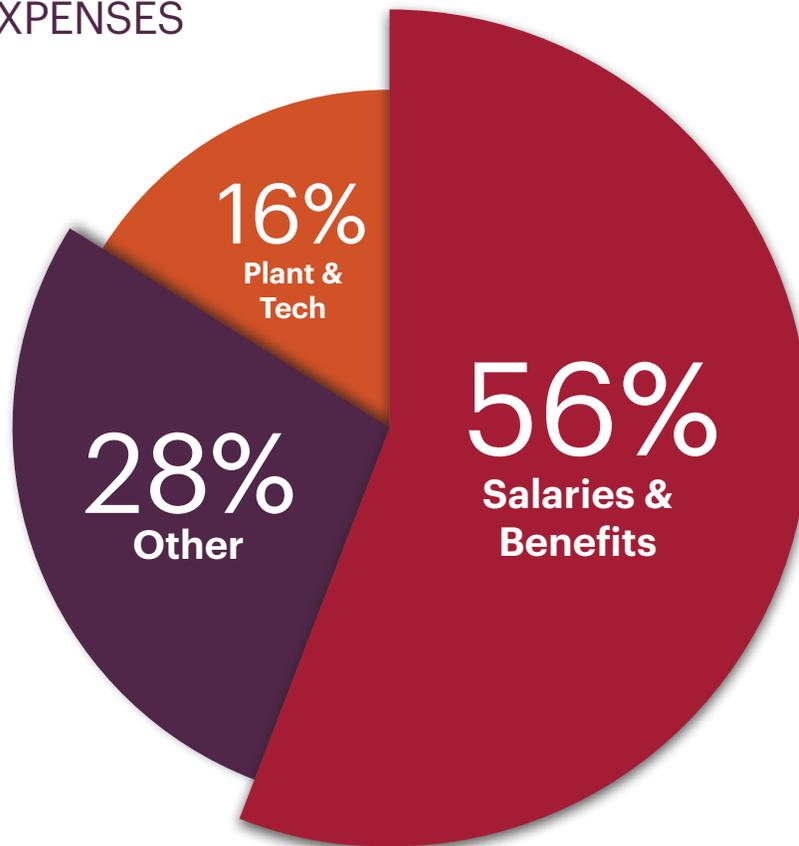
artistic and global learning experiences for students. Costs of compensating and providing benefits to our employees comprise nearly 56 percent of operating expenses.

Other expenses necessary to providing the Exeter experience include student wellness, academic support programs, diverse and quality dining experiences, and high quality, safe and comfortable spaces for learning, working and living. Taxes, utilities, insurance, interest and information technology services are also necessary and material budget line items. Furthermore, the Academy continues to invest significant resources in the capital renewal of our physical plant and technology infrastructure accounting for nearly 16 percent of FY2017 operating expenses. This commitment provides the funding necessary to maintain these critical resources for future Exonians.

► 2016-2017 REVENUE SOURCES



► 2016-2017 EXPENSES



Capital Expenditures

Capital and technology-related projects totaled \$24.3 million with \$22.2 million and \$2.1 million spent on physical plant and technology respectively. Sources of funds for these projects include the operating budget and donations. Construction for the David E. Goel and Stacey L. Goel Center for Theater and Dance and the William Boyce Thompson Field House continued in FY2017 with completion planned in FY2018. Additionally, facilities management completed classroom renovations in the Academy Building, emergency power upgrades, athletic fields irrigation upgrades, the freezer/cooler replacement at Wetherell dining hall, the boathouse dock replacement and new library study rooms. The information technology team implemented several new systems including online enrollment, online common applications, automation of the admissions folder review cycle, a relationship management tool for advancement personnel and an online giving campaign technology.

Admissions & Financial Aid

Admissions at Exeter continue to be very selective with an admit rate of only 17.8 percent of 2,391 completed applications in the fall of 2016.

Exeter's substantial financial aid program, vastly funded by philanthropy, made it possible for 47 percent of the student body to attend the Academy on financial aid. Need-based aid exceeded \$20.8 million this year.

Philanthropy

Donors to Exeter gave or committed \$20.4 million to the Academy during FY2017, including \$6.7 million to The Exeter Fund. Gifts for facilities totaled \$1.2 million and endowment gifts totaled \$7.9 million. The balance was made up of current restricted giving and planned gifts.

Planned gifts are a critical source of funding for Exeter and provide support for scholarship and other endowed funds. The Academy currently maintains more than 454 split-interest gifts, primarily gift annuities, remainder trusts, lead trusts and pooled income funds with an approximate fair market value of \$79 million and associated liability of \$53 million. This fiscal year Exeter received \$3.7 million from realized split-interest agreements and bequests. These funds are added to the general endowment or a previously designated fund. Additionally, donors established new planned gifts with a face value of more than \$2.4 million in FY2017.

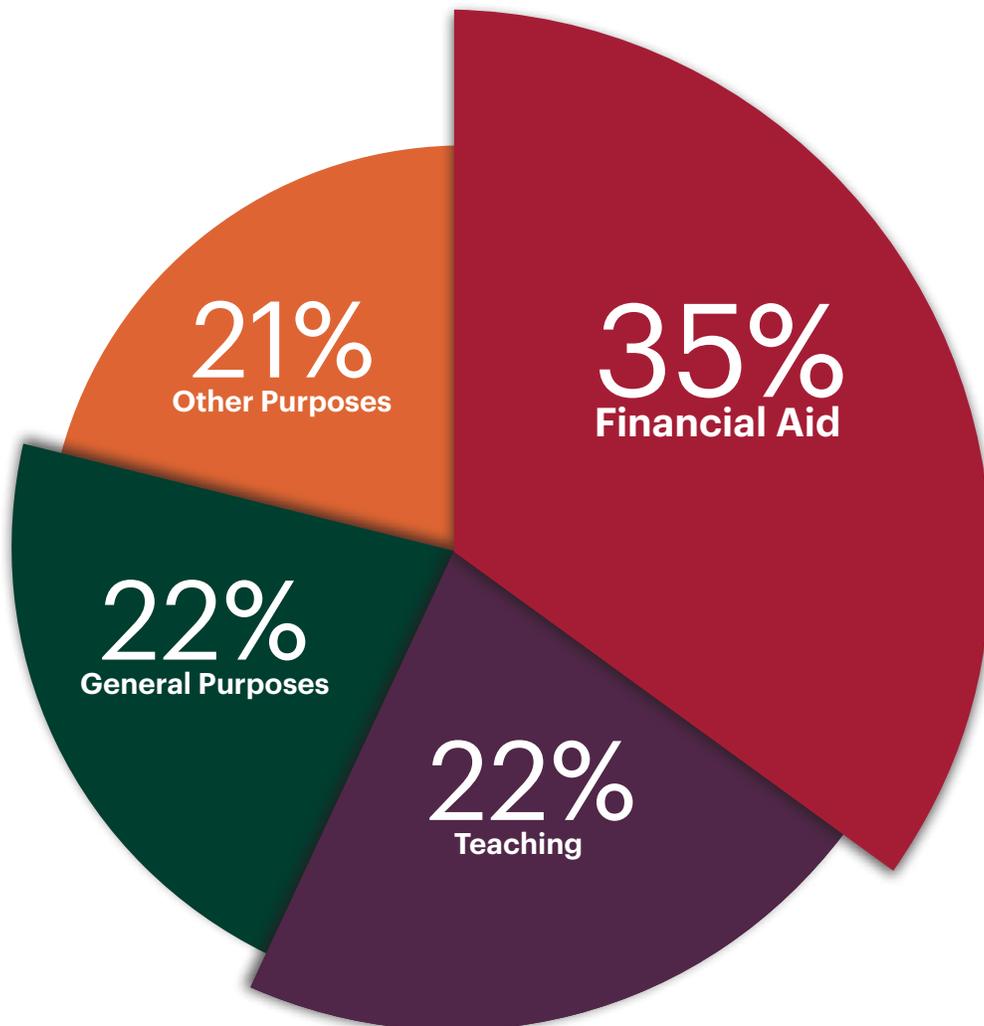
Endowment

Phillips Exeter Academy's endowment plays an essential role in supporting the Academy's mission to educate our students in "goodness and knowledge" as set forth in the founding Deed of Gift written by John Phillips in 1781. The endowment had a market value of \$1.25 billion as of June 30, 2017, and provides more than 50 percent of the Academy's operating revenue.

The endowment consists of approximately 1,400 individual funds established through the generous support of generations of donors. Twenty-two percent of the endowment consists of unrestricted funds, which

provide essential and flexible support to the general purposes of the Academy based on its needs each year. The single largest use of endowment revenue (35 percent) is for financial aid, which supports student grants for tuition, room and board. Twenty-two percent of the endowment is designated for teaching support, paying for faculty compensation and professional development. Another 21 percent of the endowment is designated for other uses, including support for academic departments, student groups, clubs and prizes, global program resources, the library and other facilities.

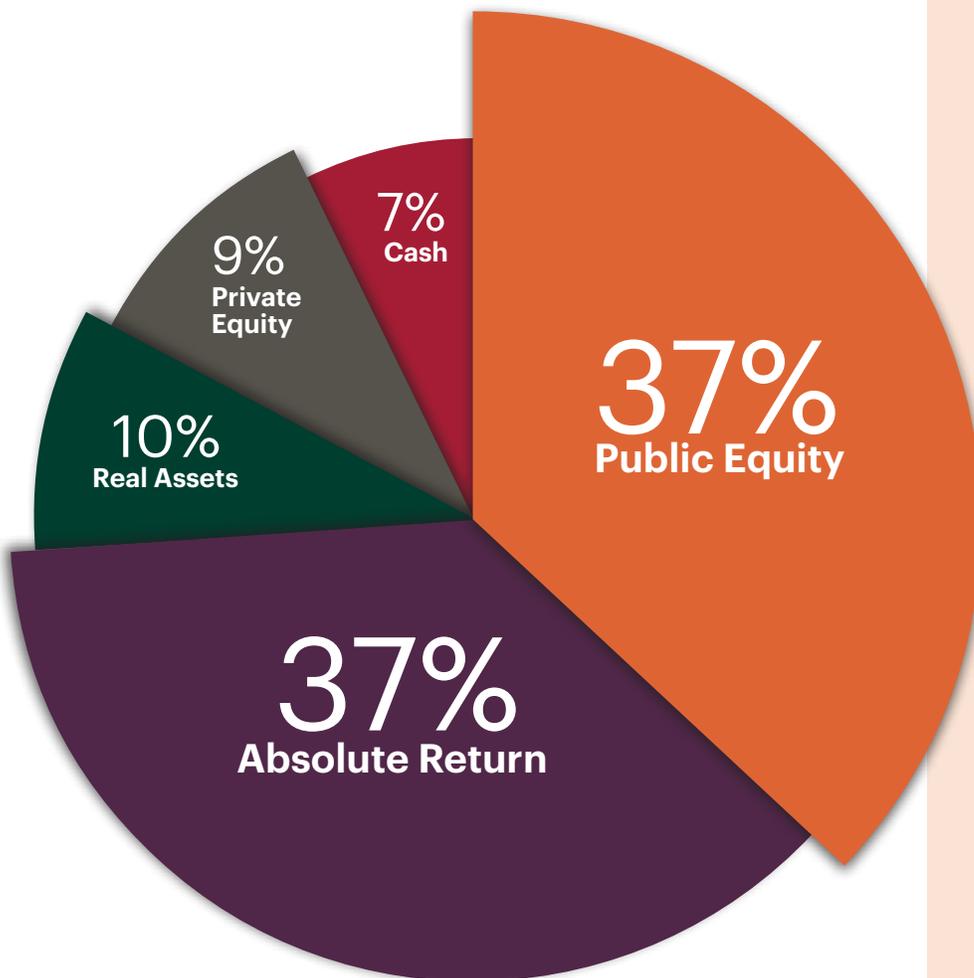
► ENDOWMENT BY PURPOSE RESTRICTION *as of JUNE 30, 2017*



Investment Management

The investments of the endowment are managed with the dual goal of providing consistent support for the Academy's annual operations while also maintaining the purchasing power of the endowment in perpetuity, in order to provide for the long-term needs of the Academy and its future generations of students, faculty and staff. To achieve this, Exeter has selected over time a team of outstanding investment managers focused on long-term return generation. Exeter's portfolio is diversified across asset classes and investment strategies. As a result, investment performance is expected to lag in periods of rising equity markets and outperform in periods of declining equity markets.

► ENDOWMENT ASSET ALLOCATION as of JUNE 30, 2017



The Investment Committee

Exeter's investment committee is comprised of current and former trustees as well as non-trustee alumni who possess extensive investment expertise. Investment committee members, in partnership with the Academy's internal investment staff and external advisors, oversee the endowment.

Investment Committee members

Morgan C.W. Sze '83, *Chair*
K. Tucker Andersen '59
Brad Briner '95
Suzi Kwon Cohen '88
Walter Donovan '81
Tony Downer '75
Eiichiro Kuwana '82
P. Andrews McLane '65
Eunice Johnson Panetta '84
Richard L. Smith '66
Remy Trafelet '88
David Zierk '89

Performance History

For the fiscal year ending June 30, 2017, the Exeter endowment returned 13 percent. Equity markets returns were robust globally for the most recent fiscal year, and Exeter saw strong performance from many of its managers during the year, which drove the endowment's returns.

► Performance Summary as of June 30, 2017

	1 Yr.	5 Yr.	10 Yr.	20 Yr.
Investment Return	13.0%	8.7%	5.1%	8.7%
CA E&F Median	12.9%	7.7%	4.4%	7.0%
60% MSCI ACWI/ 40% Barclays Aggregate	11.2%	7.6%	4.7%	6.0%
MSCI ACWI	18.8%	10.5%	3.7%	5.9%

CA E&F Median =
Cambridge Associates
Endowment and
Foundation Universe

Endowment Spending

Exeter's endowment spending policy is designed to maintain purchasing power over the long run providing relatively consistent support to the annual operating budget. The amount spent in any one year is based 80 percent on the prior year's spending (increased by inflation) and 20 percent on the market value of the endowment (as determined by a four-quarter trailing average) multiplied by Exeter's endowment draw rate of five percent. Because it is only partially based on the current market value of the endowment, this spending policy helps shield the operating budget from short-term market volatility.

Exeter's Generous Community

John and Elizabeth Phillips founded Exeter with a generous gift and a mission to educate youth from every quarter. Over the years, Academy alumni, families and friends have upheld and nurtured the Phillips' original vision for the school through their own extraordinary loyalty and support. An investment in the Academy's endowment directly and positively impacts Exeter's ability to support the students, faculty and staff who are at the core of what we do. What's more, such gifts acknowledge our rich history while setting the course for a future full of possibility and potential.

A named endowed fund can be established with a minimum commitment of \$250,000. If you are interested in learning more, please contact Chuck Ramsay, director of principal and major gifts: 603-777-3482 or cramsay@exeter.edu

Financial Statements

The following pages contain key statistics for the Academy, along with the Statement of Financial Position and Statement of Activities for FY2017.

► Phillips Exeter Academy — Statistical Overview

	2012-13	2013-14	2014-15	2015-16	2016-17
Tuition					
Boarding	\$44,470	\$46,030	\$46,905	\$46,905	\$47,800
Day	\$34,540	\$35,750	\$36,430	\$36,430	\$37,125
Enrollment					
Boarders	858	866	851	875	866
Day	213	216	209	211	213
Total Enrollment	1,071	1,082	1,060	1,086	1,079
Admissions					
Applications	3,068	2,866	2,121	2,358	2,391
Percentage Accepted	16%	18%	18%	19%	18%
Percentage Enrolled (of those accepted)	69%	70%	68%	76%	73%
Financial Aid					
Students on Aid	503	508	517	526	533
Percentage on Aid	47%	47%	49%	48%	49%
Total Financial Aid (000's)	\$18,893	\$19,606	\$20,933	\$21,520	\$22,414
Philanthropy* (000's)					
Annual - Unrestricted	\$6,887	\$7,269	\$7,184	\$6,750	\$6,697
Annual - Restricted	\$1,500	\$1,641	\$1,206	\$1,538	\$1,551
Endowment	\$5,746	\$6,297	\$5,848	\$4,811	\$7,954
Facilities	\$293	\$7,935	\$8,407	\$31,151	\$1,249
Deferred Gifts	\$620	\$1,261	\$1,057	\$0	\$2,368
Endowment					
Endowment Value (000's)	\$1,089,010	\$1,224,029	\$1,217,572	\$1,145,022	\$1,247,705

* Gift totals will differ from those shown in audited financial statements

► **STATEMENTS OF FINANCIAL POSITION**
as of JUNE 30, 2017 and JUNE 30, 2016 (in thousands)

	2017	2016
Assets:		
Cash and cash equivalents	\$ 6,936	\$ 8,953
Receivables and other assets, net	4,642	3,173
Contributions receivable, net	4,753	4,363
Receivables associated with investments	13,534	790
Investments, at fair value	1,243,377	1,161,273
Split interest agreements	67,507	59,433
Cash restricted to investment in land, buildings and equipment	26,063	57,932
Land, buildings and equipment	283,282	248,335
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Total assets	\$ 1,650,094	\$ 1,544,252
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Liabilities:		
Accounts payable and other liabilities	\$ 30,496	\$ 34,981
Deferred revenue and deposits	19,367	18,340
Liabilities associated with split interest agreements	53,787	52,017
Liabilities associated with investments	5,798	15,233
Pension and other employment related obligations	13,352	18,834
Bonds payable, net of bond issuance costs	79,311	79,274
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Total liabilities	\$ 202,111	\$ 218,679
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Net assets:		
Unrestricted	\$ 362,412	\$ 321,091
Temporarily restricted	757,780	689,375
Permanently restricted	327,791	315,107
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Total net assets	1,447,983	1,325,573
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Total liabilities and net assets	\$ 1,650,094	\$ 1,544,252
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▶ STATEMENT OF ACTIVITIES

Year Ended JUNE 30, 2017 (in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2017	2016
Operating					
Revenue and support:					
Student tuition	\$ 50,945	\$ -	\$ -	\$ 50,945	\$ 49,989
Less scholarships and tuition remission	(22,414)	-	-	(22,414)	(21,520)
Net tuition	28,531	-	-	28,531	28,469
Auxiliary and summer programs, net	7,518	-	-	7,518	7,288
Endowment distributed under spending policy	8,951	45,415	-	54,366	52,688
Other endowment spending	763	905	-	1,668	960
Gifts and grants	6,431	2,044	-	8,475	8,137
Other sources	672	-	-	672	673
Total operating revenue and support before releases from restrictions	52,866	48,364	-	101,230	98,215
Restrictions released	47,592	(47,592)	-	-	-
Total operating revenue and support	100,458	772	-	101,230	98,215
Expenses:					
Instructional support	38,345	-	-	38,345	37,844
Student services	22,941	-	-	22,941	23,332
Institutional support	18,923	-	-	18,923	15,870
Development and alumni/ae affairs	6,234	-	-	6,234	5,756
Food services	5,153	-	-	5,153	5,194
Auxiliary and summer programs	6,148	-	-	6,148	6,576
Interest and fees	2,627	-	-	2,627	1,895
Total operating expenses	100,371	-	-	100,371	96,467
Increase in net assets from operations	87	772	-	859	1,748
Non-operating					
Physical capital:					
Contributions	-	1,379	-	1,379	31,966
Non-capitalized expenditures	(3,637)	-	-	(3,637)	(2,602)
Operating allocation for capital renewal and replacement	16,197	-	-	16,197	17,953
Depreciation	(10,904)	-	-	(10,904)	(10,421)
Net assets released from restrictions	9,047	(9,047)	-	-	-
Reclassifications and other increases	(46)	115	-	69	229
Increase (decrease) in net assets from physical capital activities	10,657	(7,553)	-	3,104	37,125
Financial capital:					
Contributions	915	1,802	7,718	10,435	7,116
Total endowment return, net of management fees	25,076	122,828	78	147,982	(26,840)
Endowment distributed under spending policy	(8,951)	(45,415)	-	(54,366)	(52,688)
Other endowment spending	(763)	(905)	-	(1,668)	(960)
Change in value in funds held for deferred giving	-	589	(663)	(74)	(1,874)
Reclassifications and other increases (decreases)	1,914	(3,713)	5,551	3,752	(2,479)
Increase (decrease) in net assets from financial capital activities	18,191	75,186	12,684	106,061	(77,725)
Other non-operating:					
Pension related charges other than net periodic pension cost	5,604	-	-	5,604	1,711
Other components of net periodic pension cost	(654)	-	-	(654)	(1,123)
Unrealized gain (loss) related to interest swap agreement	7,001	-	-	7,001	(8,374)
Other increases	435	-	-	435	436
Increase (decrease) in net assets from other non-operating activities	12,386	-	-	12,386	(7,350)
Increase (decrease) in net assets from total non-operating activities	41,234	67,633	12,684	121,551	(47,950)
Net increase (decrease) in net assets	41,321	68,405	12,684	122,410	(46,202)
Net assets at beginning of year	321,091	689,375	315,107	1,325,573	1,371,775
Net assets at end of year	\$ 362,412	\$ 757,780	\$ 327,791	\$ 1,447,983	\$ 1,325,573