



MIDDLEBURY

Auditors' Reports as Required by Office of Management and Budget (OMB)
Circular A-133 and *Government Auditing Standards* and Related Information

Year ended June 30, 2015

(With Independent Auditors' Report Thereon)

MIDDLEBURY

Auditors' Report as Required by Office of Management and Budget (OMB)
Circular A-133 and *Government Auditing Standards* and Related Information

Year ended June 30, 2015

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KPMG LLP
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Independent Auditors' Report

The President and Fellows of
Middlebury College:

We have audited the accompanying consolidated financial statements of The President and Fellows of Middlebury College (Middlebury), which comprise the consolidated statements of financial position as of June 30, 2015 and 2014, the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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



Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The President and Fellows of Middlebury College as of June 30, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matter – Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary schedule of expenditures of federal awards for the year ended June 30, 2015 is presented for purposes of additional analysis, as required by the Office of Management and Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*, and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Audit Standards*, we have also issued our report dated October 16, 2015 on our consideration of Middlebury’s internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts, and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Middlebury’s internal control over financial reporting.

KPMG LLP

October 16, 2015, except for the
Supplementary Schedule of Expenditures of
Federal Awards which is as of November 30, 2015

MIDDLEBURY

Consolidated Statements of Financial Position

June 30, 2015 and 2014

(Amounts in thousands)

	<u>2015</u>	<u>2014</u>
Assets		
Cash and cash equivalents	\$ 2,393	25,025
Accounts receivable, net	6,208	6,105
Inventories, prepaid expenses, and other assets	5,402	5,666
Contributions receivable, net	39,695	39,712
Deposits with bond trustees	1,660	1,374
Student loans receivable, net	17,507	18,539
Investments	1,145,367	1,129,174
Contributions receivable from remainder trusts	3,022	3,136
Beneficial interest in perpetual trusts held by others	28,040	28,543
Land, buildings, and equipment, net	398,224	379,946
Total assets	<u>\$ 1,647,518</u>	<u>1,637,220</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 47,314	45,576
Funds held for others	6,875	6,503
Deferred revenues	17,461	16,961
Annuities and other split interest obligations	21,846	23,066
Refundable government loan funds	14,542	14,426
Long-term debt	285,551	286,817
Total liabilities	<u>393,589</u>	<u>393,349</u>
Commitments and contingencies		
Net assets:		
Unrestricted	326,737	341,740
Temporarily restricted	580,204	572,344
Permanently restricted	346,988	329,787
Total net assets	<u>1,253,929</u>	<u>1,243,871</u>
Total liabilities and net assets	<u>\$ 1,647,518</u>	<u>1,637,220</u>

See accompanying notes to consolidated financial statements.

MIDDLEBURY
Consolidated Statement of Activities
Year ended June 30, 2015

	Unrestricted	Temporarily restricted	Permanently restricted	Total	
				2015	2014
Operating revenues and other support:					
Comprehensive and other student fees	\$ 199,630	—	—	199,630	194,546
Less financial aid	(55,580)	—	—	(55,580)	(51,821)
Net comprehensive and other student fees	144,050	—	—	144,050	142,725
Contributions	9,998	9,170	—	19,168	15,363
Sponsored activities	7,641	—	—	7,641	7,625
Investment return:					
Endowment distribution	65,047	5,902	—	70,949	57,519
Other investment income	1,226	998	—	2,224	4,144
Other sources	14,680	108	—	14,788	15,322
Net assets released from restrictions	14,515	(14,515)	—	—	—
Total operating revenues and other support	257,157	1,663	—	258,820	242,698
Operating expenses:					
Instruction	84,914	—	—	84,914	81,856
Academic support	40,304	—	—	40,304	40,585
Student services	39,296	—	—	39,296	38,919
Institutional support	54,367	—	—	54,367	49,718
Sponsored activities	7,641	—	—	7,641	7,625
Auxiliary enterprises	41,815	—	—	41,815	40,894
Other deductions	118	—	—	118	97
Total operating expenses	268,455	—	—	268,455	259,694
Change in net assets from operations	(11,298)	1,663	—	(9,635)	(16,996)
Nonoperating activities:					
Endowment return, net of distribution	(29,742)	28,901	219	(622)	86,752
Contributions, net	4,324	198	17,864	22,386	31,250
Other investment income	564	174	120	858	920
Change in value of deferred gifts	287	1,134	(157)	1,264	2,173
Campaign expenditures	(1,398)	—	—	(1,398)	(953)
Other	(4,335)	2,385	(845)	(2,795)	(3,773)
Net assets released from restrictions	26,595	(26,595)	—	—	—
Total nonoperating activities	(3,705)	6,197	17,201	19,693	116,369
Change in total net assets	(15,003)	7,860	17,201	10,058	99,373
Net assets:					
Beginning of year	341,740	572,344	329,787	1,243,871	1,144,498
End of year	\$ 326,737	580,204	346,988	1,253,929	1,243,871

See accompanying notes to consolidated financial statements.

MIDDLEBURY

Consolidated Statement of Activities

Year ended June 30, 2014

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total 2014</u>
Operating revenues and other support:				
Comprehensive and other student fees	\$ 194,546	—	—	194,546
Less financial aid	(51,821)	—	—	(51,821)
Net comprehensive and other student fees	142,725	—	—	142,725
Contributions	10,942	4,421	—	15,363
Sponsored activities	7,625	—	—	7,625
Investment return:				
Endowment distribution	52,482	5,037	—	57,519
Other investment income	2,761	1,383	—	4,144
Other sources	15,256	66	—	15,322
Net assets released from restrictions	16,489	(16,489)	—	—
Total operating revenues and other support	248,280	(5,582)	—	242,698
Operating expenses:				
Instruction	81,856	—	—	81,856
Academic support	40,585	—	—	40,585
Student services	38,919	—	—	38,919
Institutional support	49,718	—	—	49,718
Sponsored activities	7,625	—	—	7,625
Auxiliary enterprises	40,894	—	—	40,894
Other deductions	97	—	—	97
Total operating expenses	259,694	—	—	259,694
Change in net assets from operations	(11,414)	(5,582)	—	(16,996)
Nonoperating activities:				
Endowment return, net of distribution	24,709	61,996	47	86,752
Contributions	1,130	11,290	18,830	31,250
Other investment income	264	139	517	920
Change in value of deferred gifts	171	88	1,914	2,173
Campaign expenditures	(953)	—	—	(953)
Other	(1,777)	(3,056)	1,060	(3,773)
Net assets released from restrictions for nonoperating purposes	8,134	(8,134)	—	—
Total nonoperating activities	31,678	62,323	22,368	116,369
Change in total net assets	20,264	56,741	22,368	99,373
Net assets:				
Beginning of year	321,476	515,603	307,419	1,144,498
End of year	\$ 341,740	572,344	329,787	1,243,871

See accompanying notes to consolidated financial statements.

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Consolidated Statements of Cash Flows

Years ended June 30, 2015 and 2014

(Amounts in thousands)

	2015	2014
Cash flows from operating activities:		
Change in total net assets	\$ 10,058	99,373
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	25,804	24,434
Contributions restricted for long-term investments	(21,840)	(14,559)
Real property and other in-kind contributions	(5,250)	(743)
Amortization of bond issuance costs	124	125
Amortization of bond premium	(856)	(856)
Loss on disposal of buildings and equipment	550	85
Contributions receivable bad debt expense	10,044	475
Change in value of deferred gifts	(1,220)	1,804
Realized and unrealized gain on investments	(73,690)	(140,144)
Unrealized loss on contributions receivable from remainder trusts	114	386
Unrealized loss (gain) on beneficial interest in perpetual trusts	503	(3,022)
Changes in operating assets and liabilities:		
Accounts receivable	(103)	1,340
Contributions receivable	(10,027)	3,095
Inventories, prepaid expenses, and other assets	140	(524)
Accounts payable and accrued expenses	(4,293)	737
Deferred revenues	500	(1,543)
Funds held for others	372	276
Other	115	248
Net cash used in operating activities	(68,955)	(29,013)
Cash flows from investing activities:		
Proceeds from sales of investments	207,305	103,046
Purchases of investments	(149,808)	(64,847)
Purchases of property and equipment	(33,350)	(29,787)
Student loans granted	(2,326)	(1,995)
Student loans repaid	3,358	3,609
Net cash provided by investing activities	25,179	10,026
Cash flows from financing activities:		
Contributions restricted for long-term investment	21,840	14,559
Change in deposit with bond trustees, net of earnings	(286)	(330)
Payments on bonds and notes payable	(410)	(81)
Net cash provided by financing activities	21,144	14,148
Net increase (decrease) in cash and cash equivalents	(22,632)	(4,839)
Cash and cash equivalents:		
Beginning of year	25,025	29,864
End of year	\$ 2,393	25,025
Supplemental data:		
Interest paid	\$ 13,506	13,526
Amounts accrued for purchase of property and equipment	2,136	6,031

See accompanying notes to consolidated financial statements.

MIDDLEBURY

Notes to Consolidated Financial Statements

June 30, 2015 and 2014

(in thousands of dollars)

(1) Background

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, languages, international studies and environmental studies. The College has approximately 2,450 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, India, Israel, Italy, Japan, Jordan, Russia, 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 more than 2,800 students and offer undergraduate and graduate programs in a variety of programs.

- The Schools Abroad Program provides undergraduate and graduate programs in 16 countries. 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 focus on educating undergraduate and graduate students from many disciplines at two sites in the United States and one site abroad. There are programs in Arabic, Chinese, 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 Vermont 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, New Mexico, and at Oxford in the United Kingdom. The Bread Loaf Writers' Conference is the oldest writers' conference in America, held each summer 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 provides higher education in translation, interpretation and language education and international policy management. In addition, there are two research centers on campus, the James Martin Center for Nonproliferation Studies and the Center for East Asian Studies. Also, the Institute has a research center located in Vienna, Austria, the Vienna Center for Disarmament and Nonproliferation.

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Notes to Consolidated Financial Statements

June 30, 2015 and 2014

(in thousands of dollars)

Middlebury has three affiliated entities, Delineation Corporation, President and Friends of Middlebury College, and International Philanthropy. Delineation Corporation is a nonprofit organization founded for the purpose of holding certain property. Middlebury advances funds to Delineation Corporation for expenses incurred for maintenance of real property. The President and Friends of Middlebury College is a nonprofit organization formed for the purpose of providing catering and retail dining operations. International Philanthropy is a nonprofit organization established for the purpose of receiving contributions from international sources and maintaining operations at the Centre for Medieval and Renaissance Studies (CMRS) in Oxford, England.

In July 2013, Middlebury and Hebrew at the Center partnered to launch the Institute for the Advancement of Hebrew, located at Middlebury with additional offices in Newton Centre, Massachusetts.

Tax-Exempt Status

Middlebury is a tax-exempt organization as described in Section 501(c) (3) of the Internal Revenue Code and recognizes the effect of income tax positions only if those positions are more likely than not of being sustained by a taxing authority. Middlebury believes it has taken 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 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:

Unrestricted Net Assets: Net assets not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets: Net assets subject to donor-imposed stipulations that will be met by actions of Middlebury and/or passage of time, as well as unappropriated total return on permanently restricted endowment funds.

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

Revenues are reported as increases in unrestricted net assets unless use of the related asset is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless restricted by donor or by law. Expirations in subsequent years of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the

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Notes to Consolidated Financial Statements

June 30, 2015 and 2014

(in thousands of dollars)

stipulated time period has elapsed) are reported as releases from restrictions between the applicable classes of net assets.

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.

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 the comprehensive fee.

Nonoperating activities include net realized and unrealized gains and losses on investments, less amounts distributed for operating purposes, permanently restricted contributions for long-term investment, temporarily restricted and unrestricted contributions for nonoperating activities such as capital gifts, adjustments for funds underwater, campaign expenditures, and the change in value of deferred gifts.

(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 date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include the valuation of its investments and derivative instruments as well as the estimated net realizable value of receivables for contributions, gifts, pledges, student loans and accounts receivable, the estimated useful lives of buildings and equipment and its liabilities for its asset retirement obligations and its split interest agreements. Actual results could differ from those estimates.

(d) Cash and Cash Equivalents

Cash and cash equivalents include interest-bearing money market accounts not held for investment purposes. Cash equivalents have maturities of three months or less at the date of purchase.

(e) Contributions

Contributions, including interests in perpetual trusts held by others and noncash assets, are recognized as revenue in the period received at the fair value on the date of the contribution. Conditional promises to give are not recorded as revenue until they become unconditional or when the conditions on which they depend are substantially met. Contributions received with donor-imposed restrictions that are met in the same year as received are reported as unrestricted operating or nonoperating revenue depending on the use of the proceeds.

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June 30, 2015 and 2014

(in thousands of dollars)

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

(f) Contributions Receivable

Contributions receivable include pledges that are recorded at their present value using discount rates at the date of the contribution range from approximately 1.0% to 5.5%. The present value is calculated using a risk-free rate of return adjusted for the credit risk. The assumed rate in 2015 for uncollectible pledges was 3.05%. An allowance is made for potentially uncollectible contributions based upon management's past collection experience and other relevant factors.

(g) Inventories

Inventories are stated at the lower of cost, utilizing the first-in, first-out method, or market.

(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 its estimate of fair value for those funds whose value is determined by the appropriate manager or general partner.

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Notes to Consolidated Financial Statements

June 30, 2015 and 2014

(in thousands of dollars)

The majority of 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 now registered as required by the Securities and Exchange Commission.

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.

Effective in the year ended June 30, 2015, the College retrospectively adopted the provisions of the FASB Accounting Standards Update (ASU) No. 2015-07, *Fair Value Measurement Disclosures for Investments in Certain Entities that Calculate Net Asset Value (NAV) per Share (or its Equivalent)* (ASU 2015-07). ASU 2015-07 removes the requirement to classify within the fair value hierarchy table in Levels 2 or 3 investments in certain funds measured at NAV as a practical expedient to estimate fair value. The adoption did not impact the College's statement of financial position, statement of activities, or statement of cash flow and resulted only in changes to the College's investment footnote disclosures.

(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. Middlebury has entered into forward oil purchase contracts with certain suppliers for the purchase of oil for its heating and cooling plant to hedge the price exposure for a fuel source. These agreements meet the normal purchase/normal sale exception and, therefore, have not been recorded on the statement of financial position. Middlebury has also entered into foreign currency contracts which have been recorded on the statement of financial position.

(j) ***Contributions Receivable from Remainder Trusts***

Donors have established irrevocable trusts under which Middlebury is a beneficiary but not the trustee. The present value of the portion of the trust to be distributed to Middlebury upon the termination of the trust is recorded as contributions receivable from remainder trusts.

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Notes to Consolidated Financial Statements

June 30, 2015 and 2014

(in thousands of dollars)

(k) Interest in Perpetual Trusts Held by Others

Interest in perpetual trusts held by others 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.

(l) 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 asset as follows (in years):

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

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

(m) Joint Venture

In May 2010, Middlebury entered into a joint venture arrangement with K12, Inc., an unrelated publicly held company. The new company, Middlebury Interactive Languages, LLC, (MIL), was created for the purpose of pursuing commercial opportunities associated with developing and delivering language learning software and residential language immersion education to pre-college students.

Middlebury agreed to fund the joint venture by contributing to MIL certain intangible assets with a fair value of \$14,000 and \$4,000 in cash. Middlebury has a 40% ownership interest in MIL. As Middlebury does not control the joint venture but does exercise influence, this investment is recorded using the equity method.

Middlebury incurred losses on its equity investment in MIL of approximately \$185 and \$440 at June 30, 2015 and 2014, respectively. The losses are included in nonoperating activities in the Consolidated Statement of Activities.

Subsequent to June 30, 2015, Middlebury announced it would exercise the option to sell the 40% ownership interest in MIL to K12, Inc. The College is working with K12, Inc. on the specific terms of the sale.

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Notes to Consolidated Financial Statements

June 30, 2015 and 2014

(in thousands of dollars)

(n) *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 accreted when the related obligation is settled. Middlebury has recorded an ARO liability in accrued expenses of \$4,152 and \$4,255 at June 30, 2015 and 2014, respectively.

(o) *Deferred Revenues*

Deferred revenues consist primarily of student fees related to Middlebury and its language schools. This liability account also consists of the multi-year prepayment plan, summer school billing (net of financial aid), and sponsored activity.

(p) *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.

(q) *Annuities and Other Split Interest Obligations*

Donors have contributed assets to Middlebury in exchange for a promise that Middlebury will pay the donor or other beneficiaries a fixed amount or percentage of assets over their lifetimes. The present value of these promises is a liability and is recorded as 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.

(r) *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, if Middlebury should no longer participate, is reported as refundable government loan funds. It is not practicable to determine the fair value of student loans receivable because they are primarily federally sponsored student loans with U.S. government mandated interest rates and repayment terms and are subject to significant restrictions as to their transfer and disposition.

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(s) ***Functional Expenses***

Depreciation, operations and maintenance costs, and interest are allocated to the functional expense categories reported within the operating section of the Statement of Activities. Depreciation and operations and maintenance costs are allocated based upon the use of facilities and equipment. Interest is allocated based on specific identification of the use of debt proceeds.

(t) ***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.

(u) ***Campaign Activities***

Campaign contributions less expenditures total to the net balance of the Middlebury Initiative, a \$500,000 fundraising campaign to fund four strategic priorities: (1) access and opportunity, (2) teaching and mentoring, (3) programs and infrastructure, and (4) increasing institutional flexibility. The cost of operating the Middlebury Initiative is reported as nonoperating activity on the statement of activities. The Middlebury Initiative was completed on June 30, 2015.

(v) ***Subsequent Events***

Middlebury considers events or transactions that occur after the balance sheet date but before the financial statements are issued to provide for additional evidence relative to certain estimate or to identify matters that require additional disclosure. These financial statements were issued on October 16, 2015, and subsequent events have been evaluated through that date.

(w) ***Reclassifications***

Certain 2014 amounts have been reclassified to conform to the 2015 presentation.

(3) **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 were \$545 and \$475 as of June 30, 2015 and 2014, respectively.

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(b) Contributions Receivable

Contributions receivable consists of the following at June 30, 2015 and 2014:

	2015	2014
Due less than one year	\$ 26,927	13,557
One to five years	25,206	29,258
	52,133	42,815
Less discount and allowance	(12,438)	(3,103)
	\$ 39,695	39,712

(4) 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.

As of June 30, 2015 and 2014, Middlebury had outstanding commitments of \$165,389 and \$171,966, respectively. These commitments are to fund private equity partnerships over a multi-year period. These capital calls are expected to be funded with cash on hand or using proceeds of liquidated securities.

Middlebury has \$252,857 and \$238,980 of the investment portfolio at June 30, 2015 and 2014, respectively, invested in funds which invest in international securities. These investments are subject to the additional risk of currency fluctuations. Also included in investments are \$52,880 and \$54,701 at June 30, 2015 and 2014, respectively, for split interest agreements.

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

	2015	2014
Interest, dividends, and other income, net	\$ (280)	9,191
Realized gains, net	104,152	54,676
Change in unrealized gains (losses), net	(30,462)	85,468
	\$ 73,410	149,335

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Direct, external investment management fees were \$4,078 and \$3,842 in 2015 and 2014, respectively, and are netted against interest, dividends, and other income in the Statement of Activities. Purchase and sale transactions are recorded on a trade date basis.

The following table represents financial assets and liabilities by fair value measurements as of June 30, 2015:

	Level 1	Level 2	Level 3	Other valuation methods and NAV	Total investments	Redemption or liquidation	Days' notice
Investments at fair value:							
Money market funds	\$ 43,616	—	—	—	43,616	Daily	1
Equity securities	67,815	—	—	—	67,815	Daily to quarterly	10–120
Debt securities	11,959	—	—	—	11,959	Daily to quarterly	1–90
Real estate and mortgages	5,761	—	8,126	—	13,887	Daily to illiquid	1–N/A
Private equity partnerships	—	3,083	556	—	3,639	Quarterly to illiquid	90–N/A
Other investments	260	—	2,912	—	3,172	Daily to illiquid	1–N/A
Total investments at fair value	<u>129,411</u>	<u>3,083</u>	<u>11,594</u>	<u>—</u>	<u>144,088</u>		
Investments measured at net asset value:							
Equity securities	—	—	—	306,890	306,890	Daily to quarterly	10–120
Alternative equities	—	—	—	303,656	303,656	Quarterly to annually	45–90
Debt securities	—	—	—	39,884	39,884	Daily to quarterly	1–90
Real estate and mortgages	—	—	—	10,025	10,025	Daily to illiquid	1–N/A
Private equity partnerships	—	—	—	334,133	334,133	Quarterly to illiquid	90–N/A
Other investments	—	—	—	1,826	1,826	Daily to illiquid	1–N/A
Total investments at net asset value	<u>—</u>	<u>—</u>	<u>—</u>	<u>996,414</u>	<u>996,414</u>		
Equity method investments	—	—	—	3,226	3,226	Illiquid	N/A
Investments valued using other methods	—	—	—	1,639	1,639	Illiquid	N/A
Total investments	<u>\$ 129,411</u>	<u>3,083</u>	<u>11,594</u>	<u>1,001,279</u>	<u>1,145,367</u>		
Other assets:							
Remainder trusts	\$ —	—	3,022	—	3,022	Illiquid	N/A
Perpetual trusts	—	—	28,040	—	28,040	Illiquid	N/A
Total other assets	<u>\$ —</u>	<u>—</u>	<u>31,062</u>	<u>—</u>	<u>31,062</u>		

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The following table represents financial assets and liabilities by fair value measurements as of June 30, 2014:

	Level 1	Level 2	Level 3	Other valuation methods and NAV	Total investments	Redemption or liquidation	Days' notice
Investments at fair value:							
Money market funds	\$ 21,771	—	—	—	21,771	Daily	1
Equity securities	45,745	—	—	—	45,745	Daily to quarterly	10–120
Debt securities	11,918	—	—	—	11,918	Daily to quarterly	1–90
Real estate and mortgages	6,211	—	8,596	—	14,807	Daily to illiquid	1–N/A
Private equity partnerships	—	2,983	654	—	3,637	Quarterly to illiquid	90–N/A
Other investments	769	—	2,777	—	3,546	Daily to illiquid	1–N/A
Total investments at fair value	<u>86,414</u>	<u>2,983</u>	<u>12,027</u>	<u>—</u>	<u>101,424</u>		
Investments measured at net asset value:							
Equity securities	—	—	—	378,875	378,875	Daily to quarterly	10–120
Alternative equities	—	—	—	257,546	257,546	Quarterly to annually	45–90
Debt securities	—	—	—	39,261	39,261	Daily to quarterly	1–90
Real estate and mortgages	—	—	—	12,059	12,059	Daily to illiquid	1–N/A
Private equity partnerships	—	—	—	331,798	331,798	Quarterly to illiquid	90–N/A
Other investments	—	—	—	2,686	2,686	Daily to illiquid	1–N/A
Total investments at net asset value	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,022,225</u>	<u>1,022,225</u>		
Equity method investments	—	—	—	3,411	3,411	Illiquid	N/A
Investments valued using other methods	—	—	—	2,114	2,114	Illiquid	N/A
Total investments	<u>\$ 86,414</u>	<u>2,983</u>	<u>12,027</u>	<u>1,027,750</u>	<u>1,129,174</u>		
Other assets:							
Remainder trusts	\$ —	—	3,136	—	3,136	Illiquid	N/A
Perpetual trusts	—	—	28,543	—	28,543	Illiquid	N/A
Total other assets	<u>\$ —</u>	<u>—</u>	<u>31,679</u>	<u>—</u>	<u>31,679</u>		

The following is a description of the financial investment categories:

Equity Securities: This category includes global developed and emerging market equity investments.

Alternative Equities: This category includes long/short and long-biased equity and credit hedge funds.

Debt Securities: This category includes high yield and long/short fixed and fixed income hedge funds.

Real Estate and Mortgages: This category includes commercial, residential, office, and industrial partnerships.

Private Equity Partnerships: This category includes U.S. and international venture capital and buyout funds.

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Other Investments: This category includes natural resources partnerships and other illiquid properties/securities.

The following table summarizes the Level 3 activity for the year ended June 30, 2015:

	Beginning balance at June 30, 2014	Realized gains (losses)	Change in unrealized gains (losses)	Purchases	Sales	Net transfer in (out) of Level 3	Ending balance at June 30, 2015
Level 3 assets:							
Real estate and mortgages	\$ 8,596	—	—	—	(470)	—	8,126
Private equity partnerships	654	—	—	—	(98)	—	556
Other investments	<u>2,777</u>	<u>398</u>	<u>135</u>	<u>—</u>	<u>(398)</u>	<u>—</u>	<u>2,912</u>
Total investments	12,027	398	135	—	(966)	—	11,594
Remainder trusts	3,136	—	(114)	—	—	—	3,022
Perpetual trusts	<u>28,543</u>	<u>—</u>	<u>(503)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>28,040</u>
Total investments and other assets	<u>\$ 43,706</u>	<u>398</u>	<u>(482)</u>	<u>—</u>	<u>(966)</u>	<u>—</u>	<u>42,656</u>

The following table summarizes the Level 3 activity for the year ended June 30, 2014:

	Beginning balance at June 30, 2013	Realized gains (losses)	Change in unrealized gains (losses)	Purchases	Sales	Net transfer in (out) of Level 3	Ending balance at June 30, 2014
Level 3 assets:							
Real estate and mortgages	8,596	—	—	150	(1)	—	8,745
Private equity partnerships	654	—	—	—	(192)	—	462
Other investments	<u>2,726</u>	<u>462</u>	<u>94</u>	<u>—</u>	<u>(462)</u>	<u>—</u>	<u>2,820</u>
Total investments	11,976	462	94	150	(655)	—	12,027
Remainder trusts	3,522	—	(386)	—	—	—	3,136
Perpetual trusts	<u>25,521</u>	<u>—</u>	<u>3,022</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>28,543</u>
Total investments and other assets	<u>\$ 41,019</u>	<u>462</u>	<u>2,730</u>	<u>150</u>	<u>(655)</u>	<u>—</u>	<u>43,706</u>

As a result of the adoption of ASU 2015-07, the June 30, 2014 fair value hierarchy table was restated to reflect the removal of NAV-measured investments aggregating \$552,800 in Level 2 and \$469,425 in Level 3.

(5) 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. The Board of Trustees have interpreted Vermont’s and California’s Uniform Prudent Management of Institutional Funds Acts (UPMIFA) statutes as requiring the preservation of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, Middlebury classifies as permanently restricted net assets, (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent

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endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by Middlebury in a manner consistent with the standard of prudence prescribed by the 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, 2015 and 2014, delineated by net asset class and donor-restricted versus Board-designated funds were as follows:

June 30, 2015				
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	\$ (52)	499,436	323,709	823,093
Board-designated endowment funds	277,961	—	—	277,961
Total endowment funds June 30, 2015	\$ 277,909	499,436	323,709	1,101,054
June 30, 2014				
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	\$ (82)	467,062	307,612	774,592
Board-designated endowment funds	307,301	—	—	307,301
Total endowment funds June 30, 2014	\$ 307,219	467,062	307,612	1,081,893

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(a) Changes in Endowment

Changes to the endowment for the year ended June 30, 2015 were as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets at beginning of year	\$ 307,219	467,062	307,612	1,081,893
Investment return:				
Endowment return	15,533	56,849	219	72,601
Other investment income	94	1,202	87	1,383
Change in value of deferred gifts	—	—	(469)	(469)
Total investment return	15,627	58,051	(163)	73,515
Contributions	6	2,783	16,767	19,556
Appropriation of endowment assets for spending distribution	(41,688)	(33,361)	—	(75,049)
Investment income spending	(94)	(1,202)	—	(1,296)
Other transfers and adjustments	(1,815)	2,343	—	528
Transfer to/from designated endowment funds	(1,376)	3,790	(507)	1,907
Adjustment for funds underwater – fair value less than historic dollar value	30	(30)	—	—
Endowment net assets at end of year	<u>\$ 277,909</u>	<u>499,436</u>	<u>323,709</u>	<u>1,101,054</u>

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Changes to the endowment for the year ended June 30, 2014 were as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets at beginning of year	\$ 284,893	404,431	283,668	972,992
Investment return:				
Endowment return	42,586	100,245	47	142,878
Other investment income	71	1,177	78	1,326
Change in value of deferred gifts	—	—	3,461	3,461
Total investment return	42,657	101,422	3,586	147,665
Contributions	156	294	17,151	17,601
Appropriation of endowment assets for spending distribution	(22,353)	(34,468)	—	(56,821)
Investment income spending	(71)	(1,177)	—	(1,248)
Other transfers and adjustments	1,978	(2,746)	725	(43)
Transfer to/from designated endowment funds	(1,803)	1,068	2,482	1,747
Adjustment for funds underwater – fair value less than historic dollar value	1,762	(1,762)	—	—
Endowment net assets at end of year	<u>\$ 307,219</u>	<u>467,062</u>	<u>307,612</u>	<u>1,081,893</u>

(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 (underwater endowments). When underwater endowments exist, any decrease in fair value below the fund's historic dollar value is recorded as a transfer from unrestricted net assets to temporarily restricted net assets. Cumulative transfers from unrestricted net assets to temporarily restricted net assets were \$52 and \$82 as of June 30, 2015 and 2014, respectively. These resulted from unfavorable market fluctuations that occurred shortly after the investment of newly established endowments, and authorized appropriation that was deemed prudent.

(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. College reserves are classified as endowment and are included as an endowment distribution. The reserve distributions were \$30,526 and \$17,165 as of June 30, 2015 and 2014, respectively.

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(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.

(6) Land, Buildings, and Equipment

Land, buildings, and equipment at June 30, 2015 and 2014 consist of the following:

	<u>2015</u>	<u>2014</u>
Land and land improvements	\$ 56,573	51,917
Buildings	586,444	538,396
Equipment	93,163	83,650
Art/antiques	14,468	12,929
Construction in progress	7,659	27,903
	<u>758,307</u>	<u>714,795</u>
Less accumulated depreciation	<u>(360,083)</u>	<u>(334,849)</u>
	<u>\$ 398,224</u>	<u>379,946</u>

Depreciation expense in 2015 and 2014 was \$25,804 and \$24,434, respectively.

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(7) Long-Term Debt

Long-term debt is comprised of the following at June 30, 2015 and 2014:

	2015	2014
VEHBFA Series 2006A term bonds \$35,425 original principal, (uncollateralized) due on November 1, 2046, issued at a premium, interest at 5.00%	\$ 35,425	35,425
VEHBFA Series 2009 term bonds \$59,445 original principal, (uncollateralized) due on November 1, 2038, issued at a premium, interest at 5.00%	59,445	59,445
VEHBFA Series 2010 term bonds \$95,035 original principal, (uncollateralized) due on November 1, 2040 issued at a premium, interest at 5.00%	95,035	95,035
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%	46,150	46,150
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%	11,885	11,885
Revenue bonds issued through the California Statewide Communities Development Agency, collateralized by the Monterey Institute campus with annual principal payments increasing from \$625 in 2016 to \$2,160 in 2032, interest at 5.50%	21,195	21,525
Other	205	285
	269,340	269,750
Plus premium	16,211	17,067
	\$ 285,551	286,817

The estimated fair value of the total debt is approximately \$301,280 and \$304,600 at June 30, 2015 and 2014, respectively. The fair value is estimated based on quoted market prices for the same or similar issues.

(a) Debt Maturities

According to the terms of the VEHBFA bonds, Middlebury is required to make sinking fund deposits to the bond trustee in amounts sufficient to satisfy future debt service obligations.

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Annual principal requirements under all long-term debt obligations as of June 30, 2015 are as follows:

2016	\$	690
2017		745
2018		3,285
2019		3,375
2020		3,530
Thereafter		257,715
	\$	269,340

(b) Credit Lines

As of June 30, 2015 and 2014, Middlebury had a \$50,000 three-year-term line of credit with an interest rate of either the one-month LIBOR plus 2.50% or the Federal Funds rate + 3.00%, at Middlebury's option. As of and for the year ended June 30, 2015 and 2014, there were no borrowings or outstanding balances on this line. 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. The maturity date for the line of credit is March 31, 2018.

(8) Retirement Plans

Retirement benefits for benefits eligible employees of Middlebury, as of January 1, 2011, 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, 2015 and 2014 were approximately \$12,253 and \$11,722, respectively.

(9) Net Assets

Temporarily restricted net assets are comprised of the following:

	2015	2014
Unappropriated accumulated total return of donor-restricted endowment funds	\$ 473,200	447,397
Unexpended donor restricted endowment funds	26,236	19,664
Restricted gifts for scholarship and prizes	19,574	19,452
Restricted gifts for professorships	1,795	1,431
Restricted gifts for special purposes	18,830	17,550
Restricted gifts for capital projects	24	26,924
Restricted contribution receivable	26,884	27,090
Restricted annuity and life income gifts	13,661	12,836
	\$ 580,204	572,344

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Permanently restricted net assets are comprised of the following:

	<u>2015</u>	<u>2014</u>
Restricted for loan funds	\$ 3,184	3,184
Restricted for annuity and life income funds	8,140	7,011
Restricted contribution receivable	11,944	11,961
Restricted funds	11	19
Donor-restricted endowment funds	323,709	307,612
	<u>\$ 346,988</u>	<u>329,787</u>

(10) 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 \$8,509 and \$8,677 as of June 30, 2015 and 2014, 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 to finance the construction of a new municipal office building a new gymnasium/recreation facility. This pertains to the agreement between Middlebury and the Town regarding the transfer of certain parcels of land and buildings. Middlebury will pay the Town the sum of \$325 twice per year starting in fiscal year 2016 and continuing until twenty years thereafter. The full commitment was for \$6,159 and was discounted at 3.25%. Also per the agreement, Middlebury has established a Project Fund of \$1,000 to fund building moves, environmental site assessments, and other costs associated with the transaction. Middlebury has recorded a payable of \$4,500 as of June 30, 2015.

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(11) Operating Expenses

Operating expenses by natural classification for the years ended June 30, 2015 and 2014 were as follows:

	<u>2015</u>	<u>2014</u>
Salaries and wages	\$ 119,428	114,300
Employee benefits	41,501	39,700
Food	4,986	4,400
Utilities	8,014	8,700
Contracted services	15,093	14,700
Supplies	4,326	3,900
Library books and periodicals	2,429	2,300
Interest	13,506	13,500
Amortization and depreciation	25,004	23,703
Travel	7,999	7,800
Taxes and insurance	3,933	3,700
Other	22,236	22,991
	<u>\$ 268,455</u>	<u>259,694</u>

(12) Lease

In July 2015, Middlebury entered into a long-term ground lease agreement with Adirondack View I at Middlebury, LLC, for the construction of a 96 unit student housing facility on-campus. The financing and construction of the facilities is the exclusive responsibility of Adirondack View I at Middlebury, LLC, and is reflected by Middlebury as an operating lease.

Additionally in July 2015, Middlebury entered into a long-term ground lease agreement with Ridgeline I at Middlebury, LLC, for the construction of a 62 unit student housing facility on-campus. The financing and construction of the facilities is the exclusive responsibility of Ridgeline I at Middlebury, LLC, and is reflected by Middlebury as an operating lease.

As a result, the assets, liabilities and associated results of operating for the housing units are excluded from Middlebury's financial statements.

(13) Leaseback

In March 2011, Middlebury entered into a purchase and sale agreement with the Vermont Center for Emerging Technologies, Inc., a Vermont nonprofit corporation (the Buyer). Middlebury sold the real estate and improvements located at 5 Court Street in Middlebury, Vermont for the sum of \$2,000. The Buyer agreed to lease back to Middlebury a portion of the premises for an initial term of ten years. Middlebury will have the option to renew the lease for two additional terms of five years with the same terms and conditions as the original agreement. The agreement also contains an option to purchase. Middlebury can exercise this option any time after March 8, 2011 or immediately upon the cessation of the Buyer's economic development operations at the premises; the loss of the Buyer's Section 501(c) (3) nonprofit status or the termination or dissolution of the Buyer. The option price will be the lesser of fair market value, as determined by an appraisal or \$2,000. The intention is to exercise this option and Middlebury has recognized a liability of \$2,000 on the Statement of Financial Position.

MIDDLEBURY
Schedule of Expenditures of Federal Awards
Year ended June 30, 2015

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA number	Pass-through entity identifying number	Total federal expenditures
Student Financial Assistance Cluster:			
Department of Education:			
Direct Programs:			
Federal Supplemental Education Opportunity Grant	84.007		\$ 267,839
Federal Work Study Program (Note 5)	84.033		374,097
Perkins Loan Program (Notes 4 and 5)	84.038		16,121,924
Federal Pell Grant Program	84.063		1,598,988
Federal Direct Loan Program (Note 3)	84.268		18,283,152
Total Department of Education			<u>36,646,000</u>
Total Student Financial Aid Cluster			<u>36,646,000</u>
Research and Development Cluster:			
Department of Health and Human Services:			
Direct Programs:			
Environmental Health	93.113		224,083
Oral Diseases and Disorders Research	93.121		218,933
Mental Health Research Grants	93.242		59,792
Aging Research	93.866		72,674
Total Department of Health and Human Services – Direct			<u>575,482</u>
Pass-Through Programs from:			
University of California at Berkeley	93.061	00006968	1,024
University of Vermont	93.389	29252SUB51796	232,415
Partner's in Health-Centers for Disease Control	93.738	0040	12,183
Total Department of Health and Human Services – Pass-Through			<u>245,622</u>
Total Department of Health and Human Services			<u>821,104</u>
National Science Foundation:			
Direct Programs:			
Mathematical and Physical Sciences	47.049		124,997
Geosciences	47.050		73,701
Computer Sciences	47.070		139,245
Biological Sciences	47.074		43,246
Social Behavioral and Economic Sciences	47.075		195,001
Education and Human Resources	47.076		3,062
Total National Science Foundation – Direct			<u>579,252</u>
Pass-Through Programs from:			
Wesleyan University	47.049	AST-1005024	9,810
University of Vermont	47.081	25399 SUB51103	131,250
University of Alaska – Fairbanks	47.074	UAF07-0105	14,376
Total National Science Foundation – Pass-Through			<u>155,436</u>
Total National Science Foundation			<u>734,688</u>
Department of Defense:			
Pass-Through Programs from:			
Defense Threat Reduction Agency	12.351	HDTRA1-15-1-0019	10,682
Naval Postgraduate School-Department Of Defense	12.300	N002441410036	125,420
Naval Postgraduate School-Department Of Defense	12.300	N002441310030	8,914
Naval Postgraduate School-Department Of Defense	12.300	N002441410048	70,451
Naval Postgraduate School-Department Of Defense	12.300	N002441510002	21,406
Naval Postgraduate School-Department Of Defense	12.300	N002441510034	16,517
Naval Postgraduate School-Department Of Defense	12.300	N002441510037	6,885
Total Department of Defense – Pass-Through			<u>260,275</u>
Total Department of Defense			<u>260,275</u>
United States Department of Agriculture:			
Direct Programs:			
Agricultural and Rural Economic Research	10.250		198
Agriculture and Food Research Initiative	10.310		226
Total United States Department of Agriculture – Direct			<u>424</u>
Total United States Department of Agriculture			<u>424</u>
National Aeronautics and Space Administration:			
Pass-through Programs from:			
Smithsonian Astrophysical Observatory	43.001	G02-1366A	25,217
Space Telescope Science Institute	43.001	HST-GO-12462.004-A	24,494
Total National Aeronautics and Space Administration – Pass-Through			<u>49,711</u>
Total National Aeronautics and Space Administration			<u>49,711</u>

MIDDLEBURY
Schedule of Expenditures of Federal Awards
Year ended June 30, 2015

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA number	Pass-through entity identifying number	Total federal expenditures
Department of Energy:			
Direct Programs:			
Defense Nuclear Nonproliferation Research-Russia	81.113		425,455
Defense Nuclear Nonproliferation Research-Asia	81.113		467,271
Total Department of Energy – Direct Programs			<u>892,726</u>
Pass-through Programs from:			
UC Berkley	81.113	00008611	25,272
Total Department of Energy Pass-Through			<u>25,272</u>
Total Department of Energy			<u>917,998</u>
Pass-through Programs from:			
Pass-through Programs from NNECC	66.951	NA	139
Total Environmental Protection Agency			<u>139</u>
Department of Commerce:			
Direct programs:			
Measurement and Engineering Research and Standards	11.609		7,770
Total Department of Commerce			<u>7,770</u>
Total Research and Development Cluster			<u>2,792,109</u>
Other Awards:			
National Endowments for the Humanities:			
Direct Programs:			
Promotion of the Arts – Individuals	45.024		5,000
Fellowships	45.160		8,671
Seminars	45.163		37,337
Promotion of the Humanities-Digital	45.169		94,921
Total National Endowments for the Humanities			<u>145,929</u>
National Security Agency:			
Direct Programs:			
Critical Languages Instruction	12.900		53,939
Total National Security Agency-Direct			<u>53,939</u>
Pass-through Programs from:			
NSA-Dartmouth	12.901	MOU	3,960
Total National Security – Pass-Through			<u>3,960</u>
Total National Security Agency			<u>57,899</u>
Department of Justice			
Direct programs:			
Grants to Reduce Violence, Dating Violence, Sexual Assault and Stalking on Campus	16.525		103,924
Total Department of Justice			<u>103,924</u>
Department of State:			
Direct Programs:			
Biosecurity Workshop	19.033		176,594
Export Control Training-Yemen, Algeria, Taiwan, & Cambodia	19.901		152,455
Total Department of State			<u>329,049</u>
Pass-Through Programs from:			
Fulbright Preacademic Program	19.400	S-ECAGD-14-CA-017	42,788
English Language Fellows Program	19.421	MIIS-RX2050-896-08-B	9,523
Total Department of State-Pass-Through			<u>52,311</u>
Total Department of State			<u>381,360</u>
Total Other Awards			<u>689,112</u>
Total Expenditures of Federal Awards			<u>\$ 40,127,221</u>

See accompanying notes to schedule of expenditures of federal awards

MIDDLEBURY

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2015

(1) Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) summarizes the expenditures of Middlebury under federal government programs for the year ended June 30, 2015 using the accrual basis of accounting in accordance with the provisions of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations*. The Schedule includes the expenditures of the Middlebury’s two campuses: Middlebury College and the Middlebury Institute of International Studies.

For purposes of the Schedule, and except as noted below, federal awards include all grants, contracts and similar agreements entered into directly between Middlebury and agencies and departments of the federal government and all subawards to Middlebury by nonfederal organizations pursuant to federal grants, contracts and similar agreements.

(2) Facilities and Administrative Cost Recoveries

Facilities and administrative costs are charged to federal grants and contracts at a predetermined rate. The current approved facilities and administrative cost rate for the Middlebury campus for the period July 1, 2013 through June 30, 2015 is 63%. The Middlebury Institute of International Studies campus has a separate rate for the period July 1, 2013 to June 30, 2015 of 52%. Facilities and administrative cost recoveries are reported as part of federal expenditures.

(3) Federal Direct Loan Program (84.268)

Federally guaranteed loans issued to students of Middlebury under the Federal Direct Loan Program during the year ended June 30, 2015 amounted to \$16,064,088 federally guaranteed loans issued to parents of students of Middlebury under the PLUS Loan Program during the year ended June 30, 2015 amounted to \$2,219,064. Middlebury is responsible only for the performance of certain administrative duties with respect to the programs and, accordingly, balances and transactions relating to them are not included in the Middlebury’s consolidated financial statements.

(4) Federal Perkins Loan Program

	CFDA number	Outstanding Balance at June 30, 2015	Disbursements Fiscal 2015
Federal Perkins Loan Program	84.038	\$ 13,312,869	1,798,510

The above disbursements for the Federal Perkins Loan Program include disbursements and expenditures for loans to students and administrative expenditures. There were no new federal capital contributions during the year ended June 30, 2015. Perkins loan cancellations (CFDA # 84.037) amounted to \$103,099 for the year ended June 30, 2015.

(5) Administrative Cost Allowance

Middlebury did not receive an allowance for administrative costs for the Perkins Loan Program. The College did not receive an allowance for administrative costs for the Federal Work Study Program.

MIDDLEBURY

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2015

(6) Subrecipients

Middlebury passed through \$70,085 to sub-recipients in the Research and Development Cluster during the year ended June 30, 2015.



KPMG LLP
Suite 400
356 Mountain View Drive
Colchester, VT 05446

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The President and Fellows of
Middlebury College:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of The President and Fellows of Middlebury College (Middlebury), which comprise the consolidated statement of financial position as of June 30, 2015, the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 16, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Middlebury's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Middlebury's internal control. Accordingly, we do not express an opinion on the effectiveness of Middlebury's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether Middlebury's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the Middlebury's internal control over compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Middlebury's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

October 16, 2015



KPMG LLP
Suite 400
356 Mountain View Drive
Colchester, VT 05446

Independent Auditors' Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance as Required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*

The President and Fellows of
Middlebury College:

Report on Compliance for Each Major Federal Program

We have audited The President and Fellows of Middlebury College's (Middlebury's) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015. Middlebury's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Middlebury's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Middlebury's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Middlebury's compliance.

Opinion on Major Federal Program

In our opinion, Middlebury complied, in all material respects, with the requirements referred to in the first paragraph above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.



Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2015-001. Our opinion on each major federal program is not modified with respect to this matter.

Middlebury's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Middlebury's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of Middlebury is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Middlebury's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Middlebury's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs item 2015-001, that we consider to be a significant deficiency.

Middlebury's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Middlebury's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

KPMG LLP

November 30, 2015

MIDDLEBURY

Schedule of Findings and Questioned Costs

Year ended June 30, 2015

(1) Summary of Auditors' Results

Consolidated Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes x no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ yes x none reported

Noncompliance material to the financial statements noted? _____ yes x no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ yes x no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? x yes _____ none reported

Type of auditors' report issued on compliance for major programs: Unmodified

- Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? x yes _____ no

Middlebury's major program was:

Name of federal program or cluster	CFDA numbers
Student Financial Assistance Cluster	84.007, 84.033, 84.063, 84.038, 84.268
Research and Development Cluster	Various

Dollar threshold used to distinguish between type A and type B programs: \$300,000

- Auditee qualified as low-risk auditee? x yes _____ no

(2) Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*

None.

MIDDLEBURY

Schedule of Findings and Questioned Costs

Year ended June 30, 2015

(3) Findings and Questioned Costs Relating to Federal Awards

Finding 2015-001

Program: Student Financial Assistance Cluster

Federal Agency: U.S. Department of Education

Program Year: July 1, 2014 – June 30, 2015

CFDA Number: Federal Direct Student Loans (CFDA #84.268)
Federal Supplemental Education Opportunity Grant (CFDA #84.007)

Criteria upon which Finding is Based

The earliest an institution may disburse Student Financial Aid funds (other than Federal Workstudy) (either by paying the student directly or crediting the student's account) is 10 days before the first day of classes of the payment period for which the disbursement is intended (34 CFR section 668.164(f)).

Condition Found and Perspective

During our testwork, KPMG noted that one out of forty students selected for testwork was disbursed Federal direct loan funds 32 days before the first day of classes of the payment period for which the disbursement was intended. We noted that this disbursement was made 22 days earlier than is allowed. Upon review of the entire undergraduate population, it was noted that 18 additional students were disbursed Federal direct loan funds earlier than 10 days before the first day of classes of the payment period.

During our testwork, KPMG noted that one out of forty students selected for testwork was disbursed SEOG funds 12 days before the first day of classes of the payment period for which the disbursement was intended. We noted that this disbursement was made 2 days earlier than is allowed.

Questioned Costs

None

Cause

All 20 students referenced above were enrolled in the January term, which would have allowed for earlier disbursement of funds than if the students were enrolled at the start of the spring term in February. The students dropped the January term prior to the disbursement. Due to an oversight in the Registrar's Office and Student Financial Services Department, the student's direct loan funds and SEOG funds were disbursed as if the students were still enrolled in the January term.

Effect

The student's account was credited with funds prior to the student's enrollment.

Recommendation

We recommend the College review its process of communication between the Registrar's office and Student Financial Services for changes in student enrollment status, in order to ensure that students' enrollment status is verified prior to disbursement of loan funds.

MIDDLEBURY

Schedule of Findings and Questioned Costs

Year ended June 30, 2015

Corrective Action Plan

The College has implemented the following procedures related to Finding 2015-001 to ensure Federal funds (Stafford, Perkins, Pell, & SEOG) are disbursed no earlier than 10 days before the start of classes for each semester

- Office of SFS has transitioned away from J-term loan disbursements and will process second loans disbursements no earlier than 10 days before the start of classes for the spring semester.
- This new process is already in place for other federal programs such as the Pell & Perkins loan programs.
- Banner will now reflect these changes which will be monitored and updated on a yearly basis.