Standard 9 • Financial Resources

The institution’s financial resources are sufficient to sustain the achievement of its educational objectives and to further institutional improvement now and in the foreseeable future. The institution demonstrates through verifiable internal and external factors its financial capacity to graduate its entering class. The institution administers its financial resources with integrity.

Overview

Middlebury’s financial management is focused on ensuring full support for the institution’s academic mission and the integration of all its programs. Financial planning and reporting are centralized and include all components of Middlebury: the undergraduate college, the Bread Loaf School of English, the Language Schools, C.V. Starr-Middlebury Schools Abroad, and the Monterey Institute of International Studies. Financial priorities are driven by the strategic plan and evaluated regularly by the Board of Trustees.

Financial Stewardship

Description

Middlebury engages in ongoing financial planning through the use of an in-house financial modeling tool that considers endowment performance, tuition rates, fund-raising, compensation, debt obligations, and all regular expenses to ensure balanced budgets for at least five consecutive years. The College maintains a responsible endowment spending policy that guides its endowment management and ensures an adequate contingency for unforeseen circumstances.

College resources are primarily allocated to the academic core. Over 60% of the budget is allocated to instruction, library and information systems, financial aid, and student services. These expenses are supported by three primary sources of revenue: tuition and fees, gifts and grants, and endowment support. The College’s graduate and special programs provide over 30% of tuition and fee revenue creating a broad base of support.

<table>
<thead>
<tr>
<th>FY11 Revenue</th>
<th>FY11 Expense</th>
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<tbody>
<tr>
<td><strong>Student Fees</strong> 67%</td>
<td><strong>Instruction</strong> 29%</td>
</tr>
<tr>
<td><strong>Financial Aid</strong> 18%</td>
<td><strong>Student Services</strong> 11%</td>
</tr>
<tr>
<td><strong>Sponsored Activities</strong> 1%</td>
<td><strong>M &amp; O</strong> 9%</td>
</tr>
<tr>
<td><strong>Endowment</strong> 18%</td>
<td><strong>Contingency</strong> 2%</td>
</tr>
<tr>
<td><strong>Auxiliaries</strong> 3%</td>
<td><strong>Institutional Support</strong> 9%</td>
</tr>
<tr>
<td><strong>Gifts &amp; Reserves</strong> 8%</td>
<td><strong>Sponsored Activities</strong> 3%</td>
</tr>
<tr>
<td><strong>Other</strong> 3%</td>
<td><strong>Depr. &amp; Debt</strong> 11%</td>
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</tbody>
</table>

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In order to plan for appropriate maintenance of buildings, the operating budget allocates 1.55% of the replacement value of the campus to be used for renewal and replacement of buildings. Capital projects greater than $1 million are approved by two Board of Trustees’ committees: Buildings and Grounds, and Budget and Finance, before being approved by the full board. The president approves all other capital projects. There is also a reserve for capital equipment to replace equipment on a regular basis. This includes academic equipment, computers, vehicles, and any other capitalizable pieces of equipment.

Appraisal
The College remains committed to providing competitive salaries and benefits to all faculty and staff. Both the faculty and staff compensation programs have recently been reviewed by designated committees. These committees recommended enhancements and improvements to both programs. These changes will be implemented when approved by the president and constituent groups.

The College also remains committed to maintaining the level of resources supporting the academic mission of the institution. For example, throughout the financial crisis the number of faculty remained steady to maintain a student/faculty ratio of 9:1 in the undergraduate college. Funding in support of academic programs, student/faculty research, financial aid, and faculty development were also preserved.

As a result of the recession, however, we did face three significant financial challenges: a $30 million projected deficit, a large amount of long-term debt with 25% variable rate debt and an out-of-the-money swap, and a greater than 5% endowment spending rate.

The first priority was to address the $30 million deficit. The College took an open and proactive approach, beginning with a freeze on staff hiring and implementing a 5% cut per vice presidential area to non-academic departments and programs. While some academic enrichment funding was reallocated, no regular academic department budgets were cut, and no faculty positions were eliminated. Efforts were made to preserve resources critical to teaching and learning while seeking efficiencies in operations and management. In addition, the College surveyed faculty, staff, and students to identify the areas that were of greatest importance. Faculty and staff were most concerned about retaining benefits and students were most concerned about retaining financial aid. College administrators considered these results in deciding to preserve these two items in the budget.

The financial planning process prior to the financial crisis involved many constituencies of the College. During the crisis, the process for evaluating financial priorities became even more inclusive, involving more members and groups of the Board of Trustees, faculty, staff, students, and alumni. The president and senior administrative staff held regular open meetings for members of the College community, during which data were presented, information on actions and changes were outlined, and staff and faculty were able to ask questions. These meetings continue and are a prime example of the type of transparency with which Middlebury strives to operate.
The College established two key committees to guide decision-making during the crisis. These committees enabled more in-depth research into key finance-related areas, and underscored the administration’s stated desire for data-driven decision-making. The Budget Oversight Committee researched possible budget reductions and made recommendations to the president. One recommendation was to reduce staff positions by 10%. The already existing Staffing Resources Committee stepped up efforts to reorganize staff in the wake of staffing reductions resulting from attrition, early retirement incentive programs, and a voluntary separation program. A task force on auxiliaries reviewed operations and oversaw the implementation of dining consolidations, fee changes, and other modifications to improve net revenue.

Expenses for administrative and non-academic activities were reduced. Revenue assumptions were reviewed by the board, resulting in the adoption of more conservative assumptions including a lower return on investments, smaller increases in tuition, and reduced expectations in fund-raising. As a result of these swift and decisive actions, no layoffs were imposed and a two-year salary freeze was shortened to a one-year freeze in spring 2010 after budget and staffing reduction results were more favorable than anticipated.

The transparency and inclusion of multiple constituencies has resulted in a College community more educated about the financial health and operations of the institution. We intend to maintain this greater level of communication through annual and quarterly updates on finances by the president and the vice president for finance and treasurer. Having focused so much faculty and staff attention on finances over the last two years may, however, have led to crisis burnout. The College will need to be mindful that pre-crisis spending habits and revenue assumptions do not creep back into everyday practice, and that the good work of so many committed individuals does not get reversed or forgotten in the rush to “return to normal.”

After eliminating the budget deficit, the second major challenge involved the need to refinance $100 million of variable rate debt and terminate the related interest rate swap. Having accomplished this refinancing, the College has achieved all of its debt related goals: (1) attractive all-in cost for the refunding bonds and for the overall debt portfolio, (2) elimination of financial risks in the restructured debt portfolio, and elimination of debt-related costs like the swap payments and bank and remarketing fees. All of the College’s debt is now financed at fixed rates.

The third issue associated with the recession involved the need to reduce the overall endowment spend rate. This was important in order to further support our long-term financial stability. In the years preceding the recession, and in anticipation of additional operating costs for new buildings, the College had gradually increased the endowment spend rate up to a high of 7.1% in fiscal year 2005 and then gradually decreased the spend rate to 5% in fiscal year 2009. With the addition of debt service in the operating budget, the goal is now to reduce the overall spend rate to 5%. This will be phased in over the next eight to ten years.

Because the College’s graduate and special programs, including the Monterey Institute, are enrollment driven and subject to fluctuations in enrollment, it is necessary to establish a broader base of support from other sources of revenue. College Advancement created an office specifically for the procurement of gifts for these programs, tapping into the over 40,000 alumni from those programs. Advancement efforts at the Monterey Institute have been well supported.
by members of the Board of Trustees and efforts to increase giving at the Monterey Institute are underway. Additional funds have been allocated to the Monterey Institute to improve academic programs, marketing, and advancement, with the goal of increasing enrollment. More financial details about the Monterey Institute acquisition may be found in the NEASC Progress Report.

Approximately 50% of the students at the C.V. Starr-Middlebury Schools Abroad are from Middlebury and 50% are from other institutions. This composition ensures an academic balance and provides additional revenue with lower costs per student. Some of our agreements with partner universities within the C.V. Starr-Middlebury Schools Abroad carry an exchange component, allowing partner university students to attend Middlebury College, the Bread Loaf School of English, Language Schools, or the Monterey Institute. These agreements often reduce or eliminate tuition payments to partner institutions, but a financial liability still exists as “full-pay” positions at Middlebury are reallocated to these students.

In the wake of the financial crisis, the College is increasing its ongoing efforts for contingency planning, ensuring that the institution is nimble enough to adequately respond to another crisis, should one occur. The College had taken out $75 million in lines of credit – a $25 million demand line and a $50 million term line of credit – neither of which was used. The proceeds of the borrowings were 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. The $25 million demand line was terminated in fall 2010.

Auxiliary management has become more sophisticated and bottom-line driven following the crisis. Inventory management, price and cost comparisons, monthly reporting and detailed analysis have all been implemented in the past year, resulting in more data-driven decision-making, thereby making more resources available to support the academic core.

Projections
- The president will reinstate the annual State of the College address and an annual report on the finances in fiscal year 2012.
- The vice president for finance and treasurer will provide quarterly updates on College finances on the website in fiscal year 2012.

Support for Priorities

Description
Spearheaded by the College Advancement division, Middlebury is currently in the middle of a $500 million comprehensive fund-raising campaign, The Middlebury Initiative, with its priorities tied to the College’s long-range strategic plan. As of January 30, 2011, we had raised $350 million.

The Middlebury Initiative’s goals and priorities were formally approved by the Board of Trustees in October 2007. All fund-raising priorities are established at the direction of the trustees, president, provost, and other senior administrators and reflect the priorities and goals of the strategic plan. Fund-raising goals are established for a rolling five-year period and progress against these goals is reviewed quarterly. Annual giving participation of alumni donors is one of
the highest in the nation, reaching a historic high of 62% in FY09. The Middlebury Initiative was initially set to end in fiscal year 2012, but due to the financial crisis, that date will likely be extended to fiscal year 2014, retaining the $500 million goal.

Fund-raising is focused on securing gifts to support strategic initiatives and budgeted programs. Current primary fund-raising goals include the annual fund and financial aid. Any fund-raising effort beyond budgeted programs requires specific approval from the president, provost, or other senior administrator(s). The Monterey Institute has a separate advancement office that works closely with College Advancement at Middlebury with special emphasis on the west coast and Pacific Rim.

Middlebury maintains written gift acceptance policies for gifts-in-kind, securities, and planned gifts that adhere to national industry standards. These guidelines are available on the Middlebury website and from the gift planning office. They are shared with donors during the solicitation and gift completion process. These policies are followed both by College Advancement and the Institutional Advancement Office at the Monterey Institute.

Appraisal

Middlebury College highlights its needs and priorities in public materials including a case statement, fact sheets, the Middlebury Magazine, the website, and other written or electronic pieces and attached materials. Gifts and pledges are formally reviewed as part of the outside audit process. As part of an established donor stewardship program, donors receive information about students and teaching at Middlebury through e-mail, the Web, and written pieces; these include personal stories of accomplishments and achievements. Donors to specific funds receive information on the fund’s impact, outlining how the fund was used or a description of the student or faculty member supported by the fund.

Because Middlebury encompasses a broad range of academic programs, from the undergraduate college to the graduate and special programs, our approach to financial aid is customized to meet the needs of students from each program, while retaining a strong financial commitment to student financial aid. Access to a Middlebury education was the main goal of the recent strategic plan and remains the College’s primary fund-raising priority for all programs. Our goal is to continue making a Middlebury education accessible and affordable to all academically qualified students, which requires substantial funding. Financial support is sought through increased endowment and gifts for scholarships (see Standard 6 for additional information).

The gift administration office maintains an extensive written procedure manual. Gifts are processed promptly, generally within three to five business days. Procedures are reviewed as part of the outside audit process. Every new fund has a written fund agreement signed by the donor(s) and the vice president for college advancement that outlines the formal name of the gift, its use, reporting expectations, and use of the gift should there be unforeseen circumstances; this agreement is part of the College’s permanent records. A fund notification process is in place to inform all appropriate staff of the new fund and its administrative requirements.

These processes are constantly evaluated and have been significantly improved over the last several years. The gift notification process has been streamlined, reducing staff time, and the
fund document template has been revised to reflect the key pieces of information needed to establish and utilize the fund. Attention is now being paid to the grants management process to ensure that it is as effective and efficient as gift processing. This important work will need to continue as the College pursues more grant opportunities.

College Advancement budgets are reviewed and approved by the division’s senior budget administrator and by the College’s finance office. Fund-raising budgets and costs remain at the industry standards. Expenses are also reviewed as part of the annual external audit.

Projections
- College Advancement will continue to focus on expanding restricted support for financial aid for the undergraduate programs in fiscal years 2012 to 2014.
- Continuing in fiscal year 2011 and beyond, the president will work with College Advancement to increase funding to work toward the goal of meeting full need for all students in both the Language Schools and the Bread Loaf School of English.

Financial Oversight

Description
Middlebury utilizes SunGard Banner software for budgeting, position and financial management. Banner is a tightly integrated suite of enterprise applications on a single database, designed to support the institution’s administrative needs across all areas, including student information, financial aid, finances, human resources, and advancement. In addition, we use Oracle’s Hyperion reporting software to maintain an array of customized reports for budget administrators, finance specialists, and all administrative departments. Training and customer service for budget and finance users is readily available.

The Board of Trustees meets quarterly and reviews the financial status of the institution at each meeting. The board approves the fees for all programs for the following year as well as any revisions to revenue and expense assumptions. This includes a contingency fund for unexpected reductions in revenue or increases in expenses. In May, the board approves the operating budgets for the upcoming fiscal year, and in October the board reviews the prior year’s financial statements, audit, and budget-to-actual results.

There are four committees of the board that specifically review finances: Budget and Finance, Audit, College Advancement, and Graduate and Special Programs. The Buildings and Grounds Committee also reviews all finances related to capital projects and the capital budget is approved by the full board. The board is also provided with ratios to analyze the performance of the institution. All members of the Board of Trustees are required to acknowledge any conflicts of interest according to the Colleges’ Conflict of Interest Policy.

Appraisal
The College produces a monthly set of unaudited Generally Accepted Accounting Principles (GAAP) financial statements that are reviewed by senior management. These statements are compared to the prior year’s data and analyzed to help determine the financial position of the
The College has policies and procedures in place to ensure that data are accurate and complete.

The finance area provides financial oversight of revenue and expenditures to ensure compliance with all laws and regulations and with the College’s own internal policies. The College has established policies on a variety of topics, from procurement to fixed asset capitalization, that are posted on the website. There is an internal audit of procurement cards, separation of duties between budgets and actuals, approval of large expenditures by appropriate parties, and review and analysis of department budgets. The success of the College depends not only on the competence of its faculty and staff, but also upon its reputation for honesty and integrity in conducting its affairs. The College selected EthicsPoint to provide a simple way to anonymously and confidentially report activities that may involve unethical or otherwise inappropriate activity or behavior in violation of the College’s established policies and Code of Conduct for employees.

The College has employed Investure, LLC as the external investment office since June 2005, but remains the ultimate trustee of its endowment assets. Therefore, a number of controls and ongoing auditing processes are in place, so the College can continue to meet its fiduciary responsibility. This includes formal manager risk assessments, reconciliation of all accounts, evaluation of investment strategy, and periodic due diligence visits to Investure’s offices in Charlottesville, Virginia.

The focus of risk management is to protect the College’s people, property, and reputation from internal and external harm by either managing or insuring risk. Though we cannot manage every risk to a positive conclusion as accidents, mistakes, and lawsuits happen, we plan for these events, have protocols in place, and purchase insurance to manage these events.

The consolidated financial statements and related statements of activities and cash flows are audited annually in accordance with auditing standards generally accepted in the United States. PricewaterhouseCoopers (PwC) completes the annual audit. The Audit Committee receives an annual formal written statement from PwC delineating all relationships between the auditors and the College. The committee reviews and discusses with the external auditors all significant relationships the external auditors may have with the College. They determine the objectivity and independence of these relationships and then take or recommend appropriate action as needed. The charge of the Audit Committee outlines the committee's oversight responsibilities. Senior management receives a report of the financial information and uses the information to meet the goals set by the trustees.

Audited financial statements and the management letter are reviewed annually by the Audit Committee meeting in September of each year. The management letter is reviewed and reported on at each Audit Committee meeting during the year. All recommendations are reviewed by the Audit Committee. The vice president for finance and treasurer provides an update on actions taken at each Audit Committee meeting, and the recommendations and actions taken are documented in the meeting minutes.
The College has a high quality bond rating and was most recently rated in October 2010. Standard & Poor’s Ratings Services assigned its ‘AA’ long-term rating to the College’s Series 2010 revenue refunding bonds and also affirmed its ‘AA’ rating on the College's existing debt. Moody’s Investor Services assigned its ‘Aa2’ rating to these same bonds and also affirmed its ‘Aa2’ ratings on the College’s outstanding debt. This high rating allows the College to easily access the municipal markets and secure attractive borrowing rates.

The College engages in timely financial reporting including daily cash and receivables reporting to the vice president for finance and treasurer; bi-weekly staffing reports to the vice president for finance and treasurer; weekly treasurer reports to the president; monthly unaudited GAAP financial statements to the vice president for finance and treasurer; quarterly budget reports and financial statements to the Budget and Finance Committee; and quarterly reports on special programs to the Graduate and Special Programs Committee. The managers of all the auxiliary enterprises meet regularly with the vice president for finance and treasurer to review financial results.

When budgetary issues arise, managers work with the financial offices and senior administration to improve the financial situation. For example, the Board of Trustees recently identified that the net loss of the auxiliary enterprises needed to be improved. They formed an ad hoc committee to review the auxiliary enterprises and review management’s plans for improvement. As a result, most of the internal catering has now been outsourced, staffing costs have been reduced at the Grille and Snow Bowl, and a thorough review of business operations at the Ralph Myhre Golf Course is underway.

New Program Analysis

*Description*

Middlebury College has added numerous programs and locations since the last reaccreditation review. Over the last ten years, the C.V. Starr-Middlebury Schools Abroad have added 26 locations in more than 12 different countries, resulting in a total of 35 locations in 14 countries. These new programs, in addition to providing excellent academic opportunities, are intended to provide additional revenue. For example, students who attend the C.V. Starr-Middlebury Schools Abroad from other institutions – almost 50% of the total students in attendance – are not eligible to receive Middlebury financial aid, but may from their home institution; this eliminates any discount in tuition and fees, and significantly lowers the cost borne by Middlebury to educate these students.

The College also provides educational opportunities through its new financial venture, Middlebury Interactive Languages, LLC (MIL). Established with endowment funding that was slated for investment in new companies, the MIL revenue-sharing agreement will provide additional revenue to the College in future years. The company will sell online language learning software as well as oversee the Middlebury-Monterey Language Academy (MMLA), an established summer program of language instruction for students in grades 7 through 12.

*Appraisal*
Existing C.V. Starr-Middlebury Schools Abroad have Faculty Advisory Boards (FAB) that are involved in discussions regarding expansion of sites within those schools. There are site visits each year by two FAB members to assess the academic offerings within these programs. In establishing new Schools Abroad, exploratory visits are made by college administrators and faculty from relevant departments.

Any substantive changes or new programs are driven by the strategic plan and strategic opportunities, and reviewed by appropriate faculty and staff groups as well as the Board of Trustees. Prior to a new school abroad being established, a business plan and proposed budget are prepared by the Office of International Programs and Off-Campus Study and the Budget Office. After review by the vice president for finance and treasurer and the president, it is presented to the Board of Trustees.

Financial review practices also address situations where programs may not be financially viable. For example, in 1998, the Bread Loaf School of English (BLSE) opened a campus in Alaska, but over time, grant funding was no longer available and the cost of travel was too high for many of the students. When participation dropped to a level that was no longer financially sustainable, the program was eliminated. Similarly, a BLSE campus in Mexico was opened in 2003, but was closed after one year when enrollments were not sufficient to make the program financially viable.

The C.V. Starr-Middlebury Schools Abroad have added some additional ad hoc revenue streams. When physical space abroad is not in use by our schools, the space is leased to other groups. Additionally, programs in Chile and Spain for English as a Second Language (ESL) employ our skilled local staff as well as the Monterey Institute students and graduates. These pilot programs have not yet been officially reviewed by the Board of Trustees. Once our Schools Abroad staff determines if it is beneficial to expand these projects, the trustees will engage in a full financial and academic review.

The Language Schools now operate in both Vermont and California and may expand to additional sites. When the Mills College location in California was established in 2009, two staff members were hired to work at the satellite location throughout the year. The C.V. Starr-Middlebury Schools Abroad all have a central office in each country or region with at least a director and program coordinator to manage operations and provide support to students. The Bread Loaf sites also have staff on-site or liaisons who work directly with the Bread Loaf office in Vermont. Having staff located at remote sites aids in the implementation of policies and procedures, the maintenance of consistency and compliance, and ensures adequate controls. However, we need to continue to evaluate the administrative structure as new programs are created. At what point do we need to provide additional staffing on the Middlebury campus to support new programs? How do we evaluate the amount of work created by each new entity? Do we become more efficient with more sites or do we add undue burden?

As the expansion of international programs continues, a more formal organizational process needs to be implemented. The College has become a multi-national institution and employs an increasing number of people in more than a dozen countries. We must make sure that all laws and regulations are known and adhered to in each country. Most of the educational locations
abroad use local accountants and consultants to conform to employment laws, tax regulations, severance pay, and benefits. To ensure legal compliance across all international programs, we have engaged a consulting firm, High Street Partners, to evaluate the current operations abroad, identify where improvements and changes may be needed, and assist in setting up new operations for us to ensure compliance with local regulations.

With international programs there is an ongoing challenge of managing the purchase of foreign currency. We estimate the exchange rate for budget planning and purchase currency when the exchange rate is favorable to the budgeted amount. However, fluctuations in exchange rates can cause significant budget overages.

With international programs there is an ongoing challenge of managing foreign currency exchange risk. Our practice is to estimate the exchange rate for budget planning, and purchase foreign currency forward contracts to ensure a 12-month supply of currency. However, fluctuations in exchange rates can cause budget overages.

The transfer of the administration of the Middlebury Monterey Language Academy (MMLA) from Middlebury College to Middlebury Interactive Languages (MIL) is also important to note. When we recognized the potential to partner in-person language instruction for middle-school and high school students with online language instruction for these populations, the MMLA was moved into MIL. While the company is separate from Middlebury—for example, MMLA staff are now employees of MIL and all financial activity runs through that organization—some Middlebury faculty and staff are still involved in the administration of these programs. The need analysis for financial aid awards, for example, is still provided by the College’s Student Financial Services Office. If and when we develop more such new programs, including ESL, we will need to evaluate whether or not the program should be established separately from Middlebury.

Projections

- The vice president for finance and treasurer and the vice president for language schools, schools abroad, and graduate programs must ensure that there are sufficient staff to support these new programs and opportunities before they are created. Job descriptions of existing staff will be reviewed and updated, and reorganizations may need to occur.

Institutional Effectiveness

With the financial crisis, financial planning has become more inclusive, transparent, and data driven. Financial planning was previously carried out through the Board of Trustees and the senior administration. Since the decline in resources has had an impact on the greater College community, all constituencies have become part of the financial planning process. The priority is to preserve the academic core for the long term. Financial planning assumptions and daily operations are regularly reviewed and modified to ensure the most effective practices are in place and the long term financial health of the institution is protected.