THE HILL SCHOOL

FINANCIAL STATEMENTS AND
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

JUNE 30, 2017

THE HILL SCHOOL

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CERTIFIED PUBLIC ACCOUNTANTS

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The Board of Trustees
The Hill School
Pottstown, Pennsylvania

We have audited the accompanying financial statements of The Hill School which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, and of cash flows for the year then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 financial statements are free of material misstatement.

An audit includes performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Hill School as of June 30, 2017, and the changes in its net assets, and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information
We have previously audited The Hill School's 2016 financial statements and our report dated September 23, 2016 expressed an unqualified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Tait, Weller & Baker LLP

TAIT, WELLER & BAKER LLP

Philadelphia, Pennsylvania
September 25, 2017

THE HILL SCHOOL

STATEMENTS OF FINANCIAL POSITION

June 30, 2017 And 2016

	2017	2016
ASSETS		
ASSETS		
Cash and cash equivalents	$ 9,724,975	$ 8,675,730
Accounts receivable	111,371	115,593
Contributions receivable	8,823,359	9,104,522
Inventories	93,349	104,893
Prepaid expenses and income receivable	235,930	286,204
Investments	166,099,198	149,905,784
Property, furniture and equipment	60,549,189	60,927,274
Other assets	437,276	485,053
Total assets	$ 246,074,647	$ 229,605,053
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	$ 949,802	$ 684,297
Accrued salaries, benefits and other expenses	1,482,900	1,953,273
Deposits and advance tuition	3,247,417	3,579,336
Bonds and other notes payable - current	375,000	870,000
Annuity and trust obligations	1,167,021	1,090,326
Deferred revenue on pooled income funds	221,094	231,358
Capital lease obligation	67,969	143,613
Bonds and other notes payable	31,925,616	32,294,244
Total liabilities	39,436,819	40,846,447
NET ASSETS		
Unrestricted		
Functioning as endowment and other	42,384,327	37,314,654
Invested in property	28,180,604	27,615,081
Total unrestricted	70,564,931	64,929,735
Temporarily restricted	77,655,891	66,152,602
Permanently restricted	58,417,006	57,676,269
Total net assets	206,637,828	188,758,606
Total liabilities and net assets	$ 246,074,647	$ 229,605,053

THE HILL SCHOOL

STATEMENT OF ACTIVITIES

Year Ended June 30, 2017 With Summarized Information For 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	TOTALS 2017	TOTALS 2016
Revenues, gains and other support					
Tuition and student fees	$26,831,050	$ -	$ -	$ 26,831,050	$ 25,160,075
Less: Financial Aid	(7,340,630)	-	-	(7,340,630)	(6,970,530)
	19,490,420	-	-	19,490,420	18,189,545
Contributions	3,892,555	4,381,740	729,898	9,004,193	12,818,354
Investment return designated for current operations	5,637,433	861,567	-	6,499,000	6,198,000
Other investment income	190,536	-	-	190,536	35,906
Store operations	165,695	-	-	165,695	146,851
Other sources	898,607	-	-	898,607	1,160,991
Net assets released from restrictions	2,591,270	(2,591,270)	-	-	-
Total revenues, gains and other support	32,866,516	2,652,037	729,898	36,248,451	38,549,647
Expenses					
Program services					
Instructional	20,392,250	-	-	20,392,250	19,593,728
Store operations	219,964	-	-	219,964	199,634
Food service	2,147,670	-	-	2,147,670	2,241,930
Total program services	22,759,884	-	-	22,759,884	22,035,292
Supporting services					
General and administration	6,884,808	-	-	6,884,808	6,538,438
Fund raising	3,579,856	-	-	3,579,856	3,587,180
Total supporting services	10,464,664	-	-	10,464,664	10,125,618
Total expenses	33,224,548	-	-	33,224,548	32,160,910
Excess (deficit) of revenue over expenses	(358,032)	2,652,037	729,898	3,023,903	6,388,737
Other changes					
Investment return in excess (deficit) of amounts designated for current operations	6,078,085	8,907,335	-	14,985,420	(10,078,906)
Actuarial loss on annuity obligations and life income funds	(84,148)	(45,953)	-	(130,101)	(77,747)
Gain on extinguishment of debt	-	-	-	-	447,824
Transfer of restricted endowment funds, net	(709)	(10,130)	10,839	-	-
Change in net assets	5,635,196	11,503,289	740,737	17,879,222	(3,320,092)
Net assets					
Beginning of year	64,929,735	66,152,602	57,676,269	188,758,606	192,078,698
End of year	$70,564,931	$ 77,655,891	$58,417,006	$206,637,828	$188,758,606

THE HILL SCHOOL

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2017 And 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 17,879,222	$ (3,320,092)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation and amortization	3,568,584	3,512,075
Net unrealized and realized (gains) losses on investments	(20,933,696)	4,522,309
Contributions restricted for long-term investments	(729,898)	(3,157,127)
Gain on early extinguishment of debt	-	(447,824)
Changes in assets and liabilities		
Accounts receivable	4,222	100,711
Contributions receivable	281,163	(1,576,270)
Inventories	11,544	8,215
Prepaid expenses and income receivable	50,274	(2,458)
Other assets	47,777	21,012
Accounts payable	265,505	(4,482)
Accrued expenses and other liabilities	(470,373)	(300,700)
Deposits and advance tuition	(331,919)	478,730
Deferred revenue	(10,264)	(10,169)
Net cash flows used in operating activities	(367,859)	(176,070)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, furniture and equipment	(3,183,447)	(4,004,149)
Change in money market funds	(6,621,748)	848,270
Proceeds from sale of investments	26,100,549	11,408,683
Purchase of investments	(14,661,824)	(8,007,918)
Net cash flows provided by investing activities	1,633,530	244,886
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from contributions restricted for long-term investment	729,898	3,157,127
Cash restricted	-	21,366,125
Bond issuance costs	(680)	(3,292)
Repayment of long term debt	(870,000)	(21,595,000)
Repayments of capital lease obligation	(75,644)	(109,643)
Net cash flows provided by (used in) financing activities	(216,426)	2,815,317
Increase in cash and cash equivalents	1,049,245	2,884,133
CASH AND CASH EQUIVALENTS		
Beginning of year	8,675,730	5,791,597
End of year	$ 9,724,975	$ 8,675,730
SUPPLEMENTAL DISCLOSURE		
Interest paid	$ 1,001,342	$ 1,287,551

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION

The Hill School is an independent college preparatory school located in Pottstown, Pennsylvania for boarding and day students in grades nine through twelve.

ACCOUNTING 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 that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The School's estimates primarily relate to allowances for uncollectibles, depreciation and the legal contingencies.

CASH AND CASH EQUIVALENTS

The School considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

CONCENTRATION OF CREDIT RISK

The School's principal financial instruments subject to credit risk are its cash, investments, and receivables. The School maintains deposits in excess of federally insured limits. Such deposits are identified as a concentration of credit risk requiring disclosure, regardless of the degree of risk. The risk is managed by monitoring the financial institutions in which deposits are made.

The investments are managed by professional investment managers subject to the School's investment policy or are invested in major mutual funds. The degree and concentration of credit risk varies by the type of investment.

Receivables result primarily from tuition and fees, student loans, and unconditional promises to give excluding annual fund contributions, which are from individuals.

ACCOUNTS RECEIVABLE

The School's accounts receivable are primarily for tuition and fees from individuals less management's estimate of an allowance for uncollectible accounts.

CONTRIBUTIONS RECEIVABLE

These amounts, less an appropriate allowance for uncollectible accounts and a present value discount, are recorded at their estimated fair value.

INVESTMENTS

Investments in marketable securities are carried at market value in the accompanying financial statements. Gains and losses are computed based upon the average costs.

The School's investments also include limited partnership interests in private equity and real estate partnerships and certain other funds whose underlying investments are comprised of other funds, partnerships and trusts. These funds invest in both funds and/or securities that include both publicly traded investments as well other investments that do not have readily ascertainable market values. Certain of the School's interests may also be subject to withdrawal restrictions. The underlying investments within the funds primarily include arbitrage, distressed companies, and real estate.

The general partners of the funds that hold certain nonmarketable investments initially value these investments held by the funds at cost. They require that changes in value be established by meaningful third-party transactions or a significant development in the financial condition or operating performance of the issuer. To the extent that the funds hold marketable securities in the underlying partnerships or funds, the general partners of the funds value the investments in these funds based upon the quoted market values as provided by the general partners or fund managers of the underlying funds. The School values its investment in such funds in accordance with valuations provided by the general partners of the funds. The School's management may, in addition, consider other factors in assessing the fair value of these investments.

Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is possible that changes in the values of investment securities could occur in the near term and that such changes could materially affect the investment balances and activity reflected in the financial statements.

INVENTORIES

Inventories are stated at lower of cost or market which is determined by the first-in, first-out method and consists primarily of books, athletic supplies, laptop computers for student rental, food and printed materials.

PROPERTY, FURNITURE AND EQUIPMENT

Property, furniture and equipment are recorded at cost, or at fair market value at the date of donation in the case of gifts.

The School capitalizes all major purchases of property, furniture and equipment. Individual and group acquisitions of property, furniture, and equipment in excess of $5,000 are capitalized. Assets are depreciated over the estimated useful life of the asset using the straight-line method. Asset lives used by the School are: 50 years for buildings, 20 and 10 years for major building improvements, 10 years for land improvements and minor building improvements and either 3, 5 or 10 years for furnishings and fixtures. The School capitalizes all major purchases or donated works of art. These works of art are held for public exhibition and are not depreciated.

DEFERRED FINANCING COSTS

Deferred financing costs include original issue discount, bond issue insurance, underwriters commission and other direct costs associated with the issuance of the 2002 and 2015 bonds and 2008 bank debt. The deferred financing costs are being amortized over the term of the bond issue using the interest method.

NET ASSETS

The School's net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the School and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the School and/or the passage of time and market gains from invested permanently restricted net assets which have not been expended. Use of realized gains is limited annually under state law.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the School. Generally, the donors of these assets permit the School to use all or part of the income earned on related investments for general or specific purposes.

LIFE INCOME AGREEMENTS

The funds held subject to life income provisions include amounts held subject to the payment to life beneficiaries of stated amounts in the case of annuities and income distributions for charitable remainder trust and pooled income participants. On maturity, the remainder interests revert to the School.

The actuarial valuations of the annuities are recorded as annuity obligations. The present value of the annuities was determined using a discount rate of 5%.

CONTRIBUTIONS

The School records unconditional promises to give (pledges), excluding annual fund contributions, as a receivable and revenue in the year pledged, net of the discount to present value of the future cash flows. Gifts of cash and other assets are reported as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose of the restriction is accomplished, temporarily restricted net assets are then classified to unrestricted net assets and reported in the statement of activities as ***"net assets released from restrictions."***

FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

INCOME TAXES

The School is a non-profit organization which has been determined by the Internal Revenue Service to be exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code.

Management has reviewed the tax positions for each of the open tax years (June 30, 2014 – June 30, 2016) or expected to be taken in the School's tax return for the year ending June 30, 2017 and has concluded that there are no significant uncertain tax positions that would require recognition in the financial statements.

NEW ACCOUNTING STANDARDS

In April 2015, the FASB issued ASU 2015-03, *Interest – Imputation of Interest (Topic 835-30): Simplifying the Presentation of Debt Issuance Costs*. This ASU was issued as a result of feedback received relating to the different balance sheet presentation requirements for debt issuance costs and debt discounts and premiums. To simplify presentation of debt issuance costs, the amendments in this ASU require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU. ASU 2015-03 is effective for the School's fiscal year beginning July 1, 2016; early adoption was permitted for financial statements that have not been previously issued. The School elected to adopt the guidance for the fiscal year beginning July 1, 2016. The guidance is retrospective and the adoption of ASU 2015-03 did not have a significant impact on the School's financial position or results of operations. The adoption of ASU 2015-03 caused the deferred debt issuance costs previously reported in the June 30, 2016 statement of financial position to decrease by $535,946 and the long-term debt to decrease by $535,946.

In May 2015, the FASB issued ASU 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent)*. This ASU was issued to address the diversity in practice relating to how certain investments measured at net asset value are categorized in the fair value hierarchy. The amendments in ASU 2015-07 remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. ASU 2015-07 also removes the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. ASU 2015-07 is effective for the School's fiscal year beginning July 1, 2017; early adoption is permitted. The School elected to adopt the guidance for the fiscal year beginning July 1, 2016. The guidance is retrospective, and the adoption of this ASU impacted disclosures related to investments.

PRIOR YEAR INFORMATION

The financial statements include certain prior-year summarized comparative information in total but not by net asset category. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the School's financial statements for the year ended June 30, 2016 from which the summarized financial information was derived.

RECLASSIFICATIONS

Certain reclassifications were made to the 2016 financial statements to conform to the 2017 presentation.

(2) ACCOUNTS RECEIVABLE

Accounts receivable at June 30 are as follows:

	2017	2016
Receivable for tuition and fees	$ 211,370	$ 215,593
Allowance for uncollectible accounts	(100,000)	(100,000)
	$ 111,370	$ 115,593

(3) CONTRIBUTIONS RECEIVABLE

As of June 30, 2017 and 2016, contributors to the School have made unconditional promises to give as follows:

	2017	2016
Within one year	$ 3,987,126	$ 3,587,052
One to five years	5,574,266	6,613,509
Greater than five years *	345,848	330,647
Gross contributions receivable	9,907,240	10,531,208
Less: Present value discount	(649,656)	(871,110)
Less: Allowance for doubtful accounts	(434,225)	(555,576)
Total contributions receivable *	$ 8,823,359	$ 9,104,522

Contributions receivable as of June 30, consist of the following:

	2017	2016
Unrestricted	$ 257,838	$ 246,351
Temporarily restricted *	8,116,526	8,359,379
Permanently restricted	448,995	498,792
	$ 8,823,359	$ 9,104,522

**** Includes $345,333 and $329,647 in 2017 and 2016, respectively, of charitable remainder trusts.***

(4) INVESTMENTS

Investments at June 30 are comprised of the following:

	2017		2016	
	Market	Cost	Market	Cost
Money Market Funds	$ 11,076,945	$ 11,076,945	$ 4,447,758	$ 4,447,758
Bonds	4,436,857	3,863,147	4,510,629	3,863,147
Mutual Funds				
Equity	11,109,435	11,199,535	10,720,008	12,209,339
Bond	4,617,382	4,522,936	5,357,671	5,550,088
Pooled Fixed Income Funds	9,102,031	7,732,173	8,159,411	6,791,970
Pooled Equity Funds	63,896,975	34,888,441	61,180,056	38,534,087
Private Equity and Real Estate Partnerships	61,859,573	57,190,881	55,530,251	55,359,074
	$ 166,099,198	$ 130,474,058	$ 149,905,784	$ 126,755,463

The relationship between cost and market value of investments in as follows as of June 30, 2017:

	Cost	Market Value	Excess Of Market Over Cost
Balance at end of year	$ 130,474,058	$ 166,099,198	$ 35,625,140
Balance at beginning of year	$ 126,755,463	$ 149,905,784	23,150,321
Change in unrealized depreciation			12,474,819
Realized net gain for year			8,458,877
Total net gain for year			$ 20,933,696

The average annual yields exclusive of net gains and losses were .86% and .87% and the annual total returns were 14.11% and (2.06%) based on market value for the years ended June 30, 2017 and 2016, respectively.

The School has pooled its investments, including unrestricted net assets designated for investment and permanently restricted net assets. The School uses the total return concept in accounting for its pooled investment funds. Under the total return method, investments are recorded at market value and the Board of Trustees annually determines a spending percentage based on a five-year rolling average of the total market value of the pooled investment funds by which the School can expend not only income but a prudent portion of the appreciation of the principal. The determination of the endowment draw is based on several factors including past performance and future expected performance of the investments and the School's financial needs. If the endowment draw amount exceeds the actual earnings of the pooled Investment Funds in any one year, then the amount needed to fund such excess will first be taken from the accumulated excess earnings from prior years, and, conversely, any undistributed income after the allocation of the spending rate amount is added back to the accumulated excess earnings in the appropriate net asset category.

Commonwealth of Pennsylvania law stipulates that realized and unrealized gains on endowment assets may be expended for the purposes stipulated by the donors only to the extent that the total of such expenditures, including dividends and interest and less fees, do not exceed 7% of the average of the three most recent fiscal years' fair values of the permanently restricted endowment assets. The School has authorized the release of 4.75% and 4.80% from temporary restricted net assets to unrestricted net assets for each of the years ended June 30, 2017 and 2016, respectively. Realized and unrealized gains in excess of the annual limitation would be included in the statements of activities as increases in the temporarily restricted net assets. Such temporarily restricted amounts may be released to unrestricted net assets in future years based on authorization by the School only to the extent of the 7% limitation applicable to the year in which they are to be released.

The following schedule summarizes the investment return on the endowment investments and its classification in the statement of activities:

	Unrestricted	Temporarily Restricted	June 30, 2017 Total	June 30, 2016 Total
Interest and dividends (net of expenses of $470,005 and $590,563, respectively)	$ 218,503	$ 579,949	$ 798,452	$ 670,215
Net realized gains	2,079,987	5,994,401	8,074,388	1,065,564
Net unrealized gains (losses)	3,583,186	9,028,394	12,611,580	(5,616,685)
Return on long-term investments	5,881,676	15,602,744	21,484,420	(3,880,906)
Investment performance on accumulated deficit balances	1,039,691	(1,039,691)	-	-
Investment return designated for current operations*	(843,282)	(5,655,718)	(6,499,000)	(6,198,000)
Investment return in excess of amounts designated for current operations	$ 6,078,085	$ 8,907,335	$ 14,985,420	$ (10,078,906)

* Reconciliation to Statement of Activities	Unrestricted	Temporarily Restricted	June 30, 2017 Total
Investment return designated for current operations per above	$ 843,282	$ 5,655,718	$ 6,499,000
Investment return – permanent endowment income restricted as to use	4,794,151	(4,794,151)	-
Per Statement of Activities – investment return	$ 5,637,433	$ 861,567	$ 6,499,000

The School utilized various methods to measure the fair value of its investments on a recurring basis. Generally accepted accounting principles establish a hierarchy that prioritize inputs to valuation methods. The three levels of the fair value hierarchy are described below:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities that the School has the ability to access.

Level 2 – Observable inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These inputs may include quoted prices for the identical instrument on an inactive market, prices for similar instruments, interest rates, prepayment schedules, credit risk, yield curves, default rates and similar data.

Level 3 – Unobservable inputs for the asset or liability, to the extent relevant observable inputs are not available, representing the School's own assumptions about the assumptions a market participant would use in valuing the asset or liability, and would be based on the best information available.

The inputs methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

INVESTMENTS MEASURED USING THE NET ASSET VALUE PRACTICAL EXPEDIENT

For those investments for which fair value is measured using the net asset value practical expedient, the School uses the reported capital account or net asset value (NAV) per share to determine the fair value of investments that (a) do not have a readily determinable fair value due to a lack of market activity or transparency into the underlying investments of the fund and (b) either have the attributes of an investment company or prepare their audited financial statements consistent with the measurement principals of an investment company. Valuations of underlying assets which comprise the capital account or NAV per share are provided by the general partner or fund manager and consider variables such as comparable sales, income streams discounted for risk levels and other pertinent information.

The summary of inputs used to value the School's investments as of June 30, 2017 and 2016 is as follows:

	2017			
	Level 1	**Level 2**	**Level 3**	**Total**
Money Market Funds	$ 11,076,945	$ -	$ -	$ 11,076,945
Bonds	4,436,857	-	-	4,436,857
Mutual Funds				
Equity	11,109,435	-	-	11,109,435
Bond	4,617,382	-	-	4,617,382
	$ 31,240,619	$ -	$ -	31,240,619
Alternative Investments reported at net asset value				134,858,579
Total Investments				$ 166,099,198

	2016			
	Level 1	**Level 2**	**Level 3**	**Total**
Money Market Funds	$ 4,447,758	$ -	$ -	$ 4,447,758
Bonds	4,510,629	-	-	4,510,629
Mutual Funds				
Equity	10,720,008	-	-	10,720,008
Bond	5,357,671	-	-	5,357,671
	$ 25,036,066	$ -	$ -	25,036,066
Alternative Investments reported at net asset value				124,869,718
Total Investments				$ 149,905,784

Investments and unfunded commitments, by class, that do not have a readily determinable fair value, and the investment objective of each holding are as follows:

Class	Fair Value	# of Funds	Unfunded Commitment	Redemption Notice Period	Redemption Restriction
Private Equity **(a)**	$ 15,344,452	18	$11,221,977	Redemptions do not apply because they are closed-end limited partnerships	N/A
Real Estate **(b)**	4,681,551	8	4,080,218	Redemptions do not apply because they are closed-end limited partnerships.	N/A
Distressed Debt **(c)**	3,676,156	7	5,255,002	Redemptions do not apply because they are closed-end limited partnerships	N/A
Other **(d)**	111,156,420	15	1,153,812	Redemptions require 5 to 120 days of written notice except for two funds where redemptions do not apply	All or a part of the investment may be withdrawn
	$134,858,579		$21,711,009		

(a) Includes funds that invest in international private companies, early stage private companies and various private equity transactions through growth equity financing and leveraged buyouts.

(b) Includes funds that invest in income producing properties, publicly owned and privately owned real estate investments and a broad range of real estate related assets.

(c) Includes funds that invest in entities undergoing reorganization inside and outside federal bankruptcy law, companies undergoing debt restructurings, financially distressed companies, newly issued securities resulting from reorganizations and restructuring, and invests in the equity and debt obligations of middle market companies with the goal of obtaining control.

(d) Consists of 15 funds which invest in various private equity funds, hedge funds and partnerships managed by independent investment advisors. These funds seek to pursue an investment program consisting of performing restructuring debt, stressed debt, distressed debt, "special situation" and debt investments. These funds also invest in small-mid cap growth investments, emerging markets, commodities and absolute return – event driven investments.

(5) PROPERTY, FURNITURE AND EQUIPMENT

The following is a summary of property, furniture and equipment as of June 30:

	2017	2016
Land	$ 1,181,966	$ 1,181,966
Land improvements	6,984,264	6,906,248
Buildings and improvements	74,018,707	73,330,905
Furnishings and equipment	4,610,135	4,402,048
	86,795,072	85,821,167
Less accumulated depreciation	(30,519,756)	(27,642,066)
	56,275,316	58,179,101
Works of art	549,600	549,600
Construction in progress	3,724,273	2,198,573
	$ 60,549,189	$ 60,927,274

As of June 30, 2017, the School was unable to estimate the range of settlement dates and the related probabilities for certain asbestos remediation asset retirement obligations ***("AROs")***. These conditional AROs are primarily related to the asbestos that the School would remediate only if it performed major renovations of certain existing buildings. Because these conditional obligations have indeterminate settlement dates, the School could not develop a reasonable estimate of their fair values. The School will continue to assess its ability to estimate fair values at each future reporting date. The related liability will be recognized once sufficient additional information becomes available.

(6) LINE OF CREDIT

The School has a $2,000,000, unsecured, revolving line of credit which is payable on demand at the bank's discretion and expires January 31, 2018. Interest on the line of credit is variable at the greater of one-month LIBOR plus 1.50%, or 2.00%. Additionally, the line carries a .25% fee, payable quarterly, on the unused balance. There were no outstanding borrowings at June 30, 2017 or 2016.

(7) CAPITAL LEASE OBLIGATION

The School leases computer equipment, A/V equipment and digital signage under separate capital leases expiring in 2017 and 2018. The computer equipment, A/V equipment and digital signage under the capital leases are included in furnishings and equipment at a total cost of $484,314. Accumulated depreciation as of June 30, 2017 was $401,900.

Future minimum payments under these leases at June 30, 2017 are as follows:

Year Ended June 30,	Capital Lease
2018	$ 70,196
Less amount representing interest	(2,227)
	$ 67,969

(8) BONDS/NOTES PAYABLE

MONTGOMERY COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY REVENUE REFUNDING BONDS, SERIES OF 2005

$20,845,000 bonds which bore interest at 5.00% were due from August 15, 2025 to August 15, 2027. The bonds required the maintenance of financial and nonfinancial covenants and limited future borrowing based on percentage of unrestricted revenues. The School redeemed the bonds, in whole on August 15, 2015. The bonds were administered by a trustee who received the semi-annual interest requirement from the School for disbursement to the bond holders ("debt service funds"). Interest expense for the year ended June 30 2016 was $135,635. During the year ended June 30, 2016, the school recorded a gain of $447,824 on the early extinguishment of the bonds.

POTTSTOWN BOROUGH AUTHORITY EDUCATIONAL FACILITIES VARIABLE RATE DEMAND REVENUE BONDS, SERIES 2002

$7,000,000 (Bank-Qualified) bonds, which bear interest at a fixed rate, are due in minimal principal payments of varying amounts beginning on August 1, 2019 ($395,000), and thereafter on August 1st of each year through August 1, 2032 with a final payment of $620,000. As originally issued, the Bonds were variable rate bonds under the terms of which the School may elect a short-term, weekly interest rate, a flexible rate with a term from three to 270 days, or a long-term, fixed rate of one or more years. Prior to May 1, 2013, the bonds bore interest at the weekly interest rate and were secured by a direct-pay letter of credit issued by a commercial bank. Effective May 1, 2013, the bonds were purchased by the bank, and the terms were amended to add a bank interest rate, which is an initial fixed rate of 1.64% through April 30, 2018, and thereafter either (i) a new fixed rate for an additional five-year term as elected by the School and approved by the bank, or (ii) a floating rate based upon LIBOR. The bonds may be tendered by the bank for repurchase by the School on May 1, 2018, and each fifth year thereafter, upon 90 days prior written notice. While bearing interest at the bank interest rate, the bonds may be redeemed by the school, in whole or in part, at any time, at par plus, while the bonds bear interest at a fixed interest rate, a make-whole redemption premium. Interest expense on the bonds, including the letter of credit facility fee applicable for periods prior to May 1, 2013, for the years ended June 30, 2017 and 2016 was $120,152 and $120,008, respectively.

MONTGOMERY COUNTY HIGHER EDUCATION AND HEALTH AUTHORITY PROJECT REVENUE NOTE, SERIES OF 2008

Originally a $10,000,000 tax-exempt construction loan to be used to provide construction and permanent financing for the renovation of a student dormitory and construction of new faculty residences. The note has a thirty year term with an optional call provision by the bank on each fifth year anniversary. The note carried interest at 67% of the one-month LIBOR Rate plus 2.40% during the drawdown period. At the end of the construction period, after all proceeds have been disbursed, the School has the option to fix the interest rate. As of October 1, 2014, the School entered an agreement that amended the note so that it carries interest at 67% of the one-month LIBOR Rate plus .80%. Interest only is due in monthly installments until January 1, 2019 at which time monthly payments of interest and principal of varying amounts will begin with a final payment due on December 1, 2038. The loan requires financial and non-financial covenants. As of June 30, 2017 and 2016, $4,933,580 was outstanding and no further amounts will be borrowed by the School under this facility. Interest expense for the years ended June 30, 2017 and 2016 was $64,114 and $55,658, respectively.

MONTGOMERY COUNTY HIGHER EDUCATION AND HEALTH AUTHORITY PROJECT REVENUE REFUNDING BONDS, SERIES OF 2015

$20,735,000 bonds are due in varying payments annually beginning August 15, 2016 ($370,000) to August 15, 2035 ($775,000) with two final payments due August 15, 2040 and August 15, 2045 of $4,360,000 and $5,305,000, respectively. The bonds bear interest rates that vary from 2.00% to 5.00%, increasing during the term of the bonds due each year on February 15th and August 15th. The bonds were issued to finance the costs of refunding the current Montgomery County Industrial Development Authority Revenue Refunding Bonds, Series of 2005 and the expenses of issuing the bonds. The School can redeem the bonds due August 15, 2026 or after, in whole or in part, on or after August 15, 2025. Interest expense for the year ended June 30, 2017 and 2016 was $802,773 and $998,201, respectively

BRIDGE LOAN

On July 18, 2013, the School obtained a $2,000,000 bridge loan to provide interim financing for athletic field improvements and additions. Pledges have been raised to fund these projects and are expected to be collected over the next three years. Interest on the outstanding balance is variable and equal to 1.6% plus the 30-Day London Inter-Bank offering rate. A final payment of $500,000 was made July 16, 2016. As of June 30, 2016, $500,000 was outstanding. Interest expense for the year ended June 30, 2017 and 2016 was $756 and $10,941, respectively.

Total mandatory redemption payments under the School's long-term debt are as follows:

Year Ending June 30,	
2018	$ 375,000
2019	466,964
2020	954,355
2021	996,755
2022	1,039,155
2023 and thereafter	28,466,352
Bonds/notes payable at June 30, 2017, gross	32,298,581
Unamortized bond premium / discount / financing, net	2,035
Bonds/notes payable at June 30, 2017, net	32,300,616
Less current maturities	(375,000)
	$31,925,616
Bonds/notes payable at June 30, 2016, gross	$33,168,581
Unamortized bond premium / discount / financing, net	(4,337)
Bonds/notes payable at June 30, 2016, net	33,164,244
Less current maturities	(870,000)
	$32,294,244

(9) NET ASSETS

Temporarily restricted net assets at June 30, 2017 and 2016 are available for the following purposes or periods:

	2017		
	Unexpended Gains	Unexpended Gifts And Income	Total
Faculty salaries, benefits and development	$26,404,256	$ 162,842	$ 26,567,098
Financial aid	19,575,179	421,391	19,996,570
Capital improvements	1,750,757	6,229,046	7,979,803
Instructional	1,493,793	186,075	1,679,868
General purposes	6,595,228	5,865,781	12,461,009
Pooled income and remainder trust balances	-	855,017	855,017
Use in future periods – contributions	-	8,116,526	8,116,526
	$55,819,213	$ 21,836,678	$ 77,655,891

	2016		
	Unexpended Gains	Unexpended Gifts And Income	Total
Faculty salaries, benefits and development	$22,731,528	$ 118,090	$ 22,849,618
Financial aid	16,650,960	523,104	17,174,064
Capital improvements	1,363,492	3,519,354	4,882,846
Instructional	1,117,352	90,935	1,208,287
General purposes	5,471,603	5,342,775	10,814,378
Pooled income and remainder trust balances	-	864,031	864,031
Use in future periods – contributions	-	8,359,378	8,359,378
	$47,334,935	$ 18,817,667	$ 66,152,602

Permanently restricted net assets at June 30, 2017 and 2016 are available for the following purposes:

	2017	2016
Faculty salaries and benefits	$ 25,833,015	$ 25,733,514
Financial aid	17,097,626	16,959,360
Capital improvements	3,120,189	2,895,847
Instructional	4,045,192	4,032,492
General endowments	7,871,989	7,556,264
Use in future periods – contributions	448,995	498,792
	$ 58,417,006	$ 57,676,269

Included in unrestricted net assets at June 30, 2017 and 2016 are $43,498,786 and $38,658,201, respectively, of funds functioning as endowment funds. The fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the School to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported as unrestricted net assets were $227,671 and $1,267,362 as of June 30, 2017 and 2016, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of newly established endowments.

Endowment net asset composition by type of fund as of June 30, 2017 and 2016:

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (227,671)	$ 55,819,213	$57,968,011	$ 113,559,553
Funds functioning as endowment funds	43,726,457	4,919,717	-	48,646,174
Total Funds	$ 43,498,786	$ 60,738,930	$57,968,011	$ 162,205,727

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (1,267,362)	$ 47,334,935	$57,177,477	$ 103,245,050
Funds functioning as endowment funds	39,925,563	4,483,901	-	44,409,464
Total Funds	$ 38,658,201	$ 51,818,836	$57,177,477	$ 147,654,514

The Board of Trustees of the School has interpreted the relevant state law as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the School 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. Income earned on such gifts is classified as temporarily restricted until it is expended in accordance with State law and/or donor restrictions.

The School has adopted an Investment Policy Statement for endowment assets that provides a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. In addition to supporting a reasonable spending rate, the policy guidelines seek to control various risks, achieve performance benchmarks for the total endowment and for individual asset classes, and to ensure adequate liquidity to meet spending requirements, capital calls, and debt obligations. The portfolio is invested in public and private equities, fixed income securities, real estate, cash, and other alternative investments which provide a hedge against inflation. The Investment Committee evaluates actual endowment returns by using a policy index that reflects the overall asset allocation targets. The School seeks to sustain its spending policies and preserve purchasing power of endowment assets by achieving annual growth in value equal to the sum of the annual spending rate and the annual rate of inflation.

Changes in endowment net assets for the years ended June 30, 2017 and 2016:

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 38,658,201	$ 51,818,836	$ 57,177,477	$ 147,654,514
Investment return	5,881,676	15,602,744	-	21,484,420
Contributions	32,500	12,050	779,695	824,245
Transfers, net	(1,270,000)	709	10,839	(1,258,452)
Endowment income designated for current operations	(843,282)	(5,655,718)	-	(6,499,000)
Deficit balances in accumulated earnings	1,039,691	(1,039,691)	-	-
	$ 43,498,786	$ 60,738,930	$ 57,968,011	$ 162,205,727

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 43,636,580	$ 58,697,122	$ 53,167,382	$ 155,501,084
Investment return	(1,138,328)	(2,742,578)	-	(3,880,906)
Contributions	43,500	10,400	3,536,921	3,590,821
Transfers, net	(1,826,634)	(5,025)	473,174	(1,358,485)
Endowment income designated for current operations	(1,069,083)	(5,128,917)	-	(6,198,000)
Deficit balances in accumulated earnings	(987,834)	987,834	-	-
	$ 38,658,201	$ 51,818,836	$ 57,177,477	$ 147,654,514

Net assets were released from donor restrictions for the year ended June 30, 2017 by incurring expenses satisfying the temporarily restricted purposes or by occurrence of other events specified by the donors.

Financial aid	$ 249,294
Faculty salaries, benefits & development	272,219
Capital improvements	1,312,572
Instructional	152,896
Administration and other	604,289
	$2,591,270

(10) SPLIT-INTEREST AGREEMENTS

The School administers various charitable gift annuity, charitable remainder trusts and two pooled income funds (planned giving funds). These split-interest agreements provide for the payment of distributions to the grantor or other designated beneficiaries over the split-interest agreement term (usually the designated beneficiary's lifetime). At the end of the term, the remaining assets are available for the School's use. The portion of the split-interest agreement attributable to the present value of the future benefits to be received by the School is recorded in the Statement of Activities as unrestricted, temporarily or permanently restricted contributions, based on the donor's stipulation, in the period the split-interest agreement is funded. Assets held in the charitable split-interest agreements totaled $3,944,185 and $3,554,367 at June 30, 2017 and 2016, respectively, and are reported at fair market value in the School's Statement of Financial Position. On an annual basis, the School revalues the liability to make distributions to the designated beneficiaries based on actuarial assumptions. The present value of the estimated future payments to beneficiaries of $1,388,115 and $1,321,682 at June 30, 2017 and 2016, respectively, is calculated using a discount rate of 5% and applicable mortality tables.

(11) RETIREMENT AND POST-RETIREMENT PLANS

Retirement benefits are provided for full-time employees after 1 year of service or who have reached age 26 through direct payments to the employees individual accounts with the Teachers' Insurance and Annuity Association and the College Retirement Equity Fund (TIAA-CREF), a defined contribution plan. The School's policy with respect to its contribution is to provide between 2% and 10% of an eligible faculty member's salary and between 2% and 6% of a support staff member's salary. An additional 3% may be contributed should the employee match such percentage.

The School's pension expense for fiscal years ended June 30, 2017 and 2016 amounted to $1,162,954 and $1,094,435, respectively.

(12) COMMITMENTS

CAPITAL COMMITMENTS

The School has made commitments to invest in certain limited investment partnerships. As of June 30, 2017, the School had outstanding commitments of approximately $21,711,099. Future investments are to be made as determined by the General partners which are estimated by the School to be approximately $3,854,355 in fiscal 2017 and $17,856,655 in subsequent years. Funding of these investment commitments is expected to be from operating cash flow and sale of other investments.

OTHER COMMITMENTS

The School incurred approximately $157,000 and $109,000 of expenses related to operating leases for the years ending June 30, 2017 and 2016, respectively. Approximate future minimum payments under leases in excess of one year as of June 30, 2017, were as follows:

Year Ending June 30,	
2018	$144,124
2019	94,231
2020	52,523
2021	3,339
2022	3,872
	$298,089

The School also made commitments by entering into several capital improvement contracts in fiscal year 2017. As of June 30, 2017 the school had 13 contracts with outstanding commitments of approximately $3,041,000.

(13) RELATED PARTIES

During fiscal years 2017 and 2016 payroll service fees of approximately $21,000 and $23,000, respectively, were paid each year to a payroll company in which a family member of a former trustee is an owner.

(14) CONTINGENCIES

At June 30, 2017, the School is a party to certain lawsuits in the ordinary course of business. While any litigation has an element of uncertainty, after reviewing these actions with legal counsel, management is of the opinion that the liability, if any, resulting from these actions will not have a material effect on the financial condition of the School.

(15) SUBSEQUENT EVENTS

Subsequent events after the balance sheet date through the date that the financial statements were available for issuance, September 25, 2017, have been evaluated in the preparation of the financial statements.