KPMG

MIDDLEBURY

Consolidated Financial Statements

June 30, 2020
(with summarized comparative information as of and
for the year ended June 30, 2019)

(With Independent Auditors' Report Thereon)

MIDDLEBURY

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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 statement of financial position as of June 30, 2020, the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the 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 the 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 Middlebury at June 30, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Report on Summarized Comparative Information

We have previously audited Middlebury's 2019 consolidated financial statements, and we expressed an unmodified opinion on those audited consolidated financial statements in our report dated November 6, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

KPMG LLP

October 28, 2020

MIDDLEBURY

Consolidated Statements of Financial Position

June 30, 2020 and 2019

(Amounts in thousands)

Assets		2020	2019
Cash and cash equivalents	$	14,606	11,711
Accounts receivable, net		3,051	7,224
Inventories, prepaid expenses, and other assets		3,650	4,399
Contributions receivable, net		16,645	19,933
Student loans receivable, net		9,173	10,033
Investments		1,136,764	1,177,525
Contributions receivable from remainder trusts		2,734	2,956
Beneficial interest in perpetual trusts		28,950	29,473
Land, buildings, and equipment, net		364,538	366,965
Total assets	$	1,580,111	1,630,219
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses	$	45,006	51,321
Deferred revenues		11,494	15,910
Funds held for others		8,773	14,838
Annuities and other split-interest obligations		27,185	29,159
Refundable government loan funds		5,099	8,519
Long-term debt, net		268,093	273,385
Total liabilities		365,650	393,132
Commitments and contingencies			
Net assets:			
Without donor restrictions		175,765	202,177
With donor restrictions		1,038,696	1,034,910
Total net assets		1,214,461	1,237,087
Total liabilities and net assets	$	1,580,111	1,630,219

See accompanying notes to consolidated financial statements.

MIDDLEBURY

Consolidated Statement of Activities

Year ended June 30, 2020
(with summarized comparative information for the year ended June 30, 2019)

(Amounts in thousands)

	Without donor restrictions	With donor restrictions	Total 2020	Total 2019
Operating revenues and other support:				
Net comprehensive and other student fees	$ 157,502	—	157,502	164,740
Contributions	7,997	9,600	17,597	24,267
Sponsored activities	13,179	357	13,536	10,661
Investment return, net:				
Endowment distribution and investment income	13,949	43,697	57,646	57,318
Other sources	13,568	83	13,651	12,689
Net assets released from restrictions	59,562	(59,562)	—	—
Total operating revenues and other support	265,757	(5,825)	259,932	269,675
Operating expenses:				
Salaries	132,689	—	132,689	130,987
Benefits	45,011	—	45,011	48,427
Building and maintenance	15,706	—	15,706	17,717
Fees for services	17,574	—	17,574	20,540
Equipment and supplies	7,594	—	7,594	6,406
Travel and entertainment	7,456	—	7,456	10,651
Other expenses	21,409	—	21,409	18,829
Interest expense	10,371	—	10,371	11,384
Depreciation and amortization	19,593	—	19,593	20,495
Total operating expenses	277,403	—	277,403	285,436
Change in net assets from operations	(11,646)	(5,825)	(17,471)	(15,761)
Nonoperating activities:				
Endowment return, net of distribution	(8,208)	(15,185)	(23,393)	24,504
Other investment income, net	(713)	(690)	(1,403)	(14)
Contributions, net	1,002	22,539	23,541	18,930
Change in value of deferred gifts	(1,062)	65	(997)	(2,666)
Other	(5,785)	2,882	(2,903)	(12,526)
Total nonoperating activities, net	(14,766)	9,611	(5,155)	28,228
Change in total net assets	(26,412)	3,786	(22,626)	12,467
Net assets, beginning of year	202,177	1,034,910	1,237,087	1,224,620
Net assets, end of year	$ 175,765	1,038,696	1,214,461	1,237,087

See accompanying notes to consolidated financial statements.

MIDDLEBURY

Consolidated Statements of Cash Flows

Years ended June 30, 2020 and 2019

(Amounts in thousands)

		2020	2019
Cash flows from operating activities:			
Change in total net assets	$	(22,626)	12,467
Adjustments to reconcile change in net assets to net cash used in operating activities:			
Depreciation and amortization		19,593	20,495
Contributions restricted for long-term investments		(19,927)	(21,125)
Real property and other in-kind contributions		(114)	(1,159)
Amortization of bond issuance costs and bond premium		(1,143)	(846)
Gain on defeasement of debt		(963)	—
Loss on disposal of buildings and equipment		110	534
Contributions receivable bad debt allowance		562	177
Change in value of split interest agreements		(1,974)	2,394
Realized and unrealized gain on investments		(31,545)	(79,759)
Unrealized loss on contributions receivable from remainder trusts		222	64
Unrealized loss on beneficial interest in perpetual trusts		523	49
Changes in operating assets and liabilities:			
Accounts receivable, net		4,173	1,899
Contributions receivable		2,726	5,773
Inventories, prepaid expenses, and other assets		751	418
Accounts payable and accrued expenses		(6,229)	8,051
Deferred revenues		(7,137)	(6,061)
Funds held for others		(3,344)	772
Other		(3,419)	163
Net cash used in operating activities		(69,761)	(55,694)
Cash flows from investing activities:			
Proceeds from sales of investments		226,152	178,242
Purchases of investments		(153,846)	(122,563)
Purchases of property and equipment		(17,252)	(13,492)
Student loans granted		(885)	(675)
Student loans repaid		1,745	2,844
Net cash provided by investing activities		55,914	44,356
Cash flows from financing activities:			
Contributions restricted for long-term investment		19,927	21,125
Proceeds from issuance of long-term debt		50,045	—
Bond Premium on new debt		11,369	—
Payments on bonds and notes payable		(64,599)	(3,805)
Advance from line of credit		10,000	—
Payment of advance from line of credit		(10,000)	—
Net cash provided by financing activities		16,742	17,320
Net change in cash and cash equivalents		2,895	5,982
Cash and cash equivalents:			
Beginning of year		11,711	5,729
End of year	$	14,606	11,711
Supplemental data:			
Interest paid	$	11,514	12,203
Change in amounts accrued for purchase of property and equipment		(86)	64

See accompanying notes to consolidated financial statements.

(1) Organization

The President and Fellows of Middlebury College (Middlebury) was founded in 1800 as a liberal arts college. The undergraduate institution, Middlebury College (the College), is a leading liberal arts college with an emphasis on literature, sciences, languages, international studies and environmental studies. The College has approximately 2,500 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, Italy, Japan, Jordan, Morocco, 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 17 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, which began operations in 1915 focus on educating undergraduate and graduate language students from many disciplines at two sites in the United States and two sites abroad. There are programs in 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 the Yunnan province, China 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 in June and August at Middlebury’s Bread Loaf Mountain campus amid the Green Mountain National Forest in Ripton, Vermont, and in September in Erice, Italy.

The Middlebury graduate school, the Middlebury Institute of International Studies at Monterey, (the Institute), is located in Monterey, California. The Institute enrolls approximately 700 students and provides higher education in translation, interpretation and language education and international policy management. In addition, there are four research centers at the Institute, the James Martin Center for Nonproliferation Studies, the Center for the Blue Economy, the Center for Conflict Studies in Monterey and the Vienna Center for Disarmament and Nonproliferation in Vienna, Austria.

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

Tax-Exempt Status

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

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

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

Revenues are reported as increases in net assets without donor restrictions unless use of the related asset is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless restricted by donor or by law. Expirations in subsequent years of restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as releases from restrictions between the applicable classes of net assets.

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

(Continued)

For comparison purposes, the 2020 statement of activities has been presented with 2019 summarized comparative information in total but not by net asset class. This summarized 2019 information is not intended to and does not include sufficient detail to constitute a complete presentation of changes in net assets in conformity with GAAP. Accordingly, such information should be read in conjunction with the Middlebury's financial statements for the year ended June 30, 2019, from which the summarized information was derived.

(c) Use of Estimates

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

(d) Student Tuition and Fee Revenue

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

Tuition, fees and auxiliary student revenues are presented in the statement of activities at the transaction price, (i.e., net of any institutional student aid). Revenue from student education, residence and dining services are recognized as the services are provided over the academic year, which generally aligns with Middlebury's fiscal year. For fiscal year 2020, comprehensive student fees were $231,686 and financial aid was $74,184. For fiscal year 2019, comprehensive student fees were $239,256 and financial aid was $74,516.

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

(e) Cash and Cash Equivalents

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

(f) Contributions

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

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

(g) Contributions Receivable

Contributions receivable include pledges that are recorded at their present value using discount rates at the date of the contribution that range from 1.0% to 5.5%. The present value is calculated using a risk-free rate of return adjusted for the credit risk. The assumed rate in 2020 for uncollectible pledges was 2.4%. An allowance is made for potentially uncollectible contributions based upon management’s past collection experience and other relevant factors.

(h) Fair Value

The fair value accounting standard defines fair value and establishes a framework for measuring fair value. The framework provides a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). The three levels of the fair value hierarchy under this principle are as follows:

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

Level 2 Inputs to the valuation methodology include:

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

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

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

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

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

(i) Derivatives

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

(j) 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.

(k) Beneficial Interest in Perpetual Trusts

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

(Continued)

(In thousands of dollars)

(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 assets, as follows (in years):

	Estimated useful lives
Category:	
Land improvements	20–30
Buildings and improvements	20–60
Equipment	4–10

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

(m) Asset Retirement Obligation

An asset retirement obligation (ARO) is a legal obligation associated with the retirement of long-lived assets. These liabilities are initially recorded at fair value and the related asset retirement costs are capitalized by increasing the carrying amount of the related assets by the same amount as the liability. Asset retirement costs are subsequently depreciated over the useful lives of the related assets. Subsequent to initial recognition, Middlebury records period-to-period changes in the ARO liability resulting from the passage of time and revisions to either the timing or the amount of the original estimate of undiscounted cash flows. Middlebury ARO liabilities are accreted when the related obligation is settled. Middlebury has recorded an ARO liability in accrued expenses of $5,010 and $4,727 at June 30, 2020 and 2019, respectively.

(n) Deferred Revenues

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

(o) Funds Held for Others

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

(p) Annuities and Other Split-Interest Obligations

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

(q) Refundable Government Loan Funds

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

(r) Sponsored Activities

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

(s) Subsequent Events

Middlebury considers events or transactions that occur after the statement of financial position date but before the financial statements are issued to provide for additional evidence relative to certain estimate or to identify matters that require additional disclosure. These financial statements were issued on October 28, 2020, and subsequent events have been evaluated through that date.

In August 2020, the College issued $88,295 of the Vermont Educational and Health Buildings Financing Agency (VEHBFA) Revenue Bonds (Middlebury College Project), Series 2020 (the Series 2020 Bonds) in a tax-exempt financing. The proceeds from this issuance were used to refund the VEHBFA Revenue Refunding Bonds (Middlebury College Project) Series 2010 and to pay certain costs of issuance of the Bonds. The Series 2020 Bonds bear interest at the rates ranging from of 4.00% to 5.00% per annum and have a final maturity of November 1, 2050.

(3) Recent Accounting Pronouncements

In February 2018, the FASB issued ASU No. 2018-03, *Technical Corrections and Improvements to Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, that clarifies the guidance in ASU No. 2016-01, *Financial Instruments – Overall (Subtopic 825-10)*. The ASU became effective for Middlebury for the year ended June 30, 2020 and did not have a material effect on its financial statements.

(In thousands of dollars)

In fiscal year 2020, the College retrospectively adopted the provisions of ASU 2016-18, *Restricted Cash*, which requires that a statement of cash flows explain the changes during the period in total cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. The adoption of ASU 2016-18 did not have a material impact on the Statement of Cash Flows.

(4) Liquidity and availability

Resources available to Middlebury to fund general expenditures, including debt service payments and construction projects not financed with debt, have seasonal variations related to the timing of tuition and comprehensive fee payments, receipt of gifts and pledges, and transfers from the endowment. Middlebury actively monitors and manages these resources utilizing a combination of short and long term investment strategies to align cash inflows and expected outflows in accordance with policy. As described in note 9, Middlebury may also draw on a credit line to manage cash flows. At June 30, 2020 and 2019, existing financial assets and liquidity resources available within one year were as follows:

		2020	2019
Financial assets available for general expenditure within one year:			
Cash and cash equivalents	$	14,606	11,711
Operating investments, invested in the long-term pool		4,736	31,241
Accounts receivable, net		3,051	7,224
Fiscal 2021 and 2020 endowment appropriation		58,511	57,646
		80,904	107,822
Liquidity resources:			
Line of credit		50,000	15,000
	$	130,904	122,822

Additionally, Middlebury has $177,126 as of June 30, 2020, in board-designated endowment without donor restrictions. Although Middlebury does not intend to spend from its board-designated endowment funds, other than amounts appropriated for operations, amounts could be made available if necessary subject to liquidity as outlined in note 6.

(5) Receivables

(a) Accounts Receivable

Accounts receivable consists of receivables for annual comprehensive fees, graduate school tuition, schools abroad tuition, and summer school room, board, and tuition. The provision for uncollectible amounts was $290 and $294 as of June 30, 2020 and 2019, respectively.

(In thousands of dollars)

(b) *Contributions Receivable*

Contributions receivable consists of the following at June 30, 2020 and 2019:

		2020	2019
Due less than one year	$	8,682	11,394
One to five years		8,936	9,845
		17,618	21,239
Less discount and allowance		(973)	(1,307)
	$	16,645	19,933

(6) 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, 2020 and 2019, Middlebury had outstanding commitments of $317,269 and $228,202, respectively, to fund private partnerships (private equity, hedge and other) over a multi-year period. These capital calls are expected to be funded with cash on hand or using proceeds of liquidated securities.

Middlebury has $283,187 and $348,190 of the investment portfolio at June 30, 2020 and 2019, 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 $50,343 and $53,026 at June 30, 2020 and 2019, respectively, for split-interest agreements.

(In thousands of dollars)

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

		2020	2019
Interest, dividends, and other income, net	$	1,795	689
Realized gains		92,517	78,022
Unrealized (loss) gain, net		(60,972)	1,737
	$	33,340	80,448

Direct external investment management fees were $6,268 and $5,327 in 2020 and 2019, respectively, and are netted against interest, dividends, and other income in the statements of activities. Purchase and sale transactions are recorded on a trade date basis.

(In thousands of dollars)

The following table represents financial assets and liabilities by fair value measurements as of June 30, 2020:

		Level 1	Level 2	Level 3	Other valuation methods and NAV	Total investments
Investments at fair value:						
Money market funds	$	27,562	—	—	—	27,562
Equity securities		72,047	—	—	—	72,047
Debt securities		75,908	—	—	—	75,908
Real estate and mortgages		6,381	—	8,000	—	14,381
Private equity		—	—	5,967	—	5,967
Other investments		222	—	346	—	568
Total investments at fair value		182,120	—	14,313	—	196,433
Investments measured at net asset value:						
Equity securities		—	—	—	229,276	229,276
Alternative equities		—	—	—	319,300	319,300
Real estate and mortgages		—	—	—	920	920
Private equity partnerships		—	—	—	389,683	389,683
Other investments		—	—	—	329	329
Total investments at net asset value		—	—	—	939,508	939,508
Investments valued using other methods		—	—	—	823	823
Total investments	$	182,120	—	14,313	940,331	1,136,764
Other assets:						
Remainder trusts	$	—	—	2,734	—	2,734
Perpetual trusts		—	—	28,950	—	28,950
Total other assets	$	—	—	31,684	—	31,684

(In thousands of dollars)

The following table represents financial assets and liabilities by fair value measurements as of June 30, 2019:

		Level 1	Level 2	Level 3	Other valuation methods and NAV	Total investments
Investments at fair value:						
Money market funds	$	31,473	—	—	—	31,473
Equity securities		82,407	—	—	—	82,407
Debt securities		45,506	—	—	—	45,506
Real estate and mortgages		6,711	—	8,000	—	14,711
Private equity		—	—	5,824	—	5,824
Other investments		313	—	332	—	645
Total investments at fair value		166,410	—	14,156	—	180,566
Investments measured at net asset value:						
Equity securities		—	—	—	283,469	283,469
Alternative equities		—	—	—	317,771	317,771
Debt securities		—	—	—	5,750	5,750
Real estate and mortgages		—	—	—	3,885	3,885
Private equity partnerships		—	—	—	384,559	384,559
Other investments		—	—	—	505	505
Total investments at net asset value		—	—	—	995,939	995,939
Investments valued using other methods		—	—	—	1,020	1,020
Total investments	$	166,410	—	14,156	996,959	1,177,525
Other assets:						
Remainder trusts	$	—	—	2,956	—	2,956
Perpetual trusts		—	—	29,473	—	29,473
Total other assets	$	—	—	32,429	—	32,429

(In thousands of dollars)

Detailed liquidity of Middlebury's investments as of June 30, 2020 and June 30, 2019 is as follows:

	June 30, 2020					
	Daily	Monthly	Quarterly	Annually	Illiquid	Total
Money market funds	$ 27,562	—	—	—	—	27,562
Equity securities	72,048	137,899	91,376	—	—	301,323
Alternative equities	—	—	319,300	—	—	319,300
Debt securities	75,908	—	—	—	—	75,908
Real estate and mortgages	6,381	—	—	—	8,920	15,301
Private equity	—	—	—	—	395,650	395,650
Other investments	222	—	—	—	1,498	1,720
Total	$ 182,121	137,899	410,676	—	406,068	1,136,764

	June 30, 2019					
	Daily	Monthly	Quarterly	Annually	Illiquid	Total
Money market funds	$ 31,473	—	—	—	—	31,473
Equity securities	82,407	172,457	111,012	—	—	365,876
Alternative equities	—	—	288,358	29,413	—	317,771
Debt securities	45,506	—	5,750	—	—	51,256
Real estate and mortgages	6,711	—	—	—	11,885	18,596
Private equity	—	—	—	—	390,383	390,383
Other investments	313	—	—	—	1,857	2,170
Total	$ 166,410	172,457	405,120	29,413	404,125	1,177,525

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

Contracts in a net asset position are included in investments on the statement of financial position, and contracts in a net liability position are included in liabilities associated with investments on the statement of financial position. At June 30, 2020 Middlebury held certain index future contracts in a net liability position of $64. At June 30, 2019 Middlebury held certain index future contracts in a net asset position of $143. Middlebury posted collateral on the index futures contracts of $5,827 and $4,911 at June 30, 2020 and June 30, 2019, respectively. The long notional amounts of the index futures contracts were $5,679 and $27,171 at June 30, 2020 and June 30, 2019, respectively.

As of June 30, 2020, there were 70 futures contracts open. The volume of futures is based on the quarterly number of contracts held during the year. For the year ended June 30, 2020, the average number of contracts for futures was 72.5.

(In thousands of dollars)

The following table summarizes the Level 3 activity for the year ended June 30, 2020:

	Beginning balance at June 30, 2019	Realized gains	Change in unrealized gains (losses)	Additions	Deductions	Ending balance at June 30, 2020
Level 3 assets:						
Real estate and mortgages	$ 8,000	—	—	—	—	8,000
Private equity partnerships	5,824	—	160	—	(17)	5,967
Other investments	332	201	14	—	(201)	346
Total investments	14,156	201	174	—	(218)	14,313
Remainder trusts	2,956	—	(222)	—	—	2,734
Perpetual trusts	29,473	—	(523)	—	—	28,950
Total investments and other assets	$ 46,585	201	(571)	—	(218)	45,997

The following table summarizes the Level 3 activity for the year ended June 30, 2019:

	Beginning balance at June 30, 2018	Realized gains	Change in unrealized gains (losses)	Additions	Deductions	Ending balance at June 30, 2019
Level 3 assets:						
Real estate and mortgages	$ 8,001	—	(1)	—	—	8,000
Private equity partnerships	4,903	—	921	—	—	5,824
Other investments	3,072	55	(2,256)	—	(539)	332
Total investments	15,976	55	(1,336)	—	(539)	14,156
Remainder trusts	3,020	—	(64)	—	—	2,956
Perpetual trusts	29,522	—	(49)	—	—	29,473
Total investments and other assets	$ 48,518	55	(1,449)	—	(539)	46,585

There were no transfers between the fair value hierarchy levels in 2020 or 2019.

(7) 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 net assets with donor restrictions, (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and

(In thousands of dollars)

(c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund, and (d) unspent, appreciation on the permanent endowment. The unspent appreciation is classified in net assets with donor restrictions until those amounts are appropriated for expenditure by Middlebury in a manner consistent with the standard of prudence prescribed by the 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, 2020 and 2019, delineated by net asset class and donor-restricted versus Board-designated funds were as follows:

		June 30, 2020	
	Without donor restrictions	**With donor restrictions**	**Total**
Donor-restricted endowment funds	$ —	951,782	951,782
Board-designated endowment funds	177,126	—	177,126
Sub-total	177,126	951,782	1,128,908
Working capital funds	4,736	—	4,736
Total endowment funds June 30, 2020	$ 181,862	951,782	1,133,644

(In thousands of dollars)

		June 30, 2019		
		Without donor restrictions	With donor restrictions	Total
Donor-restricted endowment funds	$	—	946,489	946,489
Board-designated endowment funds		180,056	—	180,056
Sub-total		180,056	946,489	1,126,545
Working capital funds		31,241	—	31,241
Total endowment funds June 30, 2019	$	211,297	946,489	1,157,786

(a) Changes in Endowment

Changes to the endowment for the year ended June 30, 2020 were as follows:

		Without donor restrictions	With donor restrictions	Total
Endowment net assets at beginning of year	$	211,297	946,489	1,157,786
Total investment return, net		5,740	28,514	34,254
Contributions		—	19,927	19,927
Appropriation of endowment assets for spending distribution		(8,949)	(43,697)	(52,646)
Appropriation of working capital assets for spending distribution		(26,226)	—	(26,226)
Transfer to/from designated endowment funds		—	549	549
Endowment net assets at end of year	$	181,862	951,782	1,133,644

(In thousands of dollars)

Changes to the endowment for the year ended June 30, 2019 were as follows:

		Without donor restrictions	With donor restrictions	Total
Endowment net assets at beginning of year	$	224,971	899,173	1,124,144
Total investment return, net		15,402	66,421	81,823
Contributions		—	21,125	21,125
Appropriation of endowment assets for spending distribution		(10,292)	(42,026)	(52,318)
Appropriation of working capital assets for spending distribution		(18,784)	—	(18,784)
Transfer to/from designated endowment funds		—	1,796	1,796
Endowment net assets at end of year	$	211,297	946,489	1,157,786

(b) Underwater Endowment Funds

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

When donor-restricted endowment deficits exist, they are classified as a reduction of donor-restricted net assets. Deficits of this nature were $49 and $0 as June 30, 2020 and 2019, respectively.

		2020	2019
Aggregate amount by which funds are underwater	$	(49)	—
Aggregate of original gift amount		6,725	—
Fair value of underwater endowments		6,676	—

(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. Working capital reserves are classified as endowment and are included as an endowment distribution. The reserve distributions were $26,226 and $18,784 during the years ended, June 30, 2020 and 2019, respectively.

(In thousands of dollars)

(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.

(8) Land, Buildings, and Equipment

Land, buildings, and equipment at June 30, 2020 and 2019 consist of the following:

	2020	2019
Land and land improvements	$ 56,696	56,535
Buildings	610,062	608,214
Equipment	124,136	119,871
Art and antiques	21,432	21,432
Construction in progress	14,612	4,059
	826,938	810,111
Less accumulated depreciation	(462,400)	(443,146)
	$ 364,538	366,965

Depreciation and amortization expense in 2020 and 2019 was $19,593 and $20,495, respectively.

(In thousands of dollars)

(9) Long-Term Debt

Long-term debt is comprised of the following at June 30, 2020 and 2019:

		2020	2019
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
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%		39,960	41,080
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%		10,325	11,885
VEHBFA Series 2016 term bonds $33,055 original principal (uncollateralized) due on November 1, 2046, issued at a premium, interest at 4.00%		33,055	33,055
2016 direct placement term loan $21,840 original principal, (uncollateralized) with annual principal payments ranging from $1,180 in 2018 to $2,045 in 2031, with interest at 2.34%		18,170	19,440
VEHBFA Series 2019 term bonds $49,840 original principal, (uncollateralized) due on November 1, 2038, issued at a premium, interest at 5.00%		49,840	—
		246,385	259,940
Less unamortized bond issuance costs		(1,977)	(1,837)
Plus unamortized premium		23,685	15,282
	$	268,093	273,385

(In thousands of dollars)

(a) Debt Maturities

Annual principal requirements under all long-term debt obligations as of June 30, 2020 are as follows:

2021	$	4,140
2022		4,340
2023		6,480
2024		6,800
2025		7,130
Thereafter		217,495
	$	246,385

(b) Credit Lines

As of June 30, 2020, Middlebury had a $50,000 line of credit with an interest rate of either the one-month LIBOR plus 2% or the Federal Funds rate + 2.5%, at Middlebury's option. All borrowings have a floor rate of 2.5%. The maturity date for the line of credit is March 31, 2022.

As of June 30, 2019, Middlebury had a $15,000 line of credit with an interest rate of either the one-month LIBOR plus 1.0% or the Federal Funds rate + 2.5%, at Middlebury's option. The line of credit was replaced with the new $50,000 line of credit on June 30, 2020.

For the years ended June 30, 2020 and 2019, there were no outstanding balances on these lines. The proceeds of the borrowings are to be used for short-term working capital needs, pre-funding capital projects prior to a bond issuance, or providing temporary liquidity for investment transactions.

(10) Retirement Plans

Retirement benefits for benefits eligible employees of Middlebury, are individually funded and vested under a defined contribution program with the Teachers Insurance and Annuity Association and the College Retirement Equities Fund (TIAA-CREF). Under this plan, Middlebury makes contributions into the employee accounts based upon investment allocations exercised by the employee or defaulted into the Lifecycle mutual funds. Retirement contributions for the years ended June 30, 2020 and 2019 were $13,659 and $13,826, respectively.

(11) Composition of Net Assets

Net assets without donor restriction are comprised of the following:

		2020	2019
Board-designated endowment funds	$	177,126	180,056
Net investment in plant		96,445	93,580
Other		(97,806)	(71,459)
	$	175,765	202,177

(Continued)

(In thousands of dollars)

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

		2020	2019
Endowment funds restricted for Program Support	$	302,540	307,492
Endowment funds restricted for General Operating		66,013	67,013
Endowment funds restricted for Scholarship and Prizes		286,174	279,293
Endowment funds restricted for Instruction		227,910	222,421
Endowment funds restricted for Library		62,544	63,560
Endowment funds restricted for Other Student Benefit		6,601	6,710
Total Endowment funds		951,782	946,489
Restricted for Scholarships, loan funds and other specific purposes		48,518	49,107
Restricted contributions receivable, net		16,645	19,311
Restricted annuity and life income gifts		21,751	20,003
	$	1,038,696	1,034,910

(12) Commitments and Contingencies

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

Middlebury has made a commitment to assist the Town of Middlebury (the Town) to finance the bridge construction project and has agreed to pay the Town the sum of $300 twice per year starting in fiscal year 2011 and continuing until thirty years thereafter. Middlebury has recorded a commitment payable of $7,746 and $7,849 as of June 30, 2020 and 2019, respectively. The original commitment was for $18,000 and was discounted at a rate of 5.00%.

Middlebury has made a commitment to assist the Town in financing the construction of a municipal office building and a gymnasium/recreation facility. This pertains to an agreement between Middlebury and the Town regarding the transfer of certain parcels of land and buildings. Middlebury will pay the Town approximately $350 over two installments per year until 2034. The full commitment was for $6,159 and was discounted at 3.25%. Middlebury has recorded a payable of $3,399 and 3,909 as of June 30, 2020 and 2019, respectively.

(13) Operating Expenses

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

(In thousands of dollars)

Natural class expenses are allocated to functional areas based predominantly on department-level expenses. Depreciation expense and interest expense are allocated to departments based on their proportionate share of operating expenses.

Operating expenses for the year ended June 30, 2020 are as follows:

		Instruction	Academic support	Student services	Institutional and auxiliary	Sponsored activities	Total
Salaries and wages	$	59,292	15,031	18,347	35,061	4,958	132,689
Employee benefits		19,600	4,968	6,065	11,590	2,788	45,011
Building and maintenance		3,024	1,073	1,519	9,855	235	15,706
Fees for services		4,472	1,827	2,055	7,748	1,472	17,574
Equipment and supplies		1,114	2,016	1,174	3,165	125	7,594
Travel and entertainment		1,542	1,447	2,347	1,542	578	7,456
Other expenses		4,307	2,858	5,059	7,309	1,876	21,409
Interest expense		2,614	1,826	1,411	4,520	—	10,371
Depreciation expense		3,626	2,047	3,747	10,173	—	19,593
June 30, 2020	$	99,591	33,093	41,724	90,963	12,032	277,403

Operating expenses for the year ended June 30, 2019 are as follows:

		Instruction	Academic support	Student services	Institutional and auxiliary	Sponsored activities	Total
Salaries and wages	$	58,080	14,702	18,176	34,755	5,274	130,987
Employee benefits		16,979	4,374	5,615	21,032	427	48,427
Building and maintenance		2,473	1,483	1,262	12,238	261	17,717
Fees for services		6,544	2,470	2,318	7,274	1,934	20,540
Equipment and supplies		1,136	1,393	1,419	2,249	209	6,406
Travel and entertainment		2,294	2,317	3,397	1,569	1,074	10,651
Other expenses		4,510	2,348	4,091	7,018	862	18,829
Interest expense		3,082	2,154	1,665	4,483	—	11,384
Depreciation expense		3,637	2,053	3,758	11,047	—	20,495
June 30, 2019	$	98,735	33,294	41,701	101,665	10,041	285,436

(Continued)

(14) Risk and Uncertainties amid Coronavirus Pandemic (COVID-19)

In March 2020, the World Health Organization declared the novel coronavirus (COVID-19) a pandemic. The outbreak of the disease has affected travel, commerce and financial markets globally, including in the United States. The continued spread of COVID-19 and its impact on social interaction, travel, economies and financial markets may adversely affect operations and financial condition, including, among other things, (i) the ability of Middlebury to conduct its operations and/or the cost of operations, (ii) governmental and non-governmental funding, and (iii) financial markets impacting investments valuation and interest rates.

Commencing in March 2020, undergraduate and graduate course instruction was conducted virtually, and most students vacated the campus. The College granted refunds of $8 million in fiscal year 2020 for room and board to undergraduate students. Some smaller amounts were provided to certain graduate students and study abroad students, as emergency aid and/or for instruction that did not occur. Middlebury continued to deliver educational services to the overwhelming majority of students and most students satisfied their academic requirements for the remainder of the 2019–20 academic year.

While the financial impact on Middlebury's future operations cannot be quantified at this time, the pandemic may have a material adverse effect on the current and future financial profile and operating performance of the College. The College continues to monitor the course of the pandemic and is prepared to take additional measures to protect the health of the College community and promote the continuity of its academic mission.