

# PHILLIPS EXETER ACADEMY

## FINANCIAL REPORT 2016

To The Academy Community,

The Academy's fiscal year ending June 30, 2016, was one of continued financial health, allowing the Academy to increase tuition only slightly, at 1.9 percent, which was far below our peer schools' increases for the 2016 fiscal year. Unfortunately, the Academy also experienced some unexpected challenges during the fiscal year which impacted our operating budget.

The management of Academy resources continues to be guided by a strong commitment to the long-term stewardship of all of our resources to ensure that Exeter remains accessible and affordable to future students. In FY2016, we welcomed our 15th principal, Lisa MacFarlane, who came to Exeter after a distinguished career in higher education, most recently serving as the provost for the University of New Hampshire. Upon her arrival, we revitalized the strategic planning process to chart a new direction for the Academy. During the fiscal year, we completed fundraising for the music building addition, which opened in October 2016. We also began construction on two new, state-of-the-art buildings — the David and Stacey Goel Center for Theater and Dance and a new fieldhouse, both to be located on the south campus. Active fundraising for these projects continues, with bridge funding provided through a direct placement debt issuance on highly favorable terms.

The Academy continues its commitment to support faculty and staff through competitive salaries and benefits, while continuing to offer exceptional professional development opportunities across the globe. We remain firmly committed to our financial aid program, awarding over \$21.5 million to nearly 50 percent of our student body in FY2016.

We also offered our students opportunities to see the world, with 366 students attending 40 off-campus programs. Further, we continued to invest in our infrastructure to ensure that the Academy remains a world-class campus, including renovations to Amen Hall, the preservation of historic Tattersall House, and multiple capital renewal projects focused on building structure and systems. In addition, a major facility was repurposed as the new Downer Family Fitness Center, and Hatch Field, a new multi-purpose synthetic field was constructed.

In FY2016, the Academy's endowment returned -2.1 percent for the one-year period, with a value of \$1.15 billion on June 30, 2016. The annual income from the endowment continues to fund more than half of our annual operating costs — providing resources to support the Academy's mission and vision. With continued success in The Exeter Fund, we raised \$6.75 million in new, unrestricted cash and pledges.

We again must thank our many generous donors who provide resources allowing us to continue to provide an unmatched educational experience. Without such support, we would not be able to offer the exceptional Exeter education.

This following report provides additional detail on the FY2016 financial results, as well as an overview of admissions, financial aid, philanthropy, and the endowment.

Lisa MacFarlane  
Principal

David Hanson  
Chief Financial Officer

# FY2016: A CLOSER LOOK

## OPERATING RESULTS

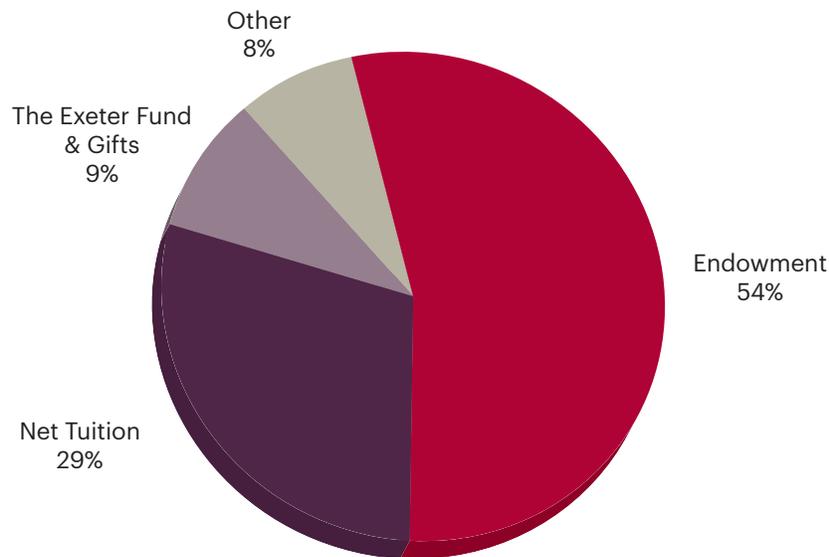
The Academy finished FY2016 with operating revenue of \$97.7 million and expenses of \$97.6 million, resulting in a \$130 thousand operating surplus, which the Trustees voted to transfer to unrestricted quasi endowment.

In FY2016, endowment revenue supported 54 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 63 percent of the resources necessary to provide students with the unsurpassed opportunities Exeter affords.

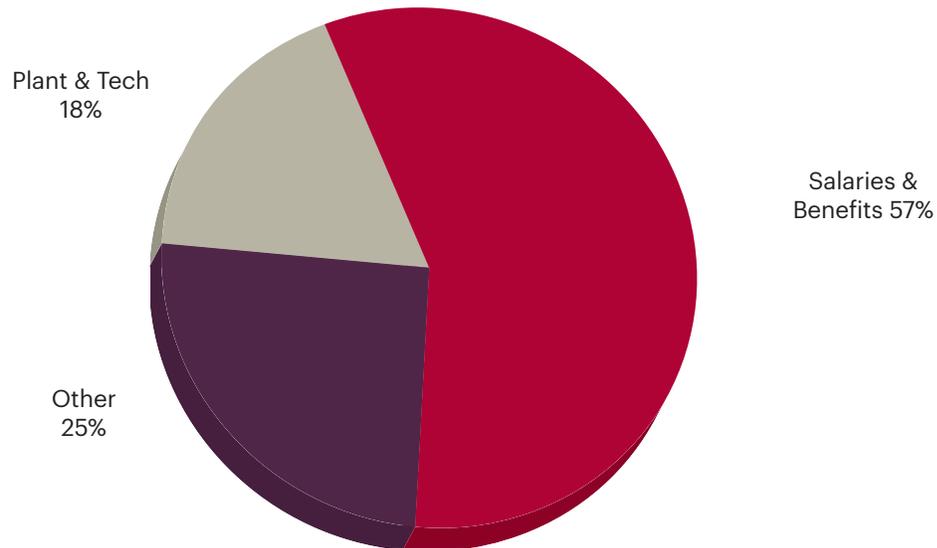
The Academy recruits world class instructors and scholars offering competitive compensation, benefits and expansive professional development opportunities to facilitate providing a broad curriculum and enriching academic, athletic and global learning experiences for students. Costs of compensating and providing benefits to our employees comprise nearly 56 percent of operating expenses.

Other expenses necessary to providing the Exeter experience include taxes, utilities, insurance, interest, academic and student support, dining services, information technology services and facilities management costs. Furthermore, the Academy continues to invest in the capital renewal of our physical plant and technology infrastructure accounting for nearly 18 percent of FY2016 operating expenses. This commitment provides the funding necessary to maintain these critical resources for future Exonians.

## 2015-16 REVENUE SOURCES



## 2015-16 EXPENSES



### CAPITAL EXPENDITURES

Capital and technology related projects totaled \$23.5 million with \$22.2 million and \$1.3 million spent on physical plant and technology respectively. Sources of funds for these projects include the operating budget and donations. This year the facilities management team completed over 60 projects including the Class of 1959 addition to the Forrestal-Bowld Music Center, final phase of relocating tennis courts and the JV baseball field in support of the David and Stacey Goel Center for Theater and Dance, and the renovation of both Tattersall House and Amen Hall. The information technology team completed over 25 large projects including the implementation of a new Learning Management System (Canvas), course pre-requisites, a mobile daily schedule for students, faculty and staff, a new alumni portal, and technology implementations in the various new and renovated facilities.

### ADMISSIONS & FINANCIAL AID

Completed applications to the Academy for the fall of 2015 were 2,358. Admissions at Exeter continue to be very selective with an admit rate of only 19.2 percent. Financial aid and tuition remission for children of faculty and staff exceeded \$21.5 million this year allowing 48 percent of the student body to attend the Academy on financial aid.

### PHILANTHROPY

Donors to Exeter gave or committed \$44 million to the Academy during FY2016, including \$6.75 million to the Exeter Fund. Gifts for facilities totaled \$31.1 million and endowment gifts totaled \$4.8 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 477 split-interest gifts, primarily Gift Annuities, Remainder Trusts, Lead Trusts and Pooled Income Funds, from 255 individual donors with an approximate fair market value of \$77 million. This fiscal year Exeter received \$4.4 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 \$7.3 million in FY2016.

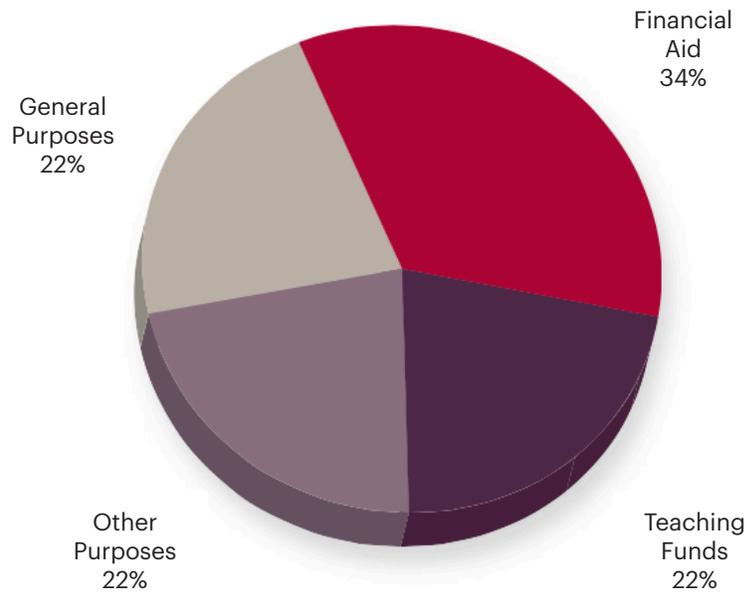
## ENDOWMENT

Phillips Exeter Academy's endowment, valued at \$1.15 billion as of June 30, 2016, provides more than 50 percent of the Academy's operating revenue. The endowment consists of approximately 1,400 individual funds; each one allows the school to deliver the robust programming for which Exeter has long been known.

The single largest use of endowment revenue 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 to other uses, including: academic department expenses, funds for student groups, clubs and prizes, global program resources, facilities, and support of the library. The remaining 22 percent of the endowment does not have a specific purpose designation and can be used for the general purposes of the Academy.

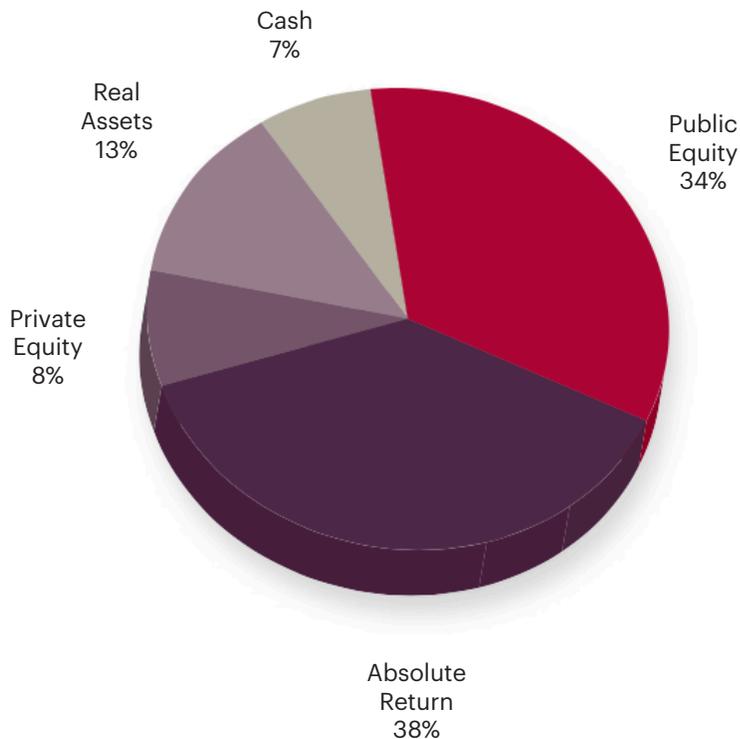
## ENDOWMENT BY PURPOSE RESTRICTION AS OF JUNE 30, 2016



## INVESTMENT MANAGEMENT

The investments of the endowment are managed with the dual goal of providing consistent support for the Academy's operations and 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 constructed a portfolio with a mix of asset classes and investment strategies that are expected to be less correlated. 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, 2016



## 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

Suzi Kwon Cohen '88

Walter A. Donovan '81

John A. Downer '75

Eiichiro Kuwana '82

P. Andrews McLane '65

Eunice Johnson Panetta '84

Richard L. Smith '66

Remy White Trafelet '88

David Zierk '89

## PERFORMANCE HISTORY

Fiscal year 2016 was a challenging year for most investors as global growth remained anemic and global interest rates remained exceptionally low, or even negative. Against this backdrop of slow growth and low and declining interest rates, fixed income (Barclays Aggregate +6.0 percent) and REITs (FTSE NAREIT +23.6 percent) performed strongly, and U.S. equities (S&P 500 +4.0 percent) outperformed international developed equity markets (MSCI EAFE -10.2 percent) and Emerging Markets (MSCI EM -11.7 percent).

## PERFORMANCE SUMMARY AS OF JUNE 30, 2016

	1 YR.	5 YR.	10 YR.	20 YR.
Investment Return	-2.1%	6.6%	5.9%	8.9%
CA E&F Median	-2.7%	4.9%	5.0%	7.4%
60% MSCI ACWI/ 40% Barclays Aggregate	0.5%	5.1%	4.9%	5.9%
MSCI ACWI	-3.2%	6.0%	4.8%	6.1%

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

Most endowments had negative returns during fiscal year 2016, illustrated by the Cambridge Associates Endowment and Foundation Median return of -2.7 percent. The Exeter endowment return for the fiscal year was -2.1 percent. For an institution founded in 1781 and with a perpetual mission, Exeter is and must remain a long-term investor. Exeter's results over longer spans of time show strong performance from maintaining a highly diversified portfolio.

## 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 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.

The majority of Exeter's endowed funds (78 percent) are donor-designated, meaning that such funds and the income they produce can only be used to support the specific purpose or programs selected by the donor(s). As part of the process of matching fund revenues to programmatic expenses, the Academy assesses an associated program costs charge of up to 10 percent of the total amount spent from the fund. This charge helps to defray costs that must be incurred in order for the program to function, but that are not directly allocated to the program's budget. Examples include the costs of facilities, technology, and administrative support.

# FINANCIAL STATEMENTS

The following pages contain key statistics for the Academy, along with the Statement of Financial Position and Statement of Activities for FY2016.

## PHILLIPS EXETER ACADEMY — STATISTICAL OVERVIEW

	2011-12	2012-13	2013-14	2014-15	2015-16
<b>Tuition</b>					
Boarding	\$41,800	\$44,470	\$46,030	\$46,905	\$46,905
Day	\$32,470	\$34,540	\$35,750	\$36,430	\$36,430
<b>Enrollment</b>					
Boarders	857	858	866	851	875
Day	203	213	216	209	211
Total Enrollment	1,060	1,071	1,082	1,060	1,086
<b>Admissions</b>					
Applications	2,964	3,068	2,866	2,121	2,358
Percentage Accepted	16%	16%	18%	18%	19%
Percentage Enrolled (of those accepted)	69%	69%	70%	68%	76%
<b>Financial Aid</b>					
Students on Aid	500	503	508	517	526
Percentage on Aid	47%	47%	47%	49%	48%
Total Financial Aid (000s)	\$17,494	\$18,893	\$19,606	\$20,933	\$21,520
<b>Philanthropy* (000s)</b>					
Annual - Unrestricted	\$6,792	\$6,887	\$7,269	\$7,184	\$6,750
Annual - Restricted	\$1,282	\$1,500	\$1,641	\$1,206	\$1,538
Endowment	\$8,550	\$5,746	\$6,297	\$5,848	\$4,811
Facilities	\$449	\$293	\$7,935	\$8,407	\$31,151
Deferred Gifts	\$506	\$620	\$1,261	\$1,057	\$0
<b>Endowment</b>					
Endowment Value (000s)	\$994,386	\$1,089,010	\$1,224,029	\$1,217,572	\$1,145,022

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

**STATEMENTS OF FINANCIAL POSITION**  
**AS OF JUNE 30, 2016 AND JUNE 30, 2015**  
(in thousands)

	<b>2016</b>	<b>2015</b>
<b>Assets:</b>		
Cash and cash equivalents	\$ 8,953	\$ 6,327
Receivables and other assets, net	3,899	4,308
Contributions receivable, net	4,363	3,858
Investments, at fair value	1,161,273	1,240,698
Split interest agreements	59,433	62,432
Cash restricted to investment in land, buildings and equipment	57,932	17,888
Land, buildings and equipment	248,335	226,626
	248,335	226,626
<b>Total assets</b>	<b>\$ 1,544,188</b>	<b>\$ 1,562,137</b>
<b>Liabilities:</b>		
Accounts payable and other liabilities	\$ 34,981	\$ 24,461
Deferred revenues and deposits	18,340	20,141
Liabilities associated with split interest agreements	52,017	54,382
Liabilities associated with investments	14,443	21,111
Pension and other employment related obligations	18,834	20,267
Bonds payable	80,000	50,000
	80,000	50,000
<b>Total liabilities</b>	<b>218,615</b>	<b>190,362</b>
<b>Net assets:</b>		
Unrestricted	321,091	330,673
Temporarily restricted	689,375	729,256
Permanently restricted	315,107	311,846
	315,107	311,846
<b>Total net assets</b>	<b>1,325,573</b>	<b>1,371,775</b>
<b>Total liabilities and net assets</b>	<b>\$ 1,544,188</b>	<b>\$ 1,562,137</b>

**STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2016**  
With Summarized Financial Information  
for the Year Ended June 30, 2015 (in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2016	2015
<b>Operating</b>					
Revenue and support:					
Student tuition	\$ 49,989	\$ -	\$ -	\$ 49,989	\$ 49,023
Less scholarships and tuition remission	(21,520)	-	-	(21,520)	(20,933)
<b>Net tuition</b>	<b>28,469</b>	<b>-</b>	<b>-</b>	<b>28,469</b>	<b>28,090</b>
Auxiliary and summer programs, net	7,288	-	-	7,288	7,296
Endowment distributed under spending policy	8,682	44,006	-	52,688	50,128
Other endowment spending	842	118	-	960	949
Gifts and grants	6,510	1,627	-	8,137	8,664
Other sources	673	-	-	673	652
<b>Total operating revenue and support before releases from restrictions</b>	<b>52,464</b>	<b>45,751</b>	<b>-</b>	<b>98,215</b>	<b>95,779</b>
Restrictions released	45,256	(45,256)	-	-	-
<b>Total operating revenue and support</b>	<b>97,720</b>	<b>495</b>	<b>-</b>	<b>98,215</b>	<b>95,779</b>
Expenses:					
Instructional support	38,390	-	-	38,390	38,169
Student services	23,824	-	-	23,824	23,627
Institutional support	15,894	-	-	15,894	13,289
Development and alumni/ae affairs	5,772	-	-	5,772	6,298
Food services	5,222	-	-	5,222	5,204
Auxiliary and summer programs	6,593	-	-	6,593	6,849
Interest and fees	1,895	-	-	1,895	1,687
<b>Total operating expenses</b>	<b>97,590</b>	<b>-</b>	<b>-</b>	<b>97,590</b>	<b>95,123</b>
<b>Increase in net assets from operations</b>	<b>130</b>	<b>495</b>	<b>-</b>	<b>625</b>	<b>656</b>
<b>Non-operating</b>					
Physical capital:					
Contributions	-	31,966	-	31,966	8,430
Non-capitalized expenditures	(2,602)	-	-	(2,602)	(1,671)
Operating allocation for capital renewal and replacement	17,953	-	-	17,953	18,007
Depreciation	(10,421)	-	-	(10,421)	(10,264)
Net assets released from restrictions	3,953	(3,953)	-	-	-
Reclassifications and other increases	190	39	-	229	181
<b>Increase in net assets from physical capital activities</b>	<b>9,073</b>	<b>28,052</b>	<b>-</b>	<b>37,125</b>	<b>14,683</b>
Financial capital:					
Contributions	1,622	3,063	2,431	7,116	6,430
Total endowment return, net of management fees	(4,741)	(22,025)	(74)	(26,840)	38,851
Endowment distributed under spending policy	(8,682)	(44,006)	-	(52,688)	(50,128)
Other endowment spending	(842)	(118)	-	(960)	(949)
Change in value in funds held for deferred giving	-	(2,041)	167	(1,874)	270
Reclassifications and other increases (decreases)	85	(3,301)	737	(2,479)	(5,561)
<b>(Decrease) increase in net assets from financial capital activities</b>	<b>(12,558)</b>	<b>(68,428)</b>	<b>3,261</b>	<b>(77,725)</b>	<b>(11,087)</b>
Other non-operating:					
Pension related charges other than net periodic pension cost	1,711	-	-	1,711	(108)
Unrealized loss related to interest swap agreement	(8,374)	-	-	(8,374)	(3,203)
Other increases	436	-	-	436	439
<b>(Decrease) in net assets from other non-operating activities</b>	<b>(6,227)</b>	<b>-</b>	<b>-</b>	<b>(6,227)</b>	<b>(2,872)</b>
<b>(Decrease) increase in net assets from total non-operating activities</b>	<b>(9,712)</b>	<b>(40,376)</b>	<b>3,261</b>	<b>(46,827)</b>	<b>724</b>
<b>Net (decrease) increase in net assets</b>	<b>(9,582)</b>	<b>(39,881)</b>	<b>3,261</b>	<b>(46,202)</b>	<b>1,380</b>
Net assets at beginning of year	330,673	729,256	311,846	1,371,775	1,370,395
<b>Net assets at end of year</b>	<b>\$ 321,091</b>	<b>\$ 689,375</b>	<b>\$ 315,107</b>	<b>\$ 1,325,573</b>	<b>\$ 1,371,775</b>