



MIDDLEBURY

Consolidated Financial Statements

June 30, 2023

(with summarized comparative information as of and
for the year ended June 30, 2022)

(With Independent Auditors' Report Thereon)

MIDDLEBURY

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Independent Auditors' Report

The President and Fellows of
Middlebury College:

Opinion

We have audited the consolidated financial statements of Middlebury College (the College), which comprise the consolidated statement of financial position as of June 30, 2023 and the related consolidated statements of activities, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the College as of June 30, 2023, and the changes in its net assets and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the College and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the College's ability to continue as a going concern for one year after the date that the consolidated financial statements are issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.



In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 College's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the College's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report on Comparative Summarized Information

We have previously audited the College's 2022 consolidated financial statements, and we expressed an unmodified opinion on those audited consolidated financial statements in our report dated October 27, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2022 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

KPMG LLP

Colchester, Vermont
October 30, 2023

Vt. Reg. No. 92-0000241

MIDDLEBURY

Consolidated Statements of Financial Position

June 30, 2023 and 2022

(Amounts in thousands)

| Assets | 2023 | 2022 |
|--|---------------------|------------------|
| Cash and cash equivalents | \$ 11,194 | 20,371 |
| Restricted cash | 8,218 | 1,393 |
| Accounts receivable, net | 12,116 | 7,178 |
| Prepaid expenses, inventories and other assets | 8,193 | 7,048 |
| Contributions receivable, net | 43,429 | 26,385 |
| Student loans receivable, net | 8,278 | 8,248 |
| Investments | 1,472,840 | 1,489,881 |
| Beneficial interest in perpetual trusts | 30,235 | 29,304 |
| Finance lease right of use asset | 43,791 | 45,346 |
| Land, buildings, and equipment, net | 377,514 | 365,317 |
| Total assets | <u>\$ 2,015,808</u> | <u>2,000,471</u> |
| Liabilities and Net Assets | | |
| Liabilities: | | |
| Accounts payable and accrued expenses | \$ 37,915 | 44,022 |
| Deferred revenues | 25,130 | 20,357 |
| Funds held for others | 10,074 | 9,381 |
| Annuities and other split-interest obligations | 26,600 | 26,091 |
| Refundable government loan funds | 2,896 | 3,369 |
| Operating lease obligations | 2,318 | 2,738 |
| Finance lease obligations | 45,850 | 46,234 |
| Long-term debt, net | 302,664 | 294,407 |
| Total liabilities | <u>453,447</u> | <u>446,599</u> |
| Net assets: | | |
| Without donor restrictions | 194,308 | 204,601 |
| With donor restrictions | 1,368,053 | 1,349,271 |
| Total net assets | <u>1,562,361</u> | <u>1,553,872</u> |
| Total liabilities and net assets | <u>\$ 2,015,808</u> | <u>2,000,471</u> |

See accompanying notes to consolidated financial statements.

MIDDLEBURY

Consolidated Statement of Activities

Year ended June 30, 2023

(with summarized comparative information for the year ended June 30, 2022)

(Amounts in thousands)

| | Without donor restrictions | With donor restrictions | Total | |
|---|-------------------------------|----------------------------|-----------|-----------|
| | | | 2023 | 2022 |
| Operating revenues and other support: | | | | |
| Net comprehensive and other student fees | \$ 176,427 | — | 176,427 | 171,528 |
| Contributions | 8,471 | 17,650 | 26,121 | 29,567 |
| Sponsored activities | 18,747 | — | 18,747 | 20,954 |
| Investment return, net: | | | | |
| Endowment distribution and investment income | 9,938 | 54,128 | 64,066 | 57,240 |
| Other sources | 15,085 | — | 15,085 | 13,687 |
| Net assets released from restrictions | 70,968 | (70,968) | — | — |
| Total operating revenues and other support | 299,636 | 810 | 300,446 | 292,976 |
| Operating expenses: | | | | |
| Salaries | 140,152 | — | 140,152 | 133,848 |
| Benefits | 53,036 | — | 53,036 | 49,182 |
| Building and maintenance | 17,331 | — | 17,331 | 16,387 |
| Fees for services | 21,467 | — | 21,467 | 18,875 |
| Equipment and supplies | 9,329 | — | 9,329 | 9,827 |
| Travel and entertainment | 9,183 | — | 9,183 | 5,258 |
| Other expenses | 25,200 | — | 25,200 | 25,285 |
| Interest expense | 10,316 | — | 10,316 | 10,382 |
| Depreciation and amortization | 21,823 | — | 21,823 | 21,717 |
| Total operating expenses | 307,837 | — | 307,837 | 290,761 |
| Change in net assets from operations | (8,201) | 810 | (7,391) | 2,215 |
| Nonoperating activities: | | | | |
| Endowment return, net of distribution | (3,711) | (17,901) | (21,612) | (66,071) |
| Change in value of other investments and deferred gifts | (72) | 1,398 | 1,326 | (5,379) |
| Contributions, net | 10 | 34,598 | 34,608 | 37,743 |
| Other | 1,681 | (123) | 1,558 | (2,176) |
| Total nonoperating activities, net | (2,092) | 17,972 | 15,880 | (35,883) |
| Change in total net assets | (10,293) | 18,782 | 8,489 | (33,668) |
| Net assets, beginning of year | 204,601 | 1,349,271 | 1,553,872 | 1,587,540 |
| Net assets, end of year | \$ 194,308 | 1,368,053 | 1,562,361 | 1,553,872 |

See accompanying notes to consolidated financial statements.

MIDDLEBURY

Consolidated Statements of Cash Flows

Years ended June 30, 2023 and 2022

(Amounts in thousands)

| | <u>2023</u> | <u>2022</u> |
|---|------------------|-----------------|
| Cash flows from operating activities: | | |
| Change in total net assets | \$ 8,489 | (33,668) |
| Adjustments to reconcile change in net assets to net cash used in operating activities: | | |
| Depreciation and amortization | 21,823 | 21,717 |
| Contributions restricted for long-term investments | (23,665) | (22,806) |
| Real property and other in-kind contributions | (2) | — |
| Amortization of bond issuance costs and bond premium | (1,605) | (1,737) |
| Gain on defeasement of debt | (2,926) | — |
| Loss on disposal of buildings and equipment | 568 | 551 |
| Contributions receivable bad debt allowance | 128 | 170 |
| Accounts receivable bad debt allowance | (9) | 394 |
| Change in value of split interest agreements | 509 | (3,919) |
| Realized and unrealized (gain) loss on investments | (34,720) | 21,575 |
| Unrealized (gain) loss on beneficial interest in perpetual trusts and remainder trusts | (1,155) | 6,918 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable, net | (4,947) | (2,189) |
| Contributions receivable | (16,836) | (13,337) |
| Prepaid expenses, inventories and other assets | (2,584) | (445) |
| Accounts payable and accrued expenses | (6,076) | (253) |
| Deferred revenues | 4,773 | 5,047 |
| Funds held for others | 693 | 618 |
| Other | (473) | (597) |
| Operating lease liability | (1,426) | (1,394) |
| Net cash used in operating activities | <u>(59,441)</u> | <u>(23,355)</u> |
| Cash flows from investing activities: | | |
| Proceeds from sales of investments | 315,947 | 255,884 |
| Purchases of investments | (264,186) | (233,834) |
| Purchases of property and equipment | (31,317) | (25,790) |
| Student loans granted | (841) | (857) |
| Student loans repaid | 790 | 1,310 |
| Net cash provided by (used in) investing activities | <u>20,393</u> | <u>(3,287)</u> |
| Cash flows from financing activities: | | |
| Contributions restricted for long-term investment | 23,665 | 22,806 |
| Proceeds from issuance of long-term debt | 61,290 | — |
| Payments on bonds and notes payable | (47,875) | (4,340) |
| Payments of finance lease liability | (384) | (407) |
| Advance from line of credit | 15,000 | 7,500 |
| Payment of advance from line of credit | (15,000) | (7,500) |
| Net cash provided by financing activities | <u>36,696</u> | <u>18,059</u> |
| Net change in cash and cash equivalents | <u>(2,352)</u> | <u>(8,583)</u> |
| Cash, cash equivalents and restricted cash: | | |
| Beginning of year | <u>21,764</u> | <u>30,347</u> |
| End of year | <u>\$ 19,412</u> | <u>21,764</u> |
| Supplemental data: | | |
| Cash and cash equivalents as shown in the Statements of Financial Position | \$ 11,194 | 20,371 |
| Restricted cash as shown in the Statements of Financial Position | 8,218 | 1,393 |
| Interest paid | 11,922 | 12,119 |
| Change in amounts accrued for purchase of property and equipment | (31) | (170) |

See accompanying notes to consolidated financial statements.

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Notes to Consolidated Financial Statements

June 30, 2023

(In thousands of dollars)

(1) Organization

The President and Fellows of Middlebury College (Middlebury) was founded in 1800 as a liberal arts college. The undergraduate institution, Middlebury College (the College), is a leading liberal arts college with an emphasis on literature, sciences, languages, international studies and environmental studies. The College has approximately 2,600 undergraduate students from all 50 states and 70 countries. Approximately 70% of the students are from outside of New England. Over one-half of the students spend at least one semester off campus, primarily outside of the United States of America. In addition to the Middlebury campus, the College has schools located in Argentina, Brazil, Cameroon, Chile, China, France, Germany, Italy, Japan, Jordan, Morocco, Puerto Rico, Russia (temporarily located in Kazakhstan), Spain, the United Kingdom, and Uruguay.

The Middlebury Schools are comprised of Schools Abroad, Language Schools, School of the Environment, and Bread Loaf Programs. The Schools enroll approximately 2,700 students and offer undergraduate and graduate programs in a variety of programs.

- The Schools Abroad offer undergraduate and graduate students the opportunity to study in one of 16 schools worldwide across 32 sites. Students take courses in most subjects, often with host country students, intern or engage in volunteer work, and live with a family or local students. The participants in the Middlebury Schools Abroad Program have a commitment to language and cultural immersion.
- The Language Schools, which began operations in 1915 focus on educating undergraduate and graduate language students from many disciplines at two sites in the United States and two sites abroad. There are programs in Abenaki, Arabic, Chinese, English, French, German, Hebrew, Italian, Japanese, Korean, Portuguese, Russian, and Spanish with a goal to improve languages and intercultural skills. The Language Schools provide access to language education through an interactive, immersion environment by incorporating linguistics, literature, culture, and area studies.
- The School of the Environment is a six-week undergraduate program held in Monterey, California offering leadership training, lab and field work, and interdisciplinary courses.
- Middlebury offers two Bread Loaf Programs, the Bread Loaf School of English and the Bread Loaf Writers' Conference. Beginning in 1920, the Bread Loaf School of English has offered graduate courses in literature, the teaching of writing, creative writing, and theater arts to students from across the United States and the world. The Bread Loaf School of English offers summer sessions in Vermont, California and at Oxford in the United Kingdom. The Bread Loaf Writers' Conference is the oldest writers' conference in America, held each summer in June and August at Middlebury's Bread Loaf Mountain campus amid the Green Mountain National Forest in Ripton, Vermont.

The Middlebury graduate school, the Middlebury Institute of International Studies at Monterey, (the Institute), is located in Monterey, California. The Institute enrolls approximately 600 students and provides higher education in translation, interpretation and language education and international policy management. In addition, there are four research centers at the Institute, the James Martin Center for Nonproliferation Studies, the Center for the Blue Economy, the Center for Conflict Studies in Monterey and the Vienna Center for Disarmament and Nonproliferation in Vienna, Austria.

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Notes to Consolidated Financial Statements

June 30, 2023

(In thousands of dollars)

Delineation Corporation, an affiliated entity of Middlebury, is a nonprofit organization founded to hold certain property. Middlebury advances funds to Delineation Corporation for expenses incurred for maintenance of real property.

Tax-Exempt Status

Middlebury and its affiliates are tax-exempt organizations as described in Section 501(c)(3) of the Internal Revenue Code and they recognize the effect of income tax positions only if those positions are more likely than not of being sustained by a taxing authority. Middlebury and its affiliates believes they have no significant uncertain tax positions.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The consolidated financial statements include Middlebury and its affiliated entities. All inter-entity transactions have been eliminated in consolidation.

(b) Basis of Accounting

The consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles (GAAP), on the accrual basis of accounting and present net assets, revenues, gains and losses based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Without Donor Restrictions: Net assets not subject to donor-imposed stipulations. Net assets, without donor restrictions may be designated for specific purposes by the Board of Trustees.

With Donor Restrictions: Net assets subject to donor-imposed stipulations that expire through the passage of time or can be fulfilled by actions pursuant to the stipulations, or which may be perpetual.

Revenues are reported as increases in net assets without donor restrictions unless use of the related asset is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless restricted by donor or by law. Expirations in subsequent years of 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 restrictions between the applicable classes of net assets.

Nonoperating activities include net return on investments, less amounts distributed for operating purposes, contributions for long-term investment such as endowment and capital, and the change in value of deferred gifts.

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Notes to Consolidated Financial Statements

June 30, 2023

(In thousands of dollars)

For comparison purposes, the 2023 statement of activities has been presented with 2022 summarized comparative information in total but not by net asset class. This summarized 2022 information is not intended to and does not include sufficient detail to constitute a complete presentation of changes in net assets in conformity with GAAP. Accordingly, such information should be read in conjunction with the Middlebury's financial statements for the year ended June 30, 2022, from which the summarized information was derived.

(c) Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

(d) Student Tuition and Fee Revenue

The College charges undergraduate students attending the Vermont campus a comprehensive fee which includes the cost of tuition, room and board, and fees. The Institute charges its graduate students tuition and related fees.

Tuition, fees and auxiliary student revenues are presented in the statement of activities at the transaction price, (i.e., net of any institutional student aid). Revenue from student education, residence and dining services are recognized as the services are provided over the academic year, which generally aligns with Middlebury's fiscal year. For fiscal year 2023, comprehensive student fees were \$266,517 and financial aid was \$90,088. For fiscal year 2022, comprehensive student fees were \$258,887 and financial aid was \$87,359.

Auxiliary enterprises include the operations of the dining services, residential halls, bookstores, Snow Bowl, Carroll and Jane Rikert Nordic Center, and the Ralph Myhre Golf Course. Revenues from auxiliary enterprises, except for the revenue from residential and dining halls, are included in other sources of operating revenues in the statement of activities. The revenues derived from residential and dining halls are included in net comprehensive and other student fees.

(e) Cash and Cash Equivalents

Cash and cash equivalents include interest-bearing money market accounts not held for investment purposes. Cash equivalents have original maturities of three months or less. Cash equivalents held for investment purposes are not considered cash and cash equivalents on the statement of cash flows.

(f) Contributions

Contributions, including interests in perpetual trusts held by others, unconditional promises to give and noncash assets, are recognized as revenue in the period received at fair value on the date of the contribution. A contribution is conditional if the agreement includes both a barrier that must be overcome for the recipient to be entitled to the assets transferred and a right of return for the transferred assets or a right of release of the promisor's obligation to the transferred assets. Conditional promises to give are not recognized until they become unconditional, that is, when the barriers on which they depend are met.

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Notes to Consolidated Financial Statements

June 30, 2023

(In thousands of dollars)

Contributions of land, buildings, and equipment without donor stipulations are reported as nonoperating revenue. Contributions of cash or other assets which a donor has stipulated be used to acquire land, buildings, and equipment are reported as restricted nonoperating revenue. The restrictions are considered to be released when assets are placed in service.

(g) Contributions Receivable

Contributions receivable include pledges that are recorded at their present value using discount rates at the date of the contribution that range from 1.0% to 5.5%. The present value is calculated using a risk-free rate of return adjusted for the credit risk. An allowance is made for potentially uncollectible contributions based upon management's past collection experience and other relevant factors.

(h) Fair Value

The fair value accounting standard defines fair value and establishes a framework for measuring fair value. The framework provides a 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) and the lowest priority to unobservable inputs (Level 3 measurement). The three levels of the fair value hierarchy under this principle are as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that Middlebury has the ability to access.

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Middlebury utilizes the net asset value (NAV) as a practical expedient to estimate the fair value of those funds whose values are determined by the appropriate manager or general partner. Such NAV-measured funds are not categorized in the fair value hierarchy.

Investments reported at NAV consist of shares or units in funds as opposed to direct interests in the funds' underlying securities, which may be readily marketable and not difficult to value. The majority of these fund managers are registered as required by the Securities and Exchange Commission.

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June 30, 2023

(In thousands of dollars)

Certain investments in funds contain lock-up provisions. Under such provisions, share classes of the investment are available for redemption at various times in accordance with the management agreement with the fund.

The fair value measurement level of the asset or liability 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.

These valuations may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although Middlebury believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Because of the inherent uncertainty of valuations, the estimated values as determined by the appropriate manager or general partners may differ significantly from the values that would have been used had a ready market for the investments existed, and the differences could be material.

(i) Derivatives

Middlebury records all derivatives, except those qualifying for the normal purchase/normal sale exception, at fair value. Fair value is determined using a valuation model utilizing market observable inputs.

(j) Beneficial Interest in Perpetual Trusts

Beneficial interest in perpetual trusts includes irrevocable trusts established for the benefit of Middlebury whereby the principal is held in perpetuity by others and the earnings are remitted to Middlebury. The interest in perpetual trusts is recorded at fair value, which is estimated to equal the fair value of the trust assets.

(k) Land, Buildings, and Equipment

Land, buildings, equipment, arts and antiques are recorded at cost at the date of acquisition or fair value at the date of gift. Depreciation is computed utilizing the straight-line method over the estimated lives of the depreciable assets, as follows (in years):

| | <u>Estimated useful lives</u> |
|----------------------------|-----------------------------------|
| Category: | |
| Land improvements | 20–30 |
| Buildings and improvements | 20–60 |
| Equipment | 4–10 |

Arts and antiques are maintained as collections and, accordingly, are not depreciated.

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June 30, 2023

(In thousands of dollars)

(l) Leases

Middlebury determines if an arrangement is a lease at inception. Finance and operating leases are included in right of use assets, and the related lease obligations on the balance sheet. Lease right-of-use assets represent Middlebury's right to use an underlying asset for the lease term. Lease obligations represent Middlebury's liability to make lease payments arising from the lease. Operating and finance lease right-of-use assets and related obligations are recognized at commencement date based on the present value of lease payments over the lease term discounted using an appropriate incremental borrowing rate. The incremental borrowing rate is based on the information available at commencement date in determining the present value of lease payments.

(m) Asset Retirement Obligation

An asset retirement obligation (ARO) is a legal obligation associated with the retirement of long-lived assets. These liabilities are initially recorded at fair value and the related asset retirement costs are capitalized by increasing the carrying amount of the related assets by the same amount as the liability. Asset retirement costs are subsequently depreciated over the useful lives of the related assets. Subsequent to initial recognition, Middlebury records period-to-period changes in the ARO liability resulting from the passage of time and revisions to either the timing or the amount of the original estimate of undiscounted cash flows. Middlebury ARO liabilities are reduced when the related obligation is settled. Middlebury has recorded an ARO liability in accrued expenses of \$5,814 and \$5,533 at June 30, 2023 and 2022, respectively.

(n) Deferred Revenues

Deferred revenues consist primarily of student fees related to Middlebury and its language schools, primarily related to payments for services that have not yet been rendered. This liability account also consists of the multi-year prepayment plan, summer school billing (net of financial aid), and sponsored activity. Deferred revenues are typically recognized as revenue within the subsequent fiscal year.

(o) Funds Held for Others

Middlebury acts as a custodian or fiscal agent for student organizations, certain long-term faculty professional development funds, and certain endowment funds for various organizations. These endowment funds are not included the endowment assets.

(p) Annuities and Other Split-Interest Obligations

Donors have made contributions with the stipulation that their contributions be invested and all or a portion of the resulting income be paid to beneficiaries during their lifetimes. Upon the death of the named beneficiaries, the assets become the property of Middlebury. These contributions are recorded in revenue at fair value with corresponding estimated liabilities for future amounts payable to other beneficiaries recorded in annuities and other split interest obligations. The liabilities associated with these gifts are adjusted to fair value at each reporting period using the terms of the related gift instrument.

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Notes to Consolidated Financial Statements

June 30, 2023

(In thousands of dollars)

(q) Refundable Government Loan Funds

Refundable government loan funds represent Perkins loan funds provided to students by the federal government through Middlebury. Middlebury is required to collect the loans on behalf of the federal government. The amounts due from the students are reported in the financial statements as student loans receivable. The amount due to the federal government, upon full liquidation of the program, is reported as refundable government loan fund on the statement of financial position. The Perkins Loan Extension Act of 2015 (the Act) ended the authority of participating institutions to make new Perkins Loans to students on September 30, 2017. The Act also requires each participating institution to refund to the federal government an amount calculated annually based on remaining outstanding loans and other factors.

(r) Sponsored Activities

Sponsored activities include various research and instructional programs funded by external parties including the federal government, foreign and state governments, and private foundations.

(s) Subsequent Events

Middlebury considers events or transactions that occur after the statement of financial position date but before the financial statements are issued to provide for additional evidence relative to certain estimates or to identify matters that require additional disclosure. These financial statements were issued on October 30, 2023, and subsequent events have been evaluated through that date.

In August 2023, the College issued \$44,060 par of Vermont Educational and Health Buildings Financing Agency (VEHBFA) Revenue Bonds, Series 2023 (the Series 2023 Bonds), in a tax-exempt financing. The proceeds from this issuance will be used to construct and outfit a new first-year student residence hall and pay certain costs of issuance of the Bonds.

(3) Liquidity and availability

Resources available to Middlebury to fund general expenditures, including debt service payments and construction projects not financed with debt, have seasonal variations related to the timing of tuition and comprehensive fee payments, receipt of gifts and pledges, and transfers from the endowment. Middlebury actively monitors and manages these resources utilizing a combination of short and long term investment strategies to align cash inflows and expected outflows in accordance with policy. At June 30, 2023 and 2022, existing financial assets and liquidity resources available within one year were as follows:

| | 2023 | 2022 |
|---|------------------|---------------|
| Financial assets available for general expenditure within one year: | | |
| Cash and cash equivalents | \$ 11,194 | 20,371 |
| Accounts receivable, net | 12,116 | 7,178 |
| Fiscal 2024 and 2023 budgeted endowment appropriation | 68,218 | 62,590 |
| | <u>\$ 91,528</u> | <u>90,139</u> |

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Notes to Consolidated Financial Statements

June 30, 2023

(In thousands of dollars)

Additionally, Middlebury has \$222,804 as of June 30, 2023, in board-designated endowment without donor restrictions and a line of credit of \$50,000 as referenced in note 9. Although Middlebury does not intend to spend from its board-designated endowment funds, other than amounts appropriated for operations, amounts could be made available if necessary subject to liquidity as outlined in note 5.

(4) Receivables

(a) Accounts Receivable

Accounts receivable consists of receivables for annual comprehensive fees, graduate school tuition, schools abroad tuition, and summer school room, board, and tuition. The provision for uncollectible amounts was \$572 and \$581 as of June 30, 2023 and 2022, respectively.

(b) Contributions Receivable

Contributions receivable consists of the following at June 30, 2023 and 2022:

| | 2023 | 2022 |
|--|-----------|---------|
| Due less than one year | \$ 15,458 | 8,565 |
| One to five years | 28,699 | 16,722 |
| | 44,157 | 25,287 |
| Less discount and allowance | (4,007) | (1,957) |
| | 40,150 | 23,330 |
| Contributions receivable from remainder trusts | 3,279 | 3,055 |
| | \$ 43,429 | 26,385 |

(5) Investments

Middlebury has developed a diversified endowment investment portfolio with a strong orientation to equity investments and to strategies designed to take advantage of market inefficiencies. The investment objectives guide the asset allocation policy and are achieved in partnership with external investment managers operating through a variety of vehicles, including separate accounts, limited partnerships, and commingled funds. Investments in real estate and mortgages include investment in real estate partnerships.

Alternative equity managers seek to generate high returns regardless of the direction of the overall stock market and may use derivatives to exploit inefficiencies in securities markets. Accordingly, derivatives in the investment portfolio may include currency forward contracts, interest rate and currency swaps, call and put options, debt and equity futures contracts, equity swaps, and other vehicles that may be appropriate in certain circumstances. The risk in alternative equity funds is limited to the amount it currently has invested in the funds. The risk in private equity partnerships is limited to the amount it currently has invested in the funds, legally obligated uncalled capital commitments to the funds, and certain distributions previously received.

MIDDLEBURY

Notes to Consolidated Financial Statements

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(In thousands of dollars)

As of June 30, 2023 and 2022, Middlebury had outstanding commitments of \$430,955 and \$319,744, respectively, to fund private partnerships (private equity, hedge and other) over a multi-year period. These capital calls are expected to be funded with cash on hand or using proceeds of liquidated securities.

These investments are subject to the additional risk of currency fluctuations. Also included in investments are \$52,042 and \$49,354 at June 30, 2023 and 2022, respectively, for split-interest agreements.

The components of total investment return from all sources consist of the following for the years ended.

| | 2023 | 2022 |
|--|------------------|-----------------|
| Interest, dividends, and other income, net | \$ 12,099 | 3,888 |
| Realized gains | 78,768 | 125,761 |
| Unrealized loss, net | (44,048) | (147,336) |
| | <u>\$ 46,819</u> | <u>(17,687)</u> |

Direct external investment management fees were \$4,203 and \$8,431 in 2023 and 2022, respectively, and are netted against interest, dividends, and other income in the table above. Purchase and sale transactions are recorded on a trade date basis.

The following table represents financial assets and liabilities by fair value hierarchy category as of June 30, 2023:

| | Level 1 | Level 2 | Level 3 | NAV and other valuation methods | Total |
|------------------------------------|----------------|----------------|----------------|--|----------------|
| Investments at fair value: | | | | | |
| Money market funds | \$ 20,518 | — | — | — | 20,518 |
| Equity securities | 49,092 | — | — | — | 49,092 |
| Debt securities | 87,662 | — | — | — | 87,662 |
| Real estate and mortgages | 6,600 | — | 8,588 | — | 15,188 |
| Private equity | — | — | 7,977 | — | 7,977 |
| Other investments | 152 | — | 49 | 542 | 743 |
| Total investments at fair value | <u>164,024</u> | <u>—</u> | <u>16,614</u> | <u>542</u> | <u>181,180</u> |

MIDDLEBURY

Notes to Consolidated Financial Statements

June 30, 2023

(In thousands of dollars)

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>NAV and other valuation methods</u> | <u>Total</u> |
|---|-------------------|----------------|----------------|--|------------------|
| Investments measured at net asset value: | | | | | |
| Equity securities | \$ — | — | — | 203,452 | 203,452 |
| Alternative equities | — | — | — | 341,537 | 341,537 |
| Private equity partnerships | — | — | — | 746,671 | 746,671 |
| Total investments at net asset value | — | — | — | 1,291,660 | 1,291,660 |
| Total investments | <u>\$ 164,024</u> | <u>—</u> | <u>16,614</u> | <u>1,292,202</u> | <u>1,472,840</u> |
| | | | | | |
| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>NAV and other valuation methods</u> | <u>Total</u> |
| Other assets: | | | | | |
| Remainder trusts | \$ — | — | 3,279 | — | 3,279 |
| Perpetual trusts | — | — | 30,235 | — | 30,235 |
| Total other assets | <u>\$ —</u> | <u>—</u> | <u>33,514</u> | <u>—</u> | <u>33,514</u> |

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Notes to Consolidated Financial Statements

June 30, 2023

(In thousands of dollars)

The following table represents financial assets and liabilities by fair value measurements as of June 30, 2022:

| | Level 1 | Level 2 | Level 3 | NAV and other valuation methods | Total |
|---|------------|---------|---------|--|-----------|
| Investments at fair value: | | | | | |
| Money market funds | \$ 29,608 | — | — | — | 29,608 |
| Equity securities | 65,022 | — | — | — | 65,022 |
| Debt securities | 104,952 | — | — | — | 104,952 |
| Real estate and mortgages | 7,160 | — | 8,839 | — | 15,999 |
| Private equity | — | — | 8,967 | — | 8,967 |
| Other investments | 61 | — | 49 | 542 | 652 |
| Total investments at fair value | 206,803 | — | 17,855 | 542 | 225,200 |
| Investments measured at net asset value: | | | | | |
| Equity securities | — | — | — | 181,481 | 181,481 |
| Alternative equities | — | — | — | 345,212 | 345,212 |
| Real estate and mortgages | — | — | — | 171 | 171 |
| Private equity partnerships | — | — | — | 737,817 | 737,817 |
| Total investments at net asset value | — | — | — | 1,264,681 | 1,264,681 |
| Total investments | \$ 206,803 | — | 17,855 | 1,265,223 | 1,489,881 |
| Other assets: | | | | NAV and other valuation methods | Total |
| Remainder trusts | \$ — | — | 3,055 | — | 3,055 |
| Perpetual trusts | — | — | 29,304 | — | 29,304 |
| Total other assets | \$ — | — | 32,359 | — | 32,359 |

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Notes to Consolidated Financial Statements

June 30, 2023

(In thousands of dollars)

Detailed liquidity of Middlebury's investments as of June 30, 2023 and June 30, 2022 is as follows:

| June 30, 2023 | | | | | | |
|---------------------------|------------|---------|-----------|----------|----------|-----------|
| | Daily | Monthly | Quarterly | Annually | Illiquid | Total |
| Money market funds | \$ 20,518 | — | — | — | — | 20,518 |
| Equity securities | 49,092 | 203,452 | — | — | — | 252,544 |
| Alternative equities | — | — | 341,537 | — | — | 341,537 |
| Debt securities | 87,662 | — | — | — | — | 87,662 |
| Real estate and mortgages | 6,600 | — | — | — | 8,588 | 15,188 |
| Private equity | — | — | — | — | 754,648 | 754,648 |
| Other investments | 152 | — | — | — | 591 | 743 |
| Total | \$ 164,024 | 203,452 | 341,537 | — | 763,827 | 1,472,840 |

| June 30, 2022 | | | | | | |
|---------------------------|------------|---------|-----------|----------|----------|-----------|
| | Daily | Monthly | Quarterly | Annually | Illiquid | Total |
| Money market funds | \$ 29,608 | — | — | — | — | 29,608 |
| Equity securities | 65,022 | 79,785 | 101,696 | — | — | 246,503 |
| Alternative equities | — | — | 345,212 | — | — | 345,212 |
| Debt securities | 104,952 | — | — | — | — | 104,952 |
| Real estate and mortgages | 7,160 | — | — | — | 8,838 | 15,998 |
| Private equity | — | — | — | — | 746,784 | 746,784 |
| Other investments | 61 | — | — | — | 763 | 824 |
| Total | \$ 206,803 | 79,785 | 446,908 | — | 756,385 | 1,489,881 |

Middlebury enters into derivative instruments such as futures for trading purposes. Middlebury may enter into U.S. Treasury, equity or index option and futures contracts to enhance liquidity and maintain market exposure.

Contracts in a net asset position are included in investments on the statement of financial position, and contracts in a net liability position are included in liabilities associated with investments on the statement of financial position. At June 30, 2023 and 2022 Middlebury held certain index future contracts in a net asset position of \$49 and \$0, respectively. Middlebury posted collateral on the index futures contracts of \$139 and \$0 at June 30, 2023 and June 30, 2022, respectively. The long notional amounts of the index futures contracts were \$1,571 and \$0 at June 30, 2023 and June 30, 2022, respectively.

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Notes to Consolidated Financial Statements

June 30, 2023

(In thousands of dollars)

The following table summarizes the Level 3 activity for the year ended June 30, 2023:

| | Beginning balance at June 30, 2022 | Realized gains | Change in unrealized gains (losses) | Additions | Deductions | Ending balance at June 30, 2023 |
|---------------------------------------|---|---------------------------|--|------------------|-------------------|--|
| Level 3 assets: | | | | | | |
| Real estate and mortgages | \$ 8,839 | — | — | — | (251) | 8,588 |
| Private equity | 8,967 | — | (990) | — | — | 7,977 |
| Other investments | 49 | — | — | — | — | 49 |
| Total investments | 17,855 | — | (990) | — | (251) | 16,614 |
| Remainder trusts | 3,055 | — | 224 | — | — | 3,279 |
| Perpetual trusts | 29,304 | — | 931 | — | — | 30,235 |
| Total investments and other assets | \$ 50,214 | — | 165 | — | (251) | 50,128 |

The following table summarizes the Level 3 activity for the year ended June 30, 2022:

| | Beginning balance at June 30, 2021 | Realized gains | Change in unrealized gains (losses) | Additions | Deductions | Ending balance at June 30, 2022 |
|---------------------------------------|---|---------------------------|--|------------------|-------------------|--|
| Level 3 assets: | | | | | | |
| Real estate and mortgages | \$ 8,000 | — | 839 | — | — | 8,839 |
| Private equity | 9,267 | — | (300) | — | — | 8,967 |
| Other investments | 49 | — | — | — | — | 49 |
| Total investments | 17,316 | — | 539 | — | — | 17,855 |
| Remainder trusts | 3,510 | — | (455) | — | — | 3,055 |
| Perpetual trusts | 35,767 | — | (6,463) | — | — | 29,304 |
| Total investments and other assets | \$ 56,593 | — | (6,379) | — | — | 50,214 |

There were no transfers between the fair value hierarchy levels in 2023 or 2022.

MIDDLEBURY

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June 30, 2023

(In thousands of dollars)

(6) Endowment

The endowment consists of donor-restricted endowment funds and board-designated funds to function as endowment for a variety of purposes. The net assets associated with endowment funds are classified and reported based on the existence or absence of donor – imposed restrictions. Middlebury classifies as net assets with donor restrictions, (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, and (d) unspent, appreciation on the permanent endowment. The unspent appreciation is classified in net assets with donor restrictions until those amounts are appropriated for expenditure by Middlebury in a manner consistent with the standard of prudence prescribed by the Uniform Prudent Management of Institutional Funds Act (both Vermont and California) UPMIFA statutes.

In accordance with the UPMIFA statutes, Middlebury considers the following factors in making a determination to appropriate or accumulate endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of Middlebury and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of Middlebury
- (7) The investment policies of Middlebury

The endowment for the years ended June 30, 2023 and 2022, delineated by net asset class and donor-restricted versus Board-designated funds were as follows:

| | | June 30, 2023 | |
|----------------------------------|-----------------------------------|--------------------------------|--------------|
| | Without donor restrictions | With donor restrictions | Total |
| Donor-restricted endowment funds | \$ — | 1,246,064 | 1,246,064 |
| Board-designated endowment funds | 222,804 | — | 222,804 |
| Total endowment funds | | | |
| June 30, 2023 | \$ 222,804 | 1,246,064 | 1,468,868 |

MIDDLEBURY

Notes to Consolidated Financial Statements

June 30, 2023

(In thousands of dollars)

| | June 30, 2022 | | |
|--|-------------------------------|----------------------------|-----------|
| | Without donor restrictions | With donor restrictions | Total |
| Donor-restricted endowment funds | \$ — | 1,241,862 | 1,241,862 |
| Board-designated endowment funds | 225,346 | — | 225,346 |
| Total endowment funds June 30, 2022 | \$ 225,346 | 1,241,862 | 1,467,208 |

(a) Changes in Endowment

Changes to the endowment for the year ended June 30, 2023 were as follows:

| | Without donor restrictions | With donor restrictions | Total |
|--|-------------------------------|----------------------------|-----------|
| Endowment net assets at beginning of year | \$ 225,346 | 1,241,862 | 1,467,208 |
| Total investment return, net | 6,227 | 36,227 | 42,454 |
| Contributions | 10 | 23,655 | 23,665 |
| Appropriation of endowment assets for spending distribution | (9,938) | (54,128) | (64,066) |
| Transfer to/from designated endowment funds | 1,159 | (1,552) | (393) |
| Endowment net assets at end of year | \$ 222,804 | 1,246,064 | 1,468,868 |

Changes to the endowment for the year ended June 30, 2022 were as follows:

| | Without donor restrictions | With donor restrictions | Total |
|--|-------------------------------|----------------------------|-----------|
| Endowment net assets at beginning of year | \$ 234,748 | 1,276,253 | 1,511,001 |
| Total investment return, net | (550) | (8,281) | (8,831) |
| Contributions | 1 | 22,805 | 22,806 |
| Appropriation of endowment assets for spending distribution | (8,935) | (48,305) | (57,240) |
| Transfer to/from designated endowment funds | 82 | (610) | (528) |
| Endowment net assets at end of year | \$ 225,346 | 1,241,862 | 1,467,208 |

MIDDLEBURY

Notes to Consolidated Financial Statements

June 30, 2023

(In thousands of dollars)

(b) Underwater Endowment Funds

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the value of the initial and subsequent donor gift amounts (deficit). These deficits result from unfavorable market fluctuations that occur after the investment of endowment funds or from spending deemed prudent.

When donor-restricted endowment deficits exist, they are classified as a reduction of donor-restricted net assets. Deficits of this nature were \$581 and \$412 as June 30, 2023 and 2022, respectively.

| | <u>2023</u> | <u>2022</u> |
|--|-------------|-------------|
| Aggregate amount by which funds are underwater | \$ (581) | (412) |
| Aggregate of original gift amount | 16,399 | 13,942 |
| Fair value of underwater endowments | 15,818 | 13,530 |

(c) Distribution Policy

The Board of Trustees approves a distribution of investment return based on the average per share market value of the pooled investments over the 12 calendar quarters preceding the previous calendar year. Calculations are performed for individual endowment funds at a rate of 5.00%. The corresponding calculated spending allocations are distributed monthly from the current net total or accumulated net total investment returns for individual endowment funds.

(d) Return Objectives and Risk Parameters

Middlebury has adopted endowment investment and spending policies that provide for a predictable stream of funding to programs supported by its endowment while seeking to maintain the permanent nature of endowment assets. Under this policy, the return objective for the endowment assets, measured over a full market cycle, shall be to maximize the return against a blended index, based on the overall investment portfolio's target allocation applied to the appropriate individual benchmarks. Middlebury expects its endowment funds, over time, to generate an average rate of return sufficient to provide for its spending needs plus the rate of growth in expenses, which reflects inflation pressures as well as real growth in Middlebury programs.

(e) Strategies Employed for Achieving Investment Objectives

To achieve its long-term rate of return objectives, Middlebury relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized gains) and current yield (interest and dividends). Middlebury targets a diversified asset allocation that places greater emphasis on equity-based investments to achieve its long-term objectives within prudent risk constraints.

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Notes to Consolidated Financial Statements

June 30, 2023

(In thousands of dollars)

(7) Land, Buildings, and Equipment

Land, buildings, and equipment at June 30, 2023 and 2022 consist of the following:

| | 2023 | 2022 |
|-------------------------------------|-------------|-------------|
| Land and land improvements | \$ 63,570 | 59,921 |
| Buildings | 647,117 | 642,228 |
| Equipment | 141,848 | 135,921 |
| Art and antiques | 23,138 | 22,248 |
| Construction in progress | 20,814 | 6,517 |
| | 896,487 | 866,835 |
| Less accumulated depreciation | (518,973) | (501,518) |
| Land, buildings, and equipment, net | 377,514 | 365,317 |
| Operating lease right of use asset | 2,261 | 2,695 |
| Finance lease right of use asset | 43,791 | 45,346 |
| Total | \$ 423,566 | 413,358 |

Depreciation and amortization expense in 2023 and 2022 was \$21,823 and \$21,717, respectively.

(8) Leases

Middlebury is committed to minimum annual rent payments under several long-term non-cancellable operating and finance leases for student residential and office space through fiscal year 2051.

The components of lease expense are as follows, in thousands of dollars:

| | 2023 | 2022 |
|-------------------------------------|-------------|-------------|
| Lease cost: | | |
| Finance lease expense | \$ 2,942 | 2,462 |
| Interest on lease liabilities | 1,555 | 1,166 |
| Amortization of right-of-use assets | 1,388 | 1,296 |
| Operating lease expense | 1,523 | 1,523 |
| Total lease expense | \$ 7,408 | 6,447 |

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June 30, 2023

(In thousands of dollars)

Other information related to leases as of June 30 was as follows:

| | <u>2023</u> | <u>2022</u> |
|--|-------------|-------------|
| Supplemental cash flow information: | | |
| Cash paid for amounts included in the measurement of lease liabilities: | | |
| Operating cash flow from operating leases | \$ 1,631 | 1,591 |
| Operating cash flow from finance leases | 1,414 | 1,166 |
| Financing cash flow from finance leases | 384 | 407 |
| ROU assets obtained in exchange for lease obligations: | | |
| Finance leases | — | 45,346 |
| Reductions to ROU assets resulting from reductions to lease obligations: | | |
| Operating leases | 1,439 | 1,401 |
| Finance leases | 1,440 | 1,296 |
| Weighted average remaining lease term: | | |
| Operating leases | 3.5 years | 1.9 years |
| Finance leases | 28 years | 29 years |
| Weighted average discount rate: | | |
| Operating leases | 5.0 % | 5.0 % |
| Finance leases | 3.0 % | 3.0 % |

Payments due include options to extend leases that are reasonably certain through fiscal year 2051, in thousands of dollars, and are summarized below as of June 30, 2023:

| | <u>Operating</u> | <u>Finance</u> |
|------------------------------------|------------------|----------------|
| Fiscal year: | | |
| 2024 | \$ 1,364 | 1,828 |
| 2025 | 215 | 1,888 |
| 2026 | 168 | 1,949 |
| 2027 | 172 | 1,993 |
| 2028 | 29 | 2,038 |
| Thereafter | 498 | 61,881 |
| Less amounts representing interest | (128) | (25,727) |
| Total | <u>\$ 2,318</u> | <u>45,850</u> |

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Notes to Consolidated Financial Statements

June 30, 2023

(In thousands of dollars)

(9) Long-Term Debt

Long-term debt is comprised of the following at June 30, 2023 and 2022:

| | <u>2023</u> | <u>2022</u> |
|--|-------------------|----------------|
| VEHBFA Series 2012A serial bonds \$46,150 original principal (uncollateralized) with annual principal payments increasing from \$2,485 in 2018 to \$5,130 in 2033, interest ranging from 2.50% to 5.0% | \$ — | 39,960 |
| VEHBFA Series 2012B serial bonds \$11,885 original principal (uncollateralized) with annual principal payments ranging from \$1,560 in 2020 to \$1,435 in 2024, interest at 5.00% | — | 4,550 |
| VEHBFA Series 2016 term bonds \$33,055 original principal (uncollateralized) due on November 1, 2046, issued at a premium, interest at 4.00% | 33,055 | 33,055 |
| 2016 direct placement term loan \$21,840 original principal, (uncollateralized) with annual principal payments ranging from \$1,180 in 2018 to \$2,045 in 2031, with interest at 2.34% | 14,030 | 15,465 |
| VEHBFA Series 2019 term bonds \$49,840 original principal, (uncollateralized) due on November 1, 2038, issued at a premium, interest at 5.00% | 47,910 | 49,840 |
| | <u>2023</u> | <u>2022</u> |
| VEHBFA Series 2020 revenue bonds \$88,295 original principal, (uncollateralized) due on November 1, 2050, issued at a premium, interest ranging from 4.00% to 5.00% | \$ 88,295 | 88,295 |
| 2021 direct placement term loan \$30,000 original principal, (uncollateralized) due November 1, 2027, with interest of 1.45% | 30,000 | 30,000 |
| VEHBFA Series 2022 revenue bonds \$61,290 original principal, (uncollateralized) due on August 1, 2042, issued at par, interest at 3.22% | 61,290 | — |
| | 274,580 | 261,165 |
| Less unamortized bond issuance costs | (1,955) | (2,006) |
| Plus unamortized premium | 30,039 | 35,248 |
| | <u>\$ 302,664</u> | <u>294,407</u> |

In August 2022, the College issued \$61,290 of the Vermont Educational and Health Buildings Financing Agency (VEHBFA) Revenue Bonds (Middlebury College Project), Series 2022 (the Series 2022 Bonds) in a tax-exempt financing. The proceeds from this issuance were used to refund the VEHBFA Series 2012A

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Notes to Consolidated Financial Statements

June 30, 2023

(In thousands of dollars)

Bonds, provide \$20,000 for new capital projects, and to pay certain costs of issuance of the Bonds. The Series 2022 Bonds bear interest of 3.22% per annum and have a final maturity of August 1, 2042.

(a) Debt Maturities

Annual principal requirements under all long-term debt obligations as of June 30, 2023 are as follows:

| | | |
|------------|----|-----------------------|
| 2024 | \$ | 8,955 |
| 2025 | | 11,545 |
| 2026 | | 11,905 |
| 2027 | | 12,270 |
| 2028 | | 12,650 |
| Thereafter | | <u>217,255</u> |
| | \$ | <u><u>274,580</u></u> |

(b) Credit Lines

As of June 30, 2023, Middlebury had a \$50,000 line of credit with a variable interest rate set with reference to the Secured Overnight Financing Rate (SOFR) or a similar benchmark rate. The maturity date for the line of credit is March 31, 2026.

For the years ended June 30, 2023 and 2022, there were no outstanding balances on these lines. The proceeds of the borrowings are to be used for short-term working capital needs, pre-funding capital projects prior to a bond issuance, or providing temporary liquidity for investment transactions.

(10) Retirement Plans

Retirement benefits for benefits eligible employees of Middlebury, are individually funded and vested under a defined contribution program with the Teachers Insurance and Annuity Association and the College Retirement Equities Fund (TIAA-CREF). Under this plan, Middlebury makes contributions into the employee accounts based upon investment allocations exercised by the employee or defaulted into the Lifecycle mutual funds. Retirement contributions for the years ended June 30, 2023 and 2022 were \$14,164 and \$13,604, respectively.

(11) Composition of Net Assets

Net assets without donor restriction are comprised of the following:

| | <u>2023</u> | <u>2022</u> |
|----------------------------------|--------------------------|-----------------------|
| Board-designated endowment funds | \$ 222,804 | 225,346 |
| Net investment in plant | 113,068 | 104,998 |
| Other | <u>(141,564)</u> | <u>(125,743)</u> |
| | <u><u>\$ 194,308</u></u> | <u><u>204,601</u></u> |

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Notes to Consolidated Financial Statements

June 30, 2023

(In thousands of dollars)

Composition of net assets with donor restrictions are comprised of the following:

| | 2023 | | Accumulated gains on restricted endowments |
|--|--------------|-------------------------------------|---|
| | Total | Restricted in perpetuity | |
| Endowment funds: | | | |
| Restricted for program support | \$ 387,057 | 183,072 | 203,985 |
| Restricted for general operating | 83,558 | 16,077 | 67,481 |
| Restricted for scholarship and prizes | 392,684 | 176,171 | 216,513 |
| Restricted for instruction | 295,980 | 82,144 | 213,836 |
| Restricted for library | 78,519 | 9,488 | 69,031 |
| Restricted for other student benefit | 8,266 | 640 | 7,626 |
| | 1,246,064 | \$ 467,592 | 778,472 |
| Other restricted funds: | | | |
| Restricted for scholarships, loan funds and other specific purposes | 56,831 | | |
| Restricted contributions receivable, net | 40,150 | | |
| Restricted annuity and life income gifts | 25,008 | | |
| | \$ 1,368,053 | | |

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Notes to Consolidated Financial Statements

June 30, 2023

(In thousands of dollars)

| | 2022 | | |
|--|---------------------|-------------------------------------|---|
| | <u>Total</u> | <u>Restricted in perpetuity</u> | <u>Accumulated gains on restricted endowments</u> |
| Endowment funds: | | | |
| Restricted for program support | \$ 384,954 | 175,491 | 209,463 |
| Restricted for general operating | 85,096 | 16,337 | 68,759 |
| Restricted for scholarship and prizes | 382,901 | 164,524 | 218,377 |
| Restricted for instruction | 300,895 | 78,371 | 222,524 |
| Restricted for library | 79,618 | 9,323 | 70,295 |
| Restricted for other student benefit | 8,398 | 716 | 7,682 |
| | <u>1,241,862</u> | <u>\$ 444,762</u> | <u>797,100</u> |
| Other restricted funds: | | | |
| Restricted for scholarships, loan funds and other specific purposes | 60,647 | | |
| Restricted contributions receivable, net | 23,330 | | |
| Restricted annuity and life income gifts | <u>23,432</u> | | |
| | <u>\$ 1,349,271</u> | | |

(12) Commitments and Contingencies

Middlebury has claims arising in the normal course of its operations. Middlebury believes that the outcome of these claims will not have a material adverse effect on the financial position, activities, or cash flows of Middlebury.

Middlebury has made a commitment to assist the Town of Middlebury (the Town) to finance the bridge construction project and has agreed to pay the Town the sum of \$300 twice per year starting in fiscal year 2011 and continuing until thirty years thereafter. Middlebury has recorded a commitment payable of \$6,817 and \$7,067 as of June 30, 2023 and 2022, respectively. The original commitment was for \$18,000 and was discounted at a rate of 5.00%.

Middlebury has made a commitment to assist the Town in financing the construction of a municipal office building and a gymnasium/recreation facility. This pertains to an agreement between Middlebury and the Town regarding the transfer of certain parcels of land and buildings. Middlebury will pay the Town approximately \$350 over two installments per year until 2034. The full commitment was for \$6,159 and was discounted at 3.25%. Middlebury has recorded a payable of \$2,770 and \$3,004 as of June 30, 2023 and 2022, respectively.

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Notes to Consolidated Financial Statements

June 30, 2023

(In thousands of dollars)

(13) Operating Expenses

The consolidated statements of activities present expenses by natural classification. Middlebury also summarizes expenses by functional classification. The primary program service is academic instruction and research. Expenses reported as student services and auxiliary enterprises are incurred in support of the primary program activity.

Natural class expenses are allocated to functional areas based predominantly on department-level expenses. Depreciation expense and interest expense are allocated to departments based on the purpose of associated buildings.

Operating expenses for the year ended June 30, 2023 are as follows:

| | <u>Instruction</u> | <u>Academic support</u> | <u>Student services</u> | <u>Institutional support</u> | <u>Sponsored activities</u> | <u>Total</u> |
|--------------------------|--------------------|-------------------------|-------------------------|------------------------------|-----------------------------|----------------|
| Salaries and wages | \$ 59,541 | 15,360 | 37,477 | 22,879 | 4,895 | 140,152 |
| Employee benefits | 22,537 | 5,814 | 14,185 | 8,660 | 1,840 | 53,036 |
| Building and maintenance | 3,143 | 1,304 | 5,538 | 7,135 | 211 | 17,331 |
| Fees for services | 5,582 | 2,519 | 3,871 | 8,239 | 1,256 | 21,467 |
| Equipment and supplies | 1,094 | 1,207 | 3,346 | 3,551 | 131 | 9,329 |
| Travel and entertainment | 1,589 | 1,962 | 3,334 | 1,058 | 1,240 | 9,183 |
| Other expenses | 5,104 | 3,791 | 12,165 | 2,778 | 1,362 | 25,200 |
| Interest expense | 2,600 | 1,527 | 5,364 | 825 | — | 10,316 |
| Depreciation expense | 5,657 | 2,828 | 11,736 | 1,602 | — | 21,823 |
| June 30, 2023 | <u>\$ 106,847</u> | <u>36,312</u> | <u>97,016</u> | <u>56,727</u> | <u>10,935</u> | <u>307,837</u> |

Operating expenses for the year ended June 30, 2022 are as follows:

| | <u>Instruction</u> | <u>Academic support</u> | <u>Student services</u> | <u>Institutional support</u> | <u>Sponsored activities</u> | <u>Total</u> |
|--------------------------|--------------------|-------------------------|-------------------------|------------------------------|-----------------------------|----------------|
| Salaries and wages | \$ 58,528 | 14,598 | 35,259 | 21,073 | 4,390 | 133,848 |
| Employee benefits | 21,555 | 5,376 | 12,985 | 7,760 | 1,506 | 49,182 |
| Building and maintenance | 2,766 | 1,363 | 4,977 | 7,008 | 273 | 16,387 |
| Fees for services | 2,850 | 2,886 | 3,472 | 6,907 | 2,760 | 18,875 |
| Equipment and supplies | 965 | 1,115 | 3,063 | 4,304 | 380 | 9,827 |
| Travel and entertainment | 945 | 898 | 2,504 | 478 | 433 | 5,258 |
| Other expenses | 4,885 | 3,359 | 10,294 | 2,918 | 3,829 | 25,285 |
| Interest expense | 2,616 | 1,537 | 5,399 | 830 | — | 10,382 |
| Depreciation expense | 5,629 | 2,815 | 11,679 | 1,594 | — | 21,717 |
| June 30, 2022 | <u>\$ 100,739</u> | <u>33,947</u> | <u>89,632</u> | <u>52,872</u> | <u>13,571</u> | <u>290,761</u> |

MIDDLEBURY

Notes to Consolidated Financial Statements

June 30, 2023

(In thousands of dollars)

(14) Related Parties

Members of the College's Board of Trustees and Officers may, from time to time, be associated, either directly or indirectly, with companies doing business with the College. The College's conflict of interest policy requires, among other things, that no member of the Board of Trustees or Officer may participate in any decision in which they (or an immediate family member) have a material financial interest. For the Board of Trustees and Officers, the College requires an annual disclosure of significant financial interests in, family relationships, significant management function, or substantial business with entities doing business with the College. When such relationships exist, measures are taken to address the actual or perceived conflict to protect the best interests of the College and ensure compliance with relevant conflict of interest laws or policy.

Middlebury College contracts with the Green Mountain Higher Education Consortium, a related party, to provide Middlebury College with accounts payable processing, benefits administration, and payroll processing services. The Middlebury College management team, or Board of Trustee members may from time to time serve as either officers or Board of Directors for the Green Mountain Higher Education Consortium.