

PHILLIPS EXETER ACADEMY

Financial Report 2015

To The Academy Community,

The Academy's fiscal year ending June 30, 2015, was one of continued financial health and stability, allowing the Academy to hold tuition flat in the 2016 fiscal year.

The management of Academy finances has continued to be guided by a commitment to long-term stewardship of our resources for future generations to ensure that Exeter remains accessible and affordable to future Exonians. The end of the fiscal year marked the retirement of our 14th principal, Tom Hassan. Under Principal Hassan's leadership, we completed fundraising for a new music building expansion and began construction, and finalized planning for a new center for theater and dance and other improvements to the south campus. Active fundraising has continued for these exciting projects.

The Academy continued its strong commitment to supporting our outstanding faculty and staff by offering competitive salaries and benefits, as well as exceptional professional development opportunities. We remained firmly committed to our financial aid program, awarding over \$20.9 million to nearly 50% of our student body. We also offered our students opportunities to see the world, with a record number attending global programs, including a chamber orchestra and concert choir tour to Asia. Our commitment to global enrichment helps prepare students to learn in an increasingly complex world. In fiscal year 2015, one third of our students — over 300 Exonians — participated in 38 travel experiences on four continents, organized through our Global Initiatives Office. Further, we continued to invest in our infrastructure to ensure that the Academy remains a world-class campus, including a complete renovation to Wheelwright Hall.

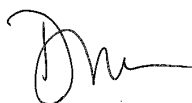
In 2015, we enjoyed a year of positive investment returns. Although the global economy slowed significantly in the last fiscal year, the Academy's endowment returned 3.3% for the one-year period, with a value of \$1.2 billion on June 30, 2015. The annual income from the endowment funds more than half of our annual operating costs — providing resources to support the Academy's mission, as well as our vision for the future. With continued success in The Exeter Fund, we raised \$7.2 million in new, unrestricted cash and pledges.

We continue to thank our many donors who provide critical resources that allow us to give an unmatched educational experience. Without such support, we would not be able to offer the exceptional education for which Exeter is so well known.

This following report provides additional detail on the FY2015 financial results, as well as an overview of admissions, financial aid, philanthropy, and the endowment.



Lisa MacFarlane
Principal



David Hanson
Chief Financial Officer

FY2015: A Closer Look

Operating Results

The Academy finished FY2015 with operating revenue of \$ 95.2 million and expenses of \$ 95.1 million, resulting in a \$147 thousand operating surplus, which the Trustees voted to transfer to unrestricted quasi endowment.

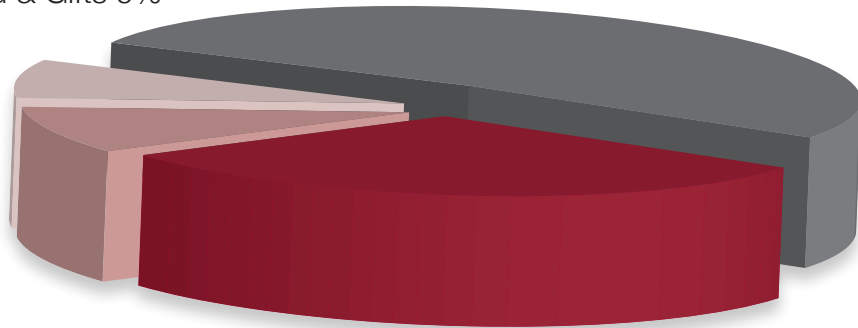
In Fiscal Year 2015 endowment revenue supported 53% of the Academy's operating expenses with an additional 9% of expenses funded by contributions to the Exeter Fund and other gifts for current operations. Between the endowment and current use gifts, past and present donors collectively support 61% of 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 a broad curriculum and enriching academic, athletic and global learning experience for students. Costs of compensating and providing benefits to our employees comprise nearly 16% of operating expenses.

Other expenses supporting 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 19% of FY2015 operating expenses. This commitment provides the funding necessary to maintain these critical resources for future Exonians.

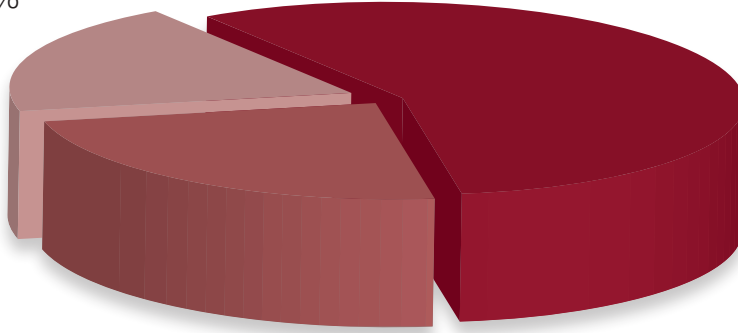
2014-15 Revenue Sources

- Endowment 52%
- Net Tuition 31%
- Exeter Fund & Gifts 9%
- Other 8%



2014-15 Expenses

- Salaries & Benefits 57%
- Plant & Tech 19%
- Other 24%



Capital Expenditures

Capital and Technology related projects totaled \$15.6 million with \$14 million and \$1.6 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 executed over 75 projects including renovations to Wheelwright Hall, relocation of several tennis courts in preparation for the Center for Theater and Dance Facility, completion of the Hatch Turf Field and Downer Family Fitness Center. Technology related projects included completing a 5-year ITS strategic plan and relocating the network operations center to an outsourced facility.

Admissions and Financial Aid

Completed applications to the Academy for the fall of 2014 were 2,358. Admissions at Exeter continue to be very selective with an admit rate of only 19.2%.

Financial aid for non-employee children and tuition remission for children of faculty and staff in total exceeded \$20.9 million this year allowing 49% of the student body to attend the Academy on financial aid.

Philanthropy

Donors to Exeter gave or committed \$24 million to the Academy during FY2015, including \$7.1 million to the Exeter Fund. Endowment gifts totaled \$6.9 million. The balance was made up of current restricted giving, gifts for facilities, and planned gifts.

Endowment

The endowment is a critical resource for Exeter, providing 53% of the revenue needed to run the school. The endowment is made up of approximately 1,400 funds established by alumni, parents and friends who want to provide permanent support to the Academy. Roughly 78% of these funds have been restricted by their donors to a specific purpose, meaning that the income from those funds can only be used to support the programs to which the donor(s) restricted their gifts. Therefore, while the endowment provides 53% of the annual revenue for the school, only about 22% of that revenue is unrestricted and available for new programs.

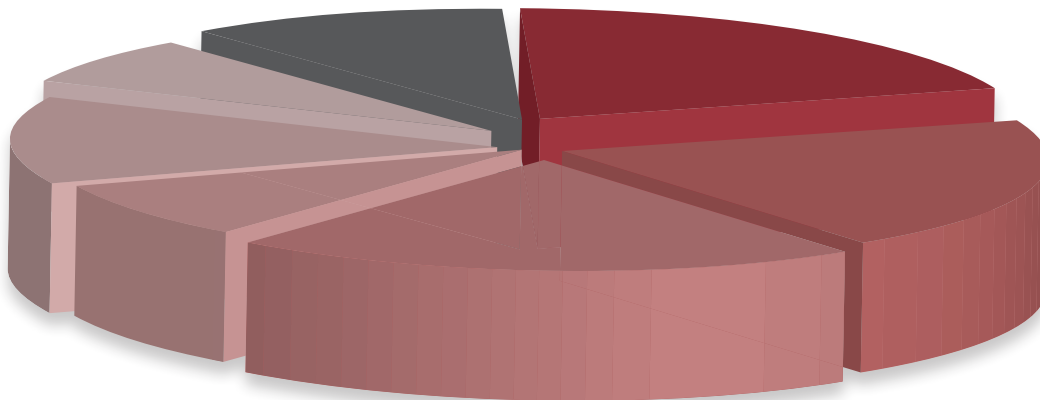
Restricted funds are utilized to support the programs to which the funds have been designated by their donors. As part of the process of matching fund revenues to programmatic expenses, the Academy assesses an associated program costs charge of up to 10% of the total amount spent from the fund. The associated program costs charge helps to defray costs which must

be incurred in order for the program to function, but which are not directly allocated to the program’s budget. Examples include the costs of facilities, technology, and administrative support.

The endowment’s investments are overseen by Exeter’s Investment Committee, made up of current and former trustees, as well as non-trustee alumni, all of whom have significant investment and financial expertise. The investments of the endowment are managed to provide for the long-term needs of the Academy. Attention is paid to minimizing the volatility of returns, in order to reduce the stress on the operating budget. Exeter’s investment strategy accomplishes this by having a mix of asset classes and investment strategies that are relatively uncorrelated. Investment performance is not expected to fully correlate with the stock market, lagging in rising markets and outperforming in softer markets. The actual endowment asset allocation as of June 30 2015, is below:

Endowment Asset Allocation at 6/30/15

- U.S. Equity 11%
- Global Equity 20%
- Absolute Return 20%
- Long/Short Equity 21%
- Private Equity 8%
- Real Assets 13%
- Cash 7%



As of June 30, 2015, the market value of the endowment was \$1.2 billion. The investment return for FY2015 was 3.3%. The committee is pleased with the diversification of assets, which combined with the selection of quality managers, has provided strong results over the last decade.

Exeter’s endowment spending policy and investment strategy share a goal of minimizing the volatility of endowment revenue available to fund operating expenses. Exeter’s endowment spending policy, in place since the 1990s, is designed to achieve two critical goals:

- (1) maintain purchasing power; and,
- (2) providing consistent support to the operating budget.

The amount spent in any one year is based 80% on the prior year’s spending (increased by inflation) and 20% on the market value of the endowment (as determined by a four-quarter trailing average) multiplied by our endowment draw rate of 5.0%.

This formula slows down, or buffers, the effect of any market rise or fall on what is spent from the endowment to support operations, because 80% of what is spent is determined by the amount spent in the prior year, not the current market value of the endowment. Therefore, the full effect of a downturn or rise in the market should not immediately impact Exeter’s operating budget. Rather the impact will gradually phase in over multiple years.

	Investment Return	Custom Benchmark*	CA Endowment Median
10 Year	7.5%	4.9%	6.5%
5 Year	10.1%	13.1%	9.3%
3 Year	11.0%	14.3%	9.6%
1 Year	3.3%	1.4%	1.2%

Phillips Exeter Academy - Statistical Overview

	2010-11	2011-12	2012-13	2013-14	2014-15
Tuition					
Boarding	\$39,890	\$41,800	\$44,470	\$46,030	\$46,030
Day	\$30,820	\$32,470	\$34,540	\$35,750	\$35,750
Enrollment					
Boarders	860	857	858	866	851
Day	202	203	213	216	209
Total Enrollment	1,062	1,060	1,071	1,082	1,060
Admissions					
Applications	3,089	2,964	3,068	2,866	2,121
Percentage Accepted	16%	16%	16%	18%	18%
Percentage Enrolled (of those accepted)	69%	69%	69%	70%	68%
Financial Aid					
Students on Aid	524	500	503	508	517
Percentage on Aid	49%	47%	47%	47%	49%
Total Financial Aid (000's)	\$17,380	\$17,494	\$18,893	\$19,606	\$20,933
Philanthropy* (000's)					
Annual - Unrestricted	\$7,595	\$7,142	\$6,858	\$7,269	\$7,184
Annual - Restricted	\$1,349	\$1,195	\$2,040	\$1,611	\$1,263
Endowment	\$17,501	\$10,851	\$5,741	\$5,576	\$5,847
Facilities	\$121	\$1,826	\$1,204	\$9,243	\$8,708
Deferred Gifts	\$2,199	\$3,941	\$5,835	\$1,261	\$1,057
Endowment					
Endowment Value (000's)	\$984,202	\$994,386	\$1,089,010	\$1,224,029	\$1,217,572

* Gift totals will differ from those shown in audited financial statements, primarily because of treatment of pledges.

PHILLIPS EXETER ACADEMY STATEMENTS OF FINANCIAL POSITION

June 30, 2015 and 2014 (in thousands)

	2015	2014
Assets:		
Cash and cash equivalents	\$ 6,327	\$ 6,506
Receivables and other assets, net (Note B)	4,308	3,960
Contributions receivable, net (Note C)	3,858	5,064
Investments, at fair value (Note E)	1,197,315	1,207,240
Split Interest Agreements (Note H)	62,432	62,822
Cash restricted to investment in land, buildings and equipment	17,888	9,208
Land, buildings and equipment (Note I)	226,626	216,536
Total assets	\$ 1,518,754	\$ 1,511,336
Liabilities:		
Accounts payable and other liabilities (Note J)	\$ 24,461	\$ 20,418
Deferred revenues and deposits	20,141	18,697
Liabilities associated with split interest agreements (Note H)	32,110	32,387
Pension and other employment related obligations (Note K)	20,267	19,439
Bonds payable (Note L)	50,000	50,000
Total liabilities	146,979	140,941
Net assets (Note M):		
Unrestricted	330,673	328,652
Temporarily restricted	729,256	732,990
Permanently restricted	311,846	308,753
Total net assets (Note M)	1,371,775	1,370,395
Total liabilities and net assets	\$ 1,518,754	\$ 1,511,336

PHILLIPS EXETER ACADEMY STATEMENT OF ACTIVITIES

For Year Ended June 30, 2015, with summarized financial information for the year ended June 30, 2014 (in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2015	Totals 2014
Operating					
Revenue and support:					
Student tuition	\$ 49,023	\$ -	\$ -	\$ 49,023	\$ 48,774
Less scholarships	20,933	-	-	20,933	19,605
Net tuition	28,090	-	-	28,090	29,169
Auxiliary and summer programs, net	7,296	-	-	7,296	7,006
Endowment distributed under spending policy	8,155	41,973	-	50,128	47,996
Other endowment spending	779	170	-	949	810
Gifts and grants	7,096	1,568	-	8,664	8,814
Other sources	652	-	-	652	724
Total operating revenue and support before releases from restrictions	52,068	43,711	-	95,779	94,519
Restrictions released (Note A)	43,202	(43,202)	-	-	-
Total operating revenue and support	95,270	509	-	95,779	94,519
Expenses:					
Instructional support	38,169	-	-	38,169	37,158
Student services	23,627	-	-	23,627	24,007
Institutional support	13,289	-	-	13,289	11,771
Development and alumni/ae affairs	6,298	-	-	6,298	6,575
Food services	5,204	-	-	5,204	5,195
Auxiliary and summer programs	6,849	-	-	6,849	6,574
Interest and fees	1,687	-	-	1,687	1,704
Total operating expenses	95,123	-	-	95,123	92,984
Increase in net assets from operations	147	509	-	656	1,535
Non-operating					
Physical capital:					
Contributions	-	8,430	-	8,430	9,138
Non-capitalized expenditures	(1,671)	-	-	(1,671)	(3,504)
Operating allocation for capital renewal and replacement	18,007	-	-	18,007	20,165
Depreciation	(10,264)	-	-	(10,264)	(9,834)
Net assets released from restrictions	725	(725)	-	-	-
Reclassifications and other increases (decreases)	180	1	-	181	124
Increase in net assets from physical capital activities	6,977	7,706	-	14,683	16,089
Financial capital:					
Contributions	394	708	5,328	6,430	5,951
Total endowment return, net of management fees	6,181	32,685	(15)	38,851	168,716
Endowment distributed under spending policy	(8,155)	(41,973)	-	(50,128)	(47,996)
Other endowment spending	(779)	(170)	-	(949)	(810)
Change in value in funds held for deferred giving	-	456	(186)	270	741
Reclassifications and other increases (decreases)	128	(3,655)	(2,034)	(5,561)	(32,327)
Increase (decrease) in net assets from financial capital activities	(2,231)	(11,949)	3,093	(11,087)	94,275
Other non-operating:					
Pension related charges other than net periodic pension cost	(108)	-	-	(108)	(7,172)
Unrealized loss related to interest swap agreement	(3,203)	-	-	(3,203)	(1,033)
Other increases	439	-	-	439	435
(Decrease) in net assets from other non-operating activities	(2,872)	-	-	(2,872)	(7,770)
(Decrease) increase in net assets from total non-operating activities	1,874	(4,243)	3,093	724	102,594
Net increase/(decrease) in net assets	2,021	(3,734)	3,093	1,380	104,129
Net assets at beginning of year	328,652	732,990	308,753	1,370,395	1,266,266
Net assets at end of year	\$ 330,673	\$ 729,256	\$ 311,846	\$ 1,371,775	\$ 1,370,395

The accompanying notes are an integral part of these financial statements.