

**CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK (I-Bank)
501(c)(3) REVENUE BOND FINANCING PROGRAM**

STAFF REPORT

EXECUTIVE SUMMARY

Applicant:	Marlborough School (Marlborough)	Amount Requested:	Not to exceed \$29,500,000
Applicant Description:	A California nonprofit public benefit corporation founded in 1889 which operates an independent urban day school for young women, grades 7 through 12. Located in the Hancock Park area of Los Angeles, Marlborough is committed to delivering a superior college preparatory education in an environment instilled with high ethical values to a diverse group of students.		
Type of Financing:	Tax-exempt obligation		
Project Description:	The project (Project), also known as the "Arden Project", involves the construction of a state-of-the art aquatic center, demolition of single family residences, expansion of a parking lot, construction of a security kiosk, expansion of an existing outdoor athletic field and the modernization of miscellaneous related construction projects.		
Project Site:	250 South Rossmore Ave., Los Angeles, CA 90004 (Los Angeles County)		
Plan of Finance:	The I-Bank will issue up to \$29.5 million in tax-exempt obligations in a private placement with First Republic Bank (the "Tax-Exempt Obligations"). The proceeds of the Tax-Exempt Obligations will be used to (1) refund obligations issued by the I-Bank pursuant to that certain Master Loan Agreement, dated as of June 1, 2008 and amended as of June 1, 2009 and amended again as of January 25, 2012 in the aggregate principal amount of approximately \$11 million (the "Prior Master Loan Agreement"), (2) provide up to \$5 million of long-term financing for the Project, (3) provide up to \$13 million in "bridge" financing for the Project and (4) funds costs of issuance up to \$500,000.		
Type of Issue:	Privately-placed fixed-rate securities with First Republic Bank		
Tax Status:	Tax-exempt obligation		
Term:	30 year long term financing and 15 year bridge financing		
Credit Enhancement:	None		
Credit Rating:	Unrated		
Fees:	App Fee \$1,500; Issuance Fee \$42,250; Annual Fee \$500 per year		
Est. Sources of Funds:		Est. Uses of Funds:	
Tax-Exempt Obligation Proceeds	\$29,500,000	Refund Existing Loan	\$11,000,000
		S/T Bridge Funds	\$13,000,000
		L/T Funds	5,000,000
		Costs of Issuance	500,000
TOTAL SOURCES	\$29,500,000	TOTAL USES	\$29,500,000
Financing Team:	Bond Counsel: Kutak Rock School Counsel: Squire Sanders Financial Advisor: George K Baum & Company Purchaser: First Republic Bank		
Public Benefits:	The financing will provide low-cost funds for the construction and improvements to the campus which include a new aquatic center, expansion of parking lot, security, expansion of outdoor athletic field, new walls and landscaping. The Project will help to serve the 544 currently enrolled students, and the state of the art facilities will serve its 32 athletic teams.		
Date of Board Meeting: April 4, 2014	Resolution Number: 14-02	Prepared by: John Belmont	
Staff Recommendation: Staff recommends approval of Resolution 14-02 authorizing the issuance of Tax-Exempt Obligations for an aggregate amount not to exceed \$29,500,000 for the benefit of Marlborough School.			

BACKGROUND AND HISTORY

Marlborough School (Marlborough), founded in 1889, is a California nonprofit public benefit corporation that operates an independent urban day school serving a diverse group of young women, grades 7 through 12, located in the Hancock Park area of Los Angeles.

Marlborough is committed to delivering a superior college preparatory education in an environment imbued with high ethical values to a diverse group of students. Originally established in Pasadena in 1889 as St. Margaret's School for Girls, Marlborough moved to Los Angeles in 1890, and adopted the name of its new location at the corner of Third Street and Marlborough Avenue.

Marlborough is considered one of the foremost college-preparatory schools in Los Angeles. Marlborough has a \$33.7 million endowment, which is the largest endowment per student among independent schools in Southern California. Recently, the Leadership in Learning Campaign has doubled the size of the Marlborough campus and has added Munger Hall, including a state of the art Academic Resource Center, visual arts center, and the Seaver Art Gallery.

Marlborough currently has an enrollment of 544 students with 18% receiving financial aid and an average grant size of \$20,389. The faculty consists of 54 full time staff and 24 part time staff. The tuition for 2013-2014 year is \$33,785. Student body is comprised of young women from the greater Los Angeles area. Students of color represent nearly 37.5% of the student body. Marlborough's 4,300 alumnae are well represented in business, education, law, medicine, government, and service to family and community, both locally and globally.

In the 1960s, Marlborough became a non-profit organization, governed by a Board of Trustees that began to plan for Marlborough's long-term future. During this time, a fledging endowment was formed and the campus was completely rebuilt to meet the needs of the growing student body.

Marlborough provides a learning environment where young women develop self-confidence, creativity, a sense of responsibility, and moral decisiveness. The educational program encourages students to discover their potential, to think critically, and to develop intellectual curiosity. Students learn to set priorities, develop decision-making skills, and value the process of the educational experience. Marlborough emphasizes the process of personal growth, encourage cooperation, and foster close association among members of the community to promote emotional, intellectual, and physical well-being.

Beyond the college preparatory curriculum, 32 athletic teams, and state-of-the-art facilities is the heart of Marlborough: the families, employees, alumnae, and friends truly embody the Marlborough Core Values of Community, Excellence, Confidence, and Honor. Marlborough is fully accredited by the Western Association of Schools and Colleges and California Association of Independent Schools.

Current Marlborough leadership is listed in Appendix A.

PROJECT DESCRIPTION

Proceeds of the Tax-Exempt Obligations will be used to pay the cost or reimburse the cost of the construction of a state-of-the art aquatic center, demolition of single family residences owned by the school, expansion of a parking lot, construction of a security kiosk, expansion of the existing outdoor athletic field and construction of miscellaneous related improvements that include new walls and landscaping (Project), and payment of issuance costs (see Appendix B--Project Diagram).

The Project, also known as the "Arden Project", consists of a Conditional Use Permit (CUP) approved by the City of Los Angeles in 1999 for phased improvements to Marlborough for various athletic and parking facilities, including new tennis courts, pool, and expansion of an outdoor athletic field. The Project has been partially completed, and Marlborough proposes to complete certain remaining improvements granted in the vested CUP.

The new aquatic facility will encapsulate an approximately 10,100 square foot building which will include approximately 8,500 square feet of usable space beneath the pool deck to be used for aquatic and athletic purposes, including but not limited to strength, training and conditioning facilities, restrooms, and storage of pool equipment and related items. The above grade portion of the new aquatic facility would feature four rows of bleacher seating. The structure would also serve as a sound attenuation wall to minimize noise.

Marlborough plans to demolish two single family residences it owns located at the southeast corner of the site in order to expand its existing surface parking lot, construct a new garden area immediately north of the expanded surface parking lot, and construct a new security kiosk near its primary vehicle entrance.

Finally, the Project will expand the existing outdoor athletic field to regulation size and construct miscellaneous related improvements that include new walls and landscaping around the perimeter of the campus.

The anticipated start of construction is June 2015 with an estimated completion date of Fall 2016.

FINANCING STRUCTURE

If the I-Bank Board grants its final approval of the issuance of Tax-Exempt Obligations for an aggregate amount not to exceed \$29,500,000 for the benefit of Marlborough School, the I-Bank will issue the Tax-Exempt Obligations in a private placement to First Republic Bank (Lender), a Qualified Institutional Buyer (QIB) as defined in Section 144(A) of the Securities Act of 1933 (Act), as amended. Thereafter, the I-Bank will loan the proceeds from the Tax-Exempt Obligations to Marlborough (Loan).

The proceeds from the Tax-Exempt Obligations will be used to:

- Series A - Refund tax-exempt obligations issued by the I-Bank pursuant to the Prior Master Loan Agreement in the aggregate principal amount of approximately \$11 million
- Series B - Provide up to \$5 million of long-term financing for the Arden Project
- Series C - Provide up to \$13 million in “bridge” financing for the Arden Project
- Fund costs of issuance of up to \$500,000

Marlborough seeks \$13 million in short-term “bridge” financing and \$16.5 million in long-term financing. Marlborough expects to repay the “bridge” financing with capital campaign contributions as they are received; and expects to draw down the proceeds of the Tax-Exempt Obligations over a period of up to three years.

Marlborough’s obligation to repay Lender for the proceeds of the Tax-Exempt Obligations is expected to be secured by collateral including, but not limited to, Marlborough’s personal property assets and a negative pledge on certain real property. As part of the financing, the I-Bank will assign all rights to the collateral to the Lender. Furthermore, the I-Bank will assign its right to receive the loan payments from Marlborough, except for certain Reserved Issuer Rights, to the Lender pursuant to a master loan agreement between the I-Bank, Marlborough and the Lender (Loan Agreement). Repayment of the Tax-Exempt Obligations will be made solely from revenues to be received by the Lender (as assignee of the I-Bank) from Marlborough’s payments under the Loan.

The Lender will sign a Sophisticated Investor Letter (Investor Letter) at closing certifying, among other things, that (i) it is a QIB, as defined in Rule 144(A) under the Act; (ii) it has sufficient knowledge and experience in financial and business matters, including purchase and ownership of municipal and other tax-exempt obligations, to be able to evaluate the risks and merits of the investment represented by the Loan and that it is able to bear the economic risks of such investment; and (iii) it will prohibit the resale of the Loan, except to another QIB signing an Investor Letter.

In no event shall the Loan constitute a pledge of the faith and credit of the State or any political corporation, subdivision or agency of the State, and neither the State nor any political corporation, subdivision or agency of the State shall be liable to make any appropriation for the repayment of the Tax-Exempt Obligations. The Tax-Exempt Obligations shall constitute a special limited obligation of the I-Bank. The Tax-Exempt Obligations shall be payable solely from revenues or other sources of payment made by Marlborough under the Loan Agreement.

The Lender’s commitment is subject to 1) approval of the Lender’s Executive Loan Committee, 2) the documentation of covenants, terms and conditions satisfactory to the Lender and its counsel, 3) the absence of any material adverse change in the condition, operations or prospects (financing or otherwise) of Marlborough between the date of commitment and the date of closing of the proposed transaction, and 4) the completion of due diligence by the Lender indicating no state of affairs or circumstance relating to Marlborough or the proposed transaction are unacceptable to the Bank in its sole discretion.

Financial Covenants Summary:

Marlborough may be required by the Lender to comply with the following financial covenants:

A. The Borrower shall maintain unencumbered Liquid Assets in an amount not less than \$8,000,000, verified annually at each June 30, commencing June 30, 2014.

B. Borrower shall maintain a Debt Service Coverage Ratio of not less than 1.25:1.00 measured annually based on the audited financial statements of Borrower as of the end of each fiscal year, commencing the fiscal year ended June 30, 2014.

C. Permitted Indebtedness. A minimum one year historic *pro-forma* Debt Service Coverage Ratio of 1.35:1 including additional indebtedness and a minimum liquidity to debt ratio of .40:1.

The financing will include refunding the tax-exempt obligations issued by the I-Bank pursuant to the Prior Master Loan Agreement. The refunding of the outstanding Tax-Exempt Obligations will mitigate the risk associated with the current rate structure. The amount currently outstanding as of June 30, 2013 is \$10,836,100. The original project is complete. In addition, Marlborough has raised over \$9.6 million in annual, capital, and endowment gifts in 2012-2013. 99% of parents, 100% of employees and trustees, and 34% of alumnae support the Marlborough Annual Fund.

PUBLIC BENEFITS

The Project will provide the following public benefits:

- Aquatic Center – The new facility will support swim and water polo teams which include 6 teams. It will also improve Summer School program including recreational swimming and water life safety training supporting 500 children from the surrounding neighborhoods.
- Athletic Field – The new field will be approximately 330 feet long by 145 feet wide, and support soccer, la crosse, and softball. There are 8 teams across all three sports hosting 20 matches per year. The field will also be used for graduation ceremonies and other community events, as well as help strengthen the Summer School program in sport-related activities.
- Total of 32 athletic teams will benefit from the new aquatic center and athletic field.
- Additional parking will add 25 new parking spaces.
- The security kiosk is needed to monitor traffic in and out of campus and maintain security and safety measures.
- Anticipate adding one or two new coaching positions.
- Anticipate adding additional maintenance personnel.

OTHER PROJECT DATA

PERMITS AND APPROVAL	
Required?	<input type="checkbox"/> NO <input checked="" type="checkbox"/> YES, Describe: All approvals have been obtained.
TEFRA	
Date of TEFRA	March 24, 2014
Publications	<i>The Sacramento Bee</i> <i>Los Angeles Daily Journal</i>
Oral/Written Comments	<input checked="" type="checkbox"/> NO <input type="checkbox"/> YES, Explain:
LEGAL QUESTIONNAIRE	
Completed?	<input type="checkbox"/> NO <input checked="" type="checkbox"/> YES
Issues?	<input checked="" type="checkbox"/> NO <input type="checkbox"/> YES, Explain:
ELIGIBILITY REVIEW	
Applicant meets all of the I-Bank eligibility criteria? <input checked="" type="checkbox"/> YES <input type="checkbox"/> NO	<ol style="list-style-type: none"> 1. Project is in the State of California. 2. Marlborough is capable of meeting the obligations incurred under relevant agreements. 3. Payments to be made by Marlborough to the I-Bank under the proposed financing agreements are adequate to pay the current expenses of the I-Bank in connection with the financing and to make all the scheduled payments. 4. The proposed financing is appropriate for the Project.
INDUCEMENT CERTIFICATE	
Completed?	<input type="checkbox"/> NO <input type="checkbox"/> YES Certificate No.: <input checked="" type="checkbox"/> N/A Date:

RECOMMENDATION

Staff recommends approval of Resolution 14-02, for an amount not to exceed \$29,500,000 for Marlborough based on the Lender's commitment to fund the Project.

APPENDIX A – GOVERNANCE AND MANAGEMENT

MARLBOROUGH SCHOOL BOARD OF TRUSTEES

The Hon. Christine C. Ewell President	Palmer N. Murray Vice President	Peter Shoemaker Treasurer
Judy Belk	David Kaplan	Helen Lho Ryu
Maria Arena Bell	Kenneth Karmin	Dana Slatkin
William James Ellison	Lydia H. Kennard	Katherine Marik Thompson Vice President
Laura Horton Furey	Jennifer Cook Lewis	Debra Yang
Michael Gendler Secretary	R. A. McDonough	William H. Ahmanson
Cathleen Hession	Michael Parks	
Mari Snyder Johnson	Robert Ralphs	

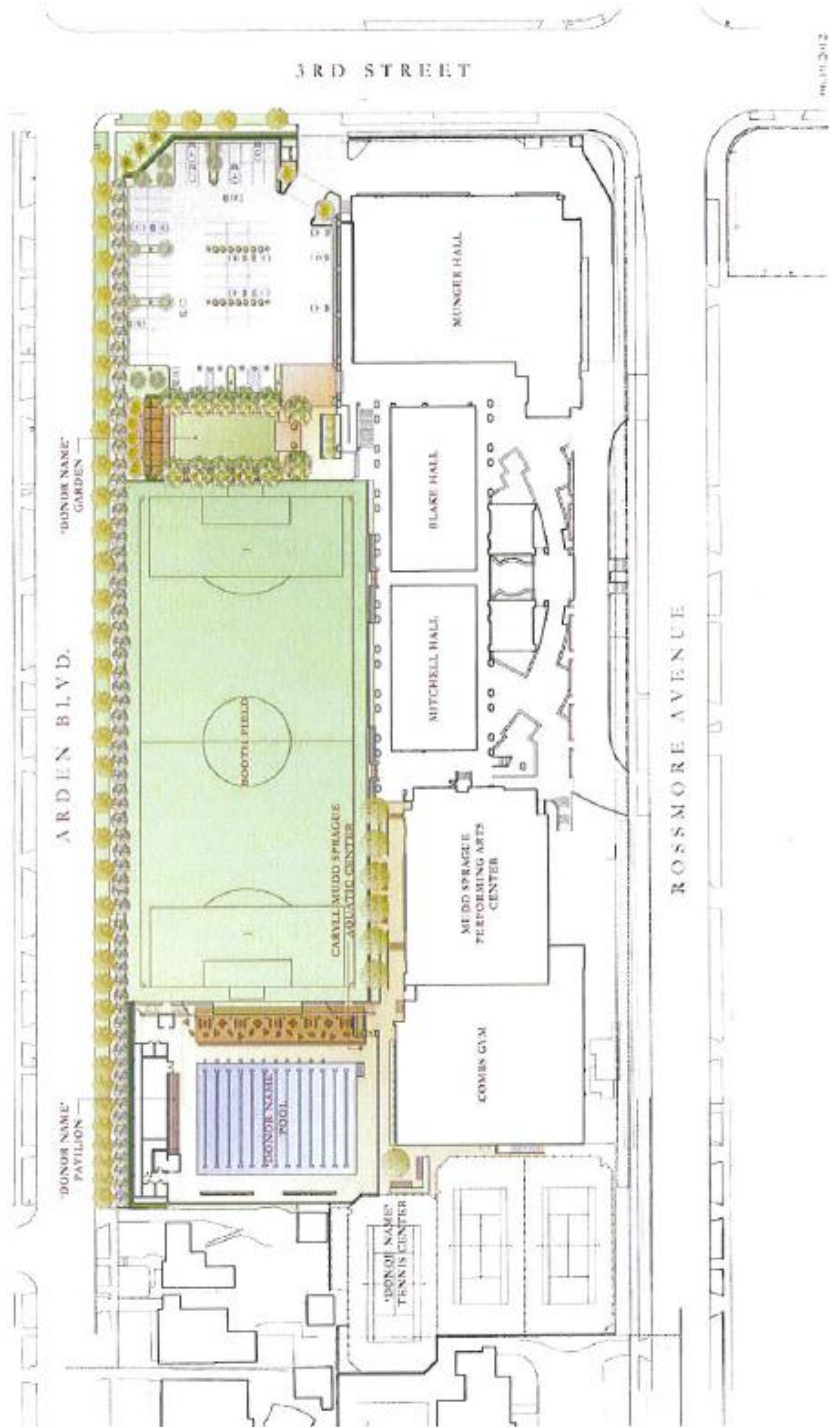
EX-OFFICIO MEMBERS

Jennie Kim	Parents' Association Co-President
Nancy Lurie	Parents' Association Co-President
Courtney Cummings Wolff	Alumnae Association President
Barbara E. Wagner	Head of School

SENIOR ADMINISTRATIVE TEAM

Barbara E. Wagner	Head of School (Officer)
Robert Bryan	Director of Middle School
Nick Hernandez	Director of Finance and Operations (Officer)
Laura Hotchkiss	Assistant Head of School and Director of Upper School
Stuart Posin	Director of Academic and Administrative Technology
Lynn McCarthy	Acting Director of Development
Jeanette Woo Chitjian	Director of Admissions

APPENDIX B – PROJECT DIAGRAM



MARLBOROUGH SCHOOL
Cash Flow: Actual 2011 to 2013, Projected 2014 to 2018

For fiscal years ending June 30

	Actual 2011	Actual 2012	Actual 2013	Budget 2014	Projected 2015	Projected 2016	Projected 2017	Projected 2018
<i>Enrollment¹</i>	531	543	536	544	530	530	530	530
REVENUES								
Tuition & Fees	\$ 16,131,461	\$ 17,278,767	\$ 17,642,353	\$ 18,227,750	\$ 18,956,860	\$ 19,715,134	\$ 20,503,740	\$ 21,323,889
Net Auxiliary Services	172,510	451,791	413,402	329,800	339,694	349,885	360,381	371,193
Annual Giving	2,352,024	2,525,497	2,687,425	2,430,000	2,466,450	2,503,447	2,540,998	2,579,113
Interest Income	56,033	86,321	61,634	92,000	94,760	97,603	100,531	103,547
Net Non-Operating Income (Loss)	95,425	14,990	73,070	83,400	85,902	88,479	91,133	93,867
Endowment Transfer	1,643,830	1,446,787	1,551,889	2,179,805	2,224,360	2,270,411	2,307,960	2,339,866
Total Revenues	20,451,283	21,804,153	22,429,773	23,342,755	24,168,026	25,024,959	25,904,744	26,811,476
EXPENSES								
Salaries & Benefits	(12,758,643)	(13,351,278)	(13,663,332)	(14,193,192)	(14,618,988)	(15,057,557)	(15,509,284)	(15,974,563)
Education	(845,748)	(875,142)	(939,413)	(1,036,029)	(1,056,750)	(1,077,885)	(1,099,442)	(1,121,431)
General & Administrative	(1,479,602)	(1,529,177)	(1,506,361)	(1,719,396)	(1,770,978)	(1,824,107)	(1,878,830)	(1,935,195)
Facilities	(1,674,086)	(1,724,026)	(1,501,698)	(1,775,125)	(1,828,379)	(1,883,230)	(1,939,727)	(1,997,919)
Development	(405,491)	(449,243)	(517,228)	(472,000)	(486,160)	(500,745)	(515,767)	(531,240)
Financial Aid	(2,180,235)	(2,252,652)	(2,288,276)	(2,438,100)	(2,535,624)	(2,637,049)	(2,742,531)	(2,852,232)
Total Expenses	(19,343,805)	(20,181,518)	(20,416,308)	(21,633,842)	(22,296,878)	(22,980,573)	(23,685,582)	(24,412,580)
Net Revenues Available for Debt Service	1,107,478	1,622,635	2,013,465	1,708,913	1,871,148	2,044,386	2,219,162	2,398,896
Series 2008 Bond Debt Service ²	(259,300)	(280,500)	(199,200)	(81,270)	-	-	-	-
Series 2013 Principal ³	-	-	-	-	-	-	-	-
Series 2013 Interest ⁴	-	-	-	(172,500)	(345,000)	(645,000)	(885,000)	(665,225)
Total Net Debt Service	(259,300)	(280,500)	(199,200)	(253,770)	(345,000)	(645,000)	(885,000)	(665,225)
Transfer from Capital Campaign to Pay Off Bonds	-	(3,191,300)	(1,000,000)	-	-	-	(7,325,818)	(2,821,901)
Total Debt Payments (Required + Optional)	(259,300)	(3,471,800)	(1,199,200)	(253,770)	(345,000)	(645,000)	(8,210,818)	(3,487,126)
Bonds Outstanding (at end of FY)	15,027,400	11,836,100	10,836,048	11,500,000	21,500,000	29,500,000	22,174,182	19,352,281
Debt Service Coverage (from Operations)	4.27x	5.78x	10.11x	6.73x	5.42x	3.17x	2.51x	3.61x
Debt Service Coverage (including Capital Campaign)	4.27	13.39x	38.01x	16.39x	13.86x	8.32x	6.23x	7.85x
Available Cash Flow After Debt Service	848,178	1,342,135	1,814,265	1,455,143	1,526,148	1,399,386	1,334,162	1,733,670
Plant Renewal & Replacement	(638,451)	(608,964)	(381,102)	(700,000)	(735,000)	(771,750)	(810,338)	(850,854)
Technology Replacement Fund	(247,754)	(242,719)	(280,102)	(300,000)	(315,000)	(330,750)	(347,288)	(364,652)
Ending Annual Cash Surplus/(Deficit)	(38,027)	490,452	1,153,061	455,143	476,148	296,886	176,537	518,164
Endowment Balance								
Beginning Endowment	38,267,400	40,807,800	37,411,100	43,596,100	44,487,204	45,408,224	46,159,192	46,797,321
Excess Operating Cash Flow after DS	-	-	-	455,143	476,148	296,886	176,537	518,164
Endowment Earnings/ Loss	-	-	6,809,900	2,615,766	2,669,232	2,724,493	2,769,552	2,807,839
Endowment Transfer	(1,643,830)	(1,446,787)	(624,900)	(2,179,805)	(2,224,360)	(2,270,411)	(2,307,960)	(2,339,866)
Ending Endowment Balance	40,807,800	37,411,100	43,596,100	44,487,204	45,408,224	46,159,192	46,797,321	47,783,458
Project & Capital Campaign Balance								
Beginning Project & Capital Campaign Balance	-	-	2,134,210	6,349,214	7,798,865	609,766	4,033,667	-
Current Pledge Commitments - Cash ⁵	-	2,134,210	5,557,287	889,000	850,250	763,250	731,500	261,250
Future Pledge Commitments - Cash ⁵	-	-	-	1,560,651	2,060,651	2,560,651	2,560,651	2,560,651
Bond Proceeds Available for Project	-	-	-	-	10,000,000	8,000,000	-	-
Project Expenditures	-	-	(1,342,283)	(1,000,000)	(20,100,000)	(7,900,000)	-	-
Paydown of Debt from Capital Campaign Pledge Receipts	-	-	-	-	-	-	(7,325,818)	(2,821,901)
Ending Project & Capital Campaign Balance	-	2,134,210	6,349,214	7,798,865	609,766	4,033,667	-	-

Footnotes

¹ Enrollment numbers shown from 2011 thru 2014 are actual enrollment figures however the School always budgets for 530

² The School plans to refinance the Series 2008 Bonds with proceeds of the Series 2013 Bond issuance

³ Assumes 10 years interest only followed by 20-year amortization for \$16.5 million (Referred to as "Series A" in term sheet) and 5 years interest only followed by 10-year amortization for \$13 million (Referred to as "Series B" in term sheet).

⁴ Interest calculated off of total outstanding debt ("long-term" + "bridge financing")

⁵ The School expects to raise \$24 million towards the Arden Project which is expected to cost a total of \$29 million. To date the School has raised more than \$11 million in cash and pledges and aims to have \$19 million raised in cash and pledges by June 2014. The School has two bequests totalling \$150k which have been included in "Future Pledge Commitments" given the uncertainty of the timing for receipt of those funds.

Marlborough School

Financial Statements
And Supplementary Information

June 30, 2013



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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Marlborough School
Los Angeles, California

We have audited the accompanying financial statements of Marlborough School (the "School"), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities and 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 from material misstatement.

An audit involves 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 for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Marlborough School as of June 30, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Marlborough School's 2012 financial statements, and our report dated September 12, 2012, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The information included in Schedule I is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.


Armanino^{LLP}
San Ramon, California

September 12, 2013

MARLBOROUGH SCHOOL
Statement of Financial Position
(Rounded to Hundreds)
June 30, 2013
(With Comparative Totals for 2012)

<u>ASSETS</u>	<u>2013</u>	<u>2012</u>
Cash and cash equivalents	\$ 17,382,600	\$ 10,302,400
Short-term investments	2,109,700	2,679,800
Tuition and fees receivable, less allowance for doubtful accounts of \$15,400	122,900	154,100
Contributions receivable, net	3,998,800	6,573,500
Prepays and other assets	623,900	523,000
Long-term investments	45,237,100	41,677,300
Land, buildings and equipment - facilities, net	56,742,700	58,160,100
Land and buildings - rental property, net	8,568,800	8,799,000
Construction in progress	3,422,500	1,531,500
	<u>\$ 138,209,000</u>	<u>\$ 130,400,700</u>
 <u>LIABILITIES AND NET ASSETS</u> 		
Liabilities		
Accounts payable and other accrued liabilities	\$ 1,558,000	\$ 1,708,000
Accrued payroll liabilities	1,579,900	2,185,600
Deferred tuition and fees	11,214,600	10,620,100
Bonds payable	10,836,100	11,836,100
Total liabilities	<u>25,188,600</u>	<u>26,349,800</u>
Net assets		
Unrestricted	65,069,500	64,062,100
Temporarily restricted	26,450,100	18,786,100
Permanently restricted	21,500,800	21,202,700
Total net assets	<u>113,020,400</u>	<u>104,050,900</u>
	<u>\$ 138,209,000</u>	<u>\$ 130,400,700</u>

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

MARLBOROUGH SCHOOL
Statement of Activities
(Rounded to Hundreds)
For the Year Ended June 30, 2013
(With Comparative Totals for 2012)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	
				2013	2012
Revenues, gains, (losses) and other support					
Tuition and fees	\$ 17,642,400	\$ -	\$ -	\$ 17,642,400	\$ 17,278,800
Less financial aid	(2,288,300)	-	-	(2,288,300)	(2,252,700)
Net tuition and fees	15,354,100	-	-	15,354,100	15,026,100
Contributions	2,395,900	4,145,100	298,100	6,839,100	10,766,700
Auxiliary services	2,586,900	-	-	2,586,900	2,623,700
Interest and dividends	160,100	920,800	-	1,080,900	990,000
Net realized and unrealized gains (losses)	505,000	5,556,000	-	6,061,000	(1,267,000)
Net gain on disposal of fixed assets	-	-	-	-	8,000
Net rental loss	(195,000)	-	-	(195,000)	(285,600)
Net assets released from restrictions	2,957,900	(2,957,900)	-	-	-
Total revenues, gains, (losses) and other support	23,764,900	7,664,000	298,100	31,727,000	27,861,900
Expenses					
Program					
Instruction	15,879,500	-	-	15,879,500	16,716,200
Auxiliary services	2,173,500	-	-	2,173,500	2,186,400
General and administration	2,610,400	-	-	2,610,400	2,597,900
Development	2,094,100	-	-	2,094,100	2,000,400
Total expenses	22,757,500	-	-	22,757,500	23,500,900
Change in net assets	1,007,400	7,664,000	298,100	8,969,500	4,361,000
Net assets, beginning of year	64,062,100	18,786,100	21,202,700	104,050,900	99,689,900
Net assets, end of year	<u>\$ 65,069,500</u>	<u>\$ 26,450,100</u>	<u>\$ 21,500,800</u>	<u>\$ 113,020,400</u>	<u>\$ 104,050,900</u>

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

MARLBOROUGH SCHOOL
Statement of Cash Flows
(Rounded to Hundreds)
For the Year Ended June 30, 2013
(With Comparative Totals for 2012)

	2013	2012
Cash flows from operating activities		
Change in net assets	\$ 8,969,500	\$ 4,361,000
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	2,126,600	3,395,000
Gain on disposal of property and equipment	-	(8,000)
Net realized and unrealized (gains) losses on investments	(6,061,000)	1,267,000
Contributions restricted for long-term purposes	(3,560,800)	(7,765,800)
Permanently restricted endowment contributions	(298,100)	(756,500)
Changes in operating assets and liabilities		
Tuition and fees receivable, net	31,200	(46,600)
Contributions receivable, net	(180,800)	(66,200)
Prepays and other assets	(100,900)	(42,200)
Accounts payable and other accrued liabilities	(150,000)	1,184,300
Accrued payroll liabilities	(605,700)	317,300
Deferred tuition and fees	594,500	(78,000)
Net cash provided by operating activities	764,500	1,761,300
Cash flows from investing activities		
Proceeds from the sales or maturities of investments	32,973,721	17,161,400
Purchase of investments	(29,902,421)	(18,779,300)
Proceeds from sales of property and equipment	-	8,000
Purchase of property and equipment	(479,000)	(4,331,300)
Payments made on construction in progress	(1,891,000)	(771,800)
Net cash provided by (used in) investing activities	701,300	(6,713,000)
Cash flows from financing activities		
Repayments of bonds payable	(1,000,000)	(3,191,300)
Contributions restricted for long-term purposes	6,130,900	3,205,600
Permanently restricted endowment contributions	483,500	297,700
Net cash provided by financing activities	5,614,400	312,000
Change in cash and cash equivalents	7,080,200	(4,639,700)
Cash and cash equivalents, beginning of year	10,302,400	14,942,100
Cash and cash equivalents, end of year	\$ 17,382,600	\$ 10,302,400
<u>Supplemental disclosure of cash flow information</u>		
Cash paid for interest	\$ 199,100	\$ 280,500

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

MARLBOROUGH SCHOOL
Notes to Financial Statements
June 30, 2013

1. Organization

Marlborough School (the "School") is incorporated as a not-for-profit corporation in the State of California. The School, founded in 1889, is an independent, urban day school for young women, grades 7 through 12, located in the Hancock Park area of Los Angeles, California. The School is committed to delivering a superior college preparatory education in an environment imbued with high ethical values to a diverse group of students.

2. Summary of Significant Accounting Policies

Basis of presentation

The financial statements of the School have been prepared on the accrual basis of accounting.

Net assets and changes therein are classified as follows:

- Unrestricted - represent unrestricted resources available to support the School's operations and temporarily restricted resources that have become available for use by the School in accordance with the intentions of the donors. All expenses, revenues, gains, and losses that are not temporarily or permanently restricted by donors are included in this classification.
- Temporarily Restricted - represent contributions whose use by the School is limited in accordance with temporary donor-imposed stipulations. These stipulations may expire with time or may be satisfied by the actions of the School according to the intention of the donor. Temporarily restricted net assets also include the portion of donor-restricted endowment funds that are not classified as permanently restricted, until such funds are appropriated for expenditure by the School.
- Permanently Restricted - represent contributions to be held in perpetuity as directed by the donors. The income from these contributions is available to support activities of the School as designated by the donors.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on assets and liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor restriction or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as releases from temporarily restricted net assets and recognized as unrestricted net assets. The School follows the policy of reporting donor-imposed restricted contributions and investment income whose restrictions are met in the same period received as unrestricted support.

MARLBOROUGH SCHOOL
Notes to Financial Statements
June 30, 2013

2. Summary of Significant Accounting Policies (continued)

Revenue recognition and deferred revenue

Tuition and fee revenue is recognized during the applicable school year. Tuition and fee amounts received for the 2013-2014 school year as of June 30, 2013, are classified as deferred tuition and fees.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, amounts deposited in interest bearing bank and money market accounts and highly liquid short term investments with remaining maturity dates of three months or less. The School considers all highly liquid investments with a maturity of three months or less to be cash equivalents, unless the cash or cash equivalents are held for reinvestment as part of the School's investment portfolio or otherwise restricted or designated. Cash on deposit usually exceeds federally insured limits. The School believes that it mitigates this risk by maintaining deposits with major financial institutions.

Receivables

The School uses the allowance method to account for uncollectible tuition and fees. The allowance for doubtful accounts is based on historical experience and an evaluation of the outstanding receivables at the end of the year. Bad debt recoveries are included in income as realized.

Contributions and promises to give

Contributions, including unconditional promises to give, are recognized as revenue in the period the promise is received. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. The School records contributions receivable, net of allowances for uncollectible amounts, when there is sufficient evidence in the form of verifiable documentation that an unconditional promise was made and received. Contributions that are promised in one year but are not expected to be collected until after the end of that year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of any such discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for doubtful contributions receivable is provided based upon management's judgment including such factors as prior collection history, type of contribution, and current aging of contributions receivable.

Contributions of assets other than cash are recorded based on the estimated fair value on the date the contribution is received.

MARLBOROUGH SCHOOL
Notes to Financial Statements
June 30, 2013

2. Summary of Significant Accounting Policies (continued)

Contributed goods and services

Contributed materials and equipment are reflected as contributions in the accompanying statements at their estimated fair values at date of receipt. Contributed services are reflected in the financial statements at the fair value of the services received. Contributions of services are recognized if the services received (a) create or enhance non-financial assets or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. No such contributed services were received during the year ended June 30, 2013.

Investments

Investments received by donation are recorded at fair value at the date of donation. Net realized and unrealized gains or losses are classified as increases or decreases in unrestricted net assets, unless their use is temporarily or permanently restricted by the donor.

The School maintains various investments. Investments are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position.

Fair value measurements

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The School determines the fair values of its assets and liabilities based on a fair value hierarchy that includes three levels of inputs that may be used to measure fair value (Level 1, Level 2 and Level 3). Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the School has the ability to access at the measurement date. An active market is a market in which transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis. Level 2 inputs are inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability.

Unobservable inputs reflect the School's own assumptions about the assumptions market participants would use in pricing the asset or liability (including assumptions about risk). Unobservable inputs are developed based on the best information available in the circumstances and may include the School's own data.

The following methods and assumptions were used to estimate the fair value of assets and liabilities:

MARLBOROUGH SCHOOL
Notes to Financial Statements
June 30, 2013

2. Summary of Significant Accounting Policies (continued)

Fair value measurements (continued)

- (a) Investments (Level 1, Level 2 and Level 3). Investments in equity and debt securities are valued at their fair values as determined primarily by quoted market prices. Investments without quoted market prices, including real estate investments, are valued at fair value as determined by third-party appraisals, management's estimates or a combination of both.
- (b) Contributions receivable (Level 3). Contributions receivable are valued based on unobservable inputs that are developed based on the best information available in the circumstances. Contributions receivable are not measured at fair value on a recurring basis subsequent to initial recognition.

Land, buildings, and equipment

The School capitalizes all land, buildings and equipment with a cost greater than \$1,000 with an estimated useful life in excess of one year. Land, buildings and equipment is carried at cost or, if donated, at the estimated fair value on the date of the contribution. Minor repairs and maintenance are charged against earnings as incurred. Major repairs and maintenance that extend the useful life of the respective asset are capitalized. Whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recovered, the School, using its best estimates and projections, reviews for impairment the carrying value of long-lived identifiable assets to be held and used in the future. The School will record impairment losses when determined.

Depreciation is computed on a straight-line basis over the estimated useful lives of fixed assets as follows:

Buildings	30 - 50 years
Building improvements, including rental properties	10 years
Furniture and equipment	3 - 5 years
Computers	3 years

No depreciation is provided for assets classified as Art Collection - sculptures.

Income taxes

The School is a qualified School exempt from federal income and California franchise taxes under the provisions of Sections 501(c)(3) of the Internal Revenue Code and 23701(d) of the California Revenue and Taxation Code, respectively.

The School has evaluated its current tax positions and has concluded that as of June 30, 2013, the School does not have any significant uncertain tax positions for which a reserve would be necessary.

MARLBOROUGH SCHOOL
Notes to Financial Statements
June 30, 2013

2. Summary of Significant Accounting Policies (continued)

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires School management to make estimates and assumptions that affect certain reported amounts and disclosures. Uses of estimates include, but are not limited to, accounting for fair value of investments, the allowance for doubtful accounts and contributions receivable and depreciation. Actual results could differ from those estimates.

Functional expense allocation

The costs of providing program and other activities have been summarized on a functional basis in the statement of activities. Expenses, such as payroll and benefits, have been allocated among program services and supporting services based upon the employees' time spent by function. Facility related costs such as depreciation, interest and maintenance have been allocated based on estimated square footage used by various departments.

Reclassification

Certain 2012 amounts have been reclassified to conform to the 2013 financial statement presentation.

Comparative financial information

The financial statements include certain prior year summarized comparative information in total but not by net asset classification. 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, 2012, from which the summarized information was derived.

3. Contributions Receivable

Unconditional promises to give, which are not expected to be collected until after the year promised, are reflected in the accompanying financial statements as contributions receivable and revenue in the appropriate net asset category. Contributions receivable are recorded using discount rates ranging from approximately 3% - 5%. Net contributions receivable at June 30, 2013 consisted of the following:

Unrestricted	\$ 146,000
Contributions restricted to investment in endowment	358,400
Contributions restricted to investment in long-lived assets	<u>3,494,400</u>
Total net contributions receivable	<u>\$3,998,800</u>

MARLBOROUGH SCHOOL
Notes to Financial Statements
June 30, 2013

3. Contributions Receivable (continued)

Receivable in less than one year	\$1,322,100
Receivable in one to five years	2,994,300
Receivable in more than five years	<u>320,000</u>
Total contributions receivable	4,636,400
Less: discounts to net present value	(330,500)
Less: allowance for doubtful contributions	<u>(307,100)</u>
Net contributions receivable	<u>\$3,998,800</u>

4. Short-Term Investments

Short-term investments consist primarily of annuities and certificates of deposit with remaining maturities of more than three months, but less than one year. Short-term investments at June 30, 2013 consisted of the following:

Certificates of deposit	\$ 720,800
Wells Fargo annuity accounts	1,388,200
Other	<u>700</u>
	<u>\$2,109,700</u>

5. Long-Term Investments

Where permitted by gift agreement and/or applicable law, investments of endowment funds are pooled. Pooled investments and allocation of pooled investment income are accounted for on a unit market method. Historical cost, unrealized gains (losses) and fair values at June 30, 2013 are as follows:

	Historical Cost	Unrealized Gains (Losses)	Fair Value
Certificates of deposit	\$ 960,000	\$ -	\$ 960,000
Carson Estate Trust Stock	1,064,000	145,000	1,209,000
Money market funds	71,700	-	71,700
Land and buildings	4,741,000	1,584,500	6,325,500
Equity funds and partnerships	18,541,200	1,931,700	20,472,900
Debt funds	13,724,200	(55,200)	13,669,000
Common stocks	<u>241,500</u>	<u>2,287,500</u>	<u>2,529,000</u>
	<u>\$39,343,600</u>	<u>\$5,893,500</u>	<u>\$45,237,100</u>

An independent professional investment advisor manages the School's investments. The School paid approximately \$105,000 for investment advisory services for the year ended June 30, 2013.

MARLBOROUGH SCHOOL
Notes to Financial Statements
June 30, 2013

6. Fair Value Disclosures

The following are the major categories of assets measured at fair value on a recurring basis during the year ended June 30, 2013, using quoted prices in active markets for identical assets (Level 1); significant other observable inputs (Level 2); and significant unobservable inputs (Level 3):

<u>Short-term investments</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Morgan Stanley Secured				
Certificates of Deposit	\$ 720,800	\$ -	\$ -	\$ 720,800
Wells Fargo Annuity Accounts	1,388,200	-	-	1,388,200
Other	<u>700</u>	<u>-</u>	<u>-</u>	<u>700</u>
Total short-term investments measured at fair value	<u>\$ 2,109,700</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,109,700</u>
 <u>Long-term investments</u>	 <u>Level 1</u>	 <u>Level 2</u>	 <u>Level 3</u>	 <u>Total</u>
Morgan Stanley Secured				
Certificates of Deposit	\$ 960,000	\$ -	\$ -	\$ 960,000
Charles Schwab Money Market	71,700	-	-	71,700
Charles Schwab Bond Funds	13,669,000	-	-	13,669,000
Charles Schwab Equity Funds	11,758,800	-	-	11,758,800
Berkshire Hathaway	2,529,000	-	-	2,529,000
Angeles Absolute Return Fund	-	-	5,985,900	5,985,900
Senator Global Opportunity Fund	-	-	2,072,700	2,072,700
Carson Estate Trust Stock	-	-	1,209,000	1,209,000
Charter Oak Partners	-	-	3,700	3,700
Camden Asset Management	-	-	1,900	1,900
Canyon Structured Asset Fund	-	-	649,900	649,900
Devon Property - Tri-plex	-	1,345,500	-	1,345,500
134 S. Rossmore Avenue House	<u>-</u>	<u>4,980,000</u>	<u>-</u>	<u>4,980,000</u>
Total long-term investments measured at fair value	<u>\$28,988,500</u>	<u>\$6,325,500</u>	<u>\$9,923,100</u>	<u>\$45,237,100</u>

MARLBOROUGH SCHOOL
Notes to Financial Statements
June 30, 2013

6. Fair Value Disclosures (continued)

The following is the activity for assets measured at fair value on a recurring basis using significant unobservable inputs for the year ended June 30, 2013:

	<u>Angeles</u>	<u>Charter Oak</u>	<u>Carson</u>	<u>Camden</u>	<u>Senator</u>	<u>Canyon</u>
Balance, beginning of year	\$1,698,400	\$2,900	\$1,125,000	\$ 17,900	\$1,657,600	\$505,100
Total gains or losses (realized/unrealized)	287,500	800	84,000	98,000	415,100	144,800
Purchases, issuances, and settlements	<u>4,000,000</u>	-	-	(114,000)	-	-
Balance, end of the year	<u>\$5,985,900</u>	<u>\$3,700</u>	<u>\$1,209,000</u>	<u>\$ 1,900</u>	<u>\$2,072,700</u>	<u>\$649,900</u>

7. Land, Buildings, and Equipment

At June 30, 2013, investment in land, buildings, and equipment consisted of the following:

Facilities	
Land	\$ 4,906,500
Land improvements	4,174,300
Buildings and improvements	58,866,600
Computer equipment	2,442,500
Furniture and fixtures (other than computers)	5,338,100
Art collection	<u>200,000</u>
	75,928,000
Accumulated depreciation and amortization	<u>(19,185,300)</u>
	<u>\$56,742,700</u>

Total depreciation expense on facilities amounted to \$1,858,500 for the year ended June 30, 2013.

Rental property	
Land	\$ 7,128,200
Buildings and improvements	<u>3,324,700</u>
	10,452,900
Accumulated depreciation and amortization	<u>(1,884,100)</u>
	<u>\$ 8,568,800</u>

Total depreciation expense on rental property amounted to \$268,100 for the year ended June 30, 2013, and is included in net rental loss in the Statement of Activities.

MARLBOROUGH SCHOOL
Notes to Financial Statements
June 30, 2013

8. Concentrations

The School holds investments in the form of common stocks, money market funds, mutual funds and debt funds of publicly traded companies, real estate and limited liability partnerships. Fair values of such investments are routinely reviewed by the Finance Committee of the Board of Trustees.

The School places its temporary cash investments in high quality financial instruments. The School has not incurred losses of principal related to these investments.

Concentration of credit risk for contributions receivable are generally limited due to the dispersion of these items over a wide donor base. Concentration of credit risk for student receivables is limited due to the requirement that tuition be paid in advance. The School continually monitors its receivables and establishes valuation reserves as considered appropriate.

Approximately 49% of the School's outstanding contributions receivable at June 30, 2013 was due from three donors. Approximately 27% of the School's contribution revenue for the year ended June 30, 2013 was received from one donor.

9. Bonds Payable

In June 2008, the School secured \$25 million through the issuance of tax exempt variable rate bonds. The bonds have a stated interest rate of 62.5% of LIBOR plus 1.5% (1.6563% at June 30, 2013), with interest payments due monthly and a minimum principal payment of \$1,000,000 due annually. The outstanding balance of variable rate bonds is \$10,836,100 as of June 30, 2013.

Year Ending June 30,

2014	\$ 1,000,000
2015	1,000,000
2016	1,000,000
2017	1,000,000
2018	<u>6,836,100</u>
Total	<u>\$10,836,100</u>

The bonds mature on May 31, 2018 and are collateralized by the unspent Leadership in Learning Campaign funds and remaining campaign pledges received through December 31, 2011. The bond agreement contains various covenants and restrictions. As of June 30, 2013, the School was in compliance with its covenants.

Interest expense on the bonds payable amounted to \$139,100 for the year ended June 30, 2013. The remaining interest of \$60,000 was capitalized and is included in construction in progress at June 30, 2013.

MARLBOROUGH SCHOOL
Notes to Financial Statements
June 30, 2013

10. Commitments and Contingencies

Transportation agreement

In June 2011, the School entered into a non-cancelable agreement for daily bus transportation services which expires in June 2014. The minimum future obligation under this agreement is \$450,400 for the year ended June 30, 2014.

Employment agreement

The School has an employment agreement with one of its executive employees through June 30, 2017. The agreement is subject to cancellation by the School only under certain circumstances as defined. The agreement designates the employee as a participant in the School's deferred compensation plan. The amount of the annual deferral is defined in the amended agreement as \$200,000. The deferred compensation liability at June 30, 2013 approximated \$212,400.

11. Self-Insurance

The School purchases commercial insurance for medical benefits. However, the School is self-insured for dental. The liability for related claims (outstanding and ongoing dental) of \$26,300 was estimated by management based on information provided by an outside claims administrator, and is recorded as an other accrued liability at June 30, 2013. The recorded liability includes estimates of future claim payments for known cases as well as provisions for incurred but not reported claims and adverse development on known cases which occurred through that date.

12. Retirement Plan

Substantially all of the School's eligible employees are covered by the School's contributory, defined contribution 403(b) plan (the "Plan"), which is a qualified retirement plan. The Plan offers employees several investment options through two investment managers.

The Plan provides benefits commencing on retirement or the death of the employee. Employees can contribute up to \$17,500 in 2013 and the School matches employee contributions up to 8% of their annual salary for individuals who have been employed more than 10 years and up to 7% for those employed 10 years or less.

Employees are fully vested immediately in both their own and the School's contributions to the Plan. School contributions to the Plan for the year ended June 30, 2013 amounted to approximately \$754,400.

MARLBOROUGH SCHOOL
Notes to Financial Statements
June 30, 2013

13. Unrestricted Net Assets

Unrestricted net assets as designated by the Board of Trustees at June 30, 2013 consisted of the following:

Undesignated	\$ 9,690,600
Endowment	5,977,600
Long-term investment	7,442,400
Investment in facilities, net of related debt	39,775,600
Reserve for facilities renewal and replacement	<u>2,183,300</u>
	<u>\$65,069,500</u>

Endowment - represents a portion of net assets the Board of Trustees has designated to be available for specific projects and to function as endowments.

Long-term investment - represents cash balances the Board of Trustees has designated for specific projects - these amounts are not designated by the Board of Trustees to function as endowments.

Reserve for facilities renewal and replacement - represents resources held and used for the renewal and replacement of physical plant as designated by the Board of Trustees.

14. Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2013 consisted of the following:

Capital purchases or improvements	\$ 9,870,900
Unexpended endowment earnings	16,117,700
Financial aid	250,300
Curricular	144,200
Other	<u>67,000</u>
	<u>\$26,450,100</u>

During the year ended June 30, 2013, net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

Purpose restrictions satisfied	
Capital purchases or improvements	\$ 883,500
Endowment earnings appropriated for expenditure	1,374,300
Financial aid	429,000
Curricular	205,700
Other	<u>65,400</u>
	<u>\$ 2,957,900</u>

MARLBOROUGH SCHOOL
Notes to Financial Statements
June 30, 2013

14. Permanently Restricted Net Assets (continued)

Permanently restricted net assets at June 30, 2013 consisted of the following:

Financial aid	\$ 7,290,100
Employees	5,490,000
Undesignated	4,646,900
Students/Programs	4,026,300
Facilities	<u>47,500</u>
	<u>\$21,500,800</u>

15. Endowment

The School's endowment consists of approximately 90 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 Generally Accepted Accounting Principles ("GAAP"), net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of relevant law

The Board of Trustees of Marlborough School has interpreted the California enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as allowing the School to appropriate for expenditure or accumulate so much of an endowment fund as the School determines is prudent for the uses, benefits, purposes and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument. Unless stated otherwise in the gift instrument, the assets in an endowment fund shall be donor-restricted assets until appropriated for expenditure by the Board of Trustees. 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 in a manner consistent with the standard of prudence prescribed in UPMIFA. In accordance with UPMIFA, the Board of Trustees considers the following factors in making a determination to appropriate or accumulate endowment funds:

- (1) The duration and preservation of the endowment fund,
- (2) The purpose of the School and the endowment fund,
- (3) General economic conditions,
- (4) The possible effect of inflation or deflation,
- (5) The expected total return from income and the appreciation of investments,
- (6) Other resources of the School,
- (7) The investment policy of the School

MARLBOROUGH SCHOOL
Notes to Financial Statements
June 30, 2013

15. Endowment (continued)

Funds with deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the School to retain as a fund of perpetual duration. Deficiencies of this nature totaling \$121,500 as of June 30, 2013 are deemed immaterial and have not been covered by unrestricted net assets. These deficiencies resulted from unfavorable market declines since the endowment funds were established and continued appropriation for certain programs that was deemed prudent by the Board of Trustees.

Investment and spending policies

The primary long-term financial objective of the School's endowment is to preserve and enhance the real (i.e., inflation-adjusted) purchasing power of the endowment through a prudent long-term investment strategy, assuming a moderate level of investment risk. This objective shall be achieved and evaluated over rolling five-to ten-year periods on a total return basis. The primary investment objective of the endowment is to earn an average annual real total return of at least 4% in excess of the U.S. inflation rate as measured by CPI, net of management fees, over the long-term (rolling five-to ten-year periods). Actual returns in any given year may vary from this amount.

Restricted endowment income is distributed at a rate determined annually by the Board of Trustees, using an average value of the fund over the prior 12 quarters through the calendar year-end that precedes the fiscal year in which the distribution is planned.

The annual spending rate is determined so as to ensure the School achieves the primary investment objective as stated above. The annual spending rate for the year ended June 30, 2013 was 5.0%. Any earnings in excess of the budgeted percentage distribution are reinvested in the endowment. All income earned on the unrestricted endowment is reinvested in the endowment, unless otherwise designated by the Board of Trustees.

Endowment net asset composition by type of fund as of June 30, 2013 consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor purpose-restricted endowment funds	\$ -	\$12,531,000	\$17,212,800	\$29,743,800
Donor undesignated endowment funds	-	3,586,700	4,288,000	7,874,700
Board-designated endowment funds	<u>5,977,600</u>	<u>-</u>	<u>-</u>	<u>5,977,600</u>
Total funds	<u>\$5,977,600</u>	<u>\$16,117,700</u>	<u>\$21,500,800</u>	<u>\$43,596,100</u>

MARLBOROUGH SCHOOL
Notes to Financial Statements
June 30, 2013

15. Endowment (continued)

Changes in endowment net assets for the year ended June 30, 2013 consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$4,929,800	\$11,278,600	\$21,202,700	\$37,411,100
Investment return				
Investment income	325,000	3,385,400	-	3,710,400
Net appreciation (realized and unrealized)	<u>271,500</u>	<u>2,828,000</u>	<u>-</u>	<u>3,099,500</u>
Total investment return	596,500	6,213,400	-	6,809,900
Contributions	-	-	298,100	298,100
Transfers to board-designated endowment fund	1,290,500	-	-	1,290,500
Transfers from board-designated endowment fund	(839,200)	-	-	(839,200)
Appropriation of endowment assets for expenditure	<u>-</u>	<u>(1,374,300)</u>	<u>-</u>	<u>(1,374,300)</u>
Endowment net assets, end of year	<u>\$5,977,600</u>	<u>\$16,117,700</u>	<u>\$21,500,800</u>	<u>\$43,596,100</u>

16. Financial Aid

The School provides both full and partial financial aid awards to students based on their families' demonstrated financial need. Financial aid awards include a percentage of tuition and an equal percentage to cover the cost of the additional expenses deemed necessary for a Marlborough School education. Financial aid grants are awarded on a one-year basis and recipients must reapply each year, if needed. Each family applying for financial aid must provide an application which includes a detailed financial statement and a copy of the family's current year income tax returns and Form W-2s.

Financial aid sources for the year ended June 30, 2013 consisted of the following:

Institutional financial aid	\$1,339,600
Endowed financial aid	519,700
Annual gifts restricted to financial aid	<u>429,000</u>
	<u>\$2,288,300</u>

MARLBOROUGH SCHOOL
Notes to Financial Statements
June 30, 2013

17. Related Party Transactions

For the year ended June 30, 2013, the School received approximately \$3,550,000 in contributions from members of the Board of Trustees and approximately \$35,000 in contributions from employees.

18. Functional Expense Allocation

Allocation of functional expenses for the year ended June 30, 2013, is as follows:

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and benefits	\$10,783,300	\$2,096,700	\$1,346,600	\$14,226,600
Office expenses	1,217,600	80,700	296,100	1,594,400
Curriculum	1,819,200	-	-	1,819,200
Student activities	383,500	-	-	383,500
Interest	125,200	11,100	2,800	139,100
Facilities	1,409,700	125,300	31,300	1,566,300
Depreciation	1,672,700	148,700	37,200	1,858,600
Services and professional fees	585,300	114,400	30,200	729,900
Other	<u>56,500</u>	<u>33,500</u>	<u>349,900</u>	<u>439,900</u>
	<u>\$18,053,000</u>	<u>\$2,610,400</u>	<u>\$2,094,100</u>	<u>\$22,757,500</u>

19. Subsequent Events

The School has evaluated subsequent events through September 12, 2013, the date the financial statements were available to be issued. As of this date, no subsequent events have occurred that would have a material impact on the presentation of the School's financial statements.

SUPPLEMENTARY INFORMATION

MARLBOROUGH SCHOOL
Schedule I - Statement of Activities for Unrestricted Net Assets
(Rounded to Hundreds)
For the Year Ended June 30, 2013

	Undesignated	Endowment and Long-term Investment	Facilities Renewal and Replacement	Investment in Facilities	Total Unrestricted
Revenues, gains, (losses) and other support					
Tuition and fees	\$ 17,642,400	\$ -	\$ -	\$ -	\$ 17,642,400
Less financial aid	(2,288,300)	-	-	-	(2,288,300)
Net tuition and fees	<u>15,354,100</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,354,100</u>
Contributions - annual giving	2,395,900	-	-	-	2,395,900
Auxiliary services	2,586,900	-	-	-	2,586,900
Interest and dividends	74,600	85,500	-	-	160,100
Net realized and unrealized gains	-	513,600	-	(8,600)	505,000
Net rental loss	<u>73,100</u>	<u>-</u>	<u>-</u>	<u>(268,100)</u>	<u>(195,000)</u>
Subtotal revenues	<u>20,484,600</u>	<u>599,100</u>	<u>-</u>	<u>(276,700)</u>	<u>20,807,000</u>
Net assets released from restrictions	<u>(1,296,000)</u>	<u>4,253,900</u>	<u>-</u>	<u>-</u>	<u>2,957,900</u>
Total revenues, gains, (losses) and other support	<u>19,188,600</u>	<u>4,853,000</u>	<u>-</u>	<u>(276,700)</u>	<u>23,764,900</u>
Expenses					
Program					
Instruction	14,081,600	-	-	1,797,900	15,879,500
Auxiliary services	2,173,500	-	-	-	2,173,500
General and administration	2,450,600	-	-	159,800	2,610,400
Development	<u>2,054,100</u>	<u>-</u>	<u>-</u>	<u>40,000</u>	<u>2,094,100</u>
Total expenses	<u>20,759,800</u>	<u>-</u>	<u>-</u>	<u>1,997,700</u>	<u>22,757,500</u>
Change in net assets	(1,571,200)	4,853,000	-	(2,274,400)	1,007,400
Net assets, beginning of year	11,972,800	8,115,900	1,858,300	42,115,100	64,062,100
Board designated net asset activity	(386,000)	451,100	-	(65,100)	-
Facilities renewal and replacement activities	<u>(325,000)</u>	<u>-</u>	<u>325,000</u>	<u>-</u>	<u>-</u>
	<u>(711,000)</u>	<u>451,100</u>	<u>325,000</u>	<u>(65,100)</u>	<u>-</u>
Net assets, end of year	<u>\$ 9,690,600</u>	<u>\$ 13,420,000</u>	<u>\$ 2,183,300</u>	<u>\$ 39,775,600</u>	<u>\$ 65,069,500</u>