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# Financial Report

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2018



# PHILLIPS EXETER ACADEMY

## FINANCIAL REPORT 2018

To the Academy Community,

Exeter's fiscal year ending June 30, 2018, finished with a modest surplus and overall strong financial position. The Academy's financial strength, supported by a consistent and committed base of alumni, parents, families and friends, is recognized by the Academy's rating agency, Standard & Poor's, resulting in continuance of the evaluator's highest credit rating of AAA.

Notably, the generosity of our donor base is evident by a \$1.3 billion endowment that supports over 53 percent of the annual operating budget, including teaching salaries and benefits, professional development opportunities, college counseling, health and wellness, athletics, theater and dance, and global explorations, among many other areas core to our mission. The endowment also helps to maintain a significant portion of the financial aid program, which is a critical component of our commitment to building and supporting a diverse, equitable and inclusive school. Such dedicated philanthropy enables us to keep tuition as low as possible for our students and their families, which ultimately results in a greater number of students receiving financial aid awards.

Tuition and The Exeter Fund support the majority of the remaining costs of the Exeter experience for our students and all adults who are part of our school community. Exeter's applications for admissions continue to be strong, resulting in a highly selective admissions cycle. In 2018, the Academy increased tuition by 4.7 percent, which was within the range of our peer schools, yet maintained our standing as the least expensive option among them. Critical as a supplement to tuition is the \$7.7 million Exeter Fund which supports many of our core programs. These unrestricted resources are able to support the Academy's highest priorities: providing an accessible, distinctive and unparalleled learning experience; offering a place of belonging, safety and well-being for each student; and creating spaces and opportunities to help each student thrive, explore and realize their individual potential.

The Academy employs over 145 full-time teachers, 37 part-time teachers and over 400 additional full-time employees who support the whole student experience. We are committed to hiring and retaining the highest quality faculty and staff through competitive salaries and benefits, including access to diverse professional development opportunities around the world.

Accessibility remains critical to our mission, and our financial aid program awarded more than \$21 million to 43 percent of our student body in FY2018. The program is funded by the selfless generosity of our donors, who make it possible for thousands of intellectually curious students from every background to say yes to Exeter. Despite our robust financial strength, financial sustainability is challenging for the independent school sector overall, with ongoing pressure on tuition and endowment to fund the world-class educators, facilities and technology that are essential to providing the Exeter experience.

We are deeply grateful for our alumni, parents and other supporters who make the Exeter experience possible. The following provides additional details on the FY2018 financial results, as well as an overview of admissions, financial aid, philanthropy and the endowment.



William K. Rawson  
Principal

Marijka Beauchesne  
Chief Financial Officer

# 2018: A Closer Look

## Operating Results

The Academy finished FY2018 with operating revenue of \$104.41 million and expenses of \$104.35 million, resulting in a surplus, which the Trustees voted to be transferred to the reserve for capital renewal in FY2019.

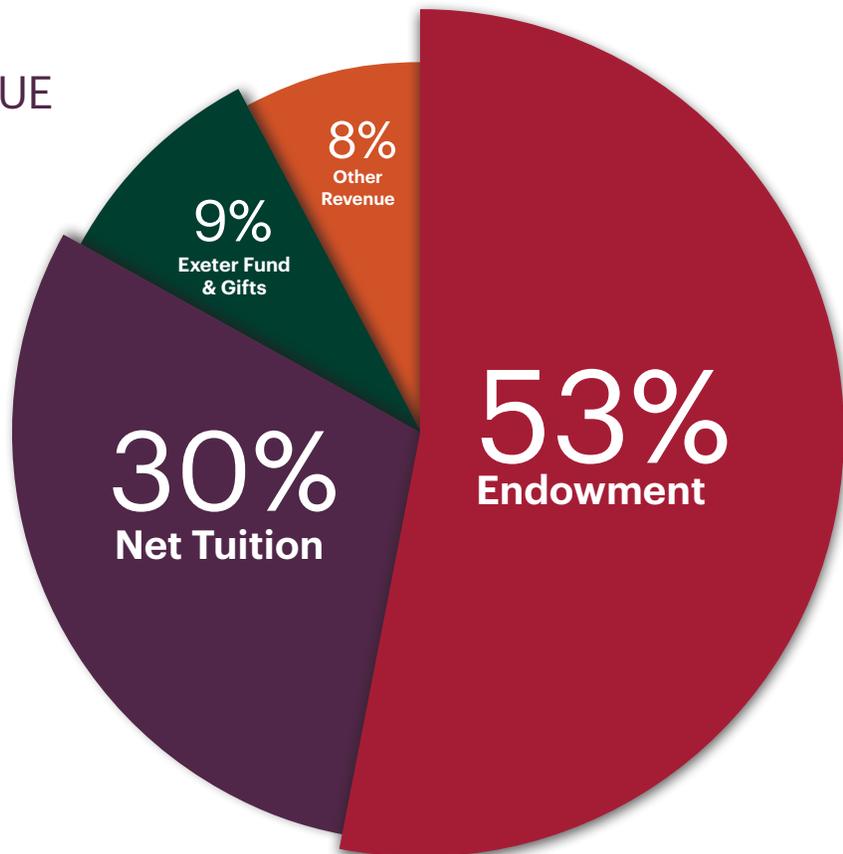
In FY2018, endowment revenue supported 53 percent of the Academy’s operating expenses with an additional 9 percent of expenses funded by contributions to The Exeter Fund and other gifts for current operations. Between the endowment and current use gifts, past and present donors collectively support 62 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,

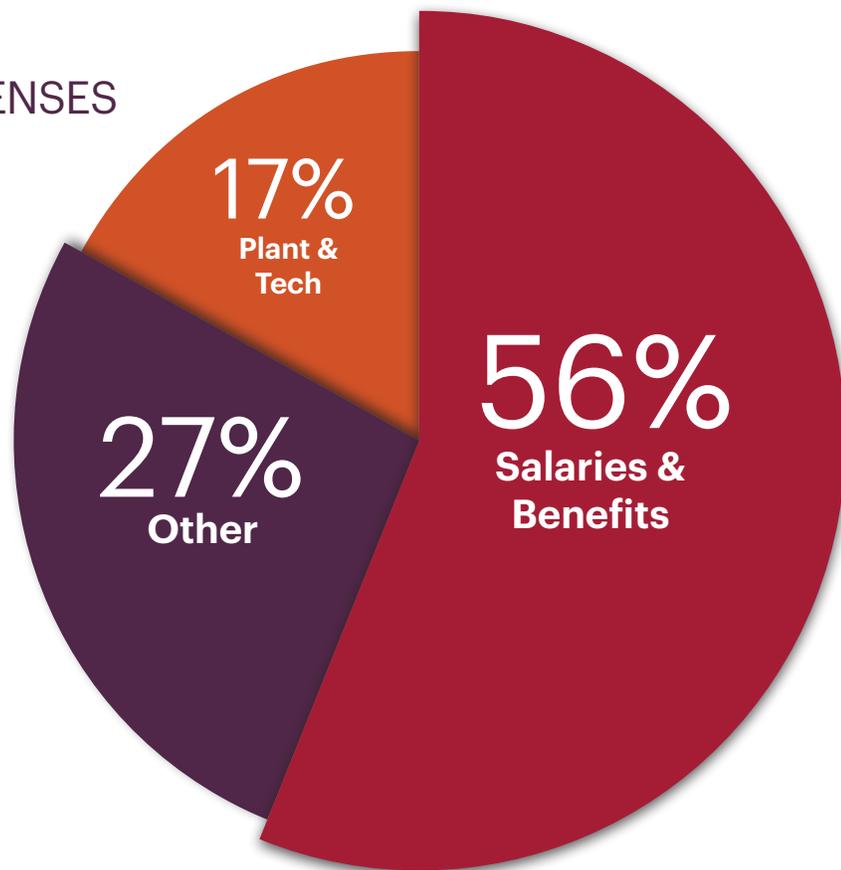
artistic and global learning experiences for students. Costs of compensating and providing benefits to our employees comprise nearly 56 percent of operating expenses.

Other expenses necessary to providing the Exeter experience include student wellness, academic support programs, diverse and high-quality dining, and 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 17 percent of FY2018 operating expenses. This commitment provides the funding necessary to maintain these critical resources for future Exonians.

### ► 2017-2018 OPERATING REVENUE



► 2017-2018  
OPERATING EXPENSES



## Capital Expenditures

Capital and technology-related projects totaled \$86 million. Of that amount, \$1 million was spent on technology and \$85 million represents the total capital expenditures for building projects completed during the year. 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 was completed in FY2018. Additionally, facilities management completed Front Street crosswalk upgrades, all-gender dorm renovations, Lamont Gallery improvements, and library upgrades. The information technology team implemented several new systems including digitization of the student newspaper, an enterprise content management system, reporting and analytics tools, and a talent management system.

## Admissions & Financial Aid

Admissions at Exeter continue to be very selective with an admit rate of only 17 percent of 2,663 completed applications. Exeter's substantial financial aid program,

vastly funded by philanthropy, made it possible for 43 percent of the student body to attend the Academy on financial aid. Need-based aid exceeded \$21 million this year.

## Philanthropy

Exeter donors gave or committed \$34 million to the Academy during FY2018, including nearly \$8 million to The Exeter Fund. Gifts for facilities totaled nearly \$14 million and endowment gifts exceeded \$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 400 split interest gifts, primarily gift annuities, remainder trusts, lead trusts and pooled income funds with an approximate fair market value of \$80 million and associated liability of \$54 million. 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 \$1 million in FY2018.

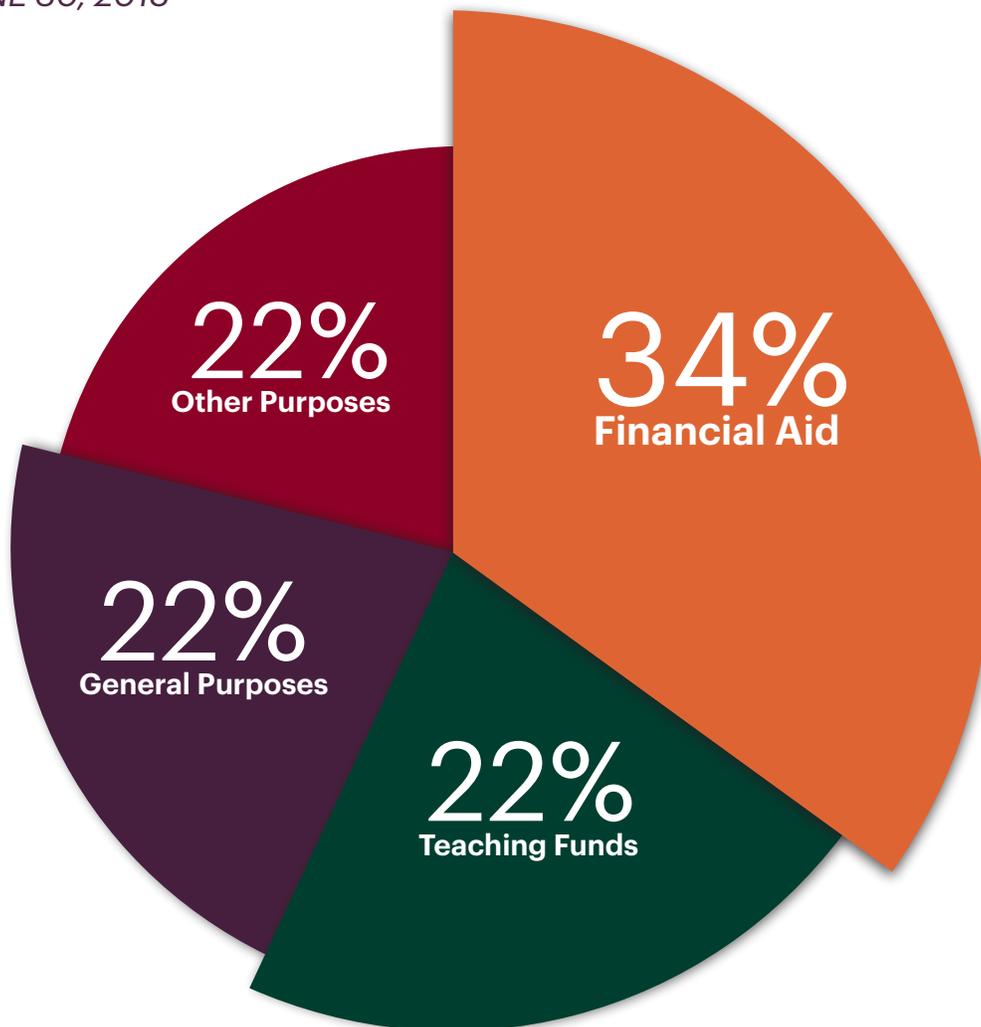
# Endowment

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 executed by John and Elizabeth Phillips in 1781. The endowment had a market value of \$1.3 billion as of June 30, 2018, 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 (34 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 22 percent of the endowment is designated for other uses, including support for academic departments, student groups, residential life initiatives, global program resources, the library and other facilities.

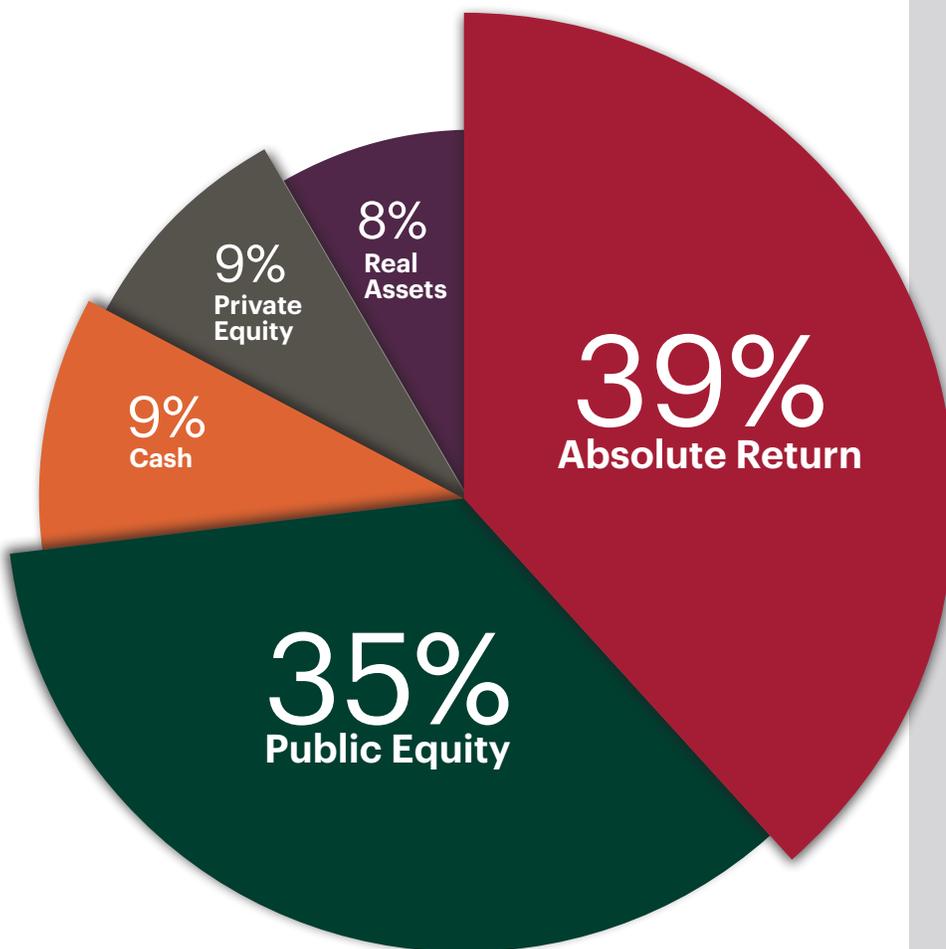
► **ENDOWMENT BY PURPOSE RESTRICTION**  
*as of JUNE 30, 2018*



## 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. Our 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, 2018



## The Investment Committee

Exeter's Investment Committee comprises 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 advisers, oversee the endowment.

### Investment Committee members

Morgan C. W. Sze '83, *Chair*  
K. Tucker Andersen '59  
Meredith Landers Barth '93  
Brad Briner '95  
Suzi Kwon Cohen '88  
Walter C. Donovan '81  
John A. Downer '75, *Ex officio*  
Eiichiro Kuwana '82  
P. Andrews McLane '65  
Eunice Johnson Panetta '84  
Richard L. Smith '66  
Remy Trafelet '88

## Performance History

For the fiscal year ending June 30, 2018, the Exeter endowment returned 10.1 percent. Strong equity market returns drove performance for the most recent fiscal year, and Exeter saw strong returns across most parts of the portfolio.

### ► Performance Summary as of June 30, 2018

	1 Yr.	5 Yr.	10 Yr.	20 Yr.
Investment Return	10.1%	7.9%	5.9%	8.4%
CA E&F Median	8.1%	7.0%	5.5%	6.5%
60% MSCI ACWI/40% Barclays Aggregate	7.3%	6.6%	5.1%	5.5%
S&P 500	14.4%	13.4%	10.2%	6.5%
MSCI ACWI	10.7%	9.4%	5.8%	5.8%

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 and to provide 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 5 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 Greatest Asset: Alumni, Families and Friends

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](mailto:cramsay@exeter.edu)*

# Financial Statements

The following pages contain key statistics for the Academy, along with the Audited Statement of Financial Position and Statement of Activities for FY2018.

## ► Phillips Exeter Academy — Statistical Overview

	2013-14	2014-15	2015-16	2016-17	2017-18
<b>Tuition</b>					
Boarding	\$46,030	\$46,905	\$46,905	\$47,800	\$49,880
Day	\$35,750	\$36,430	\$36,430	\$37,125	\$38,740
<b>Enrollment</b>					
Boarders	866	851	875	866	873
Day	216	209	211	213	211
Total Enrollment	1,082	1,060	1,086	1,079	1,084
<b>Admissions</b>					
Applications	2,866	2,121	2,358	2,391	2,663
Percentage Accepted	18%	18%	19%	18%	17%
Percentage Enrolled (of those accepted)	70%	68%	76%	73%	76%
<b>Financial Aid</b>					
Students on Aid	508	517	526	533	507
Percentage on Aid	47%	49%	48%	49%	47%
Total Financial Aid (000's)	\$19,606	\$20,933	\$21,520	\$22,414	\$22,373
<b>Philanthropy* (000's)</b>					
Annual - Unrestricted	\$7,269	\$7,184	\$6,750	\$6,697	\$7,706
Annual - Restricted	\$1,641	\$1,206	\$1,538	\$1,551	\$1,456
Endowment	\$6,297	\$5,848	\$4,811	\$7,954	\$9,104
Facilities	\$7,935	\$8,407	\$31,151	\$1,249	\$13,923
Deferred Gifts	\$1,261	\$1,057	\$0	\$2,368	\$1,045
<b>Endowment</b>					
Endowment Value (000's)	\$1,224,029	\$1,217,572	\$1,145,022	\$1,247,705	\$1,304,504

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

▶ **AUDITED STATEMENTS OF FINANCIAL POSITION**  
*as of JUNE 30, 2018 and 2017 (in thousands)*

	<b>2018</b>	<b>2017</b>
<b>Assets:</b>		
Cash and cash equivalents	\$ 11,211	\$ 6,936
Receivables and other assets, net	4,215	4,642
Contributions receivable, net	14,109	4,753
Receivables associated with investments	25,413	13,534
Investments, at fair value	1,282,378	1,243,377
Split interest agreements	70,723	67,507
Cash restricted to investment in land, buildings and equipment	2,227	26,063
Land, buildings and equipment	326,185	283,282
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<b>Total assets</b>	<b>\$ 1,736,461</b>	<b>\$ 1,650,094</b>
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<b>Liabilities:</b>		
Accounts payable and other liabilities	\$ 24,886	\$ 30,496
Deferred revenue and deposits	21,353	19,367
Liabilities associated with split interest agreements	54,414	53,787
Liabilities associated with investments	-	5,798
Pension and other employment related obligations	15,747	13,352
Bonds payable, net of bond issuance costs	79,347	79,311
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<b>Total liabilities</b>	<b>195,747</b>	<b>202,111</b>
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<b>Net assets:</b>		
Unrestricted	431,943	362,412
Temporarily restricted	771,601	757,780
Permanently restricted	337,170	327,791
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<b>Total net assets</b>	<b>1,540,714</b>	<b>1,447,983</b>
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<b>Total liabilities and net assets</b>	<b>\$ 1,736,461</b>	<b>\$ 1,650,094</b>
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# AUDITED STATEMENT OF ACTIVITIES

Year Ended JUNE 30, 2018 with comparative totals for June 30, 2017 (in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2018	2017
<b>Operating</b>					
Revenue and support:					
Student tuition	\$ 53,517	\$ -	\$ -	\$ 53,517	\$ 50,945
Less scholarships and tuition remission	(22,373)	-	-	(22,373)	(22,414)
<b>Net tuition</b>	<b>31,144</b>	<b>-</b>	<b>-</b>	<b>31,144</b>	<b>28,531</b>
Auxiliary and summer programs, net	7,908	-	-	7,908	7,518
Endowment distributed under spending policy	9,247	46,634	-	55,881	54,366
Other endowment spending	538	126	-	664	1,668
Gifts and grants	7,582	1,690	-	9,272	8,475
Other sources	641	-	-	641	672
<b>Total operating revenue and support before releases from restrictions</b>	<b>57,060</b>	<b>48,450</b>	<b>-</b>	<b>105,510</b>	<b>101,230</b>
Restrictions released	47,349	(47,349)	-	-	-
<b>Total operating revenue and support</b>	<b>104,409</b>	<b>1,101</b>	<b>-</b>	<b>105,510</b>	<b>101,230</b>
<b>Expenses:</b>					
Instructional support	38,381	-	-	38,381	38,345
Student services	25,737	-	-	25,737	22,941
Institutional support	20,197	-	-	20,197	18,923
Development and alumni/ae affairs	6,791	-	-	6,791	6,234
Food services	5,150	-	-	5,150	5,153
Auxiliary and summer programs	6,064	-	-	6,064	6,148
Interest and fees	2,035	-	-	2,035	2,627
<b>Total operating expenses</b>	<b>104,355</b>	<b>-</b>	<b>-</b>	<b>104,355</b>	<b>100,371</b>
<b>Increase in net assets from operations</b>	<b>54</b>	<b>1,101</b>	<b>-</b>	<b>1,155</b>	<b>859</b>
<b>Non-operating</b>					
<b>Physical capital:</b>					
Contributions	-	10,925	-	10,925	1,379
Non-capitalized expenditures	(1,777)	-	-	(1,777)	(3,637)
Operating allocation for capital renewal and replacement	17,218	-	-	17,218	16,197
Depreciation	(12,369)	-	-	(12,369)	(10,904)
Net assets released from restrictions	54,523	(54,523)	-	-	-
Reclassifications and other increases	(48)	59	(16)	(5)	69
<b>Increase (decrease) in net assets from physical capital activities</b>	<b>57,547</b>	<b>(43,539)</b>	<b>(16)</b>	<b>13,992</b>	<b>3,104</b>
<b>Financial capital:</b>					
Contributions	787	4,014	4,489	9,290	10,435
Total endowment return, net of management fees	19,458	102,662	54	122,174	147,982
Endowment distributed under spending policy	(9,247)	(46,634)	-	(55,881)	(54,366)
Other endowment spending	(538)	(126)	-	(664)	(1,668)
Change in value in funds held for deferred giving	-	166	419	585	(74)
Reclassifications and other increases (decreases)	226	(3,823)	4,433	836	3,752
<b>Increase in net assets from financial capital activities</b>	<b>10,686</b>	<b>56,259</b>	<b>9,395</b>	<b>76,340</b>	<b>106,061</b>
<b>Other non-operating:</b>					
Pension related charges other than net periodic pension cost	(1,602)	-	-	(1,602)	5,604
Other components of net periodic pension cost	(641)	-	-	(641)	(654)
Unrealized gain related to interest swap agreement	3,052	-	-	3,052	7,001
Other increases	435	-	-	435	435
<b>Increase in net assets from other non-operating activities</b>	<b>1,244</b>	<b>-</b>	<b>-</b>	<b>1,244</b>	<b>12,386</b>
<b>Increase in net assets from total non-operating activities</b>	<b>69,477</b>	<b>12,720</b>	<b>9,379</b>	<b>91,576</b>	<b>121,551</b>
<b>Net increase in net assets</b>	<b>69,531</b>	<b>13,821</b>	<b>9,379</b>	<b>92,731</b>	<b>122,410</b>
<b>Net assets at beginning of year</b>	<b>362,412</b>	<b>757,780</b>	<b>327,791</b>	<b>1,447,983</b>	<b>1,325,573</b>
<b>Net assets at end of year</b>	<b>\$ 431,943</b>	<b>\$ 771,601</b>	<b>\$ 337,170</b>	<b>\$ 1,540,714</b>	<b>\$ 1,447,983</b>