



Consolidated Financial Statements

Milton Academy

June 30, 2012 and 2011



Mayer Hoffman McCann P.C.
An Independent CPA Firm
Tofias New England Division

MILTON ACADEMY

Consolidated Financial Statements

Table of Contents

Consolidated Financial Statements:

| | |
|--|--------|
| Independent Auditors' Report | 1 |
| Consolidated Statements of Financial Position | 2 |
| Consolidated Statements of Activities and Changes in Net Assets | 3 – 4 |
| Consolidated Statements of Cash Flows | 5 |
| Notes to Consolidated Financial Statements | 6 – 33 |



Mayer Hoffman McCann P.C.
Tofias New England Division
An Independent CPA Firm

500 Boylston Street ■ Boston, MA 02116
Tel: 617.761.0600 ■ Fax: 617.761.0601 ■ www.cbiztofias.com

Independent Auditors' Report

To the Board of Trustees
Milton Academy
Milton, Massachusetts

We have audited the accompanying consolidated statements of financial position of Milton Academy (the "Academy"), a non-profit organization, as of June 30, 2012 and 2011, and the related consolidated statements of activities and changes in net assets, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Milton Academy as of June 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Mayer Hoffman McCann P.C.

September 27, 2012
Boston, Massachusetts

MILTON ACADEMY

Consolidated Statements of Financial Position

| | <i>June 30,</i> | |
|---|------------------------------|------------------------------|
| | 2012 | 2011 |
| Assets | | |
| Cash and cash equivalents | \$ 1,788,504 | \$ 1,643,841 |
| Accounts and notes receivable, net of allowance for doubtful accounts of \$186,515 and \$149,600 at June 30, 2012 and 2011, respectively | 152,368 | 304,714 |
| Prepays, inventory and other assets | 475,947 | 591,884 |
| Contributions receivable, net | 8,701,462 | 10,654,676 |
| Investments and trusts | 198,750,236 | 204,723,042 |
| Deposits with trustee | 4,158,759 | 6,440,766 |
| Funds held in trust by others | 339,495 | 389,728 |
| Property, plant and equipment, net | <u>57,872,374</u> | <u>61,639,615</u> |
| Total assets | <u>\$ 272,239,145</u> | <u>\$ 286,388,266</u> |
| Liabilities and Net Assets | | |
| Liabilities: | | |
| Accounts payable and accrued expenses | \$ 4,952,031 | \$ 3,985,945 |
| Construction payables | 60,199 | 18,982 |
| Student deposits and deferred income | 2,379,963 | 2,240,641 |
| Payables to annuitants | 887,132 | 1,040,959 |
| Asset retirement obligations | 287,134 | 289,293 |
| Obligations under interest rate swap contracts | 1,446,055 | 763,695 |
| Bonds payable | <u>50,061,244</u> | <u>51,941,451</u> |
| Total liabilities | <u>60,073,758</u> | <u>60,280,966</u> |
| Net assets: | | |
| Unrestricted | 32,889,073 | 38,300,858 |
| Temporarily restricted | 92,605,727 | 106,491,575 |
| Permanently restricted | <u>86,670,587</u> | <u>81,314,867</u> |
| Total net assets | <u>212,165,387</u> | <u>226,107,300</u> |
| Total liabilities and net assets | <u>\$ 272,239,145</u> | <u>\$ 286,388,266</u> |

MILTON ACADEMY

Consolidated Statements of Activities and Changes in Net Assets

| | <i>Year Ended June 30, 2012</i> | | | | <i>2011</i> |
|--|---------------------------------|-----------------------------------|-----------------------------------|------------------------------|------------------------------|
| | <i>Unrestricted</i> | <i>Temporarily Restricted</i> | <i>Permanently Restricted</i> | <i>Total</i> | <i>Total</i> |
| Operating activities: | | | | | |
| Revenues and support: | | | | | |
| Tuition and fees | \$ 40,915,510 | \$ - | \$ - | \$ 40,915,510 | \$ 38,839,305 |
| Less financial aid | <u>(8,556,533)</u> | <u>-</u> | <u>-</u> | <u>(8,556,533)</u> | <u>(8,135,444)</u> |
| Net tuition and fees | 32,358,977 | - | - | 32,358,977 | 30,703,861 |
| Contributions | 5,186,964 | 423,862 | 3,921,500 | 9,532,326 | 13,611,661 |
| Change in split interest agreements | - | (47,166) | - | (47,166) | (196,138) |
| Investment return: | | | | | |
| Interest and dividend income (expense) | 308,446 | 908,250 | 6,793 | 1,223,489 | (534,265) |
| Realized and unrealized gain (loss), net | (819,308) | (5,184,099) | (37,670) | (6,041,077) | 34,577,254 |
| Auxiliary income | 1,261,061 | - | - | 1,261,061 | 1,918,933 |
| Other income | 165,917 | - | - | 165,917 | 187,415 |
| Reclassifications based on donor intent | 195,004 | (1,660,101) | 1,465,097 | - | - |
| Net assets released from restrictions | <u>8,326,594</u> | <u>(8,326,594)</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total revenues and support | <u>46,983,655</u> | <u>(13,885,848)</u> | <u>5,355,720</u> | <u>38,453,527</u> | <u>80,268,721</u> |
| Expenses: | | | | | |
| Instructional programs | 22,047,161 | - | - | 22,047,161 | 20,899,078 |
| Special and summer programs | 1,249,391 | - | - | 1,249,391 | 1,777,351 |
| Management and general | 10,692,788 | - | - | 10,692,788 | 9,980,664 |
| Fund raising expenses | 2,165,610 | - | - | 2,165,610 | 2,231,974 |
| Buildings and grounds | 6,517,943 | - | - | 6,517,943 | 6,478,859 |
| Depreciation | 6,852,891 | - | - | 6,852,891 | 6,393,484 |
| Interest expense | 2,187,296 | - | - | 2,187,296 | 2,203,091 |
| Unrealized (gain) loss on interest rate swap contracts | <u>682,360</u> | <u>-</u> | <u>-</u> | <u>682,360</u> | <u>(42,615)</u> |
| Total expenses | <u>52,395,440</u> | <u>-</u> | <u>-</u> | <u>52,395,440</u> | <u>49,921,886</u> |
| Total change in net assets | (5,411,785) | (13,885,848) | 5,355,720 | (13,941,913) | 30,346,835 |
| Net assets, beginning | <u>38,300,858</u> | <u>106,491,575</u> | <u>81,314,867</u> | <u>226,107,300</u> | <u>195,760,465</u> |
| Net assets, ending | <u>\$ 32,889,073</u> | <u>\$ 92,605,727</u> | <u>\$ 86,670,587</u> | <u>\$ 212,165,387</u> | <u>\$ 226,107,300</u> |

MILTON ACADEMY

Consolidated Statement of Activities and Changes in Net Assets

| | <i>Year Ended June 30, 2011</i> | | | <i>Total</i> |
|---|---------------------------------|-----------------------------------|-----------------------------------|-----------------------|
| | <i>Unrestricted</i> | <i>Temporarily Restricted</i> | <i>Permanently Restricted</i> | |
| Operating activities: | | | | |
| Revenues and support: | | | | |
| Tuition and fees | \$ 38,839,305 | \$ - | \$ - | \$ 38,839,305 |
| Less financial aid | (8,135,444) | - | - | (8,135,444) |
| Net tuition and fees | 30,703,861 | - | - | 30,703,861 |
| Contributions | 5,071,738 | 3,296,827 | 5,243,096 | 13,611,661 |
| Change in split interest agreements | - | (196,138) | - | (196,138) |
| Investment return: | | | | |
| Interest and dividend income (expense) | 59,998 | (589,896) | (4,367) | (534,265) |
| Realized and unrealized losses | 4,269,795 | 30,084,717 | 222,742 | 34,577,254 |
| Auxiliary income | 1,918,933 | - | - | 1,918,933 |
| Other income | 180,365 | 7,050 | - | 187,415 |
| Net assets released from restrictions | 9,805,657 | (9,805,657) | - | - |
| Total revenues and support | 52,010,347 | 22,796,903 | 5,461,471 | 80,268,721 |
| Expenses: | | | | |
| Instructional programs | 20,899,078 | - | - | 20,899,078 |
| Special and summer programs | 1,777,351 | - | - | 1,777,351 |
| Management and general | 9,980,664 | - | - | 9,980,664 |
| Fund raising expenses | 2,231,974 | - | - | 2,231,974 |
| Buildings and grounds | 6,478,859 | - | - | 6,478,859 |
| Depreciation | 6,393,484 | - | - | 6,393,484 |
| Interest expense | 2,203,091 | - | - | 2,203,091 |
| Unrealized loss on interest rate swap contracts | (42,615) | - | - | (42,615) |
| Total expenses | 49,921,886 | - | - | 49,921,886 |
| Total change in net assets | 2,088,461 | 22,796,903 | 5,461,471 | 30,346,835 |
| Net assets, beginning | 36,212,397 | 83,694,672 | 75,853,396 | 195,760,465 |
| Net assets, ending | \$ 38,300,858 | \$ 106,491,575 | \$ 81,314,867 | \$ 226,107,300 |

MILTON ACADEMY

Statements of Cash Flows

| | <i>Years Ended June 30,</i> | |
|--|-----------------------------|----------------------------|
| | <i>2012</i> | <i>2011</i> |
| Cash flows from operating activities: | | |
| Changes in net assets | \$ (13,941,913) | \$ 30,346,835 |
| Adjustments to reconcile change in net assets to net cash and cash equivalents used in operating activities: | | |
| Depreciation expense | 6,087,053 | 6,316,466 |
| Write-off of construction in process | 515,553 | 7,800 |
| Amortization of bond premium | (37,166) | (37,166) |
| Amortization of bond issuance costs | 31,959 | 33,195 |
| Realized and unrealized loss (gain), net | 6,041,077 | (34,577,254) |
| Bad debt expense for accounts and notes receivable | 30,331 | 56,852 |
| Change in fair value of interest rate swap contracts | 682,360 | (42,615) |
| Loss on retirement of property, plant, and equipment | 296,023 | 77,018 |
| Changes in: | | |
| Accounts and notes receivable | 122,015 | (284,586) |
| Contributions receivable | 1,953,214 | (1,567,170) |
| Prepaid, inventory and other assets | 115,937 | (377,611) |
| Funds held in trust by others | 50,233 | (2,645) |
| Accounts payable, accrued expenses and asset retirement obligation | 963,927 | (237,029) |
| Change in value to annuitants | 131,590 | 229,862 |
| Student deposits and deferred income | 139,322 | (292,717) |
| Permanently restricted contributions | (4,465,040) | (3,333,147) |
| Contributions restricted for long-term investment | (588,871) | (263,485) |
| Net cash used in operating activities | <u>(1,872,396)</u> | <u>(3,947,397)</u> |
| Cash flows from investing activities: | | |
| Acquisition of property, plant and equipment, net | (3,090,171) | (3,796,903) |
| Proceeds from sale of investments | 40,973,135 | 37,252,281 |
| Purchase of investments | (41,041,406) | (36,269,685) |
| Net cash used in investing activities | <u>(3,158,442)</u> | <u>(2,814,307)</u> |
| Cash flows from financing activities: | | |
| Investment in endowment | 4,465,040 | 3,333,147 |
| Investment in plant | 588,871 | 263,485 |
| Decrease in deposits with trustee | 2,282,007 | 2,119,033 |
| Payment on bonds | (1,875,000) | (810,000) |
| Payment to annuitants | (285,417) | (142,883) |
| Net cash provided by financing activities | <u>5,175,501</u> | <u>4,762,782</u> |
| Net increase (decrease) in cash and cash equivalents | 144,663 | (1,998,922) |
| Cash and cash equivalents, beginning | <u>1,643,841</u> | <u>3,642,763</u> |
| Cash and cash equivalents, ending | <u>\$ 1,788,504</u> | <u>\$ 1,643,841</u> |

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 and its affiliated entity through common control, the Mountain School, collectively known as the “Academy.” 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 980 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. Unexpended appreciation on permanently restricted net assets is included in temporarily restricted net assets.

Contributions

Contributions, including unconditional promises to give, are recognized as revenues at fair value in the period verifiably committed. Fair values are determined as per the fair value policies as described later in this section. Contributions subject to donor-imposed restrictions met in the same reporting period as they are received are reported as unrestricted revenues. Contributions scheduled to be received after one year are

MILTON ACADEMY

Notes to Consolidated Financial Statements

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

Contributions (Continued)

discounted at a risk adjusted rate commensurate with the duration of the pledge, net of allowance for amounts deemed uncollectible. The initially recorded fair value is considered a Level 2 fair value approach. Amortization of the discount is included in contribution revenue. Unconditional promises to give are periodically reviewed to estimate an allowance for doubtful collections. Management estimates the allowance by a review of historical experience and a specific review of collection trends that differ from plan on individual accounts. Conditional promises to give are not included as support until the conditions are substantially met.

In the ordinary course of business, the Academy receives pledges and contributions without any designation. These are accounted for in temporarily net assets pending classification from the donor. During 2012, the Academy received such clarification on several gifts and as such has reclassified these accordingly.

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.

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. Cash equivalents held by investment managers are considered part of investments given the expectation of near term reinvestment.

The Academy maintains its cash balances at several financial institutions which, at times, may exceed federally insured limits. The Academy monitors its exposure associated with cash and cash equivalents and has not experienced losses in such accounts.

Accounts and Notes Receivable

Accounts and notes receivable are carried at their net realizable value. Management estimates the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Accounts and notes receivable are written off when deemed uncollectible. Recoveries of accounts and notes receivable previously written off are recorded as revenue when received. Accounts and notes receivable are considered past due if any portion of the receivable balance is outstanding for more than 90 days and the student no longer attends the Academy.

MILTON ACADEMY

Notes to Consolidated Financial Statements

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

Investments and Trusts

Investments and trusts are carried at fair value. Fair value is determined as per the fair value policies described later in this section.

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.

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.

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

Deposits with Trustee

Deposits with trustee include amounts remaining for capital in process as well as amounts required in conjunction with various borrowing arrangements. These deposits consist of money market investments and are maintained with a trustee. These amounts are carried at fair value as described later in this section.

| | <i>2012</i> | <i>2011</i> |
|----------------------------|---------------------|---------------------|
| Project funds | \$ 500,004 | \$ 1,595,608 |
| Debt service reserve funds | <u>3,658,755</u> | <u>4,845,158</u> |
| | <u>\$ 4,158,759</u> | <u>\$ 6,440,766</u> |

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 fair value as described later in this section.

MILTON ACADEMY

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. Fair values of donated assets of this type are recorded using a Level 3 market approach when applicable. 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:

| | |
|--|-------------|
| Buildings and land and building improvements | 10-40 years |
| Equipment | 3-10 years |

Plant assets are removed from the records at the time of disposal with any gain or loss included in depreciation expense in the consolidated statements 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.

Payables to Annuitants

The Academy has entered into a variety of charitable gift annuities where the Academy agrees to pay a donor and named beneficiaries a fixed amount per year for the life of the annuitants. In exchange, the Academy receives assets valued in excess of the present value of the annuity with the difference reflected as contribution revenue. Initial assets received are generally recorded using Level 1 fair value methods, while the recording of the related obligation is initially recorded using Level 2 fair value methods. Assets received under these arrangements are valued at fair value at year end reporting periods as described in the fair value policies while obligations are adjusted for payments made and changes in life expectancy which is not considered fair value.

Asset Retirement Obligations

The Academy applies the principles of accounting for conditional asset retirement obligations to its 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. The initial fair value is recorded using a Level 2 fair market value approach. 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)

Bond Issuance Costs

Costs incurred in conjunction with the issuance of the 2009 Series A, B and C bonds totaling \$788,520 were capitalized and are being amortized over the lives of the bonds and have been included as a component of bonds payable. Amortization expense totaled \$31,959 and \$33,195 for the years ended June 30, 2012 and 2011, respectively.

Obligation Under Interest Rate Swap Contracts

The Academy reports the value of its interest rate swaps at fair value. Fair value is determined as per the fair value policies as described later in this section.

Tuition, Fees, Auxiliary and Other

Tuition, fees, auxiliary and other revenues are recognized as revenue when earned.

Student Financial Aid

Tuition revenues are reported net of the discount attributable to reductions in amounts charged to students (except in the case of discounts offered to students of faculty as described below), whether funded by unrestricted Academy funds, restricted endowment funds or restricted specific purpose gifts.

Tuition abatement offered to students of faculty was \$836,950 and \$980,477 for the years ended June 30, 2012 and 2011, respectively, and is included in instructional support expense in the consolidated statements of activities.

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 and state income taxes except for a tax on certain elements of investment income. Given the limited taxable activities of the Academy, management concluded that disclosures relative to tax provisions are not necessary.

Uncertain Tax Positions

The Academy accounts for the effect of any uncertain tax positions based on a “more likely than not” threshold to the recognition of the tax positions being sustained based on the technical merits of the position under scrutiny by the applicable taxing authority. If a tax position or positions are deemed to result in uncertainties of those positions, the unrecognized tax benefit is estimated based on a “cumulative probability assessment” that aggregates the estimated tax liability for all uncertain tax positions. The Academy has identified its tax status as a tax exempt entity as well as the reporting of unrelated business income as its only significant positions; however, the Academy has determined that such tax positions do not result in an uncertainty requiring recognition. The Academy is not currently under examination by any taxing jurisdiction. The Academy’s Federal and state tax returns are generally open for examination for three years following the date filed.

MILTON ACADEMY

Notes to Consolidated Financial Statements

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

Fair Value Measurements

The Academy reports certain assets and liabilities at fair value on a recurring and non recurring basis depending on the underlying accounting policy for the particular item. Recurring fair value measures include the Academy's investment accounts, interest rate swaps, deposits with trustees and funds held in trust by others. Nonrecurring measures include contributions receivable, payables to annuitants and asset retirement obligations. These standards require an entity to maximize the use of observable inputs (such as quoted prices in active markets) and minimize the use of unobservable inputs (such as appraisals or valuation techniques) to determine fair value. In addition, the Academy reports certain investments using the net asset value per share as determined by investment managers under the so called "practical expedient." The practical expedient allows net asset value per share to represent fair value for reporting purposes when the criteria for using this method are met. Fair value standards also require the Academy to classify these financial instruments into a three-level hierarchy, based on the priority of inputs to the valuation technique or in accordance with net asset value practical expedient rules, which allow for either Level 2 or Level 3 depending on lock up and notice periods associated with the underlying funds.

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. Instruments, which are generally included in this category, 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 2 also includes investments reported at net asset value per share with lock up periods of 90 days or less.

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. Level 3 also includes investments reported at net asset value per share with lock up periods in excess of 90 days.

In some instances the inputs used to measure fair value may fall into different levels of the fair value hierarchy and is based on the lowest level of input that is significant to the fair value measurement.

MILTON ACADEMY

Notes to Consolidated Financial Statements

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

Fair Value Measurements (Continued)

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. It is reasonably possible changes in values of these instruments will occur in the near term and that such changes could materially affect amounts reported in these consolidated financial statements. For more information on the fair value of the Academy's financial instruments, see Note 4 - Fair Value of Financial Instruments.

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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates included in the consolidated financial statements relate to the allowance for doubtful accounts for contributions, notes and accounts receivable, fair value of certain investments, useful lives of depreciable assets, fair value of interest swap contracts, asset retirement obligations, payables to annuitants, allocation of common expenses over program functions and fair value determined relative to nonrecurring fair value measures.

Reclassifications

Certain reclassifications have been made on the 2011 consolidated financial statements to conform with the 2012 presentation.

Subsequent Events

The Academy has evaluated subsequent events through September 27, 2012, the date the consolidated financial statements were available to be issued.

MILTON ACADEMY

Notes to Consolidated Financial Statements

Note 2 - Contributions Receivable

Contributions receivable and the allowance for unfulfilled pledges consist of the following at June 30:

| | 2012 | 2011 |
|--|-----------------------------|-----------------------------|
| Contributions for: | | |
| Endowment | \$ 7,513,269 | \$ 8,179,923 |
| Construction of facilities | 303,700 | 491,350 |
| Unrestricted | <u>2,771,101</u> | <u>4,126,030</u> |
| | 10,588,070 | 12,797,303 |
| Less allowance for unfulfilled pledges | 492,731 | 533,876 |
| Less present value discount | <u>1,393,877</u> | <u>1,608,751</u> |
| Pledges receivable, net | <u>\$ 8,701,462</u> | <u>\$ 10,654,676</u> |
| Amounts due as of June 30: | | |
| Less than one year | \$ 2,376,977 | \$ 3,069,177 |
| One to five years | 7,911,903 | 9,161,421 |
| More than five years | <u>299,190</u> | <u>566,705</u> |
| Total | <u>\$ 10,588,070</u> | <u>\$ 12,797,303</u> |

The Academy has approximately \$110,000 in conditional contributions. These contributions have not been recorded in the consolidated statements of financial position as the conditions have not been met as of June 30, 2012.

MILTON ACADEMY

Notes to Consolidated Financial Statements

Note 3 - Investments and Trusts

The Academy's investments and trusts consist of the following as of June 30:

| | 2012 | | 2011 | |
|------------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
| | <i>Fair Value</i> | <i>Cost</i> | <i>Fair Value</i> | <i>Cost</i> |
| Pooled endowment: | | | | |
| Equity funds: | | | | |
| Domestic | \$ 27,588,967 | \$ 24,663,502 | \$ 28,769,226 | \$ 23,944,748 |
| International | 34,603,698 | 34,733,978 | 41,754,065 | 37,665,760 |
| Short-term investment funds | 25,833,322 | 25,807,769 | 18,186,944 | 18,046,843 |
| Real estate partnerships | 18,031,061 | 14,378,205 | 20,849,364 | 15,449,207 |
| Event absolute hedge | 4,293,148 | 4,207,187 | 2,231,282 | 1,389,169 |
| Relative value | 51,237,794 | 46,296,198 | 62,036,967 | 49,040,285 |
| Trust investments | 2,093,886 | 1,732,516 | 2,159,053 | 1,798,051 |
| Private equity and venture capital | 26,213,649 | 26,461,371 | 19,707,256 | 20,181,257 |
| | <u>189,895,525</u> | <u>178,280,726</u> | <u>195,694,157</u> | <u>167,515,320</u> |
| Separately invested: | | | | |
| Pooled income funds* | 2,455,364 | 2,211,132 | 2,479,330 | 2,267,551 |
| Cash and cash equivalents | 6,399,347 | 6,384,139 | 6,549,555 | 6,539,854 |
| | <u>8,854,711</u> | <u>8,595,271</u> | <u>9,028,885</u> | <u>8,807,405</u> |
| Total | \$ <u>198,750,236</u> | \$ <u>186,875,997</u> | \$ <u>204,723,042</u> | \$ <u>176,322,725</u> |

* At June 30, 2012 and 2011, approximately 40% and 38%, respectively, were invested in common stocks and approximately 60% and 62%, respectively, were invested in fixed income and short-term investments.

The assets held under trust investments related to the assets of an irrevocable perpetual trust which are held by an independent donor-appointed trustee.

MILTON ACADEMY

Notes to Consolidated Financial Statements

Note 3 - Investments and Trusts (Continued)

Investment return is summarized as follows for the years ended June 30:

| | <i>2012</i> | <i>2011</i> |
|---------------------------------|-------------------------------------|------------------------------------|
| Interest and dividend income | \$ 2,905,157 | \$ 1,878,922 |
| Management fees | <u>(1,681,668)</u> | <u>(2,413,187)</u> |
| | <u>1,223,489</u> | <u>(534,265)</u> |
| Realized gains | 10,499,251 | 15,950,133 |
| Unrealized gains (losses) | <u>(16,540,328)</u> | <u>18,627,121</u> |
| | <u>(6,041,077)</u> | <u>34,577,254</u> |
| Investment return (loss) | <u><u>\$ (4,817,588)</u></u> | <u><u>\$ 34,042,989</u></u> |

Interest and dividend income includes other income of \$162,297 and \$120,883 as of June 30, 2012 and 2011, respectively, that was earned on cash and cash equivalents, not included in investments.

MILTON ACADEMY

Notes to Consolidated Financial Statements

Note 4 - Fair Values of Financial Instruments

The following table presents financial assets at June 30, 2012, 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: | | | | |
| Domestic | \$ 21,676,347 | \$ 5,912,620 | \$ - | \$ 27,588,967 |
| International | - | 18,162,213 | 16,441,485 | 34,603,698 |
| Short-term investment funds | 17,687,355 | 8,145,967 | - | 25,833,322 |
| Real estate partnerships | - | - | 18,031,061 | 18,031,061 |
| Event absolute hedge | - | - | 4,293,148 | 4,293,148 |
| Relative value | - | 5,508,665 | 45,729,129 | 51,237,794 |
| Trust investments | - | - | 2,093,886 | 2,093,886 |
| Private equity and venture capital | 45,002 | - | 26,168,647 | 26,213,649 |
| Pooled income and cash equivalents | 6,399,347 | - | 2,455,364 | 8,854,711 |
| Subtotal | <u>45,808,051</u> | <u>37,729,465</u> | <u>115,212,720</u> | <u>198,750,236</u> |
| Deposits held with trustee | <u>4,158,759</u> | <u>-</u> | <u>-</u> | <u>4,158,759</u> |
| Total assets at fair value | <u>\$ 49,966,810</u> | <u>\$ 37,729,465</u> | <u>\$ 115,212,720</u> | <u>\$ 202,908,995</u> |
| Liabilities: | | | | |
| Interest rate swaps | <u>\$ -</u> | <u>\$ 1,446,055</u> | <u>\$ -</u> | <u>\$ 1,446,055</u> |
| Total liabilities at fair value | <u>\$ -</u> | <u>\$ 1,446,055</u> | <u>\$ -</u> | <u>\$ 1,446,055</u> |

MILTON ACADEMY

Notes to Consolidated Financial Statements

Note 4 - Fair Values of Financial Instruments (Continued)

The following table presents financial assets at June 30, 2011, 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: | | | | |
| Domestic | \$ 23,360,136 | \$ 5,409,090 | \$ - | \$ 28,769,226 |
| International | - | 25,821,175 | 15,932,889 | 41,754,064 |
| Short-term investment funds | 11,043,890 | 7,143,055 | - | 18,186,945 |
| Real estate partnerships | - | - | 20,849,364 | 20,849,364 |
| Event absolute hedge | - | - | 2,231,282 | 2,231,282 |
| Relative value | - | 11,019,400 | 51,017,567 | 62,036,967 |
| Trust investments | - | - | 2,159,052 | 2,159,052 |
| Private equity and venture capital | 74,636 | - | 19,632,621 | 19,707,257 |
| Pooled income and cash equivalents | 6,549,555 | - | 2,479,330 | 9,028,885 |
| | <u>41,028,217</u> | <u>49,392,720</u> | <u>114,302,105</u> | <u>204,723,042</u> |
| Deposits held with trustee | <u>6,440,766</u> | <u>-</u> | <u>-</u> | <u>6,440,766</u> |
| Total assets at fair value | <u>\$ 47,468,983</u> | <u>\$ 49,392,720</u> | <u>\$ 114,302,105</u> | <u>\$ 211,163,808</u> |
| Liabilities: | | | | |
| Interest rate swaps | <u>\$ -</u> | <u>\$ 763,695</u> | <u>\$ -</u> | <u>\$ 763,695</u> |
| Total liabilities at fair value | <u>\$ -</u> | <u>\$ 763,695</u> | <u>\$ -</u> | <u>\$ 763,695</u> |

MILTON ACADEMY

Notes to Consolidated Financial Statements

Note 4 - Fair Values of Financial Instruments (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.

| | <i>International Equity</i> | <i>Real Estate Partnerships</i> | <i>Event Absolute Hedge</i> | <i>Relative Value</i> | <i>Trust Investments</i> | <i>Private Equity Venture Capital</i> | <i>Pooled Income</i> | <i>Total</i> |
|-------------------------------|---------------------------------|---|-------------------------------------|---------------------------|------------------------------|---|--------------------------|-----------------------|
| Balance, June 30, 2010 | \$ 6,745,551 | \$ 12,956,018 | \$ 5,944,827 | \$ 49,541,125 | \$ 1,901,790 | \$ 18,525,088 | \$ 2,242,692 | \$ 97,857,091 |
| Dividend and interest | | | | | | | | |
| income, net | 56,933 | 465,691 | - | - | 60,343 | 171,608 | 77,734 | 832,309 |
| Unrealized gains (losses) | 745,835 | 7,309,120 | (1,182,251) | 1,382,257 | 253,770 | 362,464 | 211,904 | 9,083,099 |
| Realized gains | 1,589,804 | 51,792 | 3,011,603 | 6,602,200 | 59,794 | 1,294,141 | 32,970 | 12,642,304 |
| Purchases | 7,000,000 | 1,230,243 | - | - | 316,097 | 3,966,842 | 207,589 | 12,720,771 |
| Sales | - | (1,087,777) | (5,542,897) | (5,465,712) | (411,921) | (4,302,351) | (282,333) | (17,092,991) |
| Fees | (205,234) | (75,723) | - | (1,042,303) | (20,821) | (385,171) | (11,226) | (1,740,478) |
| Balance, June 30, 2011 | 15,932,889 | 20,849,364 | 2,231,282 | 51,017,567 | 2,159,052 | 19,632,621 | 2,479,330 | 114,302,105 |
| Dividend and interest | | | | | | | | |
| income, net | 24,771 | 642,308 | 5,745 | 11,183 | 63,856 | 774,276 | 75,169 | 1,597,308 |
| Unrealized gains (losses) | (763,882) | (1,747,303) | (756,152) | (6,309,339) | 370 | 226,279 | 32,450 | (9,317,577) |
| Realized gains (losses) | 1,381,500 | (45,886) | 623,020 | 6,317,803 | (8,169) | 73,655 | 23,058 | 8,364,981 |
| Purchases | - | 1,652,589 | 3,004,815 | 5,000,000 | 888,866 | 7,333,885 | 234,294 | 18,114,449 |
| Sales | - | (3,247,396) | (810,269) | (9,887,853) | (989,983) | (1,444,365) | (369,713) | (16,749,579) |
| Fees | (133,793) | (72,615) | (5,293) | (420,232) | (20,106) | (427,704) | (19,224) | (1,098,967) |
| Balance, June 30, 2012 | \$ 16,441,485 | \$ 18,031,061 | \$ 4,293,148 | \$ 45,729,129 | \$ 2,093,886 | \$ 26,168,647 | \$ 2,455,364 | \$ 115,212,720 |

MILTON ACADEMY

Notes to Consolidated Financial Statements

Note 4 - Fair Values of Financial Instruments (Continued)

Investments and trusts not considered Level 1 are categorized as Level 2 instruments when the Academy has the ability to redeem its investment in the entity at net asset value per share at year-end or within 90 days of year-end. Investments not considered Level 1 are categorized as Level 3 instruments when the Academy cannot redeem its investment within 90 days of year-end. A summary of the significant categories of such investments utilizing the net asset value practical expedient and their attributes are as follows:

| | <i>Fair Value</i> | <i>Unfunded Commitments</i> | <i>Redemption Frequency (If Currently Eligible)</i> | <i>Redemption Notice Period</i> |
|------------------------------------|------------------------------|---------------------------------|---|---|
| International equities | \$ 34,347,041 | \$ - | Daily-quarterly | Daily - 90 days |
| International equities | 256,657 | - | None | No redemptions |
| Domestic equities | 5,912,620 | - | quarterly | N/A |
| Short-term investment funds | 8,145,967 | - | daily | N/A |
| Real estate partnerships | 17,551,517 | 3,309,583 | None | No redemptions |
| Event absolute hedge | 4,293,148 | 1,000,000 | None | N/A |
| Relative value | 51,237,794 | - | Quarterly - annual | 60-180 days |
| Pooled Income | 2,455,364 | - | None | No redemptions |
| Private equity and venture capital | <u>21,168,647</u> | <u>5,414,841</u> | None | N/A |
| | <u>\$ 145,368,755</u> | <u>\$ 9,724,424</u> | | |

A summary of the significant categories of such investments not utilizing the net asset value practical expedient and their attributes are as follows:

| | <i>Fair Value</i> | <i>Unfunded Commitments</i> | <i>Redemption Frequency (If Currently Eligible)</i> | <i>Redemption Notice Period</i> |
|------------------------------------|----------------------------|---------------------------------|---|---|
| Real estate partnerships | \$ 479,544 | \$ 2,075,000 | None | N/A |
| Private equity and venture capital | <u>5,000,000</u> | <u>-</u> | None | N/A |
| | <u>\$ 5,479,544</u> | <u>\$ 2,075,000</u> | | |

MILTON ACADEMY

Notes to Consolidated Financial Statements

Note 4 - Fair Values of Financial Instruments (Continued)

International and domestic equity securities funds – includes investments in funds that invest in international and U.S. common stocks and the funds are designed to give the managers the flexibility to invest both long and short terms within their area of expertise. Other funds included in international equities include securities, warrants and options. For those investments not accounted for using net asset value, fair value was primarily determined using market methods.

Short-term investment funds – includes investments being held in cash, money or money market instruments.

Real estate partnerships – includes investments in real estate funds that invest primarily in U.S. commercial real estate. The nature of the investments in this category is that distributions will be received as the underlying investments of the funds are liquidated. For those investments not accounted for using net asset value, fair value was primarily determined using market methods.

Event absolute hedge funds – includes investments in the securities of corporations undergoing significant changes (spinoffs, mergers, liquidations).

Relative value – includes investments in hedge funds that invest both long and short term, primarily in international and U.S. common stocks. Management of the hedge funds has the ability to shift investments from value to growth strategies, from small to large capitalization stocks, and from a net long-term to a net short-term position.

Private equity and venture capital – includes investments in ten private equity funds that invest primarily in both U.S. and non U.S. companies.

Pooled income and cash equivalents – includes investments in money markets, short-term investments, equities and fixed income funds.

MILTON ACADEMY

Notes to Consolidated Financial Statements

Note 4 - Fair Values of Financial Instruments (Continued)

Management has assessed that fair value approximates carrying value for cash and cash equivalents, accounts receivable, accounts payable, accrued expenses, construction payable and capital lease obligations given the short-term nature of these instruments. Management has no practical or cost effective way of determining fair value for notes receivable, contributions receivable, funds held in trust by others and payables to annuitants. The fair value of the bonds payable is noted in the table below at June 30:

| | <i>2012</i> | | <i>2011</i> | |
|---------------|-----------------------|----------------------|-----------------------|----------------------|
| | <i>Carrying Value</i> | <i>Fair Value</i> | <i>Carrying Value</i> | <i>Fair Value</i> |
| Bonds payable | \$ <u>49,745,000</u> | \$ <u>54,750,000</u> | \$ <u>51,620,000</u> | \$ <u>52,500,000</u> |

Note 5 - Property, Plant and Equipment

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

| | <i>2012</i> | <i>2011</i> |
|---|-----------------------------|-----------------------------|
| Land | \$ 198,648 | \$ 198,648 |
| Land improvements | 5,691,680 | 5,836,291 |
| Buildings and improvements | 121,465,158 | 119,610,558 |
| Equipment | 6,310,805 | 6,203,045 |
| Construction in progress | <u>512,400</u> | <u>1,223,598</u> |
| | 134,178,691 | 133,072,140 |
| Less: accumulated depreciation | <u>76,306,317</u> | <u>71,432,525</u> |
| Property, plant and equipment, net | \$ <u>57,872,374</u> | \$ <u>61,639,615</u> |

During the years ended June 30, 2012 and 2011, the Academy retired property, plant and equipment with book values of \$1,509,284 and \$1,674,473, respectively, and recognized a loss on disposal of \$296,023 and \$77,018, respectively, which is recorded in depreciation expense on the statement of changes in net assets. The Academy also wrote off \$515,553 from construction in progress on June 30, 2012 (\$7,800 on June 30, 2011), which is also recorded in depreciation expense on the consolidated statements of activities and changes in net assets.

MILTON ACADEMY

Notes to Consolidated Financial Statements

Note 6 - Bonds Payable

Bonds payable consist of the following at June 30:

| | <i>2012</i> | <i>2011</i> |
|--|---------------------------------------|---------------------------------------|
| Massachusetts Development Finance Agency Series A, 2009, maturities are due from September 1, 2028 through 2035. Interest rates are fixed and range from 4% to 5%, depending on the coupon associated with the underlying tranche on the bond. | \$ 25,555,000 | \$ 25,555,000 |
| Massachusetts Development Finance Agency, Series B, 2009, maturities are due from March 1, 2036 through 2039. Interest varies weekly, as determined by the remarketing agent. The interest rate was 0.18% and 0.17% at June 30, 2012 and 2011. | 14,580,000 | 16,455,000 |
| Massachusetts Development Finance Agency, Series C, 2009, maturities are due from September 1, 2019 through 2028. Interest rates are fixed and range from 4.775% to 5.86%, depending on the coupon associated with the underlying tranche on the bond. | <u>9,610,000</u> 49,745,000 | <u>9,610,000</u> 51,620,000 |
| Unamortized premium | 1,022,066 | 1,059,232 |
| Unamortized bond discount and issuance costs, net | <u>(705,822)</u> | <u>(737,781)</u> |
| Bonds payable, net | \$ <u>50,061,244</u> | \$ <u>51,941,451</u> |

The Bonds are subject to optional, special, and mandatory sinking fund redemption prior to maturity. The Bonds are secured by a lien and security interest of gross receipts of the Academy. The Academy is required to maintain a debt service reserve fund for current and future semi-annual and monthly principal and interest payments (see Note 1). As of June 30, 2012 and 2011, the Academy was in compliance with its debt covenants.

Mandatory annual principal payments on bonds payable do not begin until 2019. However, during 2012, the Academy repaid \$1,875,000 of the principal on the Series B Bonds.

The Series B Bonds are supported by a letter of credit agreement, which a bank provides for liquidity support, to allow for the orderly remarketing of the Bonds at attractive interest rates. Such agreement expires in December 2014. Under the arrangement, the Academy has provided a security interest in gross receipts along with a requirement to maintain its credit rating and other restrictions and covenants. The base fee for the letter of credit is 67 basis points per annum.

MILTON ACADEMY

Notes to Consolidated Financial Statements

Note 7 - Derivative Instruments

During 2010, in conjunction with the bond issuance, the Academy entered into two interest rate swap contracts. The Academy uses interest rate swaps to manage interest rate risk exposure. The Academy's interest rate swaps mitigate exposure to interest rate risk, primarily through converting portions of floating rate debt under the bond agreement to a fixed rate basis. These agreements involve the receipt or payment of floating rate amounts in exchange for fixed rate interest payments over the life of the agreements without an exchange of the underlying principal amounts. The Academy does not enter into derivative instruments for trading or speculative purposes.

Each of the Academy's interest rate swaps have been recorded as liabilities in the consolidated statements of financial position at fair value. Changes in fair value are recorded as gains or losses on swap contracts in the period incurred.

As a result of the use of derivative instruments, the Academy is exposed to risk that the counterparties will fail to meet their contractual obligation. To mitigate the counterparty risk, the Academy only enters into contracts with selected major financial institutions based upon their credit ratings and other factors, and continually assesses the creditworthiness of counterparties. At June 30, 2012, all of the counterparties to the Academy's interest rate swaps had investment grade ratings. To date, all counterparties have performed in accordance with their contractual obligation. The current year swaps contain no credit risk-related contingent features in the Academy's interest rate swaps nor do the swaps contain provisions under which the Academy has, or would be required, to post collateral.

The Academy had the following swaps outstanding at June 30, 2012:

| <i>Notional Amount</i> | <i>Termination Date</i> | <i>Interest Rate Received</i> | <i>Interest Rate Paid</i> | <i>Fair Value</i> |
|-----------------------------|-------------------------|-------------------------------|---------------------------|----------------------------|
| \$ 5,755,000 | January 2015 | USD Libor BAA (0.18%) | 2.936% | \$ 370,374 |
| <u>5,755,000</u> | January 2020 | USD Libor BAA (0.18%) | 3.903% | <u>1,075,681</u> |
| \$ <u>11,510,000</u> | | | | \$ <u>1,446,055</u> |

The Academy had the following swaps outstanding at June 30, 2011:

| <i>Notional Amount</i> | <i>Termination Date</i> | <i>Interest Rate Received</i> | <i>Interest Rate Paid</i> | <i>Fair Value</i> |
|-----------------------------|-------------------------|-------------------------------|---------------------------|--------------------------|
| \$ 5,755,000 | January 2015 | USD Libor BAA (0.17%) | 2.936% | \$ 329,648 |
| <u>5,755,000</u> | January 2020 | USD Libor BAA (0.17%) | 3.903% | <u>434,047</u> |
| \$ <u>11,510,000</u> | | | | \$ <u>763,695</u> |

MILTON ACADEMY

Notes to Consolidated Financial Statements

Note 8 - Mountain School

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

| | <i>2012</i> | <i>2011</i> |
|--|----------------------------|----------------------------|
| Unrestricted net assets: | | |
| Unrestricted | \$ 1,525,938 | \$ 1,528,982 |
| Designated for endowment | <u>1,941,287</u> | <u>1,903,008</u> |
| Total unrestricted net assets | <u>3,467,225</u> | <u>3,431,990</u> |
| Temporarily restricted net assets: | | |
| Restricted for endowment | 778,955 | 816,272 |
| Restricted for pledges | <u>15,455</u> | <u>12,411</u> |
| Total temporarily restricted net assets | <u>794,410</u> | <u>828,683</u> |
| Permanently restricted net assets: | | |
| Endowment funds | <u>884,043</u> | <u>775,093</u> |
| Total net assets | <u>\$ 5,145,678</u> | <u>\$ 5,035,766</u> |

MILTON ACADEMY

Notes to Consolidated Financial Statements

Note 9 - Functional Classification of Expenses

The cost of providing the Academy's activities have not been presented on a functional basis in the consolidated statements of activities. Expenses for the years ended June 30, 2012 and 2011, associated with the Academy's interest, depreciation and the operation of physical plant, have been allocated below to functional categories based on square footage.

| | 2012 | 2011 |
|---|-----------------------------|-----------------------------|
| Instruction | \$ 35,743,056 | \$ 34,736,776 |
| Administration | 13,648,833 | 12,844,997 |
| Fundraising | <u>2,321,191</u> | <u>2,382,728</u> |
| | 51,713,080 | 49,964,501 |
| Unrealized (loss) gain on interest rate swap contract | <u>682,360</u> | <u>(42,615)</u> |
| | <u>\$ 52,395,440</u> | <u>\$ 49,921,886</u> |

Note 10 - Net Assets and Endowment Matters

Unrestricted Net Assets

Unrestricted net assets are comprised of the following at June 30:

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. These amounts may only be used with the approval of the Board of Trustees.

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 at June 30:

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.

MILTON ACADEMY

Notes to Consolidated Financial Statements

Note 10 - Net Assets and Endowment Matters (Continued)

Temporarily Restricted Net Assets (Continued)

| | <i>2012</i> | <i>2011</i> |
|--|----------------------|-----------------------|
| Accumulated unspent gains | | |
| Academic | \$ 45,593,478 | \$ 50,473,367 |
| Construction | 780,614 | 906,212 |
| Library | 16,079,770 | 17,848,514 |
| Operations | 778,956 | 806,296 |
| Unrestricted purpose | 4,936,249 | 6,796,660 |
| Scholarship | 17,652,849 | 20,130,965 |
| Pending Designation | 121,116 | - |
| | <u>85,943,032</u> | <u>96,962,014</u> |
| Purpose restricted gifts | | |
| Academic | 1,443,140 | 1,730,503 |
| Annuity | 1,465,264 | 1,400,824 |
| Construction | 299,096 | 137,070 |
| Contribution receivable | 2,305,623 | 3,330,872 |
| Operations | 572,393 | 167,518 |
| Scholarship | 51,545 | 67,664 |
| Pending designation | 525,634 | 2,695,110 |
| | <u>6,662,695</u> | <u>9,529,561</u> |
| Temporarily restricted net assets | \$ 92,605,727 | \$ 106,491,575 |

Permanently Restricted Net Assets

Permanently restricted net assets are comprised of the following at June 30:

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.

MILTON ACADEMY

Notes to Consolidated Financial Statements

Note 10 - Net Assets and Endowment Matters (Continued)

Permanently Restricted Net Assets (Continued)

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 Academy and 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.

Pending Designation – Amounts categorized under pending designation are for gifts that the donor has not provided instructions how the gift should be used. It is the Academy's policy to record these to temporary restricted until the donor provides instruction.

| | 2012 | 2011 |
|--|-----------------------------|-----------------------------|
| Academic | \$ 24,776,666 | \$ 24,237,018 |
| Construction | 1,061,772 | 1,060,072 |
| Library | 7,023,873 | 7,023,623 |
| Operations | 884,043 | 780,543 |
| Unrestricted purpose | 19,929,353 | 18,385,870 |
| Pending designation | 4,860,234 | 2,300,000 |
| Scholarships | 21,865,362 | 20,714,916 |
| Contribution receivable | <u>6,269,284</u> | <u>6,812,825</u> |
| Permanently restricted net assets | <u>\$ 86,670,587</u> | <u>\$ 81,314,867</u> |

MILTON ACADEMY

Notes to Consolidated Financial Statements

Note 10 - Net Assets and Endowment Matters (Continued)

Net Assets Released From Restrictions

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:

| | 2012 | 2011 |
|---|----------------------------|----------------------------|
| Spending policy releases: | | |
| Academic | \$ 3,024,357 | \$ 3,312,736 |
| Construction | 77,592 | 83,213 |
| Library | 1,148,219 | 1,238,787 |
| Scholarships | 1,505,625 | 1,618,146 |
| Other | 5,497 | - |
| Operations | <u>978,095</u> | <u>1,136,952</u> |
| Subtotal | <u>6,739,385</u> | <u>7,389,834</u> |
| Satisfaction of operating purpose restrictions: | | |
| Academic | 919,882 | 902,795 |
| Construction | 205,148 | 871,191 |
| Scholarships | 15,705 | 100,201 |
| Other | 427 | - |
| Operations | <u>446,047</u> | <u>541,636</u> |
| Subtotal | <u>1,587,209</u> | <u>2,415,823</u> |
| Total releases | <u>\$ 8,326,594</u> | <u>\$ 9,805,657</u> |

MILTON ACADEMY

Notes to Consolidated Financial Statements

Note 10 - Net Assets and Endowment Matters (Continued)

The following represents required disclosure relative to the composition and activities of endowment and funds functioning as endowment for the years ended June 30, 2012:

| | <i>Unrestricted</i> | <i>Temporarily Restricted</i> | <i>Permanently Restricted</i> | <i>Total</i> |
|----------------------------------|-----------------------------|-----------------------------------|-----------------------------------|------------------------------|
| Donor-restricted endowment funds | \$ - | \$ 85,943,032 | \$ 80,401,303 | \$ 166,344,335 |
| Board-designated endowment funds | <u>22,243,182</u> | <u>-</u> | <u>-</u> | <u>22,243,182</u> |
| Total funds | <u>\$ 22,243,182</u> | <u>\$ 85,943,032</u> | <u>\$ 80,401,303</u> | <u>\$ 188,587,517</u> |

The following represents required disclosure relative to the composition and activities of endowment and funds functioning as endowment for the years ended June 30, 2011:

| | <i>Unrestricted</i> | <i>Temporarily Restricted</i> | <i>Permanently Restricted</i> | <i>Total</i> |
|----------------------------------|-----------------------------|-----------------------------------|-----------------------------------|------------------------------|
| Donor-restricted endowment funds | \$ - | \$ 96,962,014 | \$ 74,502,042 | \$ 171,464,056 |
| Board-designated endowment funds | <u>23,611,762</u> | <u>-</u> | <u>-</u> | <u>23,611,762</u> |
| Total funds | <u>\$ 23,611,762</u> | <u>\$ 96,962,014</u> | <u>\$ 74,502,042</u> | <u>\$ 195,075,818</u> |

MILTON ACADEMY

Notes to Consolidated Financial Statements

Note 10 - Net Assets and Endowment Matters (Continued)

The following represents required disclosures relative to the composition of endowment assets and those functioning as endowment assets at June 30, 2012 and 2011:

| 2012 | <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 | \$ 23,611,762 | \$ 96,962,014 | \$ 74,502,042 | \$ 195,075,818 |
| Contributions | 313,832 | - | 4,465,040 | 4,778,872 |
| Reclassifications | 93,880 | - | 1,465,097 | 1,558,977 |
| | <u>407,712</u> | <u>-</u> | <u>5,930,137</u> | <u>6,337,849</u> |
| Investment return: | | | | |
| Interest and dividends, net of investment expenses | 146,159 | 970,563 | 6,794 | 1,123,516 |
| Realized and unrealized gains, net | <u>(739,383)</u> | <u>(5,346,423)</u> | <u>(37,670)</u> | <u>(6,123,476)</u> |
| Total investment return | <u>(593,224)</u> | <u>(4,375,860)</u> | <u>(30,876)</u> | <u>(4,999,960)</u> |
| Expenditures: | | | | |
| Net releases | 6,643,122 | (6,643,122) | - | - |
| Amounts appropriated for expenditure for operations | (7,729,000) | - | - | (7,729,000) |
| Other expenditures | <u>(97,190)</u> | <u>-</u> | <u>-</u> | <u>(97,190)</u> |
| Change in endowment assets and those functioning as endowment assets | <u>(1,368,580)</u> | <u>(11,018,982)</u> | <u>5,899,261</u> | <u>(6,488,301)</u> |
| Endowment assets and those functioning as endowment assets, at end of year | <u>\$ 22,243,182</u> | <u>\$ 85,943,032</u> | <u>\$ 80,401,303</u> | <u>\$ 188,587,517</u> |

MILTON ACADEMY

Notes to Consolidated Financial Statements

Note 10 - Net Assets and Endowment Matters (Continued)

| 2011 | Unrestricted Net Assets | Temporarily Restricted Net Assets | Permanently Restricted Net Assets | Total |
|---|------------------------------------|--|--|------------------------------|
| Endowment assets and those functioning as endowment assets, at beginning of year | \$ 19,960,738 | \$ 75,164,468 | \$ 70,950,518 | \$ 166,075,724 |
| Contributions | 435,709 | - | 3,333,149 | 3,768,858 |
| Additions | 154,816 | - | - | 154,816 |
| | <u>590,525</u> | <u>-</u> | <u>3,333,149</u> | <u>3,923,674</u> |
| Investment return: | | | | |
| Interest and dividends, net of investment expenses | (83,771) | (583,967) | (4,367) | (672,105) |
| Realized and unrealized gains, net | 4,095,975 | 29,771,348 | 222,742 | 34,090,065 |
| Total investment return | <u>4,012,204</u> | <u>29,187,381</u> | <u>218,375</u> | <u>33,417,960</u> |
| Expenditures: | | | | |
| Net releases | 7,389,835 | (7,389,835) | - | - |
| Amounts appropriated for expenditure for operations | (8,230,995) | - | - | (8,230,995) |
| Other expenditures | (110,545) | - | - | (110,545) |
| | <u>3,651,024</u> | <u>21,797,546</u> | <u>3,551,524</u> | <u>29,000,094</u> |
| Change in endowment assets and those functioning as endowment assets | <u>3,651,024</u> | <u>21,797,546</u> | <u>3,551,524</u> | <u>29,000,094</u> |
| Endowment assets and those functioning as endowment assets, at end of year | <u>\$ 23,611,762</u> | <u>\$ 96,962,014</u> | <u>\$ 74,502,042</u> | <u>\$ 195,075,818</u> |

Endowment

The Academy's endowment consists of approximately 385 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 accounting standards, 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.

Interpretation of Relevant Law and Spending Policy

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.

MILTON ACADEMY

Notes to Consolidated Financial Statements

Note 10 - Net Assets and Endowment Matters (Continued)

Interpretation of Relevant Law and Spending Policy (Continued)

State law allows the Board of Trustees to appropriate a percentage of net asset appreciation as is prudent considering the Academy's long- and short-term needs, present and anticipated financial requirements, and expected total return on investments, price level trends, and general economic conditions. Allocations from investments to support operations are made using the total return method. Under the Academy's total return method, a spending rate of 4.8% 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 \$7,729,000 and \$8,231,000 for the years ended June 30, 2012 and 2011, respectively. Budgeted appropriations for the year ending June 30, 2013 are \$8,018,000.

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 accounting standards, deficiencies of this nature that are reported in unrestricted are approximately \$183,000 and \$30,000 as of June 30, 2012 and 2011, 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.

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.

MILTON ACADEMY

Notes to Consolidated Financial Statements

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 \$1,369,768 and \$1,349,671 for the years ended June 30, 2012 and 2011, respectively.

The Academy has a 457(b) plan for top administrators of the Academy. Elected deferrals by eligible employees may be made to the plan up to the maximum amount as permitted by law. On an annual basis the Academy contributes the maximum amount on behalf of the Head of School.

Note 12 - Commitments and Contingencies

Legal

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.

Employment Agreement

The Academy has a long-term employment agreement with its Head of School that stipulates a variety of business terms typical in the education sector.

Operating Lease

The Academy leased certain computer equipment under an operating lease which expired September 30, 2011. Quarterly payments under this operating lease totaled approximately \$23,200. A new lease agreement was entered into beginning July 1, 2011 extending through June 30, 2014 with quarterly payments due of approximately \$20,400.

Other

The Academy has a long-term food service agreement with one vendor. The Academy is committed to make purchases from this vendor through June 13, 2013.

During 2012, the Academy offered an early retirement package to certain employees which provides an annual salary paid out over 24 months, and health insurance stipends over the same 24-month period. At June 30, 2012 the Academy accrued \$761,000 relating to salaries and benefits under this package.

Note 13 - Cash Flows Information

Cash paid for interest totaled \$2,192,502 and \$2,206,568 for the years ended June 30, 2012 and 2011, respectively.