Brooks School

Financial Report
June 30, 2010

Contents

McGladrey

Independent Auditor's Report

To the Board of Trustees
Brooks School
North Andover, Massachusetts

We have audited the accompanying statements of financial position of Brooks School (the "School") as of June 30, 2010 and 2009, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the School as of June 30, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we express no opinion on it.

McGladrey & Pullen, LLP

Boston, Massachusetts
December 1, 2010

Brooks School

Statements of Financial Position
June 30, 2010 and 2009

Assets	**2010**	2009
Cash and cash equivalents	**$ 4,893,735**	$ 3,211,930
Deposits with bond's trustee (Note 8)	**58,707**	71,378
Accounts receivable (less allowance of $17,243 and $26,015, respectively)	**15,426**	436,026
Contributions receivable, net (Note 4)	**1,521,181**	2,145,795
Student loans receivable (less allowance of $34,558 and $2,938, respectively)	**81,540**	131,413
Other loans receivable	**56,079**	40,318
Prepaid supplies	**149,695**	258,972
Prepaid expenses and deposits	**500,302**	785,655
Investments, at fair value (Notes 1 and 2)	**59,549,924**	58,143,925
Investments for split-interest agreements, at fair value (Notes 1 and 5)	**2,026,453**	1,899,276
Cash surrender value of life insurance	**443,721**	426,906
Deferred charges, net	**691,695**	630,503
Property, plant and equipment, net (Notes 6 and 7)	**47,542,814**	49,567,895
Total assets	**$ 117,531,272**	$ 117,749,992

Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	**$ 1,582,116**	$ 1,499,121
Deferred revenue	**6,442,940**	5,778,509
Split-interest agreements obligation (Note 1)	**901,701**	1,039,408
Note payable (Note 7)	**643,933**	674,105
Bonds payable, net (Note 8)	**23,972,537**	25,614,835
Total liabilities	**33,543,227**	34,605,978
Commitments and Contingencies (Notes 8 and 13)		
Net Assets (Notes 9)		
Unrestricted	**38,476,243**	38,856,829
Temporarily restricted (Notes 9)	**23,777,228**	22,710,675
Permanently restricted (Notes 9)	**21,734,574**	21,576,510
Total net assets	**83,988,045**	83,144,014
Total liabilities and net assets	**$ 117,531,272**	$ 117,749,992

See Notes to Financial Statements.

Brooks School

Statement of Activities
Year ended June 30, 2010

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total
Operating Revenue and Support				
Tuition and fees	$ 14,647,225	$ -	$ -	$ 14,647,225
Less financial aid	(3,095,054)	-	-	(3,095,054)
Tuition and fees, net	11,552,171	-	-	11,552,171
Auxiliary activities	617,052	-	-	617,052
Investment income applied	33,370	-	-	33,370
Annual giving	2,448,826	-	-	2,448,826
Summer session	1,798,200	-	-	1,798,200
Other revenue	125,531	-	-	125,531
Total revenues	16,575,150	-	-	16,575,150
Net assets released from restrictions (Note 10)	3,050,289	(3,050,289)	-	-
Total operating revenue and support	19,625,439	(3,050,289)	-	16,575,150
Operating Expenses (Notes 11 and 12)				
Educational and general	6,934,232	-	-	6,934,232
Administrative	1,940,989	-	-	1,940,989
Fundraising	1,829,240	-	-	1,829,240
Auxiliary activities	3,101,532	-	-	3,101,532
Summer session	1,277,549	-	-	1,277,549
Facilities:				
Operation and maintenance of property, plant and equipment	3,464,899	-	-	3,464,899
Depreciation and amortization	2,541,305	-	-	2,541,305
Construction in progress, write-off	352,008	-	-	352,008
Interest expense	973,853	-	-	973,853
Total operating expenses	22,415,607	-	-	22,415,607
Decrease in net assets from operating activities	(2,790,168)	(3,050,289)	-	(5,840,457)
Non-operating changes in net assets				
Contributions	19,221	847,785	158,064	1,025,070
Net realized loss on investments	(220,468)	(270,705)	-	(491,173)
Net unrealized appreciation of investments	2,605,596	3,249,675	-	5,855,271
Change in the value of split interest agreements	-	273,196	-	273,196
Net investment income	5,233	16,891	-	22,124
Total non-operating changes in net assets	2,409,582	4,116,842	158,064	6,684,488
Change in Net Assets	(380,586)	1,066,553	158,064	844,031
Net Assets - Beginning of Year	38,856,829	22,710,675	21,576,510	83,144,014
Net Assets - End of Year	$ 38,476,243	$ 23,777,228	$ 21,734,574	$ 83,988,045

See Notes to Financial Statements.

Brooks School

Statement of Activities
Year ended June 30, 2009

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total
Operating Revenue and Support				
Tuition and fees	$ 14,036,510	$ -	$ -	$ 14,036,510
Less financial aid	(2,553,655)	-	-	(2,553,655)
Tuition and fees, net	11,482,855	-	-	11,482,855
Auxiliary activities	606,226	-	-	606,226
Investment income applied	59,340	-	-	59,340
Annual giving	2,164,309	30,000	-	2,194,309
Summer session	1,778,737	-	-	1,778,737
Other revenue	445,449	-	-	445,449
Total revenues	16,536,916	30,000	-	16,566,916
Net assets released from restrictions (Note 10)	5,492,101	(5,492,101)	-	-
Total operating revenue and support	22,029,017	(5,462,101)	-	16,566,916
Operating Expenses (Notes 11 and 12)				
Educational and general	6,583,717	-	-	6,583,717
Administrative	1,967,765	-	-	1,967,765
Fundraising	1,887,294	-	-	1,887,294
Auxiliary activities	3,224,988	-	-	3,224,988
Summer session	1,275,299	-	-	1,275,299
Facilities:				
Operation and maintenance of property, plant and equipment	3,579,000	-	-	3,579,000
Depreciation and amortization	2,465,878	-	-	2,465,878
Interest expense	1,192,226	-	-	1,192,226
Total operating expenses	22,176,167	-	-	22,176,167
Decrease in net assets from operating activities	(147,150)	(5,462,101)	-	(5,609,251)
Non-operating changes in net assets				
Contributions	138,000	1,220,399	466,046	1,824,445
Net realized loss on investments	517,046	559,775	-	1,076,821
Net unrealized depreciation of investments	(6,410,941)	(6,595,662)	-	(13,006,603)
Change in the value of split interest agreements	-	(367,651)	-	(367,651)
Net investment income	27,259	17,694	-	44,953
Change in donor intention	-	(20,000)	20,000	-
Total non-operating changes in net assets	(5,728,636)	(5,185,445)	486,046	(10,428,035)
Change in Net Assets	(5,875,786)	(10,647,546)	486,046	(16,037,286)
Net Assets - Beginning of Year	44,732,615	33,358,221	21,090,464	99,181,300
Net Assets - End of Year	$ 38,856,829	$ 22,710,675	$ 21,576,510	$ 83,144,014

See Notes to Financial Statements.

Brooks School

Statements of Cash Flows
Years Ended June 30, 2010 and 2009

	2010	2009
Cash Flows from Operating Activities:		
Change in net assets	**$ 844,031**	$ (16,037,286)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Net realized loss (gain) on investments	**491,173**	(1,076,821)
Net (appreciation) depreciation of investments	**(5,855,271)**	13,006,603
Depreciation and amortization	**2,541,305**	2,465,878
Write off of construction in progress	**354,174**	-
Change in value of split interest investments and obligations, net	**(264,884)**	386,078
Change in cash surrender value of life insurance	**(16,815)**	(22,457)
Changes in assets and liabilities:		
Accounts, student loans, and other loans receivables, net	**454,712**	(417,740)
Prepaid supplies	**109,277**	(31,073)
Prepaid expenses and deposits	**285,353**	(241,053)
Contributions receivable, net	**624,614**	2,127,314
Accounts payable and accrued expenses	**82,995**	(1,478,013)
Deferred revenue	**664,431**	(304,330)
Net cash provided by (used in) operating activities	**315,095**	(1,622,900)
Cash Flows from Investing Activities		
Proceeds from sales of investments	**13,646,463**	29,367,192
Purchases of investments	**(9,675,693)**	(25,227,525)
Additions to property, plant and equipment	**(811,094)**	(3,894,722)
Net cash provided by investing activities	**3,159,676**	244,945
Cash Flows from Financing Activities		
Proceeds from bond payable	**-**	6,500,000
Refunding of bond payable	**-**	(6,500,000)
Payment for bond issuance costs	**(112,794)**	(214,764)
Payment of construction expenditures with restricted cash	**-**	2,583,455
Principal payment on note payable	**(30,172)**	(28,672)
Principal payment on bonds payable	**(1,650,000)**	(1,622,298)
Net cash (used in) provided by financing activities	**(1,792,966)**	717,721
Net increase (decrease) in cash and cash equivalents	**1,681,805**	(660,234)
Cash and Cash Equivalents:		
Beginning of year	**3,211,930**	3,872,164
End of year	**$ 4,893,735**	$ 3,211,930
Supplementary Disclosure of Cash Flow Information		
Cash paid during the year for interest	**$ 973,853**	$ 1,192,226

See Notes to Financial Statements.

Note 1. Nature of Business and Significant Accounting Policies

Nature of activities: Brooks School (the “School”) is a nonprofit, college preparatory, co-educational boarding school dedicated to academic excellence. Founded in 1926, the School seeks to set for its students the highest standards of academic achievement, intellectual growth, ethical awareness, athletic endeavor, and service to others. The School is located in North Andover, Massachusetts.

A summary of the School’s significant accounting policies follows:

Revenue recognition: 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 investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by interpretation of law. Expirations of temporary restrictions on net assets by fulfillment of the donor stipulated purpose, or by passage of the stipulated time period, are reported as reclassifications between applicable classes of net assets.

Classification and Reporting of Net Assets: The School adopted Financial Accounting Standards Board (“FASB”) standard, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), and Enhanced Disclosures for All Endowment Funds*. This pronouncement provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the UPMIFA. Among UPMIFA’s most significant changes is the elimination of the concept of historical dollar value threshold, the amount below which the School could not spend from the fund in favor of a more robust set of guidelines about what constitutes prudent spending.

Effective June 30, 2009 Massachusetts adopted the UPMIFA of 2006. UPMIFA is a model act approved by the Uniform Law Commission (ULC; formerly known as the National Conference of Commissioners on Uniform State Laws) that serves as a guideline for states to use in enacting legislation. This FSP also improves disclosures about an organization’s endowment funds (both donor-restricted endowment funds and board-designated endowment funds), whether or not the organization is subject to UPMIFA. The School adopted the provisions of UPMIFA during the year ended June 30, 2009 which apply to funds existing on or established after that date. No reclassification of net assets from unrestricted to temporarily restricted was required by the School due to the adoption of this new standard..

A description of the three net asset classes follows:

- Unrestricted net assets represent the portion of net assets of the School that is neither permanently restricted nor temporarily restricted by donor-imposed stipulations. Unrestricted net assets include expendable funds available for support of the School as well as funds invested in plant including campus buildings. In addition, unrestricted net assets of the School include funds, which represent unrestricted resources designated by the Board of Trustees for endowment.

- Temporarily restricted net assets represent contributions and other inflows of assets whose use by the School is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the School pursuant to those stipulations. Temporarily restricted net assets also include, under Massachusetts law, investment earnings on donor restricted endowment funds, which are subject to prudent appropriation by the Board of Trustees in accordance with donor use restrictions and provisions of Massachusetts law.

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Classification and Reporting of Net Assets (continued):

- Permanently restricted net assets represent contributions and other inflows of assets whose use by the School is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled and removed by actions of the School pursuant to those stipulations. Permanently restricted net assets also include realized and unrealized gains and interest and investment income on certain contributions, as stipulated by the donor.

Use of estimates: The preparation of financial statements in accordance 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 disclosures of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual amounts could differ from those estimates.

Cash and cash equivalents: The School defines cash equivalents as highly liquid investments with an initial maturity of ninety days or less, and is recorded at cost which approximates fair value. The School maintains its cash in bank deposit accounts, which at times may exceed federally insured limits. The School has not experienced any losses in such accounts. The School believes it is not exposed to any significant credit risk on cash and cash equivalents. Cash and cash equivalents do not include invested cash in investment accounts.

Accounts receivable: Accounts receivable are carried at original invoice less an estimate made for doubtful accounts. Management determines the allowance for doubtful accounts by evaluating individual account balances while considering current economic conditions and circumstances. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded when received. Amounts are considered past due when they have been outstanding for 90 days. The balance at June 30, 2009 also includes $320,000 due on a claim settlement with AIG for environmental cleanup costs.

Contributions Receivable: Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is, at the time when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their fair value. Pledges to be received after one year are discounted at an appropriate discount rate commensurate with the risk and duration involved. Amortization of discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible pledges receivable is provided based upon management's judgment of potential defaults. The determination includes such factors as prior collection history, type of contribution and nature of fund raising activity. Contributions received with donor-imposed restrictions are reported as revenues of the temporarily restricted net asset class. A release to unrestricted net assets is made to reflect the expiration of such restrictions.

Student loans receivable: The School has provided tuition loans to students as part of its financial aid program. Payments are made in 56 installments commencing on January 1 in the year following graduation. Payments consist of eight consecutive semiannual payments of interest only followed by 48 consecutive monthly payments of principal and interest.

Investments: Investments, excluding non-marketable alternatives, are carried at fair value, as established by the major securities markets and, in the case of mutual funds, are recorded at net asset value. Purchases and sales of securities are recorded on trade dates, and realized gains and losses are determined on the basis of the average cost of securities sold.

Note 1. Nature of Activities and Significant Accounting Policies (continued)

Investments (continued): The School invests in alternative investments, consisting of hedge funds, non-marketable asset partnerships, and various inflation hedging vehicles. Alternative investments utilize a variety of investment strategies incorporating marketable securities and, in some cases, derivative instruments, all of which are reported at fair value by the fund managers and reviewed by management. The underlying investments of the hedge funds are principally publicly-priced securities and derivatives. These investments provide broader diversification, offering sources of return that are not generally correlated with traditional equity and fixed income markets. Hedging strategies may include securities denominated in foreign currencies, options, futures, forward contracts, short sales or other financial instruments whose value and performance are derived, at least in part, from the performance of an underlying asset or index and the creditworthiness of the counterparty of the transactions.

Non-marketable asset partnerships (investments for which there may not be a value established by major security markets) are valued on a quarterly basis and are carried at estimated fair values based upon the most recent financial information provided by the general partners and reviewed by management. Because the investment in non-marketable asset partnerships is not readily marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a readily available market for the investments existed and such differences could be material.

Investment income and realized and unrealized gains are reflected in the statements of activities. Investment income from unrestricted investments and unrestricted investment income of permanently restricted net assets are reported as unrestricted revenue. Restricted investment income and gains (losses) or investments of permanently restricted net assets are reported as increases (decreases) in temporarily restricted net assets unless permanently restricted by the donor, in which case they are recorded as increases (decreases) in permanently restricted net assets. Net gains of permanently restricted net assets classified as temporarily restricted remain in temporarily restricted net assets until appropriated by the Board of Trustees (the “Board”) and expended. Investment interest and gains (losses) on investments of temporarily restricted net assets are reported as increases (decreases) in temporarily restricted net assets.

The School utilizes a pooled-investment-fund basis of managing its endowment funds.

Fair Value Measurements: ASC 820, *Fair Value Measurements and Disclosures*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement), a lower priority to significant other observable inputs (level 2 measurements), and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under ASC 820 are described below:

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

> **Level I**: Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. The type of investments included in Level I are marketable equities that are traded in an active exchange market.
>
> **Level II**: Pricing inputs other than quoted prices in active markets, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Instruments included in this category are warrants and derivative contracts whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data.

Note 1. Nature of Activities and Significant Accounting Policies (continued)

Fair Value Measurements (continued):

> **Level III**: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level III includes assets and liabilities whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Property, plant and equipment: Property, plant and equipment are recorded at cost. Depreciation is computed on the straight-line method over the estimated useful lives of the assets. Additions to property, plant and equipment, including major renovations and repair projects, are capitalized. Minor improvements and repairs are charged to current operations. Donated property, plant and equipment are recorded at fair value on the date of the gift.

Property, plant and equipment are depreciated using the straight-line method over the following estimated useful lives:

	Years
Buildings and land improvements	30
Vehicles, fixtures and equipment	5-10

Depreciation is not computed on such assets until such time as the capital project is completed and the asset is placed in service. Interest cost on borrowed funds during the period of construction of capital assets, net of interest earnings on the investment of unexpended borrowed funds, is capitalized as a component of the cost of acquiring those assets. During the years ended June 30, 2010 and 2009, interest capitalized, relating to the Science Center construction financing was $0 and $15,152 respectively.

Deferred revenue: The School defers recognition of registration and tuition revenue to the period in which the related educational instruction is performed and the related expenses incurred. Accordingly, registration and tuition fees received for the next school term are deferred until the first day of the new fiscal year, at which point they are recognized as revenue on a pro-rata basis.

Split-interest investments and related obligations:

Charitable Remainder Trusts

The School is the beneficiary of several charitable remainder trusts whereby it receives an immediate contribution as well as a remainder interest in the underlying investment from which a specified percentage of the fair value of the trusts' assets each year is currently being paid to the donors. Actuarial methods are used to calculate that portion of the investment representing the present value of the liability to the donor and that portion representing the contribution.

Under the charitable remainder trust agreements the School is the trustee, therefore, the assets held in trust are recorded as investments at fair value, and the liability to the donors is recorded at the present value of the estimated future payments to be distributed over the life of the donor and/or donor's spouse. The amount of the contribution is the difference of these amounts. Adjustments to the asset and liability accounts are reflected as changes in the value of split-interest agreements in the statements of activities.

Note 1. Nature of Activities and Significant Accounting Policies (continued)

Split-interest investments and related obligations (continued):

Charitable Gift Annuities
Gift annuities result from gifts to the School for which the School has an agreement to make periodic payments of a specified amount to a designated individual. Such payments terminate upon the death of the individual. Gift annuities are recognized as increases in net assets at the fair value of the gift, less the present value of the anticipated annuity payments. The present value of the anticipated annuity payments has been included in split-interest obligations.

Pooled Income Fund
In accordance with the various terms of the related donor gifts, each income interest in any property given to the School's pooled income fund is retained by each donor or designated beneficiary until his or her death. The School has recognized gifts to the pooled income fund as increases in net assets at the fair value of the gift upon its receipt, discounted until the estimated time period to the donor's or designated beneficiary's death. The funds are divided into units, and contributions of donors' life income gifts are pooled and invested as a group. Donors are assigned a specific number of units based on the proportion of the fair value of their contributions to the total fair value of the pooled income fund on the date of the donor's entry to the pooled fund. Until a donor's death, the donor (or the donor's designated beneficiary or beneficiaries) is paid the actual income (as defined under the arrangement) earned on the donor's assigned units. Upon the donor's death, the value of these assigned units reverts to the School.

The contributions of these various agreements are recorded as permanently restricted net assets if the ultimate disposition of the funds to be received is to be permanently invested. If the ultimate disposition of the investments is unrestricted, the contributions are recorded as temporarily restricted until such time as the assets are distributed to the School.

Deferred charges: Costs incurred in connection with the issuance of debt have been deferred and are amortized over the term of the debt issue on the straight-line basis.

Fair value of financial instruments: The fair value of cash and cash equivalents, short-term investments, investments, and long-term debt, in the aggregate, approximates their respective carrying amounts.

Federal income tax: The School qualifies as a tax-exempt, nonprofit organization under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for federal or state income tax has been recorded in the accompanying financial statements.

Operating activities: The statements of activities reflect a subtotal for changes in net assets from operating activities. This subtotal reflects revenues that the School received for operating purposes, including investment return used for operations for donor restricted endowments and all operating expenses. Non-operating activity reflects contributions for endowment and plant purposes; the change in unrealized appreciation/depreciation on long-term investments in excess of the amount appropriated under the Board of Trustees' approved spending policy; gains/losses on the disposal of property and equipment; change in present value of split interest agreements. Non-operating activities also include transfers of net assets that occur when donors change the restrictions on certain gifts.

Reclassification of net assets to conform to donors' intent: Certain net asset balances have been reclassified during the fiscal year ended June 30, 2009 to conform to changes made by donors relating to the original intent of their gift or previously donor-restricted gifts whose restrictions were met during the fiscal period. No net asset balances were reclassified during the fiscal year ended June 30, 2010.

Note 1. Nature of Activities and Significant Accounting Policies (continued)

Liquidity: In order to provide information about liquidity, assets are sequenced according to their nearness of conversion to cash and liabilities according to their estimated maturity.

Reclassifications: Reclassifications have been made to the 2009 financial statements to conform to the presentation used in 2010.

Recent accounting pronouncements: In June 2009, the FASB approved the FASB Accounting Standards Codification ("Codification" or "ASC") as the single source of authoritative accounting guidance. The Codification did not change generally accepted accounting principles but rather enhanced the way accounting principles are organized. The Codification was effective for years ending on or after September 15, 2009. The Codification is effective and has been adopted by the School as of June 30, 2010 and its adoption did not impact the Schools statements of financial position or statements of activities.

In March 2008, the Financial Accounting Standards Board ("FASB") issued ASC Topic 815-10-15 and 65 (formerly FAS 161), "*Disclosures about Derivative Instruments and Hedging Activities*". The adoption of this standard did not have a material impact on the School's statements of financial position or statements of activities.

In September 2009, the FASB issued FASB Accounting Standards Update No. 2009-12, *Investment in Certain Entities That Calculate Net Asset Value per Share (ASU 2009-12)."* ASU 2009-12 adds disclosures and provides guidance for estimating the fair value of investments in investment companies that calculate net asset value per share, allowing the Net Asset Value per Share ("NAV") to be used as a practical expedient for fair value where investment companies follow the American Institute of Certified Public Accounts ("AICPA") Guide in arriving at their reported NAV. The School adopted ASU 2009-12 during the year ended June 30, 2010.

Effective July 1,2009, the School adopted the standard *Accounting for Uncertainty in Income Taxes.* The standard clarifies the accounting for uncertainty in income taxes by prescribing the recognition threshold a tax position is required to meet before being recognized in the financial statements. It also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. Management believes that the School has no material uncertainties in income taxes as of June 30, 2010 and 2009, respectively.

In January 2010, The FASB issued Accounting Standards Update ("ASU") No. 2010-06, "*Improving Disclosures about Fair Value Measurements*." This amends ASC 820 (formerly FAS 157-4) to require additional disclosures. The guidance requires entities to disclose transfers of assets in and out of Levels I and II of the fair value hierarchy, and the reasons for those transfers. ASU No. 2010-06 is effective January 2010. In addition, the guidance requires separate presentation of purchases and sales in the Level III asset reconciliation; this is effective for the fiscal year ending June 30, 2011. The School adopted this disclosure during the year ended June 30, 2010.

Note 2. Investments

Investments at June 30 consisted of the following:

	2010		2009	
	Cost	**Fair Value**	Cost	Fair Value
Mutual funds and money market funds	**$ 8,209,649**	**$ 8,420,128**	$ 7,369,319	$ 7,376,191
Limited partnerships, hedge funds, and private equity funds	**38,750,555**	**51,129,796**	44,040,158	50,767,734
Total	**$ 46,960,204**	**$ 59,549,924**	$ 51,409,477	$ 58,143,925

Total investment return (loss) for the year ended June 30 was as follows:

	2010	2009
Net investment income	**$ 55,494**	$ 104,293
Net unrealized appreciation (depreciation)	**5,855,271**	(13,006,603)
Net realized (loss) gain	**(491,173)**	1,076,821
Total investment return	**$ 5,419,592**	$ (11,825,489)

The following table summarizes the valuation of the School's investments by the above fair value hierarchy levels as of June 30, 2010 and 2009:

Investments Measured at Fair Value on a Recurring Basis at June 30, 2010

Fair Value Measurements Using

	Quoted Prices Level I	**Observable Inputs Level II**	**Unobservable Inputs Level III**	**Total June 30, 2010**
Money market funds	$ 6,104,140	$ -	$ -	$ 6,104,140
Mutual funds	2,315,988	-	-	2,315,988
Alternative Investments:				
Private equity funds	-	-	24,366,544	24,366,544
Hedge funds	-	-	24,636,159	24,636,159
Real estate funds	-	-	2,127,093	2,127,093
Total	$ 8,420,128	$ -	$ 51,129,796	$ 59,549,924

Note 2. Investments (continued)

Investments Measured at Fair Value on a Recurring Basis at June 30, 2009

	Fair Value Measurements Using			
	Quoted Prices	**Observable Inputs**	**Unobservable Inputs**	**Total**
	Level I	**Level II**	**Level III**	**June 30, 2009**
Money market funds	$ 5,263,810	$ -	$ -	$ 5,263,810
Mutual funds	2,112,381	-	-	2,112,381
Alternative Investments:				
Private equity funds	-	-	21,269,675	21,269,675
Hedge funds	-	-	27,094,135	27,094,135
Real estate funds	-	-	2,403,924	2,403,924
Total	$ 7,376,191	$ -	$ 50,767,734	$ 58,143,925

The changes in investments measured at fair value for which the School has used Level III inputs to determine fair value are as follows:

	Private Equity Funds	**Hedge Funds**	**Real Estate Funds**	**Total**
Balance June 30, 2009	$ 21,269,675	$27,094,135	$ 2,403,924	$ 50,767,734
Net realized and unrealized gain (loss) on investments	2,825,807	3,312,689	(486,831)	5,651,665
Purchases of investments	419,800	-	210,000	629,800
Withdrawals of investments	(148,738)	(5,770,665)	-	(5,919,403)
Balance June 30, 2010	$ 2,366,544	$24,636,159	$ 2,127,093	$ 51,129,796

Note 3. Endowment Assets

Through June 30, 2008, School's management and investment of donor-restricted endowment funds was subject to the provisions of the *Uniform Management of Institutional Funds Act* (UMIFA). In 2006, the Uniform Law Commission approved the model act, *Uniform Prudent Management of Institutional Funds Act* (UPMIFA) that serves as a guideline to states to use in enacting legislation. Among UPMIFA's most significant changes is the elimination of UMIFA's important concept of a historic dollar value threshold, the amount below which an organization could not spend from the fund, in favor of a more robust set of guidelines about what constitutes prudent spending. Effective
June 30, 2009 the Commonwealth of Massachusetts has enacted UPMIFA, the provisions of which apply to funds existing on or established after that date.

Note 3. Endowment Assets (continued)

In August 2008, FASB Staff Position ("FSP") *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act and Enhanced Disclosures for All Endowment Funds,* was issued, and its guidance is effective for fiscal years ending after December 15, 2008. A key component of the FSP is a requirement to classify the portion of a donor-restricted endowment fund that is not classified as permanently restricted net assets as temporarily restricted net assets until appropriated for expenditure. Another key component of that FSP is a requirement for expanded disclosures for all endowment funds. No reclassification of net assets from unrestricted to temporarily restricted was required by the School due to the adoption of the standard for the year ended June 30, 2009.

The Board of the School has interpreted the Massachusetts UPMIFA 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. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the School in a manner consistent with the standard of prudence prescribed by the Massachusetts UPMIFA.

The School's pooled endowment consists of approximately 121 individual funds established for a variety of purposes. The endowment includes both donor-restricted funds and funds designated by its Board of Trustees to function as endowment assets. Net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowment assets, are classified and reported based on the existence or absence of donor-imposed restrictions. The School adheres to the total return concept for its endowment.

The School has a policy of appropriating for distribution each year a percentage of its endowment funds' fair value based on a twelve quarter rolling average. The School calculates its twelve quarter rolling average to correspond with its operating budget cycle. The final quarter included in the average was December 2008 and December 2007 for the fiscal years 2010 and 2009, respectively. The percentage of appropriation as approved by the Board of Trustees was 5.2% and 5.5% for fiscal years 2010 and 2009, respectively. The amount derived from this calculation is referred to as endowment appropriation and is released to unrestricted in the statements of activities. The Board of Trustees approved an additional appropriation totaling $390,600 in fiscal year 2009. The approved appropriation percent for fiscal year 2011 is 5.0%. In establishing this policy, the School considered the long-term expected return on its endowment. Accordingly, over the long term, the School expects the current spending policy to allow its endowment to grow at a rate exceeding expected inflation. This is consistent with the School's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

If the actual return (interest, dividends, realized gains and losses, and change in unrealized appreciation) is greater or less than the calculated spending policy amount, the difference is added to or availed of the unrestricted or temporarily restricted portion of the realized and unrealized appreciation as appropriate.

The School has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to provide investment growth in excess of appropriation. Actual

Note 3. Endowment Assets (continued)

returns in any given year may vary from this goal. To satisfy its long-term rate-of-return objectives, the School relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The School targets a diversified asset allocation that places a greater emphasis on equity based investments to achieve its long-term return objectives within prudent risk constraints. It is the goal that the endowment, over time, will provide an average rate of return of approximately 8 percent annually. Actual returns in any given year may vary from this amount.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the donor requires the School to retain as a fund of perpetual duration. Deficiencies of this nature are reported in unrestricted net assets. The aggregate deficiency between the fair value of the investments of the endowment fund at June 30, 2010 and 2009 and the level required by donor stipulation is $0 and $823,900, respectively. The June 30, 2009 deficiency resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions. No appropriations were made for the year 2009 from individual funds that have a fair value below the amount of the original gift.

Endowment net asset composition by type of fund as of June 30, 2010:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Funds				
General purposes	$ 5,672,442	$ -	$ -	$ 5,672,442
Educational and special programs	-	7,774,518	12,806,074	20,580,592
Financial Aid	-	11,996,004	8,886,638	20,882,642
Plant maintenance	-	1,338,426	41,862	1,380,288
	5,672,442	21,108,948	21,734,574	48,515,964
Board Designated Endowment Funds				
General purposes	11,875,739	-	-	11,875,739
Educational and special programs	278,668	-	-	278,668
	12,154,407	-	-	12,154,407
Total Endowment Net Assets	$ 17,826,849	$ 21,108,948	$ 21,734,574	$ 60,670,371

Permanently restricted endowment net assets include contributions receivable of $441,249.

Note 3. Endowment Assets (continued)

Changes in endowment net assets for the year ended June 30, 2010 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
June 30, 2009	$ 17,718,510	$ 20,146,212	$ 21,576,510	$ 59,441,232
Investment return:				
Net investment income	33,370	-	-	33,370
Net realized and unrealized gain	2,388,514	3,252,166	-	5,640,680
Total investment return	2,421,884	3,252,166	-	5,674,050
Gifts to endowment	-	-	158,064	158,064
Withdrawal from endowment	(457,645)	-	-	(457,645)
Endowment appropriation for expenditure	(1,855,900)	(2,289,430)	-	(4,145,330)
June 30, 2010	$ 17,826,849	$ 21,108,948	$21,734,574	$ 60,670,371

Changes in endowment net assets for the year ended June 30, 2009 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
June 30, 2008	$ 25,614,441	$ 29,121,963	$ 21,090,464	$ 75,826,868
Investment return:				
Net investment income	59,340	-	-	59,340
Net realized and unrealized gain	(5,893,895)	(6,403,538)	-	(12,297,433)
Total investment return	(5,834,555)	(6,403,538)	-	(12,238,093)
Gifts to endowment	-	-	466,046	466,046
Reclassification to/from endowment	(751,531)	-	20,000	(731,531)
Endowment appropriation for expenditure	(1,309,845)	(2,572,213)	-	(3,882,058)
June 30, 2009	$ 17,718,510	$ 20,146,212	$ 21,576,510	$ 59,441,232

Note 4. Contributions Receivable

Contributions receivable at June 30 consisted of the following:

	2010	2009
Receivable in less than one year	**$ 857,217**	$ 1,140,799
Receivable in one to five years	**820,573**	1,317,922
Total	**1,677,790**	2,458,721
Less: Unamortized present value discount, at rate approximating 5.125%	**(57,173)**	(93,763)
Allowance for uncollectibles	**(99,436)**	(219,163)
	$ 1,521,181	$ 2,145,795

Note 5. Investments for Split-Interest Agreements

The fair value of investments for split-interest agreements as of June 30 consisted of the following:

	2009	Quoted Prices in active markets for identical assets (Level I)	2010	Quoted Prices in active markets for identical assets (Level I)
Cash and cash equivalents	$ 5,259	**$ 5,259**	**$ 22,255**	**$ 22,255**
Equity funds	976,702	**976,702**	**1,077,967**	**1,077,967**
Fixed income	917,315	**917,315**	**926,231**	**926,231**
Total	$ 1,899,276	**$ 1,899,276**	**$ 2,026,453**	**$ 2,026,453**

Note 6. Property, Plant and Equipment

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

	2010	2009
Land	**$ 832,897**	$ 832,897
Land improvements	**4,619,603**	4,586,128
Buildings	**64,899,665**	64,307,304
Equipment	**7,755,672**	7,594,436
Vehicles	**499,528**	499,528
	78,607,365	77,820,293
Less accumulated depreciation	**(31,198,831)**	(28,725,495)
	47,408,534	49,094,798
Construction in progress	**134,280**	473,097
Property, plant and equipment, net	**$ 47,542,814**	$ 49,567,895

Depreciation expense was $2,482,001 and $2,243,147 for the years ended June 30, 2010 and 2009, respectively.

Note 7. Note Payable

A note payable to Butler Bank with a balance of $643,933 at June 30, 2010 ($674,105 at June 30, 2009), is payable in monthly installments of $5,335 including interest at 5.125%. Final payment is due in August of 2024, and the note is collateralized by the physical assets of the School.

Annual maturities during the next five years and thereafter are as follows:

Years ending June 30,	Amount
2011	$ 31,762
2012	33,428
2013	35,182
2014	37,028
2015	38,971
Thereafter	467,562
	$ 643,933

Note 8. Bonds Payable

In February and March 1999, the School issued $25,000,000 in Massachusetts Development Finance Agency ("MDFA") Bonds, Brooks School Issue, Series 1999A and 1999B (Chittenden/Trustee). Series 1999B consisted of $17,500,000 in term and serial bonds with fixed interest rates varying between 3.90% and 5.125% that mature in 2029. Series 1999A consisted of $7,500,000 in variable-rate, demand revenue bonds that were scheduled to mature in 2029. At October 31, 2008, Series 1999A had an outstanding balance of $6,500,000. In November 2008, the School entered into a $6,500,000 bond with MDFA. The proceeds from the bond were used to refund and replace Series 1999A. The new MDFA Bond, Brooks School Issue, Series 2008 has the same repayment and variable rate schedule as the Series 1999A bonds. Interest on the Series 2008 bonds is reset weekly and is payable monthly. The variable rate at June 30, 2010 and 2009 was 0.32% and 3.00%, respectively.

The purpose of refinancing the Series 1999A bonds was to change the type of credit enhancement by replacing the existing MBIA insurance with a direct letter of credit. At June 30, 2009, the Series 2008 bonds are secured by a direct pay letter of credit with Citizens Bank. The letter of credit expires on November 2, 2013 and bears an annual fee of 1.00%. There were no drawings against this instrument during 2010 or 2009. The letter of credit contains financial covenants that the School is required to meet, and which were fully met as of June 30, 2010. In August, 2009, the School entered into a letter of credit confirmation ("the wrap") with the Federal Home Loan Bank of Boston ("FHLBB") as additional credit enhancement of the Citizens Bank letter of credit issued on the Series 2008 bonds. The terms of the FHLBB wrap run concurrently with the existing Citizens Bank letter of credit.

The Series 1999B and Series 2008 bonds are general obligations of the School. The School has also granted a first lien on substantially all tuition receipts as additional collateral for payment of the bonds. The proceeds of these bonds, after the advanced refunding of the previously issued Series 1993 bonds, were used, together with other available funds, to finance construction and renovations including a new dining hall and student center, service building, utilities upgrading, and other improvements. At June 30, 2010 and 2009, there were no funds held in trust for debt service or construction costs.

In December 2007, the School entered into a $6,000,000 note ("the note") with MDFA from proceeds of the MDFA Tax-Exempt Commercial Paper Revenue Notes, CP Program 4 Issue, Tranche 6 (Deutsche Bank Trust Company Americas/Trustee). The note bears interest at variable rates and matures in 2012. The variable rate at June 30, 2010 and 2009 was 0.43% and 2.50%, respectively. Interest on the note is reset quarterly and is payable monthly.

The note is a general obligation of the School. The proceeds of this note were used, together with other available funds, solely for the construction of a 30,000 square foot science center building. The building was completed in September, 2008. At June 30, 2010 there was $58,707 held in trust for debt service or construction. At June 30, 2009, $71,378 was held in trust for construction costs.

At June 30, 2010, the note is secured by a direct pay letter of credit with Citizens Bank. The letter of credit expires on December 1, 2012 and bears an annual fee of 1.00%. There were no drawings against this instrument during the years 2010 and 2009. The note and the letter of credit contain financial covenants that the School is required to meet and which were fully met as of June 30, 2010. In August, 2009, the School entered into a letter of credit confirmation ("the wrap") with the Federal Home Loan Bank of Boston ("FHLBB") as additional credit enhancement of the Citizens Bank letter of credit issued on the note. The terms of the FHLBB wrap run concurrently with the existing Citizens letter of credit.

Note 8. Bonds Payable (continued)

Annual aggregate principal payments and sinking fund requirements for the Series 1999B and 2008 bonds, and the 2007 note for the next five years and thereafter are as follows:

Years ending June 30,	Amount
2011	$ 1,165,000
2012	1,190,000
2013	3,710,000
2014	735,000
2015	760,000
Thereafter	16,555,000
	24,115,000
Less unamortized discount	(142,463)
Bonds payable, net	$ 23,972,537

The School was subject to certain restrictive covenants of which the School was not in compliance as of June 30, 2010. The School obtained a waiver from the issuer after year end dated December 1, 2010.

Note 9. Net Assets

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

	2010	2009
Contributions receivable due in future years	**$ 1,079,932**	$ 1,517,787
Accumulated and unappropriated investment earnings on donor restricted endowments	**21,108,948**	20,146,212
Unexpended contributions for capital expenditures	**189,205**	-
Restricted gifts by type	**1,234,982**	854,211
Student loans	**164,161**	192,465
Total	**$ 23,777,228**	$ 22,710,675

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

	2010	2009
Donor restricted endowments	**$ 21,293,325**	$ 20,948,503
Contributions receivable due in future years	**441,249**	628,007
Total	**$ 21,734,574**	$ 21,576,510

Note 10. Net Assets Released from Restrictions

Net assets released from restrictions resulting from the satisfaction of purpose and time restrictions during the years ended June 30, 2010 and 2009 are as follows:

	2010	2009
Endowment appropriation for expenditure	**$ 2,289,430**	$ 2,572,213
Time restrictions on pledges	**31,157**	490,767
Restricted operating expenses	**346,147**	258,489
Restricted capital expenditures	**350,000**	2,159,008
Student loan bad debt	**33,555**	11,624
Total	**$ 3,050,289**	$ 5,492,101

Note 11. Retirement Plan

Faculty, administrative personnel, and service employees of the School are participants in the noncontributory retirement annuity plan sponsored by the Teachers Insurance and Annuity Association ("TIAA"). The School's contributions to this plan for the years ended June 30, 2010 and 2009 were $744,715 and $758,469, respectively.

Note 12. Functional Classification of Expenses

The expenses related to fulfilling these services for the years ended June 30, 2010 and 2009 were as follows:

Function:	**2010**	2009
Educational programs	**$ 12,799,884**	$ 12,373,400
Auxiliary services	**3,541,456**	3,659,215
Summer session	**1,497,511**	1,492,412
Administrative	**2,527,554**	2,546,733
Fundraising and capital development	**2,049,202**	2,104,407
Total expenses	**$ 22,415,607**	$ 22,176,167

Facilities operations and maintenance, depreciation and amortization expense, and interest expense have been allocated to functions in the above classifications based on the utilization of square footage used.

Note 13. Subsequent Events

The Organization evaluated subsequent events through December 1, 2010 when the financial statements were available to be issued.

Schedules of Additions to Property, Plant, and Equipment
Years ended June 30, 2010 and 2009
Unaudited - See Independent Auditor's Report

	2010	2009
Furnishings, Fixtures & Equipment		
Air conditioner - IT room	$ -	$ 6,570
Athletic Center water heaters	-	5,000
Digital copiers	-	23,085
Fire safety improvements	63,611	6,500
Hot water heating system	9,675	-
Kingsbury computer room	6,526	-
Gardner dorm carpeting	-	10,082
Library chiller compressor	14,350	15,729
Sewer main	-	9,000
Total Furnishings, Fixtures & Equipment	**$ 94,162**	$ 75,966
Trustee Approved Projects:		
10 stall garage doors	$ 6,000	$ -
Athletic Center card reader	7,306	-
Auditorium carpeting	18,077	-
Blake House carpet and flooring	23,750	-
Business office software upgrade	-	14,770
Center of campus master plan	-	(10,063)
Fire alarm - wireless connection	26,630	-
Gardner window replacement	15,804	-
Headmaster's residence renovations	6,175	996,983
Holcombe House renovation	-	622
Johnston roof	16,050	-
Merriman dorm expansion	191,153	48,801
Old Whitney heating control	8,080	-
Old Whitney carpet and flooring	10,856	-
Redundant storage network	-	55,048
Roads on campus - paving	-	75,634
Science Center	249,127	2,577,119
Sewer stations/cross connections	8,081	-
Stevens House exterior renovation	43,080	-
Stevens/Bigelow driveway	20,240	-
Synthetic turf fields	17,715	15,760
Thompson House renovation	47,499	-
Wireless PA system	1,309	44,082
Total trustee approved projects	**$ 716,932**	$ 3,818,756
Total additions to property, plant, and equipment	**$ 811,094**	$ 3,894,722

Brooks School **Schedule II**

Schedules of Cash Gifts Received
Years ended June 30, 2010 and 2009
Unaudited - See Independent Auditor's Report

2010	**Unrestricted**	**Restricted**	**Total**
Current unrestricted fund	**$ 2,448,826**	**$ -**	**$ 2,448,826**
Current restricted fund	**-**	**715,278**	**715,278**
Endowment fund	**-**	**344,822**	**344,822**
Plant fund	**170,106**	**539,205**	**709,311**
	$ 2,618,932	**$ 1,599,305**	**$ 4,218,237**

2009			
Current unrestricted fund	$ 2,164,309	$ 30,000	$ 2,194,309
Current restricted fund	-	367,110	367,110
Endowment fund	-	790,866	790,866
Plant fund	647,389	2,165,018	2,812,407
	$ 2,811,698	$ 3,352,994	$ 6,164,692