KPMG

MIDDLEBURY

Consolidated Financial Statements

June 30, 2015 and 2014

(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:

Report on the Financial Statements

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

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the 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 financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the College'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, 2015 and 2014, 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

October 16, 2015

Vt. Reg. No. 92-0000241

MIDDLEBURY

Consolidated Statements of Financial Position

June 30, 2015 and 2014

(Amounts in thousands)

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

See accompanying notes to consolidated financial statements.

MIDDLEBURY

Consolidated Statement of Activities

Year ended June 30, 2015

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

See accompanying notes to consolidated financial statements.

MIDDLEBURY

Consolidated Statement of Activities

Year ended June 30, 2014

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

See accompanying notes to consolidated financial statements.

MIDDLEBURY

Consolidated Statements of Cash Flows

Years ended June 30, 2015 and 2014

(Amounts in thousands)

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

See accompanying notes to consolidated financial statements.

(1) Background

The President and Fellows of Middlebury College (Middlebury) was founded in 1800 as a liberal arts college. The undergraduate institution, Middlebury College (the College), is a leading liberal arts college with an emphasis on literature, languages, international studies and environmental studies. The College has approximately 2,450 undergraduate students from all 50 states and 70 countries. Approximately 70% of the students are from outside of New England. Over one-half of the students spend at least one semester off campus, primarily outside of the United States of America. In addition to the Middlebury campus, the College has schools located in Argentina, Brazil, Cameroon, Chile, China, France, Germany, India, Israel, Italy, Japan, Jordan, Russia, Spain, the United Kingdom and Uruguay.

The Middlebury Schools are comprised of Schools Abroad, Language Schools, School of the Environment, and Bread Loaf Programs. The Schools enroll more than 2,800 students and offer undergraduate and graduate programs in a variety of programs.

- The Schools Abroad Program provides undergraduate and graduate programs in 16 countries. Students take courses in most subjects, often with host country students, intern or engage in volunteer work, and live with a family or local students. The participants in the Middlebury Schools Abroad Program have a commitment to language and cultural immersion.

- The Language Schools focus on educating undergraduate and graduate students from many disciplines at two sites in the United States and one site abroad. There are programs in Arabic, Chinese, French, German, Hebrew, Italian, Japanese, Korean, Portuguese, Russian, and Spanish with a goal to improve languages and intercultural skills. The Language Schools provide access to language education through an interactive, immersion environment by incorporating linguistics, literature, culture, and area studies.

- The School of the Environment is a six week undergraduate program held in Vermont offering leadership training, lab and field work, and interdisciplinary courses.

- Middlebury offers two Bread Loaf Programs, the Bread Loaf School of English and the Bread Loaf Writers’ Conference. Beginning in 1920, the Bread Loaf School of English has offered graduate courses in literature, the teaching of writing, creative writing, and theater arts to students from across the United States and the world. The Bread Loaf School of English offers summer sessions in Vermont, New Mexico, and at Oxford in the United Kingdom. The Bread Loaf Writers’ Conference is the oldest writers' conference in America, held each summer at Middlebury's Bread Loaf Mountain campus amid the Green Mountain National Forest in Ripton, Vermont.

The Middlebury graduate school, the Middlebury Institute of International Studies at Monterey, (the Institute), is located in Monterey, California. The Institute provides higher education in translation, interpretation and language education and international policy management. In addition, there are two research centers on campus, the James Martin Center for Nonproliferation Studies and the Center for East Asian Studies. Also, the Institute has a research center located in Vienna, Austria, the Vienna Center for Disarmament and Nonproliferation.

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

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

Tax-Exempt Status

Middlebury is a tax-exempt organization as described in Section 501(c) (3) of the Internal Revenue Code and recognizes the effect of income tax positions only if those positions are more likely than not of being sustained by a taxing authority. Middlebury believes it has taken no significant uncertain tax positions.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

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

(b) Basis of Accounting

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

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

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

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

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

(Continued)

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

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

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

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

(c) Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include the valuation of its investments and derivative instruments as well as the estimated net realizable value of receivables for contributions, gifts, pledges, student loans and accounts receivable, the estimated useful lives of buildings and equipment and its liabilities for its asset retirement obligations and its split interest agreements. Actual results could differ from those estimates.

(d) Cash and Cash Equivalents

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

(e) Contributions

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

(Continued)

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

(f) Contributions Receivable

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

(g) Inventories

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

(h) Fair Value

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

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

Level 2 Inputs to the valuation methodology include:

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

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

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

Middlebury utilizes the net asset value (NAV) as its estimate of fair value for those funds whose value is determined by the appropriate manager or general partner.

The majority of investments reported at NAV consist of shares or units in funds as opposed to direct interests in the funds' underlying securities, which may be readily marketable and not difficult to value. The majority of these fund managers are now registered as required by the Securities and Exchange Commission.

Certain investments in funds contain lock-up provisions. Under such provisions, share classes of the investment are available for redemption at various times in accordance with the management agreement with the fund.

The fair value measurement level of the asset or liability within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

These valuations may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although Middlebury believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Because of the inherent uncertainty of valuations, the estimated values as determined by the appropriate manager or general partners may differ significantly from the values that would have been used had a ready market for the investments existed, and the differences could be material.

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

(i) Derivatives

Middlebury records all derivatives, except those qualifying for the normal purchase/normal sale exception, at fair value. Fair value is determined using a valuation model utilizing market observable inputs. Middlebury has entered into forward oil purchase contracts with certain suppliers for the purchase of oil for its heating and cooling plant to hedge the price exposure for a fuel source. These agreements meet the normal purchase/normal sale exception and, therefore, have not been recorded on the statement of financial position. Middlebury has also entered into foreign currency contracts which have been recorded on the statement of financial position.

(j) Contributions Receivable from Remainder Trusts

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

(in thousands of dollars)

(k) Interest in Perpetual Trusts Held by Others

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

(l) Land, Buildings, and Equipment

Land, buildings, equipment, arts and antiques are recorded at cost at the date of acquisition or fair value at the date of gift. Depreciation is computed utilizing the straight-line method over the estimated lives of the depreciable asset as follows (in years):

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

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

(m) Joint Venture

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

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

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

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

(n) Asset Retirement Obligation

An asset retirement obligation (ARO) is a legal obligation associated with the retirement of long-lived assets. These liabilities are initially recorded at fair value and the related asset retirement costs are capitalized by increasing the carrying amount of the related assets by the same amount as the liability. Asset retirement costs are subsequently depreciated over the useful lives of the related assets. Subsequent to initial recognition, Middlebury records period-to-period changes in the ARO liability resulting from the passage of time and revisions to either the timing or the amount of the original estimate of undiscounted cash flows. Middlebury ARO liabilities are accreted when the related obligation is settled. Middlebury has recorded an ARO liability in accrued expenses of $4,152 and $4,255 at June 30, 2015 and 2014, respectively.

(o) Deferred Revenues

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

(p) Funds Held for Others

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

(q) Annuities and Other Split Interest Obligations

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

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

(r) Refundable Government Loan Funds

Refundable government loan funds represent Perkins loan funds provided to students by the federal government through Middlebury. Middlebury is required to collect the loans on behalf of the federal government. The amounts due from the students are reported in the financial statements as student loans receivable. The amount due to the federal government, if Middlebury should no longer participate, is reported as refundable government loan funds. It is not practicable to determine the fair value of student loans receivable because they are primarily federally sponsored student loans with U.S. government mandated interest rates and repayment terms and are subject to significant restrictions as to their transfer and disposition.

(s) Functional Expenses

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

(t) Sponsored Activities

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

(u) Campaign Activities

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

(v) Subsequent Events

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

(w) Reclassifications

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

(3) Receivables

(a) Accounts Receivable

Accounts receivable consists of receivables for annual comprehensive fees, graduate school tuition, schools abroad tuition, and summer school room, board, and tuition. The provision for uncollectible amounts were $545 and $475 as of June 30, 2015 and 2014, respectively.

(in thousands of dollars)

(b) Contributions Receivable

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

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

(4) Investments

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

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

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

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

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

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

(Continued)

(in thousands of dollars)

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

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

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

(in thousands of dollars)

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

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

The following is a description of the financial investment categories:

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

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

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

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

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

(in thousands of dollars)

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

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

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

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

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

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

(5) Endowment

The endowment consists of donor-restricted endowment funds and board-designated funds to function as endowment for a variety of purposes. The net assets associated with endowment funds are classified and reported based on the existence or absence of donor – imposed restrictions. The Board of Trustees have interpreted Vermont’s and California’s Uniform Prudent Management of Institutional Funds Acts (UPMIFA) statutes as requiring the preservation of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, Middlebury classifies as permanently restricted net assets, (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent 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, 2015 and 2014, delineated by net asset class and donor-restricted versus Board-designated funds were as follows:

	June 30, 2015			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Donor-restricted endowment funds	$ (52)	499,436	323,709	823,093
Board-designated endowment funds	277,961	—	—	277,961
Total endowment funds June 30, 2015	$ 277,909	499,436	323,709	1,101,054

	June 30, 2014			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Donor-restricted endowment funds	$ (82)	467,062	307,612	774,592
Board-designated endowment funds	307,301	—	—	307,301
Total endowment funds June 30, 2014	$ 307,219	467,062	307,612	1,081,893

(in thousands of dollars)

(a) Changes in Endowment

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

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

(in thousands of dollars)

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

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

(b) Underwater Endowment Funds

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the value of the initial and subsequent donor gift amounts (underwater endowments). When underwater endowments exist, any decrease in fair value below the fund's historic dollar value is recorded as a transfer from unrestricted net assets to temporarily restricted net assets. Cumulative transfers from unrestricted net assets to temporarily restricted net assets were $52 and $82 as of June 30, 2015 and 2014, respectively. These resulted from unfavorable market fluctuations that occurred shortly after the investment of newly established endowments, and authorized appropriation that was deemed prudent.

(c) Distribution Policy

The Board of Trustees approves a distribution of investment return based on the average per share market value of the pooled investments over the 12 calendar quarters preceding the previous calendar year. Calculations are performed for individual endowment funds at a rate of 5.00%. The corresponding calculated spending allocations are distributed monthly from the current net total or accumulated net total investment returns for individual endowment funds. College reserves are classified as endowment and are included as an endowment distribution. The reserve distributions were $30,526 and $17,165 as of June 30, 2015 and 2014, respectively.

(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.

(6) Land, Buildings, and Equipment

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

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

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

(in thousands of dollars)

(7) Long-Term Debt

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

		2015	2014
VEHBFA Series 2006A term bonds $35,425 original principal, (uncollateralized) due on November 1, 2046, issued at a premium, interest at 5.00%	$	35,425	35,425
VEHBFA Series 2009 term bonds $59,445 original principal, (uncollateralized) due on November 1, 2038, issued at a premium, interest at 5.00%		59,445	59,445
VEHBFA Series 2010 term bonds $95,035 original principal, (uncollateralized) due on November 1, 2040 issued at a premium, interest at 5.00%		95,035	95,035
VEHBFA Series 2012A serial bonds $46,150 original principal (uncollateralized) with annual principal payments increasing from $2,485 in 2018 to $5,130 in 2033, interest ranging from 2.50% to 5.0%		46,150	46,150
VEHBFA Series 2012B serial bonds $11,885 original principal (uncollateralized) with annual principal payments ranging from $1,560 in 2020 to $1,435 in 2024, interest at 5.00%		11,885	11,885
Revenue bonds issued through the California Statewide Communities Development Agency, collateralized by the Monterey Institute campus with annual principal payments increasing from $625 in 2016 to $2,160 in 2032, interest at 5.50%		21,195	21,525
Other		205	285
		269,340	269,750
Plus premium		16,211	17,067
	$	285,551	286,817

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

(a) Debt Maturities

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

(in thousands of dollars)

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

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

(b) Credit Lines

As of June 30, 2015 and 2014, Middlebury had a $50,000 three-year-term line of credit with an interest rate of either the one-month LIBOR plus 2.50% or the Federal Funds rate + 3.00%, at Middlebury’s option. As of and for the year ended June 30, 2015 and 2014, there were no borrowings or outstanding balances on this line. The proceeds of the borrowings are to be used for short-term working capital needs, pre-funding capital projects prior to a bond issuance, or providing temporary liquidity for investment transactions. The maturity date for the line of credit is March 31, 2018.

(8) Retirement Plans

Retirement benefits for benefits eligible employees of Middlebury, as of January 1, 2011, are individually funded and vested under a defined contribution program with the Teachers Insurance and Annuity Association and the College Retirement Equities Fund (TIAA-CREF). Under this plan, Middlebury makes contributions into the employee accounts based upon investment allocations exercised by the employee or defaulted into the Lifecycle mutual funds. Retirement contributions, for the years ended June 30, 2015 and 2014 were approximately $12,253 and $11,722, respectively.

(9) Net Assets

Temporarily restricted net assets are comprised of the following:

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

(in thousands of dollars)

Permanently restricted net assets are comprised of the following:

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

(10) Commitments and Contingencies

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

Middlebury has made a commitment to assist the Town of Middlebury (the Town) to finance the bridge construction project and has agreed to pay the Town the sum of $300 twice per year starting in fiscal year 2011 and continuing until thirty years thereafter. Middlebury has recorded a commitment payable of $8,509 and $8,677 as of June 30, 2015 and 2014, respectively. The original commitment was for $18,000 and was discounted at a rate of 5.00%.

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

(in thousands of dollars)

(11) Operating Expenses

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

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

(12) Lease

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

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

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

(13) Leaseback

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