

Consolidated Financial Statements

Milton Academy

June 30, 2009 and 2008

MILTON ACADEMY

Consolidated Financial Statements

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Independent Auditors' Report

To the Board of Trustees
Milton Academy
Milton, Massachusetts

We have audited the accompanying consolidated statement of financial position of Milton Academy (the "Academy"), a non-profit organization, as of June 30, 2009, and the related consolidated statements of revenues and support, expenses and changes in net assets, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Milton Academy as of June 30, 2008 were audited by other auditors, Tofias PC, whose shareholders became shareholders of Mayer Hoffman McCann P.C. as of December 31, 2008, and whose report dated September 30, 2008, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 2009 financial statements referred to above present fairly, in all material respects, the financial position of Milton Academy as of June 30, 2009, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

Mayer Hoffman McCann P.C.

September 28, 2009
Cambridge, Massachusetts

MILTON ACADEMY

Statements of Financial Position

	<i>June 30,</i>	
	<i>2009</i>	<i>2008</i>
Assets		
Cash and cash equivalents	\$ 320,433	\$ 383,491
Accounts and notes receivable, net of allowance for doubtful accounts of \$270,109 and \$230,514 at June 30, 2009 and 2008, respectively	268,735	461,150
Prepays, inventory and other assets	232,619	530,834
Contributions receivable, net	7,414,350	8,505,236
Investments	148,348,562	187,755,942
Deposits with trustee	1,900,634	1,822,569
Funds held in trust by others	450,626	554,430
Property, plant and equipment, net	<u>57,556,266</u>	<u>54,546,389</u>
Total assets	<u>\$ 216,492,225</u>	<u>\$ 254,560,041</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 4,495,422	\$ 3,927,893
Construction payables	1,508,472	440,791
Student deposits and deferred income	3,152,523	2,299,760
Payables to annuitants	907,070	1,081,858
Capital lease obligation	536,472	802,591
Asset retirement obligations	468,343	461,101
Bonds payable	<u>18,134,130</u>	<u>21,950,074</u>
Total liabilities	<u>29,202,432</u>	<u>30,964,068</u>
Net assets:		
Unrestricted	39,447,714	38,605,262
Temporarily restricted	77,061,569	117,143,648
Permanently restricted	<u>70,780,510</u>	<u>67,847,063</u>
Total net assets	<u>187,289,793</u>	<u>223,595,973</u>
Total liabilities and net assets	<u>\$ 216,492,225</u>	<u>\$ 254,560,041</u>

See accompanying notes to the financial statements.

MILTON ACADEMY

Statements of Activities and Changes in Net Assets

	Year Ended June 30, 2009				2008
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Operating activities:					
Revenues and support:					
Tuition and fees	\$ 34,903,389	\$ -	\$ -	\$ 34,903,389	\$ 32,956,988
Less financial aid	(6,398,696)	-	-	(6,398,696)	(5,942,411)
Net tuition and fees	28,504,693	-	-	28,504,693	27,014,577
Special and summer programs	1,291,476	-	-	1,291,476	1,372,162
Contributions	4,036,285	1,816,087	3,109,346	8,961,718	17,053,652
Change in split interest agreements	-	(101,315)	-	(101,315)	(209,109)
Investment return:					
Interest and dividend income (expense) from endowment, net	130,107	(722,757)	(5,362)	(598,012)	3,878,929
Net realized and unrealized losses from endowment	(3,392,502)	(22,986,919)	(170,537)	(26,549,958)	(4,868,801)
Other auxiliary income	390,854	-	-	390,854	388,578
Other income	228,226	4,497	-	232,723	511,846
Net assets released from restrictions	18,091,672	(18,091,672)	-	-	-
Total revenues and support	49,280,811	(40,082,079)	2,933,447	12,132,179	45,141,834
Expenses:					
Instructional programs	21,008,760	-	-	21,008,760	19,684,007
Special and summer programs	1,069,978	-	-	1,069,978	1,060,864
Management and general	10,197,714	-	-	10,197,714	9,209,556
Fund raising expenses	2,238,170	-	-	2,238,170	2,119,151
Buildings and grounds	6,274,125	-	-	6,274,125	7,571,528
Depreciation	6,718,884	-	-	6,718,884	6,652,054
Interest expense	930,728	-	-	930,728	962,277
Total expenses	48,438,359	-	-	48,438,359	47,259,437
Total change in net assets	842,452	(40,082,079)	2,933,447	(36,306,180)	(2,117,603)
Net assets, beginning	38,605,262	117,143,648	67,847,063	223,595,973	225,713,576
Net assets, ending	\$ 39,447,714	\$ 77,061,569	\$ 70,780,510	\$ 187,289,793	\$ 223,595,973

MILTON ACADEMY

Statement of Activities and Changes in Net Assets

	<i>Year Ended June 30, 2008</i>			
	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total</i>
Operating activities:				
Revenues and support:				
Tuition and fees	\$ 32,956,988	\$ -	\$ -	\$ 32,956,988
Less financial aid	<u>(5,942,411)</u>	<u>-</u>	<u>-</u>	<u>(5,942,411)</u>
Net tuition and fees	27,014,577	-	-	27,014,577
Special and summer programs	1,372,162	-	-	1,372,162
Contributions	6,259,173	6,985,452	3,809,027	17,053,652
Change in split interest agreements	-	(209,109)	-	(209,109)
Investment return:				
Interest and dividend income from endowment, net	647,170	3,210,202	21,557	3,878,929
Net realized and unrealized losses from endowment	(589,198)	(4,248,772)	(30,831)	(4,868,801)
Other auxiliary income	388,578	-	-	388,578
Other income	438,639	73,207	-	511,846
Net assets released from restrictions	<u>12,858,439</u>	<u>(12,858,439)</u>	<u>-</u>	<u>-</u>
Total revenues and support	<u>48,389,540</u>	<u>(7,047,459)</u>	<u>3,799,753</u>	<u>45,141,834</u>
Expenses:				
Instructional programs	19,684,007	-	-	19,684,007
Special and summer programs	1,060,864	-	-	1,060,864
Management and general	9,209,556	-	-	9,209,556
Fund raising expenses	2,119,151	-	-	2,119,151
Buildings and grounds	7,571,528	-	-	7,571,528
Depreciation	6,652,054	-	-	6,652,054
Interest expense	<u>962,277</u>	<u>-</u>	<u>-</u>	<u>962,277</u>
Total expenses	<u>47,259,437</u>	<u>-</u>	<u>-</u>	<u>47,259,437</u>
Total change in net assets	1,130,103	(7,047,459)	3,799,753	(2,117,603)
Net assets, beginning	<u>37,475,159</u>	<u>124,191,107</u>	<u>64,047,310</u>	<u>225,713,576</u>
Net assets, ending	<u>\$ 38,605,262</u>	<u>\$ 117,143,648</u>	<u>\$ 67,847,063</u>	<u>\$ 223,595,973</u>

MILTON ACADEMY

Statements of Cash Flows

	<i>Years Ended June 30,</i>	
	<i>2009</i>	<i>2008</i>
Cash flows from operating activities:		
Changes in net assets	\$ (36,306,180)	\$ (2,117,603)
Adjustments to reconcile change in net assets to net cash and cash equivalents used in operating activities:		
Depreciation expense	6,705,844	6,652,054
Write-off of construction in process	69,942	447,431
Amortization of bond premium and issuance costs, net	(675,944)	(26,765)
Realized and unrealized gains	26,549,958	4,868,801
Bad debt expense for accounts and notes receivable	143,962	86,951
Loss on retirement of property, plant, and equipment	13,039	31,405
Changes in:		
Accounts and notes receivable	48,453	236,609
Contributions receivable	1,090,886	(4,054,046)
Prepaid, inventory and other assets	298,215	71,009
Funds held in trust by others	103,804	97,393
Accounts payable, accrued expenses and asset retirement obligation	574,771	7,908
Change in value to annuitants	(34,876)	94,551
Student deposits and deferred income	852,763	(389,850)
Permanently restricted contributions	(3,364,213)	(3,828,978)
Contributions restricted for long-term investment	(1,616,642)	(2,654,342)
	<u>(5,546,218)</u>	<u>(477,472)</u>
Net cash used in operating activities		
Cash flows from investing activities:		
Acquisition of property, plant and equipment, net	(8,731,021)	(6,021,370)
Proceeds from sale of investments	77,488,857	54,559,104
Purchase of investments	(64,631,435)	(51,395,551)
	<u>4,126,401</u>	<u>(2,857,817)</u>
Net cash provided by (used for) investing activities		
Cash flows from financing activities:		
Investment in endowment	3,364,213	3,828,978
Investment in plant	1,616,642	2,654,342
Increase in deposits with trustees	(78,065)	(83,397)
Payment on bonds	(3,140,000)	(3,030,000)
Payment to annuitants	(139,912)	(233,831)
Payment on capital lease obligations, net	(266,119)	(253,449)
	<u>1,356,759</u>	<u>2,882,643</u>
Net cash provided by financing activities		
Net decrease in cash and cash equivalents	(63,058)	(452,646)
Cash and cash equivalents, beginning	<u>383,491</u>	<u>836,137</u>
Cash and cash equivalents, ending	\$ <u>320,433</u>	\$ <u>383,491</u>
Supplemental disclosure of cash flows information:		
Cash paid during the year for interest	<u>\$ 993,041</u>	<u>\$ 972,723</u>
Assets acquired and included in accounts payable	<u>\$ 1,508,472</u>	<u>\$ 440,791</u>

See accompanying notes to financial statement.

MILTON ACADEMY

Notes to Consolidated Financial Statements

Note 1 - Nature of Operations and Summary of Significant Accounting Policies

The consolidated financial statements include the accounts of Milton Academy (the “Academy”) and its affiliated entity, the Mountain School, comprising the consolidated entity. Milton Academy is an independent, K-12 college preparatory school, with boarding for grades 9-12, located eight miles south of Boston. Enrollment encompasses over 960 students from the United States and countries throughout the world. The Mountain School is located in Vershire, Vermont and provides a half-year program for students from throughout the country with classes and programs focused on the outdoors. All inter-entity accounts have been eliminated.

The following is a summary of the significant accounting policies:

Basis of Presentation

The accompanying consolidated financial statements are presented on the accrual basis of accounting and have been prepared to focus on the Academy as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Unrestricted Net Assets - Net assets that are not subject to donor-imposed restrictions. Unrestricted net assets may be designated for specific purposes by the Board of Trustees.

Revenues are reported as increases in unrestricted net assets unless the use of the related assets is limited by donor-imposed restrictions or by law. Expenses are reported as decreases in unrestricted net assets. Realized and unrealized gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless subject to donor-imposed stipulations or by law. Expirations of donor-imposed stipulations that simultaneously increase one class of net assets and decrease another class are reported as “net assets released from restrictions.” Expiration of temporary restrictions occurs when donor-imposed restrictions have been accomplished and/or the stipulated time period has elapsed. If the expense is incurred for a purpose for which unrestricted and temporary net assets are available, a donor-imposed restriction is fulfilled to the extent of the expense incurred unless the expense is incurred for a purpose directly attributable to another specific external source of revenue.

Temporarily Restricted - Net assets subject to donor-imposed restrictions, or law that may be met by actions of the Academy and/or the passage of time.

Permanently Restricted - Net assets subject to donor-imposed restrictions requiring that they be maintained permanently by the Academy. Generally, the donors of these assets permit or require the Academy to use all or part of the related investment income and appreciation earned for general or specific purposes.

MILTON ACADEMY

Notes to Consolidated Financial Statements

Note 1 - Nature of Operations and Summary of Significant Accounting Policies (Continued)

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions, which affect the reported amount of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates are made in the area of investments, allowance for doubtful accounts, pledges receivable, accrued expenses and payables to annuitants.

Contributions

Contributions, including unconditional promises to give, are recognized as revenues in the period verifiably committed. Contributions subject to donor-imposed restrictions met in the same reporting period as they are received are reported as unrestricted revenues. Unconditional promises to give with due dates scheduled after the statement of financial position are reported as increases in net assets depending on the nature of the restrictions. Contributions of assets other than cash are recorded at their estimated fair value on the date of the gift. Contributions scheduled to be received after one year are discounted at a risk adjusted rate commensurate with the duration of the pledge, net of allowance for amounts deemed uncollectible.

The Academy reports contributions of land, buildings and equipment as unrestricted support, unless the donor places restrictions on their use. Contributions of cash used to acquire or construct long-lived assets are reported as unrestricted support to the extent the funds have been expended for the stipulated acquisition or construction; otherwise the contributions are reported as temporarily restricted support.

The Academy does not capitalize works of art or historical treasures that are held for exhibition, education, research and public service. Accordingly, such collections are not recognized or capitalized for financial statement purposes.

Investment Return

Dividends, interest and net gains on investments are reported as increases in permanently restricted net assets, if the terms of the underlying gift required that they be added to the principal of a permanent endowment fund, or as increases in temporarily restricted net assets, if the terms of the underlying gift or relevant state law impose restrictions on the use of the income or net gains. Income and net gains on board-designated and other funds are reported as an increase in unrestricted net assets.

Student Financial Aid

Tuition revenues are reported net of the discount attributable to reductions in amounts charged to students, whether funded by unrestricted Academy funds, restricted endowment funds or restricted specific purpose gifts.

MILTON ACADEMY

Notes to Consolidated Financial Statements

Note 1 - Nature of Operations and Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

Cash and cash equivalents include operating cash accounts, funds in money market mutual funds and short-term investments with original maturities from date of purchase of three months or less. The carrying amount of these cash equivalents approximates fair value.

Cash is deposited in several institutions, and at times cash held in a single institution may exceed federally insured limits. The Academy has not experienced any losses in such accounts.

Investments

Investments in marketable securities are carried at quoted market prices. Purchases and sales are accounted for on a settlement date basis. Investment income is recorded on the accrual basis.

Investments in nonmarketable investments (alternative investments) are generally carried at estimated fair market value. Fair market value is determined by the investment manager and reviewed and evaluated by management. Because alternative investments are not readily marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investments existed and such differences could be material.

Investment managers may utilize hedging strategies, invest in securities denominated in foreign currencies, or invest in options, futures, forward contracts, short sales or other financial instruments whose value and performance are derived, at least in part, from the performance of an underlying asset or index and the creditworthiness of the counterparty to the transactions. At any point during the year, the Academy may have exposure to derivatives primarily through limited liability vehicles. The Academy did not directly hold any derivative investments as of June 30, 2009 and 2008.

Endowment and similar funds, other than those separately invested or administered by outside trustees, are pooled for investment purposes. Investment income is allocated ratably.

Deposits with Trustee

In accordance with various borrowing arrangements, the Academy is required to maintain a minimum balance pertaining to their debt service commitment. These deposits consist of money market investments and are maintained with a trustee. The investments are carried at quoted market prices.

Funds Held in Trust by Others

Funds held in trust by others represent funds held and administered by an external trustee. The administration of endowment held in trust is at the direction of the donor. The funds are recorded at amounts which approximate estimated fair value, to the extent determinable.

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Notes to Consolidated Financial Statements

Note 1 - Nature of Operations and Summary of Significant Accounting Policies (Continued)

Property, Plant and Equipment, Net

Land, buildings and equipment are reported at cost at the date of acquisition or fair value at the date of donation in the case of a gift. The cost of normal maintenance and repairs are expensed as incurred. Depreciation is recorded on a straight-line basis over the estimated useful life of the asset.

Estimated useful lives are as follows:

Building and land improvements	10-40 years
Equipment	3-10 years

Leasehold improvements are depreciated on a straight-line basis over the shorter of their estimated life or the lease term.

Equipment under capital lease obligation is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization expense in the financial statements.

Plant assets are removed from the records at the time of disposal with any gain or loss included in the statement of activities.

Student Deposits and Deferred Income

Student reservation deposits for advance payments on tuition, room and board, as well as the Academy's summer programs, have been deferred and will be recorded as revenue when earned.

Asset Retirement Obligations

Asset retirement obligations ("ARO") are legal obligations associated with the retirement of long-lived assets. These liabilities are initially recorded at fair value and the related asset retirement costs are capitalized by increasing the carrying amount of the related assets by the same amount as the liability. Asset retirement costs are subsequently depreciated over the useful lives of the related assets. Subsequent to initial recognition, the Academy records period-to-period changes in the ARO liability resulting from the passage of time and revisions to either the timing or the amount of the original estimate of undiscounted cash flows. The Academy derecognizes ARO liabilities when the related obligations are settled.

MILTON ACADEMY

Notes to Consolidated Financial Statements

Note 1 - Nature of Operations and Summary of Significant Accounting Policies (Continued)

Income Tax Status

The Academy is recognized by the Internal Revenue Service as an organization described in Section 501(c)(3) of the Internal Revenue Code and is generally exempt from Federal income taxes except for a tax on certain positions of its net investment income.

Fair Value

The Academy measures the fair market values of its financial instruments in accordance with Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ("SFAS No. 157"), which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs to determine the exit price. Also in accordance with SFAS No. 157, the Academy categorizes its financial instruments, based on the priority of inputs to the valuation technique, into a three-level hierarchy, as discussed below. Investments and deposits held by trustees are carried at fair value.

Instruments measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1 – Quoted prices are available in active markets for identical instruments as of the reporting date. The type of instruments included in Level 1 include listed equity and debt securities publicly traded on a stock exchange.

Level 2 – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.

Level 3 – Pricing inputs are unobservable for the instrument and include situations where there is little, if any, market activity for the instrument. The inputs into the determination of fair value require significant management judgment or estimation. The Academy's Level 3 instruments include mutual funds with holdings in privately-held portfolio companies and interest in other investment partnerships.

For more information on the fair value of the Academy's financial instruments, see Note 4 – Fair Value Measurements.

Reclassifications

Certain reclassifications have been made to the 2008 financial statements to confirm with 2009 presentation.

Subsequent Events

The Academy has evaluated subsequent events through September 28, 2009, the date the consolidated financial statements have been issued.

MILTON ACADEMY

Notes to Consolidated Financial Statements

Note 2 - Contributions Receivable

	2009	2008
Contributions for:		
Endowment	\$ 1,748,626	\$ 2,148,702
Construction of facilities	1,514,018	2,479,325
Unrestricted	<u>5,700,661</u>	<u>5,688,365</u>
	8,963,305	10,316,392
Less allowance for unfulfilled pledges	475,474	613,090
Less present value discount	<u>1,073,481</u>	<u>1,198,066</u>
Pledges receivable, net	<u>\$ 7,414,350</u>	<u>\$ 8,505,236</u>
Amounts due as of June 30:		
Less than one year	\$ 3,556,039	\$ 3,816,644
One to five years	4,672,112	5,729,095
More than five years	<u>735,154</u>	<u>770,653</u>
Total	<u>\$ 8,963,305</u>	<u>\$ 10,316,392</u>

The Academy received \$110,000 in conditional contributions for the years ended June 30, 2008. These contributions have not been recorded in the statements of financial position as the conditions have not been met.

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Notes to Consolidated Financial Statements

Note 3 - Investments

Investments consist of the following as of June 30:

	2009		2008	
	<i>Fair Value</i>	<i>Cost</i>	<i>Fair Value</i>	<i>Cost</i>
Pooled endowment:				
Equity securities	\$ 35,634,002	\$ 36,236,608	\$ 62,524,491	\$ 59,743,573
Short-term investments	12,850,224	12,850,158	1,276,912	1,276,938
Real estate partnerships	12,647,026	11,964,139	16,914,238	17,284,837
Absolute return	62,052,874	65,296,439	63,224,912	52,559,400
Endowment fixed income	6,873,855	7,690,498	13,809,420	12,461,000
Other	2,083,944	2,069,144	2,476,715	1,416,601
Private equity and venture	13,265,771	13,041,206	16,425,483	13,674,508
	<u>145,407,696</u>	<u>149,148,192</u>	<u>176,652,171</u>	<u>158,416,857</u>
Separately invested:				
Pooled income funds*	2,035,413	2,242,653	2,370,903	2,374,684
Cash and cash equivalents	905,453	900,930	8,732,868	8,769,147
	<u>2,940,866</u>	<u>3,143,583</u>	<u>11,103,771</u>	<u>11,143,831</u>
	<u>\$ 148,348,562</u>	<u>\$ 152,291,775</u>	<u>\$ 187,755,942</u>	<u>\$ 169,560,688</u>

* At June 30, 2009 and 2008, approximately 39% and 37%, respectively, were invested in common stock and approximately 61% and 63%, respectively, were invested in fixed income and short-term investments.

The Academy is obligated to make future capital investments in certain partnerships. At June 30, 2009 and 2008, the Academy had commitments of \$15,622,894 and \$18,278,625, respectively.

Net realized gains (losses) on investments as of June 30, 2009 and 2008 were \$(4,411,491) and \$31,532,001, respectively.

Interest and dividend income from endowment presented in the statements of activities is net of investment-related fees of \$1,192,852 and \$832,808 for the years ended June 30, 2009 and 2008, respectively.

Total investment return, net of investment related fees, was \$(27,147,970) and \$(989,872) for the years ending June 30, 2009 and 2008, respectively.

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Notes to Consolidated Financial Statements

Note 4 - Fair Value Measurements

In September 2006, the FASB issued Statement of Financial Accounting Standards (“SFAS”) No. 157, *Fair Value Measurements*. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Academy adopted SFAS No. 157 as of July 1, 2008, which among other matters, requires enhanced disclosures about instruments that are measured and reported at fair value. SFAS No. 157 establishes a hierarchal disclosure framework, which prioritizes and ranks the level of market price used in measuring investments at fair value. Market price is affected by a number of factors, including the type of instrument and the characteristics specific to the instrument. Instruments, with readily available active quoted prices or for which fair value can be measured from actively quoted prices, generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. The implementation of SFAS No. 157 had no impact on reported amounts.

The following table presents financial assets at June 30, 2009, that the Academy measures fair value on a recurring basis, by level, within the fair value hierarchy:

	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
Assets:				
Pooled endowment:				
Equity securities	\$ 14,805,222	\$ -	\$ 20,828,780	\$ 35,634,002
Short-term investments	12,850,224	-	-	12,850,224
Real estate partnership	-	-	12,647,026	12,647,026
Absolute return	-	-	62,052,874	62,052,874
Endowment fixed income	-	-	6,873,855	6,873,855
Other	1,873,712	-	210,232	2,083,944
Private equity and venture	133,845	-	13,131,926	13,265,771
Pooled income and cash equivalents	2,940,866	-	-	2,940,866
Deposits held with trustee	1,900,634	-	-	1,900,634
Funds held in trust by others	-	450,626	-	450,626
	<hr/>	<hr/>	<hr/>	<hr/>
Total assets at fair value	\$ 34,504,503	\$ 450,626	\$ 115,744,693	\$ 150,699,822

In some instances, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such instances, an instrument’s level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

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Notes to Consolidated Financial Statements

Note 4 - Fair Value Measurements (Continued)

The changes in instruments measured at fair value for which the Academy has used Level 3 inputs to determine fair value are as follows.

Balance, July 1, 2008	\$ <u>140,597,783</u>
Investment activity:	
Dividend and interest income, net	(78,629)
Unrealized losses	<u>(17,958,606)</u>
Total investment returns	(18,037,235)
Purchases	11,703,250
Sales	(17,459,172)
Fees	<u>(1,059,933)</u>
Balance, June 30, 2009	\$ <u><u>115,744,693</u></u>

Fair values of financial instruments for which the Academy did not elect the fair value option are included in the table below. The fair values of such instruments have been derived, in part, by management's assumptions, the estimated amount and timing of future cash flows and estimated discount rates. Different assumptions could significantly affect these estimated fair values. Accordingly, the net realizable values could be materially different from the estimates presented below. In addition, the estimates are only indicative of the value of individual financial instruments and should not be considered an indication of the fair value of the Academy.

Cash and cash equivalents	Carrying amount approximates fair value
Accounts receivable	Carrying amount approximates fair value
Contributions receivable	Carrying amount approximates fair value
Accounts and construction payable	Carrying amount approximates fair value
Payable to annuitants	Carrying amount approximates fair value
Capital lease obligation	Carrying amount approximates fair value
Asset retirement obligation	Carrying amount approximates fair value
Bond payable	Carrying amount approximates fair value

MILTON ACADEMY

Notes to Consolidated Financial Statements

Note 5 - Property, Plant and Equipment

Property, plant and equipment consist of the following at June 30:

	<i>2009</i>	<i>2008</i>
Land	\$ 198,648	\$ 198,648
Land improvements	4,847,354	5,035,686
Buildings and improvements	97,853,366	97,680,100
Equipment	5,514,392	5,323,802
Construction in progress	10,769,122	2,394,810
Assets under capital lease	<u>2,228,513</u>	<u>2,228,513</u>
	121,411,395	112,861,559
Less: accumulated depreciation	<u>63,855,129</u>	<u>58,315,170</u>
Property, plant and equipment, net	<u>\$ 57,556,266</u>	<u>\$ 54,546,389</u>

The Academy is obligated to make future payments on major capital projects currently under construction. As of June 30, 2009, the Academy is committed to spend \$9,935,000 on capital projects.

Depreciation expense for the years ended June 30, 2009 and 2008 was \$6,718,884 and \$6,652,054, respectively.

During 2009 and 2008, the Academy expensed \$69,942 and \$447,431, respectively, of construction in process.

During the years ended June 30, 2009 and 2008, the Academy retired property, plant and equipment with book values of \$1,178,924 and \$273,694, respectively, and recognized a loss on disposal of \$13,039 and \$31,408, respectively.

Accumulated depreciation included \$1,553,407 and \$1,109,577 of accumulated depreciation on assets under capital lease at June 30, 2009 and 2008, respectively.

MILTON ACADEMY

Notes to Consolidated Financial Statements

Note 6 - Bonds Payable

Bonds payable consist of the following at June 30:

	2009	2008
Massachusetts Industrial Finance Agency (MIFA) Series 1997, matures annually on September 1, 1999 through 2027, interest rate varies weekly, as determined by the remarketing agent. The interest rate was 4% and 7% at June 30, 2009 and 2008, respectively.	\$ 6,300,000	\$ 6,500,000
Massachusetts Industrial Finance Agency (MIFA) Series A and B 2003, matures annually on September 1, 2004 through 2019. The interest rate on the Series A was 3% and 2.75% at June 30, 2009 and 2008, respectively. Series B matured on September 1, 2008. Interest on the Series B was 4% at June 30, 2008.	<u>12,230,000</u>	<u>15,170,000</u>
	18,530,000	21,670,000
Unamortized premium	-	721,311
Unamortized bond discount and issuance costs	<u>(395,870)</u>	<u>(441,237)</u>
Bonds payable, net	<u>\$ 18,134,130</u>	<u>\$ 21,950,074</u>

The Bonds are subject to optional, special, and mandatory sinking fund redemption prior to maturity. The Bonds are not secured by any mortgage on any real property, or by a security interest in any revenues, receipts, equipment or fixtures. The Academy is required to maintain a debt service reserve fund for current and future principal and interest payments (see Note 1). As of June 30, 2009 and 2008, the Academy was in compliance with its debt covenant.

Mandatory annual principal payments on bonds payable for the next five years and thereafter are as follows:

2010	\$ 1,190,000
2011	1,220,000
2012	1,255,000
2013	1,300,000
2014	1,340,000
Thereafter	<u>12,225,000</u>
	<u>\$ 18,530,000</u>

MILTON ACADEMY

Notes to Consolidated Financial Statements

Note 7 - Mountain School

The accounts of the Mountain School are consolidated in the accompanying financial statements. Certain financial information for the Mountain School is presented below as of June 30:

	<i>2009</i>	<i>2008</i>
Unrestricted net assets:		
Undesignated	\$ 156,881	\$ 255,554
Invested in plant	1,371,542	1,276,213
Designated for endowment	<u>1,043,702</u>	<u>1,147,358</u>
Total unrestricted net assets	<u>2,572,125</u>	<u>2,679,125</u>
Temporarily restricted net assets:		
Restricted for endowment	411,325	610,110
Restricted for pledges	<u>12,969</u>	<u>9,625</u>
Total temporarily restricted net assets	<u>424,294</u>	<u>619,735</u>
Permanently restricted net assets:		
Endowment funds	<u>768,492</u>	<u>757,943</u>
Total net assets	<u>\$ 3,764,911</u>	<u>\$ 4,056,803</u>

Note 8 - Functional Classification of Expenses

The cost of providing the Academy's activities have not been presented on a functional basis in the statements of activities. Expenses for the years ended June 30, 2009 and 2008, associated with the Academy's interest, depreciation and the operation of physical plant, have been allocated below to functional categories based on square footage.

	<i>2009</i>	<i>2008</i>
Instruction	\$ 31,546,862	\$ 30,822,206
Administration	14,514,087	14,111,187
Fund raising	<u>2,377,410</u>	<u>2,326,044</u>
Total	<u>\$ 48,438,359</u>	<u>\$ 47,259,437</u>

MILTON ACADEMY

Notes to Consolidated Financial Statements

Note 9 - Net Assets and Endowment Matters

Unrestricted Net Assets

Unrestricted net assets are comprised of the following:

Net investment in land, buildings and equipment – The value of buildings and equipment net of depreciation, used in the Academy’s operations. This amount is offset by outstanding liabilities related to the assets, such as bond debt.

Board-designated – Funds set aside by the Board of Trustees for strategic purposes and to provide investment income to support operations.

Operating – Discretionary funds available for carrying on the operating activities of the Academy.

Temporarily Restricted Net Assets

Temporarily restricted net assets are comprised of the following:

Unrealized and realized gains on permanently restricted investments – In accordance with U.S. generally accepted accounting principles and Massachusetts state law, these amounts represent unappropriated gains on permanently restricted endowment investments.

Purpose restricted – Amounts received with donor restrictions, which have not yet been expended for their designated purposes.

	<i>2009</i>	<i>2008</i>
Accumulated unspent gains		
Academic	\$ 37,348,913	\$ 51,359,935
Construction	670,867	864,195
Library	13,589,944	18,578,319
Operations	411,325	748,697
Unrestricted purpose	2,262,456	6,220,412
Scholarship	13,146,387	19,576,538
	67,429,892	97,348,096
Purpose restricted gifts		
Academic	1,412,805	780,288
Annuity	1,174,204	1,843,475
Construction	920,721	9,903,995
Contribution receivable	5,477,742	6,302,970
Unrestricted purposes	12,969	-
Scholarship	92,601	296,050
Pending designation	540,635	668,774
	9,631,677	19,795,552
Temporarily restricted net assets	\$ 77,061,569	\$ 117,143,648

MILTON ACADEMY

Notes to Consolidated Financial Statements

Note 9 - Net Assets and Endowment Matters (Continued)

Permanently Restricted Net Assets

Permanently restricted net assets are comprised of the following:

Academic – Amounts restricted by donors against any expenditure of principal. Substantially all of the income earned on principal is to be used for instruction and academic support and is recorded in temporarily restricted net assets until appropriated for expenditure.

Construction – Amounts restricted by donors against any expenditure of principal. Substantially all of the income earned on principal is to be used for construction, equipment and building maintenance and is recorded in temporarily restricted net assets until appropriated for expenditure.

Library – Amounts restricted by donors against any expenditure of principal. Substantially all of the income earned on principal is to be used for the support of the library and is recorded in temporarily restricted net assets until appropriated for expenditure.

Operations – Amounts restricted by donors against any expenditure of principal. Substantially all of the income earned on principal is to be used for the support of the Mountain School and is recorded in temporarily restricted net assets until appropriated for expenditure.

Unrestricted Purpose – Amounts restricted by donors against any expenditure of principal. Substantially all of the income earned on principal is to be used for support of the Academy and is recorded in temporarily restricted net assets until appropriated for expenditure.

Scholarships – Amounts restricted by donors against any expenditure of principal. Substantially all of the income earned on principal is to be used for scholarships and is recorded in temporarily restricted net assets until appropriated for expenditure.

	2009	2008
Academic	\$ 23,328,695	\$ 23,121,533
Construction	987,650	987,250
Library	7,023,623	7,022,132
Operations	768,493	757,943
Unrestricted purpose	18,311,669	16,606,882
Scholarships	18,901,848	17,637,924
Contribution receivable	<u>1,458,532</u>	<u>1,713,399</u>
Permanently restricted net assets	<u>\$ 70,780,510</u>	<u>\$ 67,847,063</u>

MILTON ACADEMY

Notes to Consolidated Financial Statements

Note 9 - Net Assets and Endowment Matters (Continued)

Net assets were released from donor restrictions by incurring expenses or capital expenditures satisfying the restricted purpose, or by occurrence of other events specified by donors, as follows at June 30:

	<i>2009</i>	<i>2008</i>
Satisfaction of operating purpose restrictions:		
Academic	\$ 3,804,100	\$ 3,224,348
Construction	9,475,846	5,523,899
Library	1,271,310	1,182,003
Other	-	138,661
Scholarships	1,364,413	1,433,446
Unrestricted	<u>2,176,003</u>	<u>1,356,082</u>
	<u>\$ 18,091,672</u>	<u>\$ 12,858,439</u>

The Financial Accounting Standards Board (FASB) has issued FASB staff position 117-1 (FSP 117-1) effective for fiscal years ending after December 15, 2008. The Academy adopted FSP 117-1 as of the 2009 fiscal year. FSP 117-1 requires enhanced disclosures for each period for which the Academy presents financial statements. The adoption of FSP 117-1 had no impact on reported amounts.

The following is the composition of endowment assets and those functioning as endowment assets by net asset class as of June 30, 2009:

	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total</i>
Donor-restricted endowment funds	\$ -	\$ 67,429,846	\$ 69,321,978	\$ 136,751,824
Board-designated endowment funds	<u>8,655,872</u>	<u>-</u>	<u>-</u>	<u>8,655,872</u>
Total funds	<u>\$ 8,655,872</u>	<u>\$ 67,429,846</u>	<u>\$ 69,321,978</u>	<u>\$ 145,407,696</u>

MILTON ACADEMY

Notes to Consolidated Financial Statements

Note 9 - Net Assets and Endowment Matters (Continued)

The following is the composition of endowment assets and those functioning as endowment assets by net asset class as of June 30, 2008:

	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total</i>
Donor-restricted endowment funds	\$ -	\$ 97,592,758	\$ 66,133,664	\$ 163,726,422
Board-designated endowment funds	<u>12,925,749</u>	<u>-</u>	<u>-</u>	<u>12,925,749</u>
Total funds	<u>\$ 12,925,749</u>	<u>\$ 97,592,758</u>	<u>\$ 66,133,664</u>	<u>\$ 176,652,171</u>

The following represents required disclosure relative to the composition of endowment assets and those functioning as endowment assets at June 30, 2009 and 2008:

	<i>Unrestricted Net Assets</i>	<i>Temporarily Restricted Net Assets</i>	<i>Permanently Restricted Net Assets</i>	<i>Total</i>
2009				
Endowment assets and those functioning as endowment assets, at beginning of year	<u>\$ 12,925,749</u>	<u>\$ 97,592,758</u>	<u>\$ 66,133,664</u>	<u>\$ 176,652,171</u>
Contributions and additions	<u>829,702</u>	<u>69,466</u>	<u>3,364,213</u>	<u>4,263,381</u>
Investment return:				
Interest and dividends, net of investment expenses	(105,938)	(717,246)	(5,362)	(828,546)
Realized and unrealized gains (losses)	<u>(3,369,291)</u>	<u>(22,811,648)</u>	<u>(170,537)</u>	<u>(26,351,476)</u>
Total investment return	<u>(3,475,229)</u>	<u>(23,528,894)</u>	<u>(175,899)</u>	<u>(27,180,022)</u>
Expenditures:				
Net releases	6,703,484	(6,703,484)	-	-
Amounts appropriated for expenditure for operations	(8,335,718)	-	-	(8,335,718)
Repayments of borrowings for construction, net	<u>7,884</u>	<u>-</u>	<u>-</u>	<u>7,884</u>
Change in endowment assets and those functioning as endowment assets	<u>(4,269,877)</u>	<u>(30,162,912)</u>	<u>3,188,314</u>	<u>(31,244,475)</u>
Endowment assets and those functioning as endowment assets, at end of year	<u>\$ 8,655,872</u>	<u>\$ 67,429,846</u>	<u>\$ 69,321,978</u>	<u>\$ 145,407,696</u>

MILTON ACADEMY

Notes to Consolidated Financial Statements

Note 9 - Net Assets and Endowment Matters (Continued)

2008	<i>Unrestricted Net Assets</i>	<i>Temporarily Restricted Net Assets</i>	<i>Permanently Restricted Net Assets</i>	<i>Total</i>
Endowment assets and those functioning as endowment assets, at beginning of year	\$ <u>16,476,505</u>	\$ <u>105,593,856</u>	\$ <u>62,603,813</u>	\$ <u>184,674,174</u>
Contributions and additions	<u>612,212</u>	<u>113,500</u>	<u>3,539,125</u>	<u>4,264,837</u>
Investment return:				
Interest and dividends, net of investment expenses	417,736	2,906,765	21,557	3,346,058
Realized and unrealized gains (losses)	<u>(597,450)</u>	<u>(4,157,280)</u>	<u>(30,831)</u>	<u>(4,785,561)</u>
Total investment return	<u>(179,714)</u>	<u>(1,250,515)</u>	<u>(9,274)</u>	<u>(1,439,503)</u>
Expenditures:				
Net releases	6,864,083	(6,864,083)	-	-
Amounts appropriated for expenditure for operations	(7,740,777)	-	-	(7,740,777)
Borrowings for construction, net	<u>(3,106,560)</u>	<u>-</u>	<u>-</u>	<u>(3,106,560)</u>
Change in endowment assets and those functioning as endowment assets	<u>(3,550,756)</u>	<u>(8,001,098)</u>	<u>3,529,851</u>	<u>(8,022,003)</u>
Endowment asset and those functioning as endowment assets, at end of year	\$ <u><u>12,925,749</u></u>	\$ <u><u>97,592,758</u></u>	\$ <u><u>66,133,664</u></u>	\$ <u><u>176,652,171</u></u>

Endowment

The Academy's endowment consists of approximately three hundred and eighty individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

On July 2, 2009, the Academy adopted the Commonwealth of Massachusetts Act providing for the Uniform Prudent Management of Institutional Funds (UPMIFA). UPMIFA provides guidance regarding the prudent management of endowment funds. Management is currently reviewing the new act and the adoption of UPMIFA is not expected to have a material impact on the Academy's consolidated financial statements.

MILTON ACADEMY

Notes to Consolidated Financial Statements

Note 9 - Net Assets and Endowment Matters (Continued)

Interpretation of Relevant Law and Spending Policy

The Academy has interpreted the laws of the State of Massachusetts as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Academy classifies as permanently restricted net assets: (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Academy in a manner consistent with the standard of prudence prescribed by state law.

Allocations from investments to support operations are made using the total return method. Under the Academy's total return method, a spending rate of five percent of a rolling twelve quarter average fair value of the investments is used to support operations. The Academy has adopted this spending policy in order to protect the inviolate nature of the original corpus of gifts as well as to preserve the purchasing power of these funds into the future. Amounts appropriated under the spending policy were \$8,273,500 and \$7,644,750 for the years ended June 30, 2009 and 2008, respectively.

Funds with Deficiencies

From time-to-time, the fair value of assets associated with the individual donor-restricted endowment funds may fall below the level that the donor requires the Academy to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted are approximately \$677,000 and \$27,000 as of June 30, 2009 and 2008, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of new permanently restricted contributions.

Return Objectives and Risk Parameters

The Academy's investment portfolio is managed to provide for the long-term support of the Academy. Accordingly, these funds are managed with disciplined longer-term investment objectives and strategies designed to meet cash flows and spending requirements. Management of the assets is designed to attain the maximum total return consistent with acceptable and agreed upon levels of risk. It is the goal of the aggregate long-term investments to generate an average total annual return that exceeds the spending/payout rate plus inflation.

MILTON ACADEMY

Notes to Consolidated Financial Statements

Note 9 - Net Assets and Endowment Matters (Continued)

Strategies Employed for Achieving Objectives

To satisfy its long-term rate of return objectives, the Academy relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Academy targets an asset allocation strategy wherein assets are diversified among several asset classes. The pursuit of maximizing total return is tempered by the need to minimize the volatility of returns and preserve capital. As such, the Academy seeks broad diversification among assets having different characteristics with the intent to endure lower relative performance in strong markets in exchange for greater downside protection in weak markets.

Note 10 - Lease Obligation

The Academy leases temporary science classroom space under a capital lease agreement dated April 20, 2005, expiring on August 24, 2010.

Future minimum lease payments under this capital lease at June 30, 2009 were \$536,472, \$576,148 less amounts representing interest of \$39,676.

Note 11 - Retirement Plan

The Academy has a Contributory Retirement Plan (the "Plan") for eligible full-time academic, administrative and service personnel. The Plan is designed in accordance with the provisions of Section 403(b) of the Internal Revenue Code. Contributions were made to the Teachers Insurance and Annuity Association (TIAA) and College Retirement Equities Fund (CREF) based on participant elections. The Academy's expense under the Plan was \$1,358,922 and \$1,245,164 for the years ended June 30, 2009 and 2008, respectively.

Note 12 - Commitments and Contingencies

In conducting its activities, the Academy, from time-to-time, is subject to various claims and also has claims against others. In management's opinion, the ultimate resolution of such claims would not have a material effect on the financial position of the Academy.

Note 13 - Subsequent Event

Subsequent to year end, in July 2009, the Academy established a \$12,500,000 line of credit with a financial institution.