KPMG

MIDDLEBURY

Consolidated Financial Statements

June 30, 2018 and 2017

(With Independent Auditors’ Report Thereon)

MIDDLEBURY

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Independent Auditors' Report

The President and
Fellows of Middlebury College:

We have audited the accompanying consolidated financial statements of the President and Fellows of Middlebury College (Middlebury), which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the 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 audits. We conducted our audits 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, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

November 7, 2018

MIDDLEBURY

Consolidated Statements of Financial Position

June 30, 2018 and 2017

(Amounts in thousands)

Assets		**2018**	**2017**
Cash and cash equivalents	$	5,729	9,017
Accounts receivable, net		9,123	5,727
Inventories, prepaid expenses, and other assets		4,819	4,397
Contributions receivable, net		25,883	20,898
Deposits with bond trustees		—	248
Student loans receivable, net		11,949	15,311
Investments		1,153,155	1,102,322
Contributions receivable from remainder trusts		3,020	2,796
Beneficial interest in perpetual trusts		29,522	28,118
Land, buildings, and equipment, net		373,884	381,414
Total assets	$	1,617,084	1,570,248
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses	$	43,270	42,217
Funds held for others		14,066	13,348
Deferred revenues		21,971	20,107
Annuities and other split–interest obligations		26,765	25,677
Refundable government loan funds		8,357	11,968
Long-term debt		278,035	282,616
Total liabilities		392,464	395,933
Commitments and contingencies			
Net assets:			
Unrestricted		228,395	239,988
Temporarily restricted		602,722	557,212
Permanently restricted		393,503	377,115
Total net assets		1,224,620	1,174,315
Total liabilities and net assets	$	1,617,084	1,570,248

See accompanying notes to consolidated financial statements.

MIDDLEBURY

Consolidated Statement of Activities

Year ended June 30, 2018

(Amounts in thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	Total 2018	Total 2017
Operating revenues and other support:					
Comprehensive and other student fees	$ 227,698			227,698	218,396
Less financial aid	(69,649)			(69,649)	(67,189)
Net comprehensive and other student fees	158,049	—	—	158,049	151,207
Contributions	14,202	15,836	—	30,038	19,369
Sponsored activities	9,931	—	—	9,931	9,062
Investment return:					
Endowment distribution	52,932	8,372	—	61,304	63,222
Other investment income	1,262	856	—	2,118	3,805
Other sources	12,889	142	—	13,031	14,430
Net assets released from restrictions	18,405	(18,405)	—	—	—
Total operating revenues and other support	267,670	6,801	—	274,471	261,095
Operating expenses:					
Instruction	89,855	—	—	89,855	88,002
Academic support	38,668	—	—	38,668	37,693
Student services	40,922	—	—	40,922	40,586
Institutional support	57,086	—	—	57,086	55,946
Sponsored activities	9,931	—	—	9,931	9,049
Auxiliary enterprises	41,760	—	—	41,760	42,580
Total operating expenses	278,222	—	—	278,222	273,856
Change in net assets from operations	(10,552)	6,801	—	(3,751)	(12,761)
Nonoperating activities:					
Endowment return, net of distribution	(61)	36,805	191	36,935	66,887
Contributions, net	2,059	1,681	14,856	18,596	6,845
Other investment income	3	144	284	431	132
Change in value of deferred gifts	669	147	737	1,553	64
Other	(3,711)	(68)	320	(3,459)	(5,194)
Total nonoperating activities	(1,041)	38,709	16,388	54,056	68,734
Change in total net assets	(11,593)	45,510	16,388	50,305	55,973
Net assets:					
Beginning of year	239,988	557,212	377,115	1,174,315	1,118,342
End of year	$ 228,395	602,722	393,503	1,224,620	1,174,315

See accompanying notes to consolidated financial statements.

MIDDLEBURY

Consolidated Statement of Activities

Year ended June 30, 2017

(Amounts in thousands)

		Unrestricted	Temporarily restricted	Permanently restricted	Total 2017
Operating revenues and other support:					
Comprehensive and other student fees	$	218,396	—	—	218,396
Less financial aid		(67,189)	—	—	(67,189)
Net comprehensive and other student fees		151,207	—	—	151,207
Contributions		12,593	6,776	—	19,369
Sponsored activities		9,062	—	—	9,062
Investment return:					
Endowment distribution		55,704	7,518	—	63,222
Other investment income		1,263	2,542	—	3,805
Other sources		14,254	176	—	14,430
Net assets released from restrictions		16,017	(16,017)	—	—
Total operating revenues and other support		260,100	995	—	261,095
Operating expenses:					
Instruction		88,002	—	—	88,002
Academic support		37,693	—	—	37,693
Student services		40,586	—	—	40,586
Institutional support		55,946	—	—	55,946
Sponsored activities		9,049	—	—	9,049
Auxiliary enterprises		42,580	—	—	42,580
Total operating expenses		273,856	—	—	273,856
Change in net assets from operations		(13,756)	995	—	(12,761)
Nonoperating activities:					
Endowment return, net of distribution		7,894	57,967	1,026	66,887
Contributions, net		2,321	500	4,024	6,845
Other investment income		(413)	154	391	132
Change in value of deferred gifts		(812)	(232)	1,108	64
Other		(4,230)	(9,382)	8,418	(5,194)
Total nonoperating activities		4,760	49,007	14,967	68,734
Change in total net assets		(8,996)	50,002	14,967	55,973
Net assets:					
Beginning of year		248,984	507,210	362,148	1,118,342
End of year	$	239,988	557,212	377,115	1,174,315

See accompanying notes to consolidated financial statements.

MIDDLEBURY

Consolidated Statements of Cash Flows

Years ended June 30, 2018 and 2017

(Amounts in thousands)

		2018	2017
Cash flows from operating activities:			
Change in total net assets	$	50,305	55,973
Adjustments to reconcile change in net assets to net cash used in operating activities:			
Depreciation		21,498	21,293
Contributions restricted for long-term investments		(15,002)	(11,931)
Real property and other in-kind contributions		(1,908)	(2,177)
Loss on defeasement of debt		—	680
Amortization of bond issuance costs		103	114
Amortization of bond premium		(949)	(1,901)
Loss on disposal of buildings and equipment		142	452
Contributions receivable bad debt allowance		533	545
Change in value of split interest agreements		1,088	1,708
Realized and unrealized gain on investments		(99,945)	(129,091)
Unrealized (gain) loss on contributions receivable from remainder trusts		(224)	129
Unrealized gain on beneficial interest in perpetual trusts		(1,404)	(2,031)
Changes in operating assets and liabilities:			
Accounts receivable, net		(3,396)	1,401
Contributions receivable		(5,518)	11,537
Inventories, prepaid expenses, and other assets		(422)	(1,244)
Accounts payable and accrued expenses		1,060	(6,235)
Deferred revenues		1,866	2,048
Funds held for others		718	981
Other		(3,611)	111
Net cash used in operating activities		(55,066)	(57,638)
Cash flows from investing activities:			
Proceeds from sales of investments		228,986	202,046
Purchases of investments		(179,874)	(149,013)
Purchases of property and equipment		(12,211)	(12,263)
Student loans granted		(657)	(1,253)
Student loans repaid		4,019	3,210
Net cash provided by investing activities		40,263	42,727
Cash flows from financing activities:			
Contributions restricted for long-term investment		15,002	11,931
Change in deposits with bond trustees, net of earnings		248	1,238
Proceeds from issuance of long-term debt		—	54,895
Bond issuance costs		—	(478)
Bond premium on new debt		—	3,727
Payments on bonds and notes payable		(3,735)	(56,065)
Net cash provided by financing activities		11,515	15,248
Net change in cash and cash equivalents		(3,288)	337
Cash and cash equivalents:			
Beginning of year		9,017	8,680
End of year	$	5,729	9,017
Supplemental data:			
Interest paid	$	12,327	12,758
Change in amounts accrued for purchase of property and equipment		9	215

See accompanying notes to consolidated financial statements.

(1) Background

The President and Fellows of Middlebury College (Middlebury) was founded in 1800 as a liberal arts college. The undergraduate institution, Middlebury College (the College), is a leading liberal arts college with an emphasis on literature, 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, Israel, 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 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.

In December 2017, the President signed into law H.R. 1, originally known as the Tax Cuts and Jobs Act. The new law (Public Law No. 115-97) includes substantial changes to the taxation of individuals, businesses, multinational enterprises and others. In addition to many generally applicable provisions, the law contains several specific provisions that result in changes to the tax treatment of tax-exempt organizations and their donors. Middlebury has reviewed these provisions and the potential impact and concluded the enactment of H.R. 1 will not have a material effect on the operations of the organization.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

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

(b) Basis of Accounting

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

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

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

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

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

(Continued)

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

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

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

(c) Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the 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 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 received with donor-imposed restrictions that are met in the same year as received are reported as unrestricted operating or nonoperating revenue depending on the use of the proceeds.

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

(f) Contributions Receivable

Contributions receivable include pledges that are recorded at their present value using discount rates at the date of the contribution 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 2018 for uncollectible pledges was 4.24%. An allowance is made for potentially uncollectible contributions based upon management’s past collection experience and other relevant factors.

(Continued)

(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.

(Continued)

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

(j) Contributions Receivable from Remainder Trusts

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

(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
Library books	10

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

(m) Joint Venture

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

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

In August 2015, Middlebury announced it would exercise the option to sell the 40% ownership interest in MIL to K12, Inc. In June 2017, Middlebury exercised its option and sold its ownership interest in MIL to K12. The net proceeds from the sale are included as endowment return and recorded in nonoperating activities in the 2017 Consolidated Statement of Activities.

(n) Asset Retirement Obligation

An asset retirement obligation (ARO) is a legal obligation associated with the retirement of long-lived assets. These liabilities are initially recorded at fair value and the related asset retirement costs are capitalized by increasing the carrying amount of the related assets by the same amount as the liability. Asset retirement costs are subsequently depreciated over the useful lives of the related assets. Subsequent to initial recognition, Middlebury records period-to-period changes in the ARO liability resulting from the passage of time and revisions to either the timing or the amount of the original estimate of undiscounted cash flows. Middlebury ARO liabilities are accreted when the related obligation is settled. Middlebury has recorded an ARO liability in accrued expenses of $4,506 and $4,380 at June 30, 2018 and 2017, respectively.

(o) Deferred Revenues

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

(p) Funds Held for Others

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

(q) Annuities and Other Split-Interest Obligations

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

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

(r) Refundable Government Loan Funds

Refundable government loan funds represent Perkins loan funds provided to students by the federal government through Middlebury. Middlebury is required to collect the loans on behalf of the federal government. The amounts due from the students are reported in the financial statements as student loans receivable. The amount due to the federal government, if Middlebury should no longer participate, is reported as refundable government loan funds.

(s) Functional Expenses

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

(t) Sponsored Activities

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

(u) Campaign Activities

Middlebury is in the planning and preparation phase of the next campaign. The start of the next campaign will follow the completion of a new strategic plan for Middlebury, a process that started in fiscal year 2017 and was adopted in October 2017. The cost of the fiscal year 2017 activity is reported as a nonoperating activity on the Statement of Activities.

(v) 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 7, 2018, and subsequent events have been evaluated through that date.

(3) Receivables

(a) Accounts Receivable

Accounts receivable consists of receivables for annual comprehensive fees, graduate school tuition, schools abroad tuition, and summer school room, board, and tuition. The provision for uncollectible amounts was $518 and $541 as of June 30, 2018 and 2017, respectively.

(In thousands of dollars)

(b) Contributions Receivable

Contributions receivable consists of the following at June 30, 2018 and 2017:

		2018	2017
Due less than one year	$	18,266	12,530
One to five years		9,167	10,852
		27,433	23,382
Less discount and allowance		(1,550)	(2,484)
	$	25,883	20,898

(4) Investments

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

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

As of June 30, 2018 and 2017, Middlebury had outstanding commitments of $262,403 and $190,798, 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 $324,599 and $302,818 of the investment portfolio at June 30, 2018 and 2017, 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 $49,173 and $48,168 at June 30, 2018 and 2017, 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.

		2018	2017
Interest, dividends, and other income, net	$	843	4,955
Realized gains, net		89,895	70,018
Change in unrealized gains (losses), net		10,050	59,073
	$	100,788	134,046

Direct external investment management fees were $5,550 and $5,705 in 2018 and 2017, 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.

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	Redemption or liquidation	Days' notice
Investments at fair value:								
Money market funds	$	40,726	—	—	—	40,726	Daily	1
Equity securities		69,256	—	—	—	69,256	Daily	1
Debt securities		44,320	—	—	—	44,320	Daily	1
Real estate and mortgages		5,603	—	8,001	—	13,604	Daily to illiquid	1–N/A
Private equity		—	—	4,903	—	4,903	Quarterly to illiquid	90–N/A
Other investments		108	—	3,072	—	3,180	Daily to illiquid	1–N/A
Total investments at fair value		160,013	—	15,976	—	175,989		
Investments measured at net asset value:								
Equity securities		—	—	—	291,425	291,425	Monthly to quarterly	30–120
Alternative equities		—	—	—	292,859	292,859	Quarterly to annually	90
Debt securities		—	—	—	29,000	29,000	Quarterly	90
Real estate and mortgages		—	—	—	3,142	3,142	Illiquid	N/A
Private equity partnerships		—	—	—	358,733	358,733	Illiquid	N/A
Other investments		—	—	—	836	836	Illiquid	N/A
Total investments at net asset value		—	—	—	975,995	975,995		
Investments valued using other methods		—	—	—	1,171	1,171	Illiquid	N/A
Total investments	$	160,013	—	15,976	977,166	1,153,155		
Other assets:								
Remainder trusts	$	—	—	3,020	—	3,020	Illiquid	N/A
Perpetual trusts		—	—	29,522	—	29,522	Illiquid	N/A
Total other assets	$	—	—	32,542	—	32,542		

(In thousands of dollars)

The following table represents financial assets and liabilities by fair value measurements as of June 30, 2017:

		Level 1	Level 2	Level 3	Other valuation methods and NAV	Total investments	Redemption or liquidation	Days' notice
Investments at fair value:								
Money market funds	$	36,771	—	—	—	36,771	Daily	1
Equity securities		67,646	—	—	—	67,646	Daily	1
Debt securities		40,448	—	—	—	40,448	Daily	1
Real estate and mortgages		5,192	—	7,968	—	13,160	Daily to illiquid	1–N/A
Private equity		—	—	4,881	—	4,881	Quarterly to illiquid	90–N/A
Other investments		7,701	—	3,328	—	11,029	Daily to illiquid	1–N/A
Total investments at fair value		157,758	—	16,177	—	173,935		
Investments measured at net asset value:								
Equity securities		—	—	—	269,116	269,116	Monthly to quarterly	30–120
Alternative equities		—	—	—	302,947	302,947	Quarterly to annually	90
Debt securities		—	—	—	28,943	28,943	Quarterly	90
Real estate and mortgages		—	—	—	3,082	3,082	Illiquid	N/A
Private equity partnerships		—	—	—	321,960	321,960	Illiquid	N/A
Other investments		—	—	—	1,069	1,069	Illiquid	N/A
Total investments at net asset value		—	—	—	927,117	927,117		
Investments valued using other methods		—	—	—	1,270	1,270	Illiquid	N/A
Total investments	$	157,758	—	16,177	928,387	1,102,322		
Other assets:								
Remainder trusts	$	—	—	2,796	—	2,796	Illiquid	N/A
Perpetual trusts		—	—	28,118	—	28,118	Illiquid	N/A
Total other assets	$	—	—	30,914	—	30,914		

Middlebury enters into derivative instruments such as futures for trading purposes. Middlebury may enter into 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 balance sheets, and contracts in a net liability position are included in liabilities associated with investments on the balance sheets. At June 30, 2018 Middlebury held certain index future contracts in a net asset position of $(11). At June 30, 2017 Middlebury held certain index future contracts in a net asset position of $3. Middlebury posted collateral on the index futures contracts of $4,753 and $3,550 at June 30, 2018 and June 30, 2017, respectively. The long notional amounts of the index futures contracts were $4,743 and $4,851 at June 30, 2018 and June 30, 2017, respectively.

As of June 30, 2018, there were 59 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, 2018, the average number of contracts for futures was 61.

(In thousands of dollars)

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

The following table summarizes the Level 3 activity for the year ended June 30, 2017:

	Beginning balance at June 30, 2016	Realized gains	Change in unrealized gains (losses)	Additions	Deductions	Ending balance at June 30, 2017
Level 3 assets:						
Real estate and mortgages	$ 8,109	—	—	—	(141)	7,968
Private equity partnerships	3,584	—	1,297	—	—	4,881
Other investments	3,330	185	148	110	(445)	3,328
Total investments	15,023	185	1,445	110	(586)	16,177
Remainder trusts	2,925	—	(129)	—	—	2,796
Perpetual trusts	26,097	—	2,021	—	—	28,118
Total investments and other assets	$ 44,045	185	3,337	110	(586)	47,091

There were no transfers between the fair value hierarchy levels in 2018 or 2017.

(5) Endowment

The endowment consists of donor-restricted endowment funds and board-designated funds to function as endowment for a variety of purposes. The net assets associated with endowment funds are classified and reported based on the existence or absence of donor – imposed restrictions. The Board of Trustees have interpreted Vermont's and California's Uniform Prudent Management of Institutional Funds Acts (UPMIFA) statutes as requiring the preservation of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, Middlebury classifies as permanently restricted net assets, (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by Middlebury in a manner consistent with the standard of prudence prescribed by the UPMIFA statutes.

(In 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, 2018 and 2017, delineated by net asset class and donor-restricted versus Board-designated funds were as follows:

	June 30, 2018			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$ (23)	525,612	373,561	899,150
Board-designated endowment funds	175,403	—	—	175,403
Sub-total	175,380	525,612	373,561	1,074,553
Working capital funds	49,591	—	—	49,591
Total endowment funds June 30, 2018	$ 224,971	525,612	373,561	1,124,144

	June 30, 2017			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$ (76)	489,553	356,190	845,667
Board-designated endowment funds	165,924	—	—	165,924
Sub-total	165,848	489,553	356,190	1,011,591
Working capital funds	62,385	—	—	62,385
Total endowment funds June 30, 2017	$ 228,233	489,553	356,190	1,073,976

(In thousands of dollars)

(a) Changes in Endowment

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

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets at beginning of year	$	228,233	489,553	356,190	1,073,976
Total investment return		21,038	78,216	1,567	100,821
Contributions		11	407	15,002	15,420
Appropriation of endowment assets for spending distribution		(10,872)	(40,645)	191	(51,326)
Appropriation of working capital assets for spending distribution		(15,287)	—	—	(15,287)
Other transfers and adjustments		(88)	—	—	(88)
Transfer to/from designated endowment funds		1,883	(1,866)	611	628
Adjustment for funds underwater – fair value less than historic dollar value		53	(53)	—	—
Endowment net assets at end of year	$	224,971	525,612	373,561	1,124,144

Changes to the endowment for the year ended June 30, 2017 were as follows:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets at beginning of year	$	226,712	433,448	340,438	1,000,598
Total investment return		33,439	94,765	2,502	130,706
Contributions		1	260	11,591	11,852
Appropriation of endowment assets for spending distribution		(14,982)	(35,884)	1,026	(49,840)
Appropriation of working capital assets for spending distribution		(18,676)	—	—	(18,676)
Investment income spending		(95)	(1,161)	—	(1,256)
Transfer to/from designated endowment funds		6	(47)	633	592
Adjustment for funds underwater – fair value less than historic dollar value		1,828	(1,828)	—	—
Endowment net assets at end of year	$	228,233	489,553	356,190	1,073,976

(b) Underwater Endowment Funds

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the value of the initial and subsequent donor gift amounts (underwater endowments). When underwater endowments exist, any decrease in fair value below the fund's historic dollar value is recorded as a transfer from unrestricted net assets to temporarily restricted net assets. Cumulative transfers from unrestricted net assets to temporarily restricted net assets were $23 and $76 as of June 30, 2018 and 2017, respectively. These resulted from unfavorable market fluctuations that occurred shortly after the investment of newly established endowments, and authorized appropriation that was deemed prudent.

(c) Distribution Policy

The Board of Trustees approves a distribution of investment return based on the average per share market value of the pooled investments over the 12 calendar quarters preceding the previous calendar year. Calculations are performed for individual endowment funds at a rate of 5.00%. The corresponding calculated spending allocations are distributed monthly from the current net total or accumulated net total investment returns for individual endowment funds. Working capital reserves are classified as endowment and are included as an endowment distribution. The reserve distributions were $15,287 and $18,676 during the years ended, June 30, 2018 and 2017, respectively.

(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.

(Continued)

(In thousands of dollars)

(6) Land, Buildings, and Equipment

Land, buildings, and equipment at June 30, 2018 and 2017 consist of the following:

		2018	2017
Land and land improvements	$	56,535	56,535
Buildings		604,069	600,804
Equipment		112,139	105,050
Library books		1,715	500
Art and antiques		21,148	18,967
Construction in progress		1,976	2,061
		797,582	783,917
Less accumulated depreciation		(423,698)	(402,503)
	$	373,884	381,414

Depreciation expense in 2018 and 2017 was $21,498 and $21,293, respectively.

(In thousands of dollars)

(7) Long-Term Debt

Long-term debt is comprised of the following at June 30, 2018 and 2017:

		2018	2017
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%		43,665	46,150
VEHBFA Series 2012B serial bonds $11,885 original principal (uncollateralized) with annual principal payments ranging from $1,560 in 2020 to $1,435 in 2024, interest at 5.00%		11,885	11,885
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%		20,660	21,840
Other		—	70
		263,745	267,480
Less unamortized bond issuance costs		(1,941)	(2,044)
Plus unamortized premium		16,231	17,180
	$	278,035	282,616

(In thousands of dollars)

In August 2016, the College issued $33,055 of the Vermont Educational and Health Buildings Financing Agency (VEHBFA) Revenue Refunding Bonds (Middlebury College Project) Series 2016 (the Series 2016 Bonds) in a tax-exempt financing. The proceeds from this issuance were used to refund the VEHBFA Revenue Bonds (Middlebury College Project) Series 2006A and to pay certain costs of issuance of the Bonds. The Series 2016 Bonds bear interest at the rate of 4.00% per annum and will mature on November 1, 2046.

In September 2016, Middlebury entered into a $21,840 taxable direct placement term loan. The proceeds were used to refund the California Statewide Communities Development Authority Revenue Bonds (Monterey Institute of International Studies) Series 2001 bond and to pay certain costs of issuance. The note bears interest at the rate of 2.34% per annum and will mature on November 1, 2030.

(a) Debt Maturities

Annual principal requirements under all long-term debt obligations as of June 30, 2018 are as follows:

2019	$	3,805
2020		3,950
2021		4,140
2022		4,340
2023		4,550
Thereafter		242,960
	$	263,745

(b) Credit Lines

As of June 30, 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.

As of June 30, 2017, Middlebury had a $50,000 line of credit with an interest rate of either the one-month LIBOR plus 2.5% or the Federal Funds rate + 3%, at Middlebury's option. The maturity date for the line of credit is March 31, 2019.

For the years ended June 30, 2018 and 2017, 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.

(8) 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

(In thousands of dollars)

Lifecycle mutual funds. Retirement contributions for the years ended June 30, 2018 and 2017 were $13,309 and $13,207, respectively.

(9) Net Assets

Temporarily restricted net assets are comprised of the following:

		2018	2017
Unappropriated accumulated total return of donor-restricted endowment funds	$	525,612	489,553
Restricted gifts for scholarship and prizes		17,482	18,614
Restricted gifts for professorships		3,666	3,198
Restricted gifts for specific purposes		28,198	24,970
Restricted gifts for capital projects		113	117
Restricted contributions receivable, net		16,848	9,041
Restricted annuity and life income gifts		10,803	11,719
	$	602,722	557,212

Permanently restricted net assets are comprised of the following:

		2018	2017
Restricted for loan funds	$	3,180	3,219
Restricted for annuity and life income funds		7,727	5,849
Restricted contributions receivable, net		9,035	11,857
Donor-restricted endowment funds		373,561	356,190
	$	393,503	377,115

(10) Commitments and Contingencies

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

Middlebury has made a commitment to assist the Town of Middlebury (the Town) to finance the bridge construction project and has agreed to pay the Town the sum of $300 twice per year starting in fiscal year 2011 and continuing until thirty years thereafter. Middlebury has recorded a commitment payable of $7,951 and $8,146 as of June 30, 2018 and 2017, 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 and $4,500 as of June 30, 2018 and 2017 respectively.

(In thousands of dollars)

(11) Operating Expenses

Operating expenses by natural classification for the years ended June 30, 2018 and 2017 were as follows:

		2018	2017
Salaries and wages	$	128,593	127,424
Employee benefits		43,586	43,864
Food and catering		6,421	6,184
Utilities		6,910	7,428
Repairs and maintenance		994	770
Contracted services		17,951	16,796
Equipment and supplies		6,192	6,393
Library books and periodicals		2,208	2,078
Interest		12,432	12,840
Depreciation		21,498	21,293
Travel		9,358	8,624
Taxes and insurance		7,350	6,946
Dues, memberships and other fees		2,066	2,088
Printing, mail and advertising expenses		2,602	2,543
Other		10,061	8,585
	$	278,222	273,856

(12) Leaseback

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