KPMG

MIDDLEBURY

Consolidated Financial Statements

June 30, 2019 and 2018

(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, 2019, 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, 2019, 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.

Emphasis of Matter

As discussed in Note 3(c) to the consolidated financial statements, during the year ended June 30, 2019, Middlebury adopted Financial Accounting Standards Board Accounting Standards Update (ASU) No. 2016-14, *Not For–Profit Entities (Topic 958): Presentation of Financial Statements for Not-For-Profit Entities*. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited Middlebury's 2018 consolidated financial statements, and we expressed an unmodified opinion on those audited consolidated financial statements in our report dated November 7, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived, before the adjustments to adopt ASU 2016-14. As part of our audit of the 2019 consolidated financial statements, we also audited the adjustments described in Note 3(c) that were applied to adopt ASU 2016-14 retrospectively in the 2018 consolidated financial statements. In our opinion, all adjustments are appropriate and have been properly applied.

KPMG LLP

November 6, 2019

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Consolidated Statements of Financial Position

June 30, 2019 and 2018

(Amounts in thousands)

Assets		**2019**	**2018**
Cash and cash equivalents	$	11,711	5,729
Accounts receivable, net		7,224	9,123
Inventories, prepaid expenses, and other assets		4,399	4,819
Contributions receivable, net		19,933	25,883
Student loans receivable, net		10,033	11,949
Investments		1,177,525	1,153,155
Contributions receivable from remainder trusts		2,956	3,020
Beneficial interest in perpetual trusts		29,473	29,522
Land, buildings, and equipment, net		366,965	373,884
Total assets	$	1,630,219	1,617,084
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses	$	51,321	43,270
Deferred revenues		15,910	21,971
Funds held for others		14,838	14,066
Annuities and other split-interest obligations		29,159	26,765
Refundable government loan funds		8,519	8,357
Long-term debt, net		273,385	278,035
Total liabilities		393,132	392,464
Commitments and contingencies			
Net assets:			
Without donor restrictions		202,177	228,395
With donor restrictions		1,034,910	996,225
Total net assets		1,237,087	1,224,620
Total liabilities and net assets	$	1,630,219	1,617,084

See accompanying notes to consolidated financial statements.

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Consolidated Statement of Activities

Year ended June 30, 2019
(with summarized comparative information for the year ended June 30, 2018)

(Amounts in thousands)

	Without donor restrictions	With donor restrictions	Total 2019	Total 2018
Operating revenues and other support:				
Net comprehensive and other student fees	$ 164,740	—	164,740	158,049
Contributions	7,649	16,618	24,267	30,038
Sponsored activities	10,661	—	10,661	9,931
Investment return, net:				
Endowment distribution and investment income	15,292	42,026	57,318	63,422
Other sources	12,577	112	12,689	13,031
Net assets released from restrictions	63,316	(63,316)	—	—
Total operating revenues and other support	274,235	(4,560)	269,675	274,471
Operating expenses:				
Salaries	130,987	—	130,987	128,593
Benefits	48,427	—	48,427	43,586
Building and maintenance	17,717	—	17,717	16,225
Fees for services	20,540	—	20,540	17,951
Equipment and supplies	6,406	—	6,406	9,260
Travel and entertainment	10,651	—	10,651	9,358
Other expenses	18,829	—	18,829	19,319
Interest expense	11,384	—	11,384	12,432
Depreciation and amortization	20,495	—	20,495	21,498
Total operating expenses	285,436	—	285,436	278,222
Change in net assets from operations	(11,201)	(4,560)	(15,761)	(3,751)
Nonoperating activities:				
Endowment return, net of distribution	109	24,395	24,504	36,935
Other investment income, net	(652)	638	(14)	431
Contributions, net	2,166	16,764	18,930	18,596
Change in value of deferred gifts	(4,123)	1,457	(2,666)	1,553
Other	(12,517)	(9)	(12,526)	(3,459)
Total nonoperating activities	(15,017)	43,245	28,228	54,056
Change in total net assets	(26,218)	38,685	12,467	50,305
Net assets, beginning of year	228,395	996,225	1,224,620	1,174,315
Net assets, end of year	$ 202,177	1,034,910	1,237,087	1,224,620

See accompanying notes to consolidated financial statements.

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Consolidated Statements of Cash Flows

Years ended June 30, 2019 and 2018

(Amounts in thousands)

		2019	2018
Cash flows from operating activities:			
Change in total net assets	$	12,467	50,305
Adjustments to reconcile change in net assets to net cash used in operating activities:			
Depreciation and amortization		20,495	21,498
Contributions restricted for long-term investments		(21,125)	(15,002)
Real property and other in-kind contributions		(1,159)	(1,908)
Amortization of bond issuance costs and bond premium		(846)	(846)
Loss on disposal of buildings and equipment		534	142
Contributions receivable bad debt allowance		177	533
Change in value of split interest agreements		2,394	1,088
Realized and unrealized gain on investments		(79,759)	(99,945)
Unrealized loss (gain) on contributions receivable from remainder trusts		64	(224)
Unrealized loss (gain) on beneficial interest in perpetual trusts		49	(1,404)
Changes in operating assets and liabilities:			
Accounts receivable, net		1,899	(3,396)
Contributions receivable		5,773	(5,518)
Inventories, prepaid expenses, and other assets		418	(422)
Accounts payable and accrued expenses		8,051	1,060
Deferred revenues		(6,061)	1,866
Funds held for others		772	718
Other		163	(3,611)
Net cash used in operating activities		(55,694)	(55,066)
Cash flows from investing activities:			
Proceeds from sales of investments		178,242	228,986
Purchases of investments		(122,563)	(179,874)
Purchases of property and equipment		(13,492)	(12,211)
Student loans granted		(675)	(657)
Student loans repaid		2,844	4,019
Net cash provided by investing activities		44,356	40,263
Cash flows from financing activities:			
Contributions restricted for long-term investment		21,125	15,002
Change in deposits with bond trustees, net of earnings		—	248
Payments on bonds and notes payable		(3,805)	(3,735)
Net cash provided by financing activities		17,320	11,515
Net change in cash and cash equivalents		5,982	(3,288)
Cash and cash equivalents:			
Beginning of year		5,729	9,017
End of year	$	11,711	5,729
Supplemental data:			
Interest paid	$	12,203	12,327
Change in amounts accrued for purchase of property and equipment		64	9

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.

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 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 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.

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 net comprehensive and other student fees.

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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.

For comparison purposes, the 2019 statement of activities has been presented with 2018 summarized comparative information in total but not by net asset class. This summarized 2018 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, 2018, from which the summarized information was derived before the adjustments described in note 3(c) were applied to adopt Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statement of Not-for-Profit Entities*, retrospectively to the 2018 summarized comparative information.

(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) 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.

(e) 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. 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 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.

(f) 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 2019 for uncollectible pledges was 3.6%. 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 or market, utilizing the first-in, first-out method.

(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) Interest in Perpetual Trusts

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.

(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 $4,727 and $4,506 at June 30, 2019 and 2018, 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.

(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.

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(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 November 6, 2019, and subsequent events have been evaluated through that date.

In August 2019, the College issued $49,840,000 of the Vermont Educational and Health Buildings Financing Agency (VEHBFA) Revenue Bonds (Middlebury College Project), Refunding Series 2019 (the Series 2019 Bonds) in a tax-exempt financing. The proceeds from this issuance were used to refund the VEHBFA Revenue Refunding Bonds (Middlebury College Project) Series 2009 and to pay certain costs of issuance of the Bonds. The Series 2019 Bonds bear interest at the rate of 5.00% and 4.00% per annum and have a final maturity of November 1, 2038.

(3) Recent Accounting Pronouncements

(a) ASU 2014-09, *Revenue from Contracts with Customers*, was issued by the FASB in May 2014 and is intended to improve the financial reporting requirements for revenue from contracts with customers. The ASU became effective for the Middlebury for the year ended June 30, 2019. Middlebury's adoption of the ASU did not materially change the timing or amount of revenue recognized by the College. However, the ASU requires that tuition, fees and auxiliary student revenues be presented in the statement of activities at the transaction price, (i.e., net of any institutional student aid). Previously, such revenues were presented gross, followed by a reduction for institutional student aid. Accordingly, Middlebury's 2018 statement of activities has been revised to conform to the 2019 presentation. 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 2019, comprehensive student fees were $239,256 and financial aid was $74,516. For fiscal year 2018, comprehensive student fees were $227,698 and financial aid was $69,649.

(b) ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, was issued by the FASB in June 2018. The new ASU is intended to assist entities in (1) evaluating whether transactions should be accounted for as contributions (no exchange transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange transactions subject to other guidance and (2) determining whether a contribution is conditional. The ASU clarifies that a contribution is conditional if the agreement includes one or more barriers 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 transfer assets. The ASU became effective for the College for the year ended June 30, 2019. Middlebury's adoption of the ASU on a modified prospective basis did not have a material effect on its financial statements.

(c) In fiscal year 2019, Middlebury adopted ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-for-Profit-Entities*. The primary changes, which affect most not-for-profit financial statements, include revisions to simplify and enhance the presentation of net assets, a requirement to present the functional and natural expenses in single location, and expanded disclosures regarding liquidity and availability of resources. The ASU became effective for the College for the year ended June 30, 2019 and was applied retrospectively to 2018. A summary of the net asset reclassification resulting from the adoption of ASU 2016-14 as of June 30, 2018 is as follows (in thousands):

		ASU 2016-14 Reclassification		
		Without donor restrictions	**With donor restrictions**	**Total net assets**
2018 ending net assets as previously presented:				
Unrestricted	$	228,395	—	228,395
Temporarily restricted		—	602,722	602,722
Permanently restricted		—	393,503	393,503
2018 ending net assets, as reclassified	$	228,395	996,225	1,224,620

(4) Liquidity

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, 2019, existing financial assets and liquidity resources available within one year were as follows:

		2019
Financial assets available for general expenditure within one year:		
Cash and cash equivalents	$	11,711
Operating investments, invested in the long-term pool		31,241
Accounts receivable, net		7,224
Total cash and operating investments		50,176
Liquidity resources:		
Line of credit		15,000
Total	$	65,176

Additionally, Middlebury has $180,056 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.

(In thousands of dollars)

(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 $294 and $518 as of June 30, 2019 and 2018, respectively.

(b) Contributions Receivable

Contributions receivable consists of the following at June 30, 2019 and 2018:

		2019	2018
Due less than one year	$	11,394	18,266
One to five years		9,845	9,167
		21,239	27,433
Less discount and allowance		(1,307)	(1,550)
	$	19,933	25,883

(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, 2019 and 2018, Middlebury had outstanding commitments of $228,202 and $262,403, 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 $348,190 and $324,599 of the investment portfolio at June 30, 2019 and 2018, respectively, invested in funds which invest in international securities. These investments are subject to the

(Continued)

(In thousands of dollars)

additional risk of currency fluctuations. Also included in investments are $53,026 and $49,173 at June 30, 2019 and 2018, respectively, for split-interest agreements.

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

		2019	2018
Interest, dividends, and other income, net	$	689	843
Realized gains, net		78,022	89,895
Change in unrealized gains, net		1,737	10,050
	$	80,448	100,788

Direct external investment management fees were $5,327 and $5,550 in 2019 and 2018, 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, 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

(Continued)

(In thousands of dollars)

The following table represents financial assets and liabilities by fair value measurements as of June 30, 2018:

	Level 1	Level 2	Level 3	Other valuation methods and NAV	Total investments
Investments at fair value:					
Money market funds	$ 40,726	—	—	—	40,726
Equity securities	69,256	—	—	—	69,256
Debt securities	44,320	—	—	—	44,320
Real estate and mortgages	5,603	—	8,001	—	13,604
Private equity	—	—	4,903	—	4,903
Other investments	108	—	3,072	—	3,180
Total investments at fair value	160,013	—	15,976	—	175,989
Investments measured at net asset value:					
Equity securities	—	—	—	291,425	291,425
Alternative equities	—	—	—	292,859	292,859
Debt securities	—	—	—	29,000	29,000
Real estate and mortgages	—	—	—	3,142	3,142
Private equity partnerships	—	—	—	358,733	358,733
Other investments	—	—	—	836	836
Total investments at net asset value	—	—	—	975,995	975,995
Investments valued using other methods	—	—	—	1,171	1,171
Total investments	$ 160,013	—	15,976	977,166	1,153,155
Other assets:					
Remainder trusts	$ —	—	3,020	—	3,020
Perpetual trusts	—	—	29,522	—	29,522
Total other assets	$ —	—	32,542	—	32,542

(In thousands of dollars)

Detailed liquidity of Middlebury's investments as of June 30, 2019 and June 30, 2018 is as follows:

	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

	June 30, 2018					
	Daily	Monthly	Quarterly	Annually	Illiquid	Total
Money market funds	$ 40,726	—	—	—	—	40,726
Equity securities	69,256	188,437	102,988	—	—	360,681
Alternative equities	—	—	259,500	33,359	—	292,859
Debt securities	44,320	—	29,000	—	—	73,320
Real estate and mortgages	5,603	—	—	—	11,143	16,746
Private equity	—	—	—	—	363,636	363,636
Other investments	108	—	—	—	5,079	5,187
Total	$ 160,013	188,437	391,488	33,359	379,858	1,153,155

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, 2019 Middlebury held certain index future contracts in a net asset position of $143. At June 30, 2018 Middlebury held certain index future contracts in a net liability position of $(11). Middlebury posted collateral on the index futures contracts of $4,911 and $4,753 at June 30, 2019 and June 30, 2018, respectively. The long notional amounts of the index futures contracts were $27,171 and $4,743 at June 30, 2019 and June 30, 2018, respectively.

As of June 30, 2019, there were 229 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, 2019, the average number of contracts for futures was 125.

(In thousands of dollars)

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

The following table summarizes the Level 3 activity for the year ended June 30, 2018:

		Beginning balance at June 30, 2017	Realized gains	Change in unrealized gains (losses)	Additions	Deductions	Ending balance at June 30, 2018
Level 3 assets:							
Real estate and mortgages	$	7,968	—	—	33	—	8,001
Private equity partnerships		4,881	—	22	—	—	4,903
Other investments		3,328	207	(256)	—	(207)	3,072
Total investments		16,177	207	(234)	33	(207)	15,976
Remainder trusts		2,796	—	224	—	—	3,020
Perpetual trusts		28,118	—	1,404	—	—	29,522
Total investments and other assets	$	47,091	207	1,394	33	(207)	48,518

There were no transfers between the fair value hierarchy levels in 2019 or 2018.

(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 (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 thousands of dollars)

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, 2019 and 2018, delineated by net asset class and donor-restricted versus Board-designated funds were as follows:

	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

(In thousands of dollars)

	June 30, 2018		
	Without donor restrictions	With donor restrictions	Total
Donor-restricted endowment funds	$ (23)	899,173	899,150
Board-designated endowment funds	175,403	—	175,403
Sub-total	175,380	899,173	1,074,553
Working capital funds	49,591	—	49,591
Total endowment funds June 30, 2018	$ 224,971	899,173	1,124,144

(a) Changes in Endowment

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

(In thousands of dollars)

Changes to the endowment for the year ended June 30, 2018 were as follows:

		Without donor restrictions	With donor restrictions	Total
Endowment net assets at beginning of year	$	228,233	845,743	1,073,976
Total investment return, net		21,038	79,783	100,821
Contributions		11	15,409	15,420
Appropriation of endowment assets for spending distribution		(10,872)	(40,454)	(51,326)
Appropriation of working capital assets for spending distribution		(15,287)	—	(15,287)
Other transfers and adjustments		(35)	(53)	(88)
Transfer to/from designated endowment funds		1,883	(1,255)	628
Endowment net assets at end of year	$	224,971	899,173	1,124,144

(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 $0 and $23 as June 30, 2019 and 2018, respectively.

		2019	2018
Aggregate amount by which funds are underwater	$	—	(23)
Aggregate of original gift amount		—	2,191
Fair value of underwater endowments		—	2,168

(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 $18,784 and $15,287 during the years ended, June 30, 2019 and 2018, 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, 2019 and 2018 consist of the following:

		2019	**2018**
Land and land improvements	$	56,535	56,535
Buildings		608,214	604,069
Equipment		119,871	113,854
Art and antiques		21,432	21,148
Construction in progress		4,059	1,976
		810,111	797,582
Less accumulated depreciation		(443,146)	(423,698)
	$	366,965	373,884

Depreciation and amortization expense in 2019 and 2018 was $20,495 and $21,498, respectively.

(In thousands of dollars)

(9) Long-Term Debt

Long-term debt is comprised of the following at June 30, 2019 and 2018:

		2019	2018
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%		41,080	43,665
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
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%		19,440	20,660
		259,940	263,745
Less unamortized bond issuance costs		(1,837)	(1,941)
Plus unamortized premium		15,282	16,231
	$	273,385	278,035

(a) Debt Maturities

Annual principal requirements under all long-term debt obligations as of June 30, 2019 are as follows:

2020	$	3,950
2021		4,140
2022		4,340
2023		4,550
2024		4,770
Thereafter		238,190
	$	259,940

(In thousands of dollars)

(b) Credit Lines

As of June 30, 2019, and 2018, 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 maturity date for the line of credit is March 31, 2021.

For the years ended June 30, 2019 and 2018, 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.

(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, 2019 and 2018 were $13,826 and $13,309, respectively.

(11) Composition of Net Assets

Net assets without donor restriction are comprised of the following:

		2019	2018
Board-designated endowment funds	$	180,056	175,403
Other		22,121	52,992
	$	202,177	228,395

(In thousands of dollars)

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

		2019	2018
Endowment funds restricted for Program Support	$	307,492	290,747
Endowment funds restricted for General Operating		67,013	65,028
Endowment funds restricted for Scholarship and Prizes		279,293	258,715
Endowment funds restricted for Instruction		222,421	216,241
Endowment funds restricted for Library		63,560	61,905
Endowment funds restricted for Other Student Benefit		6,710	6,537
Total Endowment funds		946,489	899,173
Restricted for Scholarships, loan funds and other specific purposes		49,107	52,639
Restricted contributions receivable, net		19,311	25,883
Restricted annuity and life income gifts		20,003	18,530
	$	1,034,910	996,225

(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 $7,849 and $7,951 as of June 30, 2019 and 2018, 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 $3,909 as of both June 30, 2019 and 2018.

(13) Operating Expenses

The 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)

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
June 30, 2018	$	96,346	34,254	39,565	99,509	8,548	278,222