



# Consolidated Financial Statements

## Milton Academy

June 30, 2015 and 2014



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

# MILTON ACADEMY

## *Consolidated Financial Statements*

### *Table of Contents*

#### *Consolidated Financial Statements:*

Independent Auditors' Report	1 – 2
Consolidated Statements of Financial Position	3
Consolidated Statements of Activities and Changes in Net Assets	4 – 5
Consolidated Statements of Cash Flows	6
Notes to Consolidated Financial Statements	7 – 29



**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](http://www.cbiztofias.com)

## *Independent Auditors' Report*

To the Board of Trustees  
Milton Academy  
Milton, Massachusetts

We have audited the accompanying consolidated financial statements of Milton Academy, which comprise the consolidated statements of financial position as of June 30, 2015 and 2014, and the related consolidated statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



*Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Milton Academy as of June 30, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Mayer Hoffmann McCann P.C.*

October 5, 2015  
Boston, Massachusetts

**MILTON ACADEMY**

***Consolidated Statements of Financial Position***

	<i>June 30,</i>	
	<i>2015</i>	<i>2014</i>
<b>Assets</b>		
Cash and cash equivalents	\$ 1,351,361	\$ 1,684,986
Accounts and notes receivable, net of allowance for doubtful accounts of \$339,439 and \$224,279 at June 30, 2015 and 2014, respectively	113,602	240,398
Contributions receivable, net	14,734,584	9,551,270
Investments and trusts	281,257,003	268,235,298
Deposits with trustee	3,560,352	3,587,827
Property, plant and equipment, net	51,044,067	52,234,522
Prepays and other assets	631,163	577,121
<b>Total assets</b>	<b>\$ 352,692,132</b>	<b>\$ 336,111,422</b>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 5,190,056	\$ 4,617,066
Construction payable	19,609	545,789
Student deposits and deferred income	2,845,922	2,876,726
Other liabilities	1,844,153	1,824,707
Bonds payable	48,817,295	49,325,831
<b>Total liabilities</b>	<b>58,717,035</b>	<b>59,190,119</b>
Net assets:		
Unrestricted	48,132,722	46,763,672
Temporarily restricted	136,422,467	133,623,819
Permanently restricted	109,419,908	96,533,812
<b>Total net assets</b>	<b>293,975,097</b>	<b>276,921,303</b>
<b>Total liabilities and net assets</b>	<b>\$ 352,692,132</b>	<b>\$ 336,111,422</b>

**MILTON ACADEMY**

*Consolidated Statements of Activities and Changes in Net Assets*

*Years Ended June 30,*

	2015			2014	
	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total</i>	<i>Total</i>
<b>Operating activities:</b>					
<b>Revenues and support:</b>					
Tuition and fees	\$ 46,358,298	\$ -	\$ -	\$ 46,358,298	\$ 44,520,950
Less financial aid	(9,766,426)	-	-	(9,766,426)	(9,399,439)
<b>Net tuition and fees</b>	<b>36,591,872</b>	<b>-</b>	<b>-</b>	<b>36,591,872</b>	<b>35,121,511</b>
Contributions	5,568,352	2,756,460	12,663,481	20,988,293	19,348,399
Change in split interest agreements	-	(243,547)	-	(243,547)	(356,614)
Investment return:					
Interest and dividend income	586,635	1,778,277	12,354	2,377,266	842,210
Realized and unrealized gains	1,487,405	9,076,995	63,060	10,627,460	37,940,280
Auxiliary and other income	1,741,189	-	-	1,741,189	1,545,430
Reclassifications based on donor intent	(31,860)	(115,341)	147,201	-	-
Net assets released from restrictions	10,454,196	(10,454,196)	-	-	-
<b>Total revenues and support</b>	<b>56,397,789</b>	<b>2,798,648</b>	<b>12,886,096</b>	<b>72,082,533</b>	<b>94,441,216</b>
<b>Expenses:</b>					
Instructional programs	24,289,443	-	-	24,289,443	22,803,346
Special and summer programs	1,337,471	-	-	1,337,471	1,295,535
Management and general	12,888,524	-	-	12,888,524	11,587,273
Fund raising expenses	2,680,893	-	-	2,680,893	2,672,995
Buildings and grounds	6,875,248	-	-	6,875,248	6,488,357
Depreciation and disposals	5,019,003	-	-	5,019,003	5,240,087
Interest expense	2,105,229	-	-	2,105,229	2,190,182
Unrealized gain on interest rate swap contracts	(167,072)	-	-	(167,072)	(188,405)
<b>Total expenses</b>	<b>55,028,739</b>	<b>-</b>	<b>-</b>	<b>55,028,739</b>	<b>52,089,370</b>
<b>Total change in net assets</b>	<b>1,369,050</b>	<b>2,798,648</b>	<b>12,886,096</b>	<b>17,053,794</b>	<b>42,351,846</b>
Net assets, beginning	46,763,672	133,623,819	96,533,812	276,921,303	234,569,457
<b>Net assets, ending</b>	<b>\$ 48,132,722</b>	<b>\$ 136,422,467</b>	<b>\$ 109,419,908</b>	<b>\$ 293,975,097</b>	<b>\$ 276,921,303</b>

See accompanying notes to the consolidated financial statements.

**MILTON ACADEMY**

*Consolidated Statement of Activities and Changes in Net Assets*

	<i>Year Ended June 30, 2014</i>			
	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total</i>
<b>Operating activities:</b>				
<b>Revenues and support:</b>				
Tuition and fees	\$ 44,520,950	\$ -	\$ -	\$ 44,520,950
Less financial aid	(9,399,439)	-	-	(9,399,439)
<b>Net tuition and fees</b>	<b>35,121,511</b>	-	-	<b>35,121,511</b>
Contributions	12,070,228	914,100	6,364,071	19,348,399
Change in split interest agreements	-	(356,614)	-	(356,614)
Investment return:				
Interest and dividend income	291,203	547,003	4,004	842,210
Realized and unrealized gains	5,038,801	32,669,958	231,521	37,940,280
Auxiliary and other income	1,545,430	-	-	1,545,430
Reclassifications based on donor intent	101,288	492,280	(593,568)	-
Net assets released from restrictions	9,769,454	(9,769,454)	-	-
<b>Total revenues and support</b>	<b>63,937,915</b>	<b>24,497,273</b>	<b>6,006,028</b>	<b>94,441,216</b>
<b>Expenses:</b>				
Instructional programs	22,803,346	-	-	22,803,346
Special and summer programs	1,295,535	-	-	1,295,535
Management and general	11,587,273	-	-	11,587,273
Fund raising expenses	2,672,995	-	-	2,672,995
Buildings and grounds	6,488,357	-	-	6,488,357
Depreciation and disposals	5,240,087	-	-	5,240,087
Interest expense	2,190,182	-	-	2,190,182
Unrealized gain on interest rate swap contracts	(188,405)	-	-	(188,405)
<b>Total expenses</b>	<b>52,089,370</b>	-	-	<b>52,089,370</b>
<b>Total change in net assets</b>	<b>11,848,545</b>	<b>24,497,273</b>	<b>6,006,028</b>	<b>42,351,846</b>
Net assets, beginning	34,915,127	109,126,546	90,527,784	234,569,457
<b>Net assets, ending</b>	<b>\$ 46,763,672</b>	<b>\$ 133,623,819</b>	<b>\$ 96,533,812</b>	<b>\$ 276,921,303</b>

**MILTON ACADEMY**

*Statements of Cash Flows*

	<i>Years Ended June 30,</i>	
	<b>2015</b>	<b>2014</b>
<b>Cash flows from operating activities:</b>		
Changes in net assets	\$ 17,053,794	\$ 42,351,846
Adjustments to reconcile change in net assets to net cash and cash equivalents (used in) provided by operating activities:		
Depreciation expense	4,980,346	5,206,620
Write-off of construction in process	5,140	620
Amortization of bond premium	(37,166)	(37,166)
Amortization of bond issuance costs	28,630	31,300
Realized and unrealized gain, net	(10,627,460)	(37,940,280)
Bad debt expense (recoveries) for accounts and notes receivable	102,930	72,403
Loss on retirement of property, plant, and equipment	33,517	32,847
Changes in:		
Accounts and notes receivable	23,866	(31,611)
Contributions receivable	(5,183,314)	(1,772,577)
Other assets	(54,042)	(144,133)
Accounts payable and accrued expenses	572,990	(13,518)
Other liabilities	19,446	(249,225)
Student deposits and deferred income	(30,804)	450,487
Permanently restricted contributions	(7,305,551)	(4,548,480)
Contributions restricted for long-term investment	(1,326,499)	(130,488)
<b>Net cash (used in) provided by operating activities</b>	<b><u>(1,744,177)</u></b>	<b><u>3,278,645</u></b>
<b>Cash flows from investing activities:</b>		
Acquisition of property, plant and equipment, net	(4,354,728)	(2,871,426)
Proceeds from sale of investments	49,775,011	39,850,163
Purchase of investments	(52,169,256)	(43,796,056)
<b>Net cash used in investing activities</b>	<b><u>(6,748,973)</u></b>	<b><u>(6,817,319)</u></b>
<b>Cash flows from financing activities:</b>		
Investment in endowment	7,305,551	4,548,480
Investment in plant	1,326,499	130,488
Decrease in deposits with trustee	27,475	261
Payment on bonds	(500,000)	(275,000)
<b>Net cash provided by financing activities</b>	<b><u>8,159,525</u></b>	<b><u>4,404,229</u></b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(333,625)</b>	<b>865,555</b>
Cash and cash equivalents, beginning	<u>1,684,986</u>	<u>819,431</u>
<b>Cash and cash equivalents, ending</b>	<b><u>\$ 1,351,361</u></b>	<b><u>\$ 1,684,986</u></b>



# 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 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 throughout the country with classes and programs focused on the outdoors. Milton is the sole corporate member of the Mountain School. There are 45 students enrolled at the Mountain School. 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. 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. 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.

# MILTON ACADEMY

## *Notes to Consolidated Financial Statements*

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

#### *Contributions*

Contributions 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 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 restricted net assets pending classification from the donor. During 2015 and 2014, 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 treasuries and short-term instruments 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.

# MILTON ACADEMY

## *Notes to Consolidated Financial Statements*

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

#### *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.

#### *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 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 of \$3,560,352 and \$3,587,827 at June 30, 2015 and 2014, respectively.

# 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. Depreciation is recorded on the straight-line basis over the estimated useful life of the asset. The cost of normal maintenance and repairs are expensed as incurred.

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 other advanced deposits, 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 3 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. Payables to annuitants totaled \$979,691 and \$842,590 at June 30, 2015 and 2014, respectively, and are included in other liabilities on the consolidated statements of financial position.

#### *Asset Retirement Obligations*

Asset retirement obligations (“ARO”) are legal obligations associated with the retirement of long-lived assets in which the timing and/or method of settlement are conditional and tied to a future event that may or may not be within the control of the Academy. 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. The obligation to perform the asset retirement obligation is unconditional and a liability should be recognized. The Academy derecognizes ARO liabilities when the related obligations are settled. Assets retirement obligations totaled \$213,776 and \$213,186 at June 30, 2015 and 2014, respectively, and are included in other liabilities on the consolidated statements of financial position.

# MILTON ACADEMY

## *Notes to Consolidated Financial Statements*

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

#### ***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. Obligations under interest rate swap contracts totaled \$601,851 and \$768,951 at June 30, 2015 and 2014, respectively, and are included in other liabilities on the consolidated statements of financial position.

#### ***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 \$28,630 and \$31,300 for the years ended June 30, 2015 and 2014, respectively.

#### ***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 \$958,068 and \$863,215 for the years ended June 30, 2015 and 2014, 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.

#### ***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 its decision to classify income as related or unrelated 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.

Fair value represents the price that would be received upon the sale of an asset or paid upon the transfer of a liability in an orderly transaction between market participants as of the measurement date. Accounting principle generally accepted in the United States of America establishes a fair value hierarchy that prioritizes inputs used to measure fair value into the following three levels:

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 Values of Financial Instruments.

#### *Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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, existence and fair value of certain investments, decisions on what to capitalize and useful lives of depreciable assets, fair value of interest swap contracts, asset retirement obligations, valuations of interest in and obligations under split interest agreements, releases from donor restrictions, 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 2014 consolidated financial statements to conform to the 2015 presentation.

#### *Subsequent Events*

The Academy has evaluated subsequent events through October 5, 2015, the date the consolidated financial statements were 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:

	<i>2015</i>	<i>2014</i>
Contributions for:		
Endowment	\$ 16,057,149	\$ 10,008,962
Construction of facilities	649,777	142,676
Unrestricted	<u>1,295,988</u>	<u>2,062,587</u>
	18,002,914	12,214,225
Less allowance for unfulfilled pledges	1,383,609	1,082,027
Less present value discount	<u>1,884,721</u>	<u>1,580,928</u>
<b>Pledges receivable, net</b>	<b><u>\$ 14,734,584</u></b>	<b><u>\$ 9,551,270</u></b>
Amounts due as of June 30:		
Less than one year	\$ 6,411,398	\$ 4,866,059
One to five years	11,581,386	7,338,036
More than five years	<u>10,130</u>	<u>10,130</u>
<b>Total</b>	<b><u>\$ 18,002,914</u></b>	<b><u>\$ 12,214,225</u></b>

### *Note 3 - Investment Return*

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

	<i>2015</i>	<i>2014</i>
Interest and dividend income	\$ 4,579,740	\$ 4,262,638
Management fees	<u>(2,202,474)</u>	<u>(3,420,428)</u>
	2,377,266	842,210
Realized gains	8,901,067	4,366,866
Unrealized gains	<u>1,726,393</u>	<u>33,573,414</u>
	10,627,460	37,940,280
<b>Investment return</b>	<b><u>\$ 13,004,726</u></b>	<b><u>\$ 38,782,490</u></b>



# MILTON ACADEMY

## *Notes to Consolidated Financial Statements*

### *Note 3 - Investment Return (Continued)*

Interest and dividend income includes other income of \$167,256 and \$203,732 as of June 30, 2015 and 2014 respectively that was earned on cash and cash equivalents, not included in investments.

Certain investment managers net their investment fees against returns and accordingly, such amounts are not recorded in the aforementioned management fees.

### *Note 4 - Fair Values of Financial Instruments*

The following table presents financial assets at June 30, 2015, that the Academy measures fair value on a recurring basis, by level, within the fair value hierarchy:

	Level 1	Level 2	Level 3	Total
Assets:				
Pooled endowment:				
Equity securities:				
Domestic	\$ 19,877,374	\$ 8,891,523	\$ -	\$ 28,768,897
International	33,836,306	26,141,539	49,236,933	109,214,778
Short-term investment funds	22,397,341	-	-	22,397,341
Real estate partnerships	-	-	17,790,038	17,790,038
Relative value	-	-	67,021,893	67,021,893
Trust investments	-	-	2,347,544	2,347,544
Illiquid credit	-	-	15,999,913	15,999,913
Private equity and venture capital	-	-	15,390,739	15,390,739
Pooled income and cash equivalents *	-	-	2,325,859	2,325,859
	76,111,021	35,033,062	170,112,919	281,257,002
Deposits held with trustee - money market	3,560,352	-	-	3,560,352
	<b>\$ 79,671,373</b>	<b>\$ 35,033,062</b>	<b>\$ 170,112,919</b>	<b>\$ 284,817,354</b>
Liabilities:				
Interest rate swaps	\$ -	\$ 601,859	\$ -	\$ 601,859
	<b>\$ -</b>	<b>\$ 601,859</b>	<b>\$ -</b>	<b>\$ 601,859</b>

# MILTON ACADEMY

## Notes to Consolidated Financial Statements

### Note 4 - Fair Values of Financial Instruments (Continued)

The following table presents financial assets at June 30, 2014, 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	\$ 39,069,781	\$ 7,584,645	\$ -	\$ 46,654,426
International	7,951,102	24,870,374	35,199,674	68,021,150
Short-term investment funds	10,787,064	-	-	10,787,064
Real estate partnerships	-	-	23,256,901	23,256,901
Relative value	-	-	67,341,383	67,341,383
Trust investments	-	-	2,413,459	2,413,459
Illiquid credit	-	-	11,285,966	11,285,966
Private equity and venture capital	-	-	27,535,138	27,535,138
Pooled income and cash equivalents *	8,781,693	-	2,158,118	10,939,811
	<u>66,589,640</u>	<u>32,455,019</u>	<u>169,190,639</u>	<u>268,235,298</u>
Deposits held with trustee - money market	<u>3,587,827</u>	<u>-</u>	<u>-</u>	<u>3,587,827</u>
<b>Total assets at fair value</b>	<b><u>\$ 70,177,467</u></b>	<b><u>\$ 32,455,019</u></b>	<b><u>\$ 169,190,639</u></b>	<b><u>\$ 271,823,125</u></b>
Liabilities:				
Interest rate swaps	<u>\$ -</u>	<u>\$ 768,931</u>	<u>\$ -</u>	<u>\$ 768,931</u>
<b>Total liabilities at fair value</b>	<b><u>\$ -</u></b>	<b><u>\$ 768,931</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 768,931</u></b>

\* At June 30, 2015 and 2014, approximately 30% and 28%, respectively, were invested in common stocks and approximately 70% and 72%, respectively, were invested in fixed income and short-term investments.

# MILTON ACADEMY

## Notes to Consolidated Financial Statements

### Note 4 - Fair Values of Financial Instruments (Continued)

The assets held under trust investments related to the assets of an irrevocable perpetual trust which are held by an independent donor-appointed trustee. The underlying investments include equity and fixed income securities and cash equivalents using Level 1 inputs.

Under certain unusual circumstances, investment managers may alter redemption provisions of their investment vehicles which could impact the ultimate liquidity of funds.

Fair value for financial assets utilizing the net asset value (“NAV”) practical expedient or its equivalent totaled \$205,145,984 and \$194,441,258 at June 30, 2015 and 2014, respectively. Management has no intention or plans to liquidate any NAV practical expedient investments other than NAV per share.

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>Illiquid Credit</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, July 1,									
2013	\$ 21,163,615	\$ 19,830,764	\$ -	\$ 1,965,634	\$ 64,026,782	\$ 2,202,397	\$ 25,617,026	\$ 2,387,678	\$ 137,193,896
Dividend and interest									
income, net	245,357	1,249,565	939,212	-	-	53,854	413,602	68,124	2,969,714
Unrealized gains (losses)	4,439,695	4,206,295	(255,312)	(860,366)	10,580,115	166,533	4,213,257	190,434	22,680,651
Realized gains (losses)	-	296,162	-	957,591	-	123,606	(5,791)	33,983	1,405,551
Purchases	9,739,888	1,855,181	11,867,282	-	-	-	788,015	69,787	24,320,153
Sales	-	(4,138,355)	(817,856)	(2,062,859)	(5,879,879)	(104,930)	(3,102,903)	(581,233)	(16,688,015)
Fees	(388,881)	(42,711)	(447,360)	-	(1,385,635)	(28,001)	(388,068)	(10,655)	(2,691,311)
Balance, June 30,									
2014	35,199,674	23,256,901	11,285,966	-	67,341,383	2,413,459	27,535,138	2,158,118	169,190,639
Dividend and interest									
income, net	289,821	1,150,903	1,513,760	-	-	60,015	211,417	50,680	3,276,596
Unrealized gains (losses)	4,165,620	(5,646,593)	(331,290)	-	393,058	(84,207)	1,818,468	(141,845)	173,211
Realized gains (losses)	-	(275,390)	-	-	-	93,958	(995,846)	118,981	(1,058,297)
Purchases	10,000,666	2,661,379	3,701,704	-	-	-	4,000,436	288,490	20,652,675
Sales	-	(3,070,298)	-	-	(411,251)	(111,850)	(9,671,848)	(137,121)	(13,402,368)
Transfer to Level 1	-	-	-	-	-	-	(7,204,400)	-	(7,204,400)
Fees	(418,848)	(286,864)	(170,227)	-	(301,297)	(23,831)	(302,626)	(11,444)	(1,515,137)
Balance, June 30,									
2015	\$ 49,236,933	\$ 17,790,038	\$ 15,999,913	\$ -	\$ 67,021,893	\$ 2,347,544	\$ 15,390,739	\$ 2,325,859	\$ 170,112,919

# MILTON ACADEMY

## Notes to Consolidated Financial Statements

### Note 4 - Fair Values of Financial Instruments (Continued)

During 2015, a private equity venture capital investment that was previously reported as a Level 3 investment became a publicly-traded company on the London Stock and Exchange and has been transferred out of Level 3 to Level 1 as of June 30, 2015.

Unfunded commitments under various investment vehicles amounted to approximately \$20,862,000 at June 30, 2015.

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:

	2015		2014	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Bonds payable	\$ <u>48,520,000</u>	\$ <u>53,320,969</u>	\$ <u>49,020,000</u>	\$ <u>53,608,000</u>

### Note 5 - Property, Plant and Equipment

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

	2015	2014
Land	\$ 367,817	\$ 367,817
Land improvements	5,923,747	5,784,159
Buildings and improvements	126,379,028	123,755,587
Equipment	7,381,828	7,070,928
Construction in progress	973,199	927,033
	<u>141,025,619</u>	<u>137,905,524</u>
Less: accumulated depreciation	<u>89,981,552</u>	<u>85,671,002</u>
	\$ <u>51,044,067</u>	\$ <u>52,234,522</u>

During the years ended June 30, 2015 and 2014, the Academy retired property, plant and equipment with book values of \$708,453 and \$1,111,548, respectively, and recognized a loss on disposal of \$33,517 and \$32,847, respectively, which is recorded in depreciation expense on the consolidated statements of activities and changes in net assets. The Academy also wrote off \$5,140 and \$620 from construction in progress on June 30, 2015 and 2014, respectively, 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>2015</i>	<i>2014</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 .19% and .15% at June 30, 2015 and 2014, respectively.	13,355,000	13,855,000
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.	<div style="text-align: right;"> <u>9,610,000</u>                      48,520,000                 </div>	<div style="text-align: right;"> <u>9,610,000</u>                      49,020,000                 </div>
Unamortized premium	910,568	947,734
Unamortized bond discount and issuance costs, net	<div style="text-align: right;"> <u>(613,273)</u> </div>	<div style="text-align: right;"> <u>(641,903)</u> </div>
<b>Bonds payable, net</b>	<div style="text-align: right;"> <u><u>\$ 48,817,295</u></u> </div>	<div style="text-align: right;"> <u><u>\$ 49,325,831</u></u> </div>

The Bonds are subject to optional, special, and mandatory sinking fund redemption prior to maturity. The Bonds are supported by a pledge 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 2015 and 2014, the Academy was in compliance with its debt covenants.

Mandatory annual principal payments on bonds payable do not begin until 2019. However, during 2015 and 2014, the Academy repaid \$500,000 and \$275,000, respectively, 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 March 2019. Under the arrangement, the Academy has provided a pledge 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 60 basis points per annum.

# MILTON ACADEMY

## *Notes to Consolidated Financial Statements*

### *Note 7 - Derivative Instruments*

The Academy uses interest rate swaps to mitigate exposure to interest rate risk through 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.

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, 2015, 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, 2015:

<i>Notional Amount</i>	<i>Termination Date</i>	<i>Interest Rate Received</i>	<i>Interest Rate Paid</i>	<i>Fair Value</i>
\$ <u>5,755,000</u>	January 2020	USD Libor BAA (0.15%)	3.903%	\$ <u>601,859</u>

The Academy had the following swaps outstanding at June 30, 2014:

<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 (0.15%)	2.936%	\$ 93,371
<u>5,755,000</u>	January 2020	USD Libor BAA (0.15%)	3.903%	<u>675,560</u>
\$ <u>11,510,000</u>				\$ <u>768,931</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>2015</i>	<i>2014</i>
Unrestricted net assets:		
Unrestricted	\$ 1,495,377	\$ 1,505,487
Designated for endowment	<u>3,307,392</u>	<u>3,106,005</u>
<b>Total unrestricted net assets</b>	<b><u>4,802,769</u></b>	<b><u>4,611,492</u></b>
Temporarily restricted net assets:		
Restricted for endowment	1,463,338	1,365,131
Restricted for pledges	<u>46,016</u>	<u>35,906</u>
<b>Total temporarily restricted net assets</b>	<b><u>1,509,354</u></b>	<b><u>1,401,037</u></b>
Permanently restricted net assets:		
Endowment funds	<u>884,708</u>	<u>884,658</u>
<b>Total net assets</b>	<b><u>\$ 7,196,831</u></b>	<b><u>\$ 6,897,187</u></b>

# 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 2015 and 2014, 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>2015</i>	<i>2014</i>
Instruction	\$ 36,826,499	\$ 35,124,086
Administration	15,548,426	14,341,512
Fundraising	<u>2,820,886</u>	<u>2,812,177</u>
	<b>55,195,811</b>	<b>52,277,775</b>
Unrealized gain on interest rate swap contract	<u>(167,072)</u>	<u>(188,405)</u>
	<b><u>\$ 55,028,739</u></b>	<b><u>\$ 52,089,370</u></b>

### *Note 10 - Net Assets and Endowment Matters*

#### *Unrestricted Net Assets*

Unrestricted net assets are comprised of the following at June 30 2015 and 2014:

***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.



# MILTON ACADEMY

## *Notes to Consolidated Financial Statements*

### *Note 10 - Net Assets and Endowment Matters (Continued)*

#### *Temporarily Restricted Net Assets*

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

***Accumulated unspent gains*** – In accordance with accounting principles generally accepted in the United States of America 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.

	<b>2015</b>	<b>2014</b>
Accumulated unspent gains:		
Academic	\$ 72,644,124	\$ 71,699,201
Construction	1,241,166	1,237,594
Multiple use	485,137	442,748
Library	21,501,413	21,470,855
Operations	1,463,338	1,365,131
Unrestricted purpose	3,359,746	3,769,320
Scholarships	28,201,389	27,480,143
Pending designation	1,394,021	1,276,780
	<b>130,290,334</b>	<b>128,741,772</b>
Purpose restricted gifts:		
Academic	1,103,289	874,203
Annuity	1,247,586	1,199,455
Construction	1,104,646	114,030
Contribution receivable	1,509,837	1,697,064
Operations	614,277	499,525
Scholarships	197,694	267,694
Pending designation	354,804	230,076
	6,132,133	4,882,047
<b>Temporarily restricted net assets</b>	<b>\$ 136,422,467</b>	<b>\$ 133,623,819</b>

# MILTON ACADEMY

## *Notes to Consolidated Financial Statements*

### *Note 10 - Net Assets and Endowment Matters (Continued)*

#### *Permanently Restricted Net Assets*

Permanently restricted net assets are amounts restricted by donors against any expenditure of principal. Substantially all income earned is to be used for the specific purpose indicated by the donor and is recorded in temporarily restricted net assets until appropriated for expenditure. Principal net assets are comprised of the following at June 30:

	<i>2015</i>	<i>2014</i>
Academic	\$ 45,043,732	\$ 43,065,379
Construction	1,164,573	1,163,472
Multiple use	1,173,722	1,117,649
Library	7,054,219	7,033,873
Operations	884,708	884,658
Unrestricted purpose	7,146,572	6,444,847
Pending designation	6,119,136	4,762,202
Scholarships	27,657,016	24,243,432
Contribution receivable	<u>13,176,230</u>	<u>7,818,300</u>
<b>Permanently restricted net assets</b>	<b><u>\$ 109,419,908</u></b>	<b><u>\$ 96,533,812</u></b>

# 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:

	<b>2015</b>	<b>2014</b>
Spending policy releases:		
Academic	\$ 4,665,978	\$ 4,281,731
Construction	113,525	101,626
Library	1,395,230	1,309,064
Scholarships	2,514,157	1,858,094
Multiple use	65,234	33,686
Other	218,161	9,824
Operations	<u>323,020</u>	<u>692,070</u>
Subtotal	<u>9,295,305</u>	<u>8,286,095</u>
Satisfaction of operating purpose restrictions:		
Academic	176,267	801,271
Construction	335,885	273,845
Scholarships	105,000	68,251
Operations	<u>541,739</u>	<u>339,992</u>
Subtotal	<u>1,158,891</u>	<u>1,483,359</u>
<b>Total net assets released from restrictions</b>	<b><u><u>\$ 10,454,196</u></u></b>	<b><u><u>\$ 9,769,454</u></u></b>

# 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 year ended June 30, 2015. The unrestricted balance represents board designated endowment funds and the temporarily restricted and permanently restricted balances represent donor-restricted endowment funds.

<i>2015</i>	<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	\$ 36,703,206	\$ 128,741,772	\$ 88,715,512	\$ 254,160,490
Contributions	377,964	115,341	7,305,551	7,798,856
Reclassifications	(31,860)	(115,341)	147,201	-
	<u>346,104</u>	<u>-</u>	<u>7,452,752</u>	<u>7,798,856</u>
Investment return:				
Interest and dividends, net of investment expenses	290,789	1,735,019	12,354	2,038,162
Realized and unrealized gains, net	1,484,298	9,108,848	63,060	10,656,206
Total investment return	<u>1,775,087</u>	<u>10,843,867</u>	<u>75,414</u>	<u>12,694,368</u>
Expenditures:				
Net releases	9,295,305	(9,295,305)	-	-
Amounts appropriated for expenditure for operations	(9,191,416)	-	-	(9,191,416)
Other expenditures	(1,316,582)	-	-	(1,316,582)
	<u>908,498</u>	<u>1,548,562</u>	<u>7,528,166</u>	<u>9,985,226</u>
Change in endowment assets and those functioning as endowment assets	<u>908,498</u>	<u>1,548,562</u>	<u>7,528,166</u>	<u>9,985,226</u>
<b>Endowment assets and those functioning as endowment assets, at end of year</b>	<b><u>\$ 37,611,704</u></b>	<b><u>\$ 130,290,334</u></b>	<b><u>\$ 96,243,678</u></b>	<b><u>\$ 264,145,716</u></b>

# 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 year ended June 30, 2014. The unrestricted balance represents board designated endowment funds and the temporarily restricted and permanently restricted balances represent donor-restricted endowment funds.

<b>2014</b>	<b>Unrestricted Net Assets</b>	<b>Temporarily Restricted Net Assets</b>	<b>Permanently Restricted Net Assets</b>	<b>Total</b>
Endowment assets and those functioning as endowment assets, at beginning of year	\$ 25,494,448	\$ 104,151,488	\$ 84,525,075	\$ 214,171,011
Contributions	6,868,657	(538,801)	4,548,480	10,878,336
Reclassifications	101,288	492,280	(593,568)	-
	<u>6,969,945</u>	<u>(46,521)</u>	<u>3,954,912</u>	<u>10,878,336</u>
Investment return:				
Interest and dividends, net of investment expenses	82,045	559,691	4,004	645,740
Realized and unrealized gains, net	4,744,256	32,363,209	231,521	37,338,986
Total investment return	<u>4,826,301</u>	<u>32,922,900</u>	<u>235,525</u>	<u>37,984,726</u>
Expenditures:				
Net releases	8,286,095	(8,286,095)	-	-
Amounts appropriated for expenditure for operations	(8,588,667)	-	-	(8,588,667)
Other expenditures	(284,916)	-	-	(284,916)
	<u>(8,588,667)</u>	<u>-</u>	<u>-</u>	<u>(8,588,667)</u>
Change in endowment assets and those functioning as endowment assets	<u>11,208,758</u>	<u>24,590,284</u>	<u>4,190,437</u>	<u>39,989,479</u>
<b>Endowment assets and those functioning as endowment assets, at end of year</b>	<b>\$ <u>36,703,206</u></b>	<b>\$ <u>128,741,772</u></b>	<b>\$ <u>88,715,512</u></b>	<b>\$ <u>254,160,490</u></b>

### Endowment

The Academy's endowment consists of approximately 400 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.

# MILTON ACADEMY

## *Notes to Consolidated Financial Statements*

### *Note 10 - Net Assets and Endowment Matters (Continued)*

#### *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) subsequent gifts donated to the permanent endowment, and (c) accumulations made in accordance with the direction of the applicable donor gift instrument. 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.

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 4.65% 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 approximately \$9,191,000 and \$8,588,000 for the years ended June 30, 2015 and 2014, respectively. Investments excluded from the calculation of the spending policy include those of the Mountain School and funds that are less than three years old. Budgeted appropriations for the year ending June 30, 2016 are \$10,013,000.

#### *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. There were no funds with deficiencies at June 30, 2014 and 2015.

#### *Strategies Employed for Achieving Objectives*

The Academy's investment portfolio is managed for the long term designed to meet cash flow and funding requirements. The management is designed to attain maximum return consistent with acceptable and agreed upon levels of risk. 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) exceed the spending/payout rate plus inflation. 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 and College Retirement Equities Fund (TIAA-CREF) based on participant elections. The Academy’s expense under the Plan was \$1,657,804 and \$1,553,279 for the years ended June 30, 2015 and 2014, 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 one of its top administrators. Employer contributions totaled \$17,500 for the years ended June 30, 2015 and 2014.

### ***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.

#### ***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, 2018 or unless terminated by either party under the terms of the agreement.

### ***Note 13 - Cash Flows Information***

Cash paid for interest totaled \$2,113,965 and \$2,195,848 for the years ended June 30, 2015 and 2014, respectively.

Non-cash investing activities include \$19,609 and \$545,789 of capital assets not yet paid as of June 30, 2015 and 2014, respectively.