Middlebury College

Report on Federal Awards in Accordance with OMB Circular A-133
June 30, 2011
Entity Identification Number
03-0179298

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Report on Federal Awards on OMB Circular A-133
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Part I

Financial Statements

Report of Independent Auditors

To the President and Fellows of
Middlebury College

In our opinion, the accompanying consolidated statements of financial position and the related consolidated statements of activities and of cash flows present fairly, in all material respects, the financial position of Middlebury College (the "College") at June 30, 2011 and 2010 and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion. As discussed in Note 2, the College has restated its 2010 financial statements to correct certain errors related to net asset classification.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2011 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters for the year ended June 30, 2011. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the College's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The accompanying schedule of expenditures of federal awards for the year ended June 30, 2011 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic consolidated financial statements taken as a whole.

PricewaterhouseCoopers LLP

October 31, 2011

Middlebury College
Consolidated Statements of Financial Position
June 30, 2011 and 2010 (as restated)

(in thousands)	2011	2010 (as restated)
Assets		
Cash and cash equivalents	$ 26,507	$ 25,712
Accounts receivable, net	7,448	5,888
Contributions receivable, net	33,980	38,982
Inventories, prepaid expenses and other assets	4,999	4,281
Deposits with bond trustees	1,045	1,062
Student loans receivable, net	23,310	24,559
Investments	952,247	840,214
Contributions receivable from remainder trusts	3,146	2,434
Beneficial interest in perpetual trusts held by others	25,872	21,708
Land, buildings and equipment, net	364,336	361,347
Total assets	$ 1,442,890	$ 1,326,187
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	$ 44,781	$ 53,405
Funds held for others	4,793	4,403
Deferred revenues	17,175	18,767
Annuities and other split interest obligations	18,774	16,876
Refundable government loan funds	13,798	13,606
Long-term debt	287,430	290,239
Total liabilities	386,751	397,296
Commitments and contingencies (Note 12)		
Net assets		
Unrestricted, as restated	324,200	292,366
Temporarily restricted, as restated	444,835	364,342
Permanently restricted	287,104	272,183
Total net assets	1,056,139	928,891
Total liabilities and net assets	$ 1,442,890	$ 1,326,187

The accompanying notes are an integral part of these consolidated financial statements.

Middlebury College
Consolidated Statement of Activities
Year Ended June 30, 2011, with Comparative Totals for the Year Ended June 30, 2010 (as restated)

(in thousands)	Unrestricted	Temporarily Restricted	Permanently Restricted	2011 Total	2010 Total
Operating revenues and other support					
Comprehensive and other student fees	$ 179,968	$ -	$ -	$ 179,968	$ 175,043
Less: Financial aid	(47,913)	-	-	(47,913)	(48,990)
Net comprehensive and other student fees	132,055	-	-	132,055	126,053
Contributions	12,712	5,563	-	18,275	22,978
Sponsored activities	9,575	-	-	9,575	10,228
Investment return					
Endowment distribution	45,203	3,436	-	48,639	52,262
Other investment income	926	3,173	-	4,099	4,300
Other sources	11,789	104	-	11,893	13,657
Net assets released from restrictions	11,441	(11,441)	-	-	-
Total operating revenues and other support	223,701	835	-	224,536	229,478
Operating expenses					
Educational and general					
Instruction	70,952	-	-	70,952	72,504
Academic support	30,156	-	-	30,156	32,431
Student services	29,166	-	-	29,166	28,354
Institutional support	40,131	-	-	40,131	36,805
Sponsored activities	9,575	-	-	9,575	10,228
Total educational and general	179,980	-	-	179,980	180,322
Auxiliary enterprises	37,337	-	-	37,337	37,207
Other deductions	149	-	-	149	80
Total operating expenses	217,466	-	-	217,466	217,609
Change in net assets from operations	6,235	835	-	7,070	11,869
Nonoperating activities					
Endowment return, net of distribution	29,396	74,063	431	103,890	63,674
Contributions	873	7,460	11,090	19,423	11,644
Other investment income	423	252	28	703	225
Change in value of deferred gifts	1	1,131	3,150	4,282	953
Realized and unrealized loss on interest rate swap	(2,182)	-	-	(2,182)	(1,176)
Campaign expenditures	(1,200)	-	-	(1,200)	(1,200)
Early retirement expense	(79)	-	-	(79)	(5,730)
Adjustment for funds underwater - fair value less than historic dollar value	1,430	(1,430)	-	-	-
Other	(3,063)	(1,818)	222	(4,659)	(15,085)
Total nonoperating activities	25,599	79,658	14,921	120,178	53,305
Increase (decrease) in net assets	31,834	80,493	14,921	127,248	65,174
Net assets					
Beginning of year, as restated	292,366	364,342	272,183	928,891	863,717
End of year	$ 324,200	$ 444,835	$ 287,104	$ 1,056,139	$ 928,891

The accompanying notes are an integral part of these consolidated financial statements.

Middlebury College
Consolidated Statement of Activities
Year Ended June 30, 2010 (as restated)

(in thousands)	Unrestricted	Temporarily Restricted	Permanently Restricted	2010 Total
Operating revenues and other support				
Comprehensive and other student fees	$ 175,043	$ -	$ -	$ 175,043
Less: Financial aid	(48,990)	-	-	(48,990)
Net comprehensive and other student fees	126,053	-	-	126,053
Contributions	14,855	8,123	-	22,978
Sponsored activities	10,228	-	-	10,228
Investment return				
Endowment distribution	47,118	5,144	-	52,262
Other investment income	1,625	2,675	-	4,300
Other sources	13,538	119	-	13,657
Net assets released from restrictions	9,844	(9,844)	-	-
Total operating revenues and other support	223,261	6,217	-	229,478
Operating expenses				
Educational and general				
Instruction	72,504	-	-	72,504
Academic support	32,431	-	-	32,431
Student services	28,354	-	-	28,354
Institutional support	36,805	-	-	36,805
Sponsored activities	10,228	-	-	10,228
Total educational and general	180,322	-	-	180,322
Auxiliary enterprises	37,207	-	-	37,207
Other deductions	80	-	-	80
Total operating expenses	217,609	-	-	217,609
Change in net assets from operations	5,652	6,217	-	11,869
Nonoperating activities				
Endowment return, net of distribution, as restated	13,787	49,690	197	63,674
Contributions	3,182	1	8,461	11,644
Other investment income	12	213	-	225
Change in value of deferred gifts	(38)	381	610	953
Unrealized loss on interest rate swap	(1,176)	-	-	(1,176)
Campaign expenditures	(1,200)	-	-	(1,200)
Early retirement expense	(5,730)	-	-	(5,730)
Adjustment for funds underwater - fair value less than historic dollar value	7,021	(7,021)	-	-
Other	(10,062)	(7,958)	2,935	(15,085)
Net assets released from restrictions	-	-	-	-
Total nonoperating activities	5,796	35,306	12,203	53,305
Increase (decrease) in net assets	11,448	41,523	12,203	65,174
Net assets				
Beginning of year, as restated	280,918	322,819	259,980	863,717
End of year	$ 292,366	$ 364,342	$ 272,183	$ 928,891

The accompanying notes are an integral part of these consolidated financial statements.

Middlebury College
Consolidated Statement of Cash Flows
Years Ended June 30, 2011 and 2010

(in thousands)		2011		2010
Cash flows from operating activities				
Change in net assets	$	127,248	$	65,174
Adjustments to reconcile change in net assets to net cash used in operating activities				
Depreciation		21,758		21,625
Contributions restricted for long-term investments		(15,040)		(6,858)
Receipt of contributed securities		(7,068)		(7,724)
Amortization of bond issuance costs		91		93
Loss on defeasance of debt		572		1,971
Amortization of bond discount and premium, net		(243)		-
Bond premium		6,757		-
Loss on disposal of buildings and equipment		849		61
Contributions receivable bad debt expense		302		697
Change in value of deferred gifts		1,898		318
Realized and unrealized (gain) on investments		(149,121)		(119,225)
Payment on interest rate swap		(12,854)		-
Unrealized loss on interest rate swap		1,421		1,176
Unrealized loss (gain) on contributions receivable from remainder trusts		(712)		(149)
Unrealized (gain) on beneficial interest in perpetual trusts		(4,164)		(1,119)
Changes in operating assets and liabilities				
Accounts receivable		(1,560)		(1,297)
Contributions receivable		4,700		(2,299)
Inventories, prepaid expenses and other assets		(586)		(354)
Accounts payable and accrued expenses		(491)		15,030
Deferred revenues		(1,592)		(1,249)
Funds held for others		390		516
Other		192		100
Gifts in kind		(102)		(532)
Net cash used in operating activities		(27,355)		(34,045)
Cash flows from investing activities				
Proceeds from sales of investments		87,532		124,887
Purchases of investments		(50,444)		(88,804)
Sale of contributed securities		7,068		7,724
Purchases of property and equipment		(22,194)		(8,970)
Student loans granted		(2,404)		(3,181)
Student loans repaid		3,653		3,370
Net cash provided by investing activities		23,211		35,026
Cash flows from financing activities				
Contributions restricted for long-term investments		15,040		16,176
Use of deposit with bond trustees, net of earnings		17		496
Proceeds from long-term debt		95,035		62,014
Payments on bonds and notes payable		(104,358)		(63,654)
Bond issue costs		(795)		(566)
Net cash (used in) provided by financing activities		4,939		14,466
Net increase in cash and cash equivalents		795		15,447
Cash and cash equivalents				
Beginning of year		25,712		10,265
End of year	$	26,507	$	25,712
Supplemental data				
Interest paid, net of interest capitalized	$	11,827	$	10,144
Assets acquired and included in accounts payable		3,826		552

During 2011, donor payments on pledges made with contributed securities were $1,950

The accompanying notes are an integral part of these consolidated financial statements.

(in thousands)

1. Background

Middlebury College is a liberal arts college located in Middlebury, Vermont. The College was founded in 1800 and is a leading liberal arts college with an emphasis on literature, languages, international studies and environmental studies. Approximately 2,450 undergraduate students come from throughout the United States and seventy 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 France, Germany, Italy, Russia, Spain, Latin America, China, Japan, and the Middle East.

The College's summer program, enrolling more than 2,000 students, consists of ten language schools and the Bread Loaf School of English. Programs in French, German, Italian, Russian and Spanish are offered at both the undergraduate and graduate levels, with undergraduate courses offered in Arabic, Chinese, Japanese, Portuguese, and Hebrew. In addition to the summer courses offered in Vermont, the Bread Loaf School of English offers summer sessions in New Mexico, North Carolina, and at Oxford in the United Kingdom.

The College’s graduate school, The Monterey Institute of International Studies, the “Institute”, is located in Monterey, California. The Institute provides higher education in international policies, international business, translation and interpretation, and language education. 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.

Tax-Exempt Status
The College is a tax-exempt organization as described in Section 501(c) (3) of the Internal Revenue Code.

2. Restatement of Previously Issued Financial Statements

In 2011 the College determined that a correction to prior period financial statements was required. Total net assets were not impacted; however, the College believes the impact is material and has reflected the change as a restatement. Certain statement of activities line items and net asset classifications were impacted as detailed in the following tables.

(in thousands)

At July 1, 2009 and 2010, unrestricted net assets were understated by $4,448 and overstated by $102,618, respectively. Temporarily restricted net assets were overstated and understated by the same amounts. This restatement was necessary because a detailed analysis of the components of both temporarily and unrestricted net assets showed that the allocation of endowment gains and losses was misclassified in prior periods.

	As Previously Reported 6/30/2010	Restatement	As Restated 6/30/2010
Endowment return, net of distribution, unrestricted	$ 122,892	$ (109,105)	$ 13,787
Endowment return, net of distribution, temporarily restricted	(59,415)	109,105	49,690
Endowment return, net of distribution, permanently restricted	197	-	197
Total endowment return	$ 63,674	$ -	$ 63,674
Other nonoperating activities, unrestricted	$ (12,102)	$ 2,040	$ (10,062)
Other nonoperating activities, temporarily restricted	(5,918)	(2,040)	(7,958)
Other nonoperating activities, permanently restricted	2,935	-	2,935
Total other nonoperating activities	$ (15,085)	$ -	$ (15,085)
Increase (decrease) in net assets, unrestricted	$ 118,513	$ (107,065)	$ 11,448
Increase (decrease) in net assets, temporarily restricted	(65,542)	107,065	41,523
Increase (decrease) in net assets, permanent restricted	12,203	-	12,203
	$ 65,174	$ -	$ 65,174
Net assets, beginning of year, unrestricted	$ 276,470	$ 4,448	$ 280,918
Net assets, beginning of year, temporarily restricted	327,267	(4,448)	322,819
Net assets, beginning of year, permanently restricted	259,980	-	259,980
Total net assets, beginning of year, June 30, 2009	$ 863,717	$ -	$ 863,717
Net assets, end of year, unrestricted	$ 394,983	$ (102,617)	$ 292,366
Net assets, end of year, temporarily restricted	261,725	102,617	364,342
Net assets, end of year, permanently restricted	272,183	-	272,183
Total net assets, end of year, June 30, 2010	$ 928,891	$ -	$ 928,891

3. Summary of Significant Accounting Policies

Basis of Presentation

Middlebury College has three affiliated entities, Delineation Corporation (the "Corporation"), the President and Friends of Middlebury College, and International Philanthropy. The Corporation is a nonprofit organization founded for the purpose of holding property for the College. The College advances funds to the Corporation for expenses incurred for the 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 of the College. International Philanthropy is a nonprofit established for the purpose of receiving international contributions from international sources.

The consolidated financial statements include Middlebury College and its affiliated entities, herein referred to as the "College". All interentity transactions have been eliminated in consolidation.

(in thousands)

Basis of Accounting
The financial statements are prepared in accordance with generally accepted accounting principles in the United States of America, on the accrual basis of accounting and present net assets, revenues, expenses, gains and losses based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

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

Temporarily Restricted Net Assets
Net assets subject to donor-imposed stipulations that will be met by actions of the College and/or passage of time, as well as unspent appreciation on permanently restricted endowment funds.

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

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.

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, College bookstore, Snowbowl and the 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, retirement expense for past service, adjustments for funds underwater, campaign expenditures, net assets released from restriction for nonoperating purposes and the change in value of deferred gifts.

(in thousands)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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. The College's 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 obligation and its split interest agreements. Actual results could differ from those estimates.

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.

Contributions

Contributions, including interests in perpetual trusts held by others, are recognized as revenue in the period received at the fair value on the date of the contribution. Gifts of noncash assets are recorded at their fair value on the date of the contribution. Conditional promises to give are not recorded as revenue until they become unconditional, that is 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, building and equipment are reported as temporarily restricted nonoperating revenue. The temporary restrictions are considered to be released when assets are placed in service.

Contributions Receivable

Contributions receivable include pledges that are recorded at their present value using discount rates ranging from approximately 3.0% to 5.5% through the year ended June 30, 2010. For 2011, the present value is calculated using a risk-free rate of return, adjusted for the credit risk the College assumes for uncollectible pledges which is 3.8%. An allowance is made for potentially uncollectible contributions based upon management's past collection experience and other relevant factors.

Inventories

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

(in thousands)

Fair Value Measurements
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 measurements). 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 the College 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.

The asset's or liability's fair value measurement level 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. The fair value of the College's investments is determined in the following manner:

Investment Type	Value
Short-term investments, consisting principally of money market funds and short-term notes	At quoted market value which approximates cost
Equity securities and debt securities	At quoted market value or as determined by investment managers
Private equity partnerships	Estimated fair value determined by the general partner
Real estate, mortgages and other	Estimated fair value determined by the real estate partnership
Absolute return funds	Estimated fair value determined by the fund manager

(in thousands)

The College utilizes the fund’s net asset value (“NAV”) as its estimate of fair value for those funds whose value is determined by the fund manager or general partner.

These valuations may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the College 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 general partners and fund managers 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.

Derivatives
The College accounts for all derivatives except those qualifying for the normal purchase/normal sale exception on the balance sheet at fair value. Fair value is determined using a valuation model utilizing market observable inputs. The College has entered into forward oil purchase contracts with certain suppliers for the purchase of oil for their heating and cooling plant to hedge the price exposure for the College's major fuel source. These agreements meet the normal purchase/normal sale exception and, therefore, have not been recorded on the College's statement of financial position. The College has also entered into foreign currency contracts and an interest rate swap which have been recorded on the College's statement of financial position. The swap was terminated on November 1, 2010.

Endowment
Vermont and California Uniform Prudent Management of Institutional Funds Act (“UPMIFA”) requires unspent accumulated earnings on donor-imposed permanently restricted endowments to be maintained as temporarily restricted funds.

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

Interest in Perpetual Trusts Held by Others
Interest in perpetual trusts held by others includes irrevocable trusts established for the benefit of the College whereby the principal is held in perpetuity by others and the earnings are remitted to the College. The interest in perpetual trusts is recorded at fair value as of the date of the gift, and adjusted to fair value at year-end.

(in thousands)

Land, Buildings and Equipment

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

Category	Range of Estimated Useful Lives (Years)
Land improvements	20
Buildings	20–60
Equipment	4–10

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

Joint Venture

In May, 2010, the College entered into a joint venture arrangement with K12, Inc., (“K12”), 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 delivering residential, language immersion education to pre-college students.

The College 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. The College has a 40% ownership interest in MIL. As the College does not control the joint venture but does exercise influence, this investment is recorded using the equity method.

In 2011, the College incurred a loss on its equity investment in MIL of approximately $270, which is included in nonoperating activities in the Consolidated Statement of Activities.

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, the College 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. The College derecognizes ARO liabilities when the related obligation is settled. The College has recorded an ARO liability in accrued expenses of $3,658 and $3,500 at June 30, 2011 and 2010, respectively.

Deferred Revenues

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

(in thousands)

Annuities and Other Split Interest Obligations
Donors have contributed assets to the College in exchange for a promise that the College 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 of the College and is recorded as annuities and other split interest obligations.

Donors have made contributions to the College 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 the College. The present value of the contributed assets is recognized as revenue at the time the assets are received and the difference between the assets contributed and the present value of the contributed assets is included in annuities and other split interest obligations.

Refundable Government Loan Funds
Refundable government loan funds represent Perkins loan funds provided to students by the federal government through the College. The College is required to collect the loans on behalf of the federal government. The amounts due from the students are reported in the College's financial statements as student loans receivable to the College. The amount due to the federal government, if the College 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.

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.

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.

Campaign Activities
Campaign contributions and expenditures total the net cost of operating the Middlebury Initiative, a $500 million 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. Expected completion of the Middlebury Initiative is 2014.

Subsequent Events
The College has adopted the accounting guidance for accounting and disclosure of events that occur after the balance sheet date but before the financial statements are issued or available to be issued. Accordingly, management has evaluated subsequent events for the period after June 30, 2011 through October 31, 2011, the date the financial statements were issued.

(in thousands)

4. Receivables

Accounts Receivable

Accounts receivable consists of receivables for annual comprehensive fees, graduate school tuition, schools abroad and summer school room, board and tuition. The provision for uncollectible amounts was $385 and $412 at June 30, 2011 and 2010, respectively.

Contributions Receivable

Contributions receivable consist of the following at June 30, 2011 and 2010:

	2011	2010
Due less than one year	$ 13,319	$ 14,525
One to five years	24,836	19,645
More than five years	-	10,299
	38,155	44,469
Less: Discount and allowance	(4,175)	(5,487)
	$ 33,980	$ 38,982

As of June 30, 2011 and 2010, the College had received conditional promises to give of $14,000 and $18,000, respectively. Because of their conditional nature, these gifts have not been recognized as contribution revenue by the College. During 2004, the College received a conditional pledge ("Challenge Grant") of $50,000 from an anonymous donor. The intention of the gift is to encourage more contributions of all sizes to the College. In 2011, the same anonymous donor increased the “Challenge Grant” by $2,500 to stimulate the annual fund of the Monterey campus. As of June 30, 2011, the College has recognized $38,500 on the “Challenge Grant” pledge from the donor. The remaining portion of the conditional pledge will be recognized as future fund-raising goals are reached.

Student Loans Receivable

Student loans receivable represents amounts due from students for federal and college approved loans. The provision for uncollectible amounts is $819 and $832 at June 30, 2011 and 2010, respectively.

Credit Loss Disclosure

Management regularly assesses the adequacy of the allowance for credit losses by performing ongoing evaluations of the student loan portfolio, including such factors as the differing economic risks associated with each loan category, the financial condition of specific borrowers, the economic environment in which the borrowers operate, the level of delinquent loans, the value of any collateral and, where applicable, the existence of any guarantees or indemnifications. Middlebury College’s Perkins receivable represents the amounts due from current and former students under the Federal Perkins Loan Program. Loans disbursed under the Federal Perkins Loan program are able to be assigned to the Federal Government in certain nonrepayment situations and with substantial documentation justifying assignment. The College may assign several loans to DOE annually. In these situations the Federal portion of the loan balance is guaranteed.

(in thousands)

Factors also considered by management when performing an assessment, in addition to general economic conditions and the other factors described above, included, but were not limited to, a detailed review of the aging of the student loan receivable detail and a review of the default rate by loan category in comparison to prior years. The level of the allowance is adjusted based on the results of management's analysis. The current allowance is sufficient considering the minimal number of individual loans that have not been collectible.

It is Middlebury College's policy to write off a loan when the loan is delinquent 180 days or more and appropriate notification has been made to the student that the loan is considered in default. All collection efforts must have been exhausted prior to this point. This includes skip-tracing efforts and a review of all partial cancellation and forgiveness options per Federal regulations. Loans less than 180 days delinquent are deemed to have a minimal delay in payment and are generally not written off but are reserved in accordance with the terms discussed above.

	2011		2010	
	Receivable Balance	**Related Allowance**	**Receivable Balance**	**Related Allowance**
The College's Perkins loans	$ 4,853	$ 187	$ 6,185	$ 200
Other student loans	5,569	732	5,676	732
Other receivable	32	-	32	-
	$ 10,454	$ 919	$ 11,893	$ 932

5. Financial Instruments

Investments

Investments held by the College at June 30, 2011 and 2010 including pooled investments and other separately invested funds, were comprised of the following:

2011	**Pooled**	**Separately Invested**	**Total at Fair Value**
Money market funds	$ 39,825	$ 2,100	$ 41,925
Due from broker	5,669	-	5,669
Equity securities	262,678	44,138	306,816
Absolute return	206,070	-	206,070
Debt securities	40,496	9,966	50,462
Real estate and mortgages	14,693	7,709	22,402
Private equity partnerships	308,293	45	308,338
Other investments	4,836	5,729	10,565
	$ 882,560	$ 69,687	$ 952,247

(in thousands)

2010	Pooled	Separately Invested	Total at Fair Value
Money market funds	$ 27,439	$ 1,045	$ 28,484
Due from broker	5,223	-	5,223
Equity securities	235,059	41,813	276,872
Absolute return	189,566	-	189,566
Debt securities	45,658	9,440	55,098
Real estate and mortgages	13,826	6,891	20,717
Private equity partnerships	252,008	61	252,069
Other investments	6,129	6,056	12,185
	$ 774,908	$ 65,306	$ 840,214

Included within equity securities, absolute return, private equities and real estate are alternative investments with a fair value of $851,263 and $757,353 at June 30, 2011 and 2010.

The College 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 College's investment objectives are guided by the College's 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 the College's investment in real estate partnerships.

The College's absolute return 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 College's 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 College's risk is limited to the amount it has invested in the absolute return funds plus certain distributions received as well as legally obligated calls.

As of June 30, 2011 and 2010, the College had committed $122,130 and $106,029, respectively, of unrestricted net assets to be invested for long-term growth. These commitments are to fund private equity partnerships over a multi-year period. These capital calls are funded with cash on hand or using proceeds of liquidated securities.

The College has $118,787 and $117,467 of the investment portfolio at June 30, 2011 and 2010, respectively, invested in international securities. These investments are subject to the additional risk of currency fluctuations. Also included in investments are $42,086 and $36,806 at June 30, 2011 and 2010, respectively, for split-interest agreements.

(in thousands)

Investment Shares

The following table summarizes the status and results of pooled investments at June 30, 2011 and 2010:

	2011	2010
Number of principal shares (not in thousands)	603,091.713	569,065.296
Market value per share (not in thousands)	$ 1,463.393	$ 1,361.723
Distribution per share (not in thousands)	69.18	70.82

For the years ended June 30, 2011 and 2010, the difference between distribution per share and dividends and interest earned per share was funded by realized gains of $40,314 and $40,809, respectively. During 2011 and 2010, distributions totaling $242 and $197, respectively, were added back to principal in accordance with donor restrictions.

The Board of Trustees approves a distribution of investment return based on the average per share market value of the pooled investments over the twelve calendar quarters preceding the beginning of the next fiscal year.

The components of total investment return from all sources consist of the following for the years ended June 30, 2011 and 2010:

	2011	2010
Interest, dividends, and other income	$ 8,306	$ 1,236
Realized gains, net	29,800	14,667
Change in unrealized gains, net	119,225	104,558
	$ 157,331	$ 120,461

The College recognized an impairment in its investments in the amount of $0 and $18,733 in 2011 and 2010, respectively, where the decline in fair value was determined to be other-than-temporary. In assessing whether the decline in fair value of these investments was other-than-temporary, the College determined that it does not have significant positive evidence to conclude that the decline was temporary.

Direct, external investment management fees were $2,436 and $1,513 in 2011 and 2010, 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 College had nine investments with an unrealized loss as of June 30, 2011. The aggregate fair value of these investments as of June 30, 2011 was $107,705. The aggregate amount of the unrealized loss was $9,629. All of these investments have had an unrealized loss for greater than twelve months. The College has determined that these losses are not other-than-temporary.

(in thousands)

The following table represents the College's financial assets and liabilities by fair value measurements as of June 30, 2011:

	Total	Quoted Price in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Investments				
Money market funds	$ 41,925	$ 41,925	$ -	$ -
Due from broker	5,669	4,363	-	1,306
Equity securities	306,816	44,464	-	262,352
Absolute return	206,070	-	-	206,070
Debt securities	50,462	9,803	-	40,659
Real estate and mortgages	22,401	4,978	-	17,423
Private equity partnerships	304,844	-	2,122	302,722
Other investments	10,565	430	-	10,135
Total investments at fair value	948,752	105,963	2,122	840,667
Investments valued using the equity method	3,495	-	-	-
Total investments	952,247	105,963	2,122	840,667
Foreign exchange contract receivable	2	-	-	2
Remainder trusts	3,146	-	-	3,146
Perpetual trusts	25,872	-	-	25,872
Total assets at fair value	$ 981,267	$ 105,963	$ 2,122	$ 869,687

The following table summarizes the College's level 3 activity for the year ended June 30, 2011:

	Beginning Balance at June 30, 2010	Realized Gains	Change in Unrealized Gains (Losses)	Net Purchases Sales and Settlements	Net Transfer in (out) of Level 3	Ending Balance at June 30, 2011
Level 3 assets						
Money market funds	$ -	$ -	$ -	$ -	$ -	$ -
Due from (to) broker	1,264	36	6	-	-	1,306
Equity securities	234,799	7,991	44,949	(25,387)	-	262,352
Absolute return	189,566	10,314	25,189	(18,999)	-	206,070
Debt securities	45,816	-	(468)	(4,689)	-	40,659
Real estate and mortgages	16,557	87	923	(144)	-	17,423
Private equity partnerships	246,279	10,326	41,633	4,484	-	302,722
Other investments	12,113	1,046	1,051	(4,075)	-	10,135
Total investments	746,394	29,800	113,283	(48,810)	-	840,667
Foreign exchange receivable	-	-	2	-	-	2
Remainder trusts	2,434	-	712	-	-	3,146
Perpetual trusts	21,708	-	4,164	-	-	25,872
Total assets at fair value	$ 770,536	$ 29,800	$ 118,161	$ (48,810)	$ -	$ 869,687

(in thousands)

The following table represents the College's financial assets and liabilities by fair value measurements as of June 30, 2010:

	Total	Quoted Price in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Investments				
Money market funds	$ 28,484	$ 28,484	$ -	$ -
Due from broker	5,223	3,959	-	1,264
Equity securities	276,871	42,072	-	234,799
Absolute return	189,566	-	-	189,566
Debt securities	55,098	9,282	-	45,816
Real estate and mortgages	20,718	4,161	-	16,557
Private equity partnerships	248,304	-	2,025	246,279
Other investments	12,185	72	-	12,113
Total investments at fair value	836,449	88,030	2,025	746,394
Investments valued using the equity method	3,765	-	-	-
Total investments	840,214	88,030	2,025	746,394
Remainder trusts	2,434	-	-	2,434
Perpetual trusts	21,708	-	-	21,708
Total assets at fair value	$ 864,356	$ 88,030	$ 2,025	$ 770,536
Liabilities				
Interest rate swap payable	$ 11,433	$ -	$ 11,433	$ -
Foreign exchange contract payable	172	-	172	-
Total liabilities at fair value	$ 11,605	$ -	$ 11,605	$ -

The following table summarizes the College's level 3 activity for the year ended June 30, 2010.

	Beginning Balance at June 30, 2009	Realized Gains (Losses)	Change in Unrealized Gains	Net Purchases Sales and Settlements	Net Transfer in (out) of Level 3	Ending Balance at June 30, 2010
Level 3 assets						
Due from (to) broker	$ 1,917	$ 323	$ 287	$ (1,263)	$ -	$ 1,264
Equity securities	185,300	4,162	27,942	17,395	-	234,799
Absolute return	193,037	23,808	18,516	(45,795)	-	189,566
Debt securities	47,489	-	8,379	(10,052)	-	45,816
Real estate and mortgages	19,222	(3,564)	845	54	-	16,557
Private equity partnerships	205,360	(12,485)	43,209	10,195	-	246,279
Other investments	12,594	2,423	384	(3,288)	-	12,113
Total investments	664,919	14,667	99,562	(32,754)	-	746,394
Remainder trusts	2,285	-	149	-	-	2,434
Perpetual trusts	20,589	-	1,119	-	-	21,708
Total assets at fair value	$ 687,793	$ 14,667	$ 100,830	$ (32,754)	$ -	$ 770,536

(in thousands)

Following is additional information related to funds whose fair value is not readily determinable as of June 30, 2011.

	Strategy	Fair Value	# of Investments	Remaining Life	$ Amount of Unfunded Commitments	Timing to Draw Down Commitments	Redemption Terms	Redemption Restrictions	Restrictions in Place at Year End
Equity securities	Global developed and emerging market equity	$ 262,352	2	N/A	$ -	No remaining commitments	Ranges between daily with no notice to monthly with no notice	None	None
Absolute return	Long/short and long-biased equity and credit hedge funds	206,070	3	N/A	-	No remaining commitments	Ranges between monthly with no notice to annually	1 fund has a lock up provision of 3 years from the purchase date	None
Debt securities	High yield and long/short fixed fixed income hedge funds	40,659	3	N/A	-	No remaining commitments	Ranges from quarterly with 60 days notice to semi-annually with 90 days notice	1 fund has a lock up provision of 3 years from the purchase date; 1 fund limits annual withdrawals to one-third of original contribution	None
Real estate and mortgages	Commercial, residential, office, and industrial partnerships	17,423	10	N/A	426	1 to 3 years	Illiquid partnerships - cannot redeem	Illiquid partnerships - cannot redeem	Illiquid partnerships - cannot redeem
Private equity partnerships	Venture and buyout, in the U.S. and international	302,722	29	1 to 10 years	121,241	1 to 10 years	Illiquid partnerships - cannot redeem	Illiquid partnerships - cannot redeem	Illiquid partnerships - cannot redeem
Other	Natural resources partnerships, illiquid properties/securities	11,441	12	1 to 10 years	463	1 to 3 years	Illiquid partnerships/properties/ securities - cannot redeem	Illiquid partnerships/properties/ securities - cannot redeem	Illiquid partnerships/properties/ securities - cannot redeem
		$ 840,667	59		$ 122,130				

(in thousands)

6. Land, Buildings, and Equipment

Land, buildings and equipment at June 30, 2011 and 2010 consist of the following:

	2011	2010
Land and land improvements	$ 50,803	$ 50,193
Buildings	491,327	482,363
Equipment	67,437	62,706
Equipment capital leases	-	17
Art/antiques	11,429	11,084
Construction in progress	11,267	3,054
	632,263	609,417
Less: Accumulated depreciation	(267,927)	(248,070)
	$ 364,336	$ 361,347

Depreciation expense in 2011 and 2010 was $21,758 and $21,625, respectively.

(in thousands)

7. Long-Term Debt

Long-term debt is comprised of the following at June 30, 2011 and 2010:

	2011	2010
Vermont Educational and Health Buildings Financing Agency (VEHBFA) Series 1988A adjustable rate bonds, $40,000 original principal, interest (2011: 0.50% - 0.50%) (2010: 0.48% - 1.75%) (uncollateralized) with annual principal payments increasing from $850 in 2011 to $3,140 through 2028	$ -	$ 31,765
VEHBFA Series 2002A serial bonds $16,455 original principal (uncollateralized) with annual principal payments increasing from $920 in 2011 to $1,440 in 2020, interest ranging from 4.00% - 5.25%	10,710	11,630
VEHBFA Series 2002A term bonds $54,805 original principal, (uncollateralized) $4,805 and $50,000 due on November 1, 2022 and November 1, 2032, respectively, interest ranging from 5.00% - 5.375%	54,805	54,805
VEHBFA Series 2002B adjustable rate bonds, $20,000 original principal, interest (2011: 0.50%-0.50%) (2010: 0.50% - 1.75%) (uncollateralized) due on November 1, 2032	-	20,000
VEHBFA Series 2006A bonds $35,425 original principal, (uncollateralized) 40 year bullet with principal due 2047, interest at 5.00%	35,425	35,425
VEHBFA Series 2008 adjustable rate bonds, $55,260 original principal, interest (2011: 0.17% - 0.30%) (2010: 0.10% - 0.33%) (uncollateralized) with annual principal payments increasing from $1,985 in 2011 to $4,350 through 2027	-	51,600
VEHBFA Series 2009 bonds $59,445 original principal, (uncollateralized) due on November 1, 2038 issued at a premium, interest at 5%	59,445	59,445
VEHBFA Series 2010 bonds $95,035 original principal, (uncollateralized) due on November 1, 2040 issued at a premium, interest at 5.00%	95,035	-
Revenue bonds issued through the California Statewide Communities Development Agency, collateralized by the Monterey Institute campus with annual principal payments increasing from $0 in 2011 to $2,160 in 2031, interest at 5.50%	21,525	21,525
Other	923	997
	277,868	287,192
Less: Discount	(609)	(638)
Plus premium	10,171	3,685
	$ 287,430	$ 290,239

The estimated fair value of the College's total debt is approximately $284,000 and $296,000 at June 30, 2011 and 2010, respectively. The fair value is estimated based on quoted market prices for the same or similar issues.

(in thousands)

Interest Rate Swap
In connection with the Series 2008 Bonds, the College had entered into an interest rate swap transaction with an affiliate of the Goldman Sachs Group L.P. (Goldman). Under the terms of the swaption agreement, the College would pay a fixed rate of 4.76% and receive a variable rate, ranging from 65% to 100% of the 1-month London Interbank Offer Rate (LIBOR), in each case with reference to the notional amount equal to the principal amount of the 1996 bonds. Payments under the swap commenced on November 2006 and were to end in November 2026.

The College had the right to terminate the swap at any time at its sole discretion, at the then current mid-market value of the swap. The College exercised this right on October 25, 2010 and terminated the swap. The College simultaneously made a swap termination payment of $12,854 to the counterparty.

As of June 30, 2010, the fair value of the swap was a liability of $11,433. This liability was recorded within accounts payable on the balance sheet and within the statement of activities line item "unrealized loss on interest rate swap." The difference between the swap termination amount and the June 30, 2010 fair value is included within the statement of activities line item "realized and unrealized loss on interest rate swap" in the current year.

2011 Debt Issuance
In November 2010, the College issued $95,035 of the Vermont Educational and Health Buildings Financing Agency (VEHBFA) Revenue Refunding Bonds (Middlebury College Project) Series 2010 (“The Bonds”) in a tax-exempt financing. The proceeds from this issuance were used to refund the VEHBFA Adjustable Rate Revenue Bonds (Middlebury College Project) Series 1988A, the VEHBFA Revenue Bonds (Middlebury College Project) Series 2002B and the VEHBFA Revenue Bonds (Middlebury College Project) Series 2008 Variable Rate Demand Obligations, and to pay certain costs of issuance of the Bonds. The Bonds bear interest at the rate of 5.00% per annum and will mature on November 1, 2040.

Standby Bond Purchase Agreement
During fiscal 2011 the College had a standby bond purchase agreement with a bank to provide liquidity support for the Series 2008 adjustable rate bonds. This agreement was terminated when the Series 2008 bonds were redeemed as part of the Series 2010 refunding issuance.

Credit Lines
As of June 30, 2011, the College had a $50,000 3 year term line of credit with an interest rate of one month LIBOR plus 2.50%. As of June 30, 2010, the College had a $50,000 3 year term line of credit with an interest rate of one month LIBOR plus 2.50% and a $25,000 demand line of credit with an interest rate of one month LIBOR plus 2.50%. As of June 30, 2011 and 2010, there were no outstanding balances on these lines. The proceeds of the borrowings are to be used for short-term working capital needs, pre-funding capital projects prior to a bond issuance, or providing temporary liquidity for investment transactions.

During fiscal 2011, the College terminated the $25,000 demand line of credit.

(in thousands)

Debt Maturities

According to the terms of the VEHBFA bonds, the College is required to make sinking fund deposits to the bond trustee in amounts sufficient to satisfy future debt service obligations. Annual principal requirements under all long-term debt obligations as of June 30, 2011 are as follows:

2012	$	1,448
2013		1,100
2014		1,156
2015		1,525
2016		1,865
Thereafter		270,774
	$	277,868

8. Retirement Plans

Retirement benefits for benefits eligible employees of the College and including the Institute as of January 1, 2011, are individually funded and vested under a defined contribution program with the Teacher Insurance and Annuity Association and the College Retirement Equities Fund (TIAA-CREF). Under this plan, the College makes contributions into the employee accounts based upon investment allocations exercised by the employee or defaulted into the Lifecycle mutual funds. This plan is administered by TIAA-CREF. The College’s retirement contributions related to this plan for the years ended June 20, 2011 and 2010 were approximately $9,097 and $9,188, respectively.

The Institute participated under a separate plan prior to January 1, 2011 with the Teachers Insurance Annuity Association and College Retirement Equities Fund (TIAA-CREF) and the Variable Annuity Life Insurance Company (VALIC) defined contribution pension plan. These plans covered substantially all full time employees of the Institute. The defined contribution plan required employees complete one year of service before being eligible for employer contributions. In addition, the employer contributions were determined at the discretion of the Institute. Total Institute contributions were $1,182 and $963 for the years ended June 30, 2011 and 2010, respectively. Assets in these plans are now frozen and are being transferred to the College’s plans.

9. Derivative Financial Investments

Foreign Currency Contracts

The College has entered into forward currency contracts to hedge the currency exposure associated with operating the College's study abroad language programs. A forward currency contract is an agreement between two parties to buy and sell a currency at a set price on a future date. The fair value of a forward currency contract fluctuates with changes in currency exchange rates. Forward currency contracts are marked to market and the change in value is recorded by the College as an unrealized gain or loss in other nonoperating activities. These contracts may involve market risk in excess of the unrealized gain or loss reflected in the statement of activities. In addition, the College could be exposed to risk if the counterparties are unable to meet the terms of the contracts or if there are movements in foreign currency values that are unfavorable to the College.

(in thousands)

Interest Rate Swap
As previously described in Footnote 7, the College uses interest rate swaps to manage its interest rate exposure. Swaps expose the College to interest rate risk, counterparty risk, and basis risk. The College believes that the prudent use of interest rate swaps can be an effective tool in managing its debt portfolio.

The following table lists the fair value of derivatives used by contract type as included in the statement of financial position at June 30, 2011 and 2010. This table excludes exposures relating to derivatives held indirectly through commingled investment funds:

June 30, 2011	Balance Sheet Location	Asset Derivatives Notional	Asset Derivatives Fair Value	Liability Derivatives Notional	Liability Derivatives Fair Value
Derivatives not designated as hedging instruments					
Foreign exchange contracts	Accounts receivable, net	$ 172	$ 2	$ -	$ -
Total derivatives not designated as hedging instruments			$ 2		$ -

June 30, 2010	Balance Sheet Location	Asset Derivatives Notional	Asset Derivatives Fair Value	Liability Derivatives Notional	Liability Derivatives Fair Value
Derivatives not designated as hedging instruments					
Interest rate swaps	Accounts payable and accrued expenses	$ -	$ -	$ 51,225	$ (11,433)
Foreign exchange contracts	Accounts payable and accrued expenses	-	-	2,463	(172)
Total derivatives not designated as hedging instruments			$ -		$ (11,433)

The following table indicates the realized and unrealized gains and losses or changes in value by contract type, as included in the statements of activities and changes in net assets for the years ended June 30, 2011 and 2010.

June 30, 2011	Balance Sheet Location	Location of Gain or (Loss) or Change in Value Recognized as Income on Derivatives	Gain or (Loss) or Change in Value Recognized as Income on Derivatives
Derivatives not designated as hedging instruments			
Interest rate swaps	Accounts payable and accrued expenses	Realized and unrealized loss on interest rate swap	$ (2,182)
Foreign exchange contracts	Accounts payable and accrued expenses	Other	174
Total derivatives not designated as hedging instruments			$ (2,008)

(in thousands)

June 30, 2010	Balance Sheet Location	Location of Gain or (Loss) or Change in Value Recognized as Income on Derivatives	Gain or (Loss) or Change in Value Recognized as Income on Derivatives
Derivatives not designated as hedging instruments			
Interest rate swaps	Accounts payable and accrued expenses	Unrealized loss on interest rate swap	$ (1,176)
Foreign exchange contracts	Accounts payable and accrued expenses	Other	(188)
Total derivatives not designated as hedging instruments			$ (1,364)

10. Endowment

The College's endowment consists of donor restricted endowment funds and board-designated funds to function as endowment for a variety of purposes in addition to assets which have been designated for endowment, split interest agreements, and other net assets. 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 of the College and Institute have interpreted Vermont's and California's Uniform Prudent Management of Institutional Funds Act ("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, the College 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 the College in a manner consistent with the standard of prudence prescribed by the UPMIFA statutes.

In accordance with the UPMIFA statutes, the College 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 the College 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 the College.

(7) The investment policies of the College.

(in thousands)

The College's endowment for the years ended June 30, 2011 and 2010, delineated by net asset class and donor-restricted versus Board-designated funds were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
June 30, 2011				
Donor-restricted endowment funds	$ -	$ 383,911	$ 287,104	$ 671,015
Adjustment for funds underwater	(2,372)	2,372		-
Board-designated endowment funds	307,807			307,807
Total endowment funds June 30, 2011	$ 305,435	$ 386,283	$ 287,104	$ 978,822
June 30, 2010, as restated				
Donor-restricted endowment funds	$ -	$ 313,410	$ 272,183	$ 585,593
Adjustment for funds underwater	(3,802)	3,802	-	-
Board-designated endowment funds	294,991	-	-	294,991
Total endowment funds June 30, 2010	$ 291,189	$ 317,212	$ 272,183	$ 880,584

Changes in Endowment

Changes to the College's endowment for the years ended June 30, 2011 and 2010 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at beginning of year, as restated	$ 291,189	$ 317,212	$ 272,183	$ 880,584
Investment return				
Endowment return	49,905	102,193	431	152,529
Other investment income	86	3,173	28	3,287
Change in value of deferred gifts	1	1,131	3,150	4,282
Total investment return	49,992	106,497	3,609	160,098
Contributions	803	1,257	11,090	13,150
Appropriation of endowment assets for spending distribution	(20,510)	(28,129)	-	(48,639)
Transfer for SWAP termination payment	(12,854)	-	-	(12,854)
Transfer from pledge designation changes	(10,202)	-	-	(10,202)
Other transfers and adjustments	4,625	(9,474)	222	(4,627)
Transfer to designated endowment funds	962	350	-	1,312
Adjustment for funds underwater - fair value less than historic dollar value	1,430	(1,430)	-	-
Endowment net assets at end of year	$ 305,435	$ 386,283	$ 287,104	978,822

(in thousands)

Net assets for the year ended June 30, 2010:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at beginning of year, as restated	$ 267,699	$ 274,441	$ 259,980	$ 802,120
Investment return				
Endowment return, as restated	37,524	78,170	197	115,891
Other investment income	-	2,674	-	2,674
Change in value of deferred gifts	(38)	381	610	953
Total investment return	37,486	81,225	807	119,518
Contributions	1,602	-	8,461	10,063
Appropriation of endowment assets for spending distribution, as restated	(23,782)	(28,480)	-	(52,262)
Transfer (to) from other funds	(416)	(3,227)	37	(3,606)
Transfer to designated endowment funds	1,579	274	2,898	4,751
Adjustment for funds underwater - fair value less than historic dollar value	7,021	(7,021)	-	-
Endowment net assets at end of year, as restated	$ 291,189	$ 317,212	$ 272,183	$ 880,584

Permanently Restricted Net Assets
The portion of permanent endowment funds that is required to be retained permanently either by explicit donor stipulation or by Vermont and California UPMIFA statutes at June 30, 2011 and 2010:

	2011	2010
Restricted for loan funds	$ 3,180	$ 3,161
Restricted for annuity and life income funds	9,406	9,888
Restricted contribution receivable	7,698	13,448
Restricted for endowment funds	266,820	245,686
	$ 287,104	$ 272,183

Temporarily Restricted Net Assets

	2011	2010
Portion of permanent endowment funds subject to an appropriation restriction under Vermont and California UPMIFA statutes, as restated	$ 341,181	$ 271,888
Restricted endowment gifts for special purposes	45,102	45,324
	$ 386,283	$ 317,212

(in thousands)

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 change and transfer from unrestricted net assets to temporarily restricted net assets. Cumulative transfers from unrestricted net assets to temporarily restricted net assets of the College and Institute were $2,372 and $3,802 as of June 30, 2011 and 2010, respectively. These resulted from unfavorable market fluctuations that occurred shortly after the investment of newly established endowments, and authorized appropriation that was deemed prudent.

Return Objectives and Risk Parameters
The College 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 endowment's target allocation applied to the appropriate individual benchmarks. The College 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 at the College, which reflects inflation pressures as well as real growth in the College's program.

Strategies Employed for Achieving Investment Objectives
To achieve its long-term rate of return objectives, the College 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). The College targets a diversified asset allocation that places greater emphasis on equity-based investments to achieve its long-term objectives within prudent risk constraints.

Endowment Spending Allocation and Relationship of Spending Policy to Investment Objectives
The College's Board of Trustees approves a distribution of investment return based on the average asset value as determined at the end of the twelve prior calendar quarters. Calculations are performed for individual endowment funds at a rate of 5.0%. The corresponding calculated spending allocations are distributed monthly from the current net total or accumulated net total investment returns for individual endowment funds.

(in thousands)

11. Temporarily Restricted Net Assets

	2011	2010
The portion of permanent endowment funds subject to an appropriation restriction under Vermont and California UPMIFA statutes and classified as temporarily restricted net assets, as restated	$ 341,181	$ 271,888
Restricted gifts for scholarship and prizes	23,121	24,948
Restricted gifts for professorships	3,261	966
Restricted gifts for special purposes	31,631	27,354
Restricted gifts for capital projects	9,227	1,754
Restricted Contribution receivable	25,764	25,534
Restricted annuity and life income gifts	10,650	11,898
	$ 444,835	$ 364,342

12. Commitments and Contingencies

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

The College has made a commitment to assist the Town of Middlebury (the "Town") to finance the bridge construction project and will pay the Town the sum of $300 twice per year starting in fiscal year 2011 and continuing until thirty (30) years thereafter. The College has recorded a payable of $9,135 and $9,273 for years ended June 30, 2011 and 2010, respectively. The full commitment was for $18,000 and was discounted at a rate of 5.00%.

13. Operating Expenses

Operating expenses by natural classification for the years ended June 30, 2011 and 2010 were as follows:

	2011	2010
Salaries and wages	$ 97,401	$ 98,257
Employee benefits	30,863	30,639
Food	3,689	3,630
Utilities	7,908	7,131
Contracted services	12,114	11,629
Supplies	3,850	3,616
Library books and periodicals	2,087	2,196
Interest	12,860	12,634
Amortization and depreciation	21,548	23,672
Travel	5,466	4,795
Taxes and insurance	2,923	2,667
Other	16,757	16,743
	$ 217,466	$ 217,609

(in thousands)

14. Leaseback

In March 2011 the College entered into a purchase and sale agreement with the Vermont Center For Emerging Technologies, Inc., a Vermont nonprofit corporation (Buyer). The College 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 the College a portion of the premises for an initial term of ten years. The College 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 base rent for the first lease year commencing on July 1, 2011 and will be $139 for the first year and then will increase annually by two percent. The lease is a triple net lease with the College solely responsible for 100% of operating and utility costs of the premises. The buyer does not have any operations duties or obligations so long as the College is leasing fifty percent or more of leasable space.

15. Early Retirement Program

On February 2, 2009, the College announced a voluntary early retirement program to eligible staff members. On October 15, 2009, the College announced a second voluntary early retirement program, a voluntary separation program, and a faculty retirement incentive program. An amount of $79 in termination benefits has been expensed in the accompanying financial statements in relation to these activities. As of June 30, 2011, the remaining liability was $2,297.

Middlebury College
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2011

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Student Financial Assistance - Cluster			
Department of Education			
Direct Programs			
Federal Supplemental Education Opportunity Grant	84.007		$ 570,452
Federal Work Study Program	84.033		501,562
Federal Pell Grant Program	84.063		1,394,532
Academic Competitiveness Grant	84.375		116,325
National Science and Mathematics Access to Retain Talent Grant	84.376		138,000
Total Department of Education			2,720,871
Total Student Financial Aid Cluster			2,720,871
Research and Development - Cluster			
National Oceanic & Atmospheric Administration			
Direct Programs			
Special Oceanic and Atmospheric Research	11.460		3,710
Total National Oceanic & Atmospheric Administration - Direct			3,710
Total National Oceanic & Atmospheric Administration			3,710
Department of Health and Human Services			
Direct Programs			
Oral Diseases and Disorders Research	93.121		220,488
Mental Health Research Grants	93.242		60,070
ARRA Trans-NIH Recovery Act Research Support	93.701		42,529
Biomedical Research and Research Training	93.859		376
Population Research	93.864		36,241
Total Department of Health and Human Services - Direct			359,704
Pass-Through Programs from			
University of California at Berkeley	93.061	00006968	357,051
University of Vermont	93.389	2P20RR016462/P740-123	331,966
Total Department of Health and Human Services - Pass-Through			689,017
Total Department of Health and Human Services			1,048,721
National Science Foundation			
Direct Programs			
Mathematical and Physical Sciences	47.049		202,951
Geosciences	47.050		135,417
Computer and Information Science and Engineering	47.070		40,451
Biological Sciences	47.074		201,436
Social, Behavioral & Economic Sciences	47.075		95,989
ARRA Social, Behavioral & Sciences	47.075		40,634
Education and Human Resources	47.076		26,107
Polar Programs	47.078		2,165
ARRA Trans-NSF Recovery Research Support	47.082		649,609
Total National Science Foundation - Direct			1,394,759
Pass-Through Programs from			
University of Vermont	47.076	EPS-0701410	3,900
University of Vermont	47.080	EPS-0701410	799
Total National Science Foundation - Pass-Through			4,699
Total National Science Foundation			1,399,458
Department of Defense			
Direct Programs			
Collaborative Research and Development	12.114		1,811,454
Total Department of Defense- Direct			1,811,454
Pass-Through Programs from			
Monterey College of Law	12.	9/3/2010-9/2/2011	89,412
Total Department of Defense -Pass Through			89,412
Total Department of Defense			1,900,866

The accompanying notes are an integral part of this schedule of expenditures of federal awards.

Middlebury College
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2011

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Research and Development - Cluster, continued			
Department of State			
Pass-Through Programs from			
Fulbright Preacademic Program	19.418	S-ECAAE-09-CA-027(CS)	75,107
English Language Fellows Program	19.421	MIIS-RX2050-896-08-B	26,217
National Council of Eurasia and East European Research	19.300	824-13	1,792
University of Delaware	19.300	20005	11,300
Total Department of State-Pass-Through			114,416
Total Department of State			114,416
United States Department of Agriculture			
Direct Programs			
Agricultural and Rural Economic Research	10.310		35,037
Technical Agricultural Assistance	10.960		159,348
Total United States Department of Agriculture - Direct			194,385
Total United States Department of Agriculture			194,385
National Aeronautics and Space Administration			
Pass-through Programs from			
Smithsonian Astrophysical Observatory	43.001	GO9-0075C	499
Smithsonian Astrophysical Observatory	43.001	G01-12115B	1,804
University of Vermont	43.001	24501	100
Jet Propulsion Laboratory	43.001	1355552	15,996
Space Telescope Science Institute	43.001	HST-GO-11659.01	35,743
Total National Aeronautics and Space Administration - Pass-Through			54,142
Total National Aeronautics and Space Administration			54,142
Department of Education			
Direct Programs			
Overseas Programs - Faculty Research Abroad	84.019		37,196
Total Department of Education - Direct			37,196
Total Department of Education			37,196
Department of Energy			
Direct Programs			
Defense Nuclear Nonproliferation Research	81.113		307,145
Energy efficiency and renewable energy information	81.117		15,500
Total Department of Energy - Direct Programs			322,645
Pass-through Programs from			
San Diego State University	81.079	3TE155	1,850
Battelle Memorial Institute-Newly Independent States Program	81.113	101149	230,133
Battelle Memorial Institute-Newly Independent States Program	81.113	132127	36,551
Los Alamos National Laboratories	81.113	85326-001-10	65,115
Sandia National Laboratories-Nonproliferation Education	81.113	731732	5,785
Total Department of Energy Pass-Through			339,434
Total Department of Energy			662,079
Institute of Language Instruction			
Direct Programs			
Institute of Language Instruction Translation & Interpretation Training	13.		192,083
DI Contracts	13.		115,714
Total Institute of Language Instruction-Direct			307,797
Total Institute of Language Instruction			307,797
Environmental Protection Agency			
Direct Programs			
Environmental Policy and Innovation Grants	66.611		87,209
Total Environmental Protection Agency-Direct			87,209
Total Environmental Protection Agency			87,209
Department of Commerce			
Direct Programs			
Measurement and Engineering Research and Standards	11.609		6,650
Total Department of Commerce-Direct			6,650
Total Department of Commerce			6,650

The accompanying notes are an integral part of this schedule of expenditures of federal awards.

Middlebury College
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2011

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Research and Development - Cluster, continued			
Department of the Interior			
Direct Programs			
United States Fish & Wildlife	15.650		2,993
Total Department of the Interior - Direct			2,993
Total Department of the Interior			2,993
Total Research and Development Cluster			5,819,622
Other Programs			
Department of Defense			
Pass-Through Programs from			
National Foreign Language Center University of Maryland	12.901	H98230-10-1-0173	12,578
National Foreign Language Center University of Maryland	12.901	H98230-10-1-0068	33,687
Bryn Mawr College	12.551	U-631006-BMC-EUR	4,476
Total Department of Defense - Pass-Through			50,741
Total Department of Defense			50,741
Department of Energy			
Pass-Through Programs from			
State of Vermont	81.041	02240-ASEP-REN-017	5,317
Total Department of Energy - Pass-Through			5,317
Total Department of Energy			5,317
Corporation for National and Community Service			
Direct Programs			
Learn and Serve America - Higher Education	94.005		2,055
Total Corporation for National and Community Service - Direct			2,055
Pass-Through Programs from			
Campus Compact New Hampshire	94.005	2010-2011	21,685
Total Corporation for National and Community Service - Pass-Through			21,685
Total Corporation for National and Community Service			23,740
National Endowment for the Arts			
Pass-Through Programs from			
Northeast Foundation for the Arts	45.025	2009-13769	245
Total National Endowment for the Arts - Pass-Through			245
Total National Endowment for the Arts			245
National Endowment for the Humanities			
Direct Programs			
Promotion of the humanities_Fellowships and Stipends	45.160		1,601
Total National Endowment for the Humanities - Direct			1,601
Total National Endowment for the Humanities			1,601
Total Other Federal Assistance			81,644
Total Expenditures of Federal Awards			$ 8,622,137

The accompanying notes are an integral part of this schedule of expenditures of federal awards.

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") summarizes the expenditures of Middlebury College (the "College") under federal government programs for the year ended June 30, 2011 using the accrual basis of accounting in accordance with the provisions of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. The College includes the expenditures of Middlebury College and the Monterey Institute of International Studies. As of July 1, 2010, Monterey Institute of International Studies was consolidated into Middlebury College.

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

2. Facilities and Administrative Cost Recoveries

Facilities and administrative costs are charged to federal grants and contracts at a predetermined rate. The current approved facilities and administrative cost rate for Middlebury College for the period July 1, 2008 through June 30, 2011 is 63%. The Monterey Institute of International Studies, has a separate rate for the period July 1, 2007 to June 30, 2011 of 38%. Facilities and administrative cost recoveries are reported as part of federal expenditures.

3. Federal Direct Loan Program (84.268)

Federally guaranteed loans issued to students of the College under the Stafford Loan Program during the year ended June 30, 2011 amounted to $20,310,744. Federally guaranteed loans issued to parents of students of the College under the PLUS Loan Program during the year ended June 30, 2011 amounted to $3,617,610. The College is responsible only for the performance of certain administrative duties with respect to the program and, accordingly, balances and transactions relating to it are not included in the College's financial statements.

4. Federal Perkins Loan Program

	CFDA Number	Outstanding Balance at June 30, 2011	Disbursements Fiscal 2011
Federal Perkins Loan Program	84.038	$ 18,470,682	$ 1,831,886

The above disbursements for the Federal Perkins Loan Program include disbursements and expenditures for loans to students and administrative expenditures. There were no new federal capital contributions during the year ended June 30, 2011. Perkins loan cancellations (CFDA # 84.037) amounted to $140,950 for the year ended June 30, 2011.

5. Administrative Cost Allowance

The College received an allowance of $139,108 for administrative costs for the Perkins Loan Program. The College received an allowance of $11,122 for administrative costs for the Federal Work Study Program.

6. Subrecipients

The College passed through $314,752 to sub-recipients in the Research and Development Cluster during the year ended June 30, 2011.

Part II

Internal Controls and Compliance

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

To the President and Fellows of
Middlebury College

We have audited the consolidated financial statements of Middlebury College (the "College") as of and for the year ended June 30, 2011, and have issued our report thereon October 31, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as finding number 11-01 to be a material weakness.

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Compliance and Other Matters

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

We noted certain matters that we reported to management of the College in a separate letter dated October 31, 2011.

This report is intended solely for the information and use of the College's Audit Committee, Board of Trustees, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

PricewaterhouseCoopers LLP

October 31, 2011

Report of Independent Auditors on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

To the President and Fellows of
Middlebury College

Compliance

We have audited the compliance of Middlebury College (the "College") with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011, except as described in the second paragraph of this report. The College's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of the College's management. Our responsibility is to express an opinion on the College's compliance based on our audit.

We did not audit the College's compliance with the functions of contact with the borrower during the grace period, billing procedures, reporting accounts in default to the credit bureau, processing payments and maintaining repayment records specified by the Federal Perkins Loan Program ("Perkins Loan") and described in the OMB *Circular A-133 Compliance Supplement*. Compliance with these requirements was audited by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the College's compliance with those requirements, is based solely on the report of the other auditors.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the College's compliance with those requirements.

In our opinion, based on our audit and the report of other auditors, the College complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 11-02 through 11-04.

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Internal Control over Compliance
Management of the College is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, except as noted in the following paragraph, we considered the College's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on Internal Control Over Compliance with OMB Circular A-133 but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly we do not express an opinion on the effectiveness of the College's internal control over compliance.

We did not consider internal control over compliance relating to the functions of contact with the borrower during the grace period, billing procedures, reporting accounts in default to the credit bureau, processing payments and maintaining repayment records specified by the Perkins Loan Program and described in the OMB *Circular A-133 Compliance Supplement*. Internal control over these compliance requirements was considered by the other auditors referred to above; and our report, insofar as it relates to the College's internal control over those compliance requirements, is based solely on the report of the other auditors.

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

Our consideration and the other auditors' consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. Also, the report of the other auditors did not identify any deficiencies in internal control over compliance that they consider to be material weaknesses as defined above.

The College's responses to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the College's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the College's Audit Committee, Board of Trustees, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

PricewaterhouseCoopers LLP

October 31, 2011

Part III

Schedule of Findings and Questioned Costs

Middlebury College
Schedule of Findings and Questioned Costs
Year Ended June 30, 2011

I. Summary of Independent Auditor's Results

Financial Statements	
Type of auditor's report issued	Unqualified
Internal Control over Financial Reporting	
Material weakness(es) identified?	Yes
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	None reported
Noncompliance material to the financial statements noted?	No
Federal awards	
Internal control over major programs	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	None reported
Type of auditor's report issued on compliance for major program:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	Yes
Identification of major programs	

CFDA Number	Name of Federal Program or Cluster
Various	Student Financial Assistance Cluster

Dollar threshold used to distinguish between Type A and Type B programs	$300,000
Auditee qualifies as a low-risk auditee	Yes

II. Findings Related to the Financial Statements which are Required to be Reported in Accordance with Government Auditing Standards

Finding No. 11-01

Criteria
The Vermont and California versions of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") requires that unappropriated and unspent appreciation on endowment funds be maintained as temporarily restricted net assets.

Condition
During our audit it was determined that the 2010 financial statements needed to be restated due to a net asset misclassification.

Cause
In the course of the audit a formula error was discovered in the 2010 calculation of net assets. Furthermore, in the course of the audit we determined the calculation methodology used was inaccurate.

Effect
The effect of this misclassification was a restatement of the June 30, 2010 financial statements and a material weakness in the internal control over financial reporting related to the allocation of investment earnings to the net asset categories. There was no impact on federal awards.

Recommendation
We recommend that management develop a new methodology for allocating investment earnings to net asset categories, with appropriate reconciliation to total return amounts, and evaluate whether new accounts or procedures should be established to address changes due to UPMIFA. In addition, we recommend that management implement controls over entries to the principal activity report.

Management's Views and Corrective Action Plan
See the College's views and corrective action plan.

III. Federal Award Findings and Questioned Costs

Finding No. 11-02

Compliance Requirements: Special tests and provisions - Federal Work Study

Federal Programs Involved	Federal CFDA Number	Award Year
Federal Work-Study Program	84.033	7/1/10-6/30/11

Criteria
Per Federal Regulation 675.24(a), "(1) Except as provided in paragraph (a)(3) of this section, an institution shall compute FWS compensation on an hourly wage basis for actual time on the job. An institution may not pay a student a salary, commission, or fee. (3) An institution may pay a graduate student it employs a salary or an hourly wage, in accordance with its usual practices."

Condition
We selected 25 students for testing.

We noted that one out of the 25 students selected for testing was paid a stipend for a resident assistant position. As the student was not a graduate student, the student should have been paid on an hourly basis rather than being paid a stipend.

Cause
The error resulted from an oversight by College personnel. A job that is only paid on stipend basis was listed within the computer system as being eligible for Federal Work Study.

Effect
Federal Work Study funds were used to pay for a job position that was ineligible for Federal Work Study.

Amount of Questioned Costs
$1,000 of Federal Work Study funds was paid for the ineligible job position.

Recommendation
Management should enhance the process to ensure that Federal Work Study funds are only awarded for eligible job positions. This may include reviewing all job titles listing as eligible for Federal Work Study in the computer system and by providing additional training to College personnel. The College should also refund the $1,000 to the Federal Work Study program.

Management's Views and Corrective Action Plan
See the College's views and corrective action plan.

<u>Finding No. 11-03</u>

Compliance Requirements: Special tests and provisions - Perkins Cancellations

Federal Programs Involved	Federal CFDA Number	Award Year
Perkins Loan Cancellations	84.037	7/1/10-6/30/11

Criteria
Per Federal Regulation 674.38, (a)(1) "a borrower must request the deferment and provide the institution with all information and documents required by the institution by the date that the institution establishes."

Per the 2010-2011 Federal Student Aid Handbook, Volume 6, Chapter 5, "A school must determine, based on the borrower's documentation, whether the borrower is entitled to have any portion of his or her loans cancelled. This responsibility cannot be delegated."

Condition
We selected 30 students for testing.

We noted that for two out of the 30 students selected for testing, insufficient supporting documentation was obtained to support the deferment or cancellation. The College was unable to provide evidence of full time employment, evidence of receiving other federal loan deferments, and evidence supporting the income and expense amounts reported by the applicant. One of the exceptions was a deferment and the other was a cancellation.

Cause
The cause was inadequate oversight over the third party servicer who was processing deferments and cancellations on behalf of the College (one of the exceptions) and insufficient review over the deferments and cancellations that were processed directly by the College (the other exception).

Effect
Without obtaining complete supporting documentation, it is not possible to determine if the applicants were eligible for the deferments and cancellations that they were granted.

Amount of Questioned Costs
There are no questioned costs as the College was able to subsequently provide evidence of full time employment to support the cancelled loan.

The deferred loan is not considered a questioned cost as the deferment postpones payment rather than cancelling it.

Recommendation
Management should provide greater oversight and review over the actions of its third party Perkins Loan servicers and College personnel to ensure that complete documentation is being obtained.

Management's Views and Corrective Action Plan
See the College's views and corrective action plan.

<u>Finding No. 11-04</u>

Compliance Requirements: Student Eligibility

Federal Programs Involved	Federal CFDA Number	Award Year
Federal Supplemental Educational Opportunity Grants	84.007	7/1/10-6/30/11
Federal Work-Study Program	84.033	7/1/10-6/30/11
Federal Perkins Loan Program	84.038	7/1/10-6/30/11
Federal Pell Grant Program	84.063	7/1/10-6/30/11
Federal Direct Student Loans	84.268	7/1/10-6/30/11

Criteria
Per the 2010-2011 Federal Student Aid Handbook, Volume 3, Chapter 2, "The cost of attendance for a student is an estimate of that student's educational expenses for the period of enrollment. For study-abroad programs approved for credit by the student's home institution, [cost of attendance includes] reasonable costs associated with such study."

Per the 2010-2011 Federal Student Aid Handbook, Volume 3, Chapter 8, "You must take other aid into account when awarding ACG/SMART, TEACH Grant funds, Campus-Based aid, Stafford or PLUS loans.…The other aid that must be considered is called "estimated financial assistance" (EFA). In general, the term *estimated financial assistance, as defined for the Campus-Based programs, TEACH, and ACG/SMART Grants,* refers to aid from the FSA programs, as well as grants, scholarships, loans, and need-based employment that you can reasonably anticipate at the time you award aid to the student, whether the assistance is awarded by the school or by an individual or organization outside the school."

Condition
We selected 60 students for testing.

We noted that for two out of the 60 students selected for testing, the incorrect cost of attendance was used for the students' study abroad programs. For one student, the wrong semester's study abroad cost of attendance was used. For the other student, an on-campus cost of attendance was used instead of the study abroad cost of attendance.

Cause
The cause was inadequate review of the cost of attendance for study abroad programs.

Effect
An inaccurate cost of attendance could result a student receiving an incorrect amount of federal financial aid. Middlebury's policy is to meet full financial need when awarding institutional aid. Therefore institutional aid is awarded last and is used to fill any gap between federal and outside aid, and cost of attendance. In the case of these two students, the students' financial aid packages had sufficient institutional aid to absorb the full error in the cost of attendance calculation and therefore the error did not impact the amount of federal aid awarded.

Amount of Questioned Costs
There are no known questioned costs related to these two students due to the nature of their financial aid packages. The error in cost of attendance was resolved by reducing institutional aid.

Recommendation
Management should provide greater review over the cost of attendance calculations to ensure that the correct calculations are being used.

Management's Views and Corrective Action Plan
See the College's views and corrective action plan.

Middlebury

Middlebury College
Middlebury, Vermont 05753

Middlebury College – Finding 11-01

The College will implement the following procedures related to Finding 11-01 regarding the allocation of investment earnings to the net asset categories

Corrective plan for fiscal year ending June 30, 2012

While management agrees with the comment, it is important to note that the misclassification affects the manner in which endowment earnings were classified by net asset classification within the non-operating section of the statement of activities. This misclassification did not affect total endowment earnings – nor did it affect operating or total change in net assets. In addition, there was no change to total assets (including the market value of investments), liabilities or net assets.

- Management will develop a methodology for calculating the endowment net asset required for the annual UPMIFA reporting
- Management will review and update the principal activity report created from the Banner system
- Management will determine a process for performing a semi annual reconciliation of the principal activity report back to the investment return as calculated on an interim financial statement report

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Controller
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Middlebury

Middlebury College
Middlebury, Vermont 05753

Middlebury College – Finding 11-02

The College has implemented the following procedures related to Finding 11-02 to ensure Federal Work Study funds are used to pay eligible positions

Corrective plan for Federal Work Study - September 2011

- The College will no longer allow undergraduate students receiving Federal Work Study to earn Federal Work Study funds for stipend positions such as resident assistants or first year counselors
- Email communication goes out on an annual basis to all Federal Work Study students explaining that they may not earn Federal Work Study wages for stipend positions
- Student Employment Office and Human Resources will oversee the process that restricts Federal Work Study students from earning wages for stipend positions

Middlebury College – Finding 11-03

The College has implemented the following procedures related to Finding 11-03 to ensure 'Perkins deferments and cancellations' are processed complete with supporting documentation

Corrective plan for processing Perkins deferments and cancellations - September 2011

- Office of Student Financial Services will push the processing of all applicable deferment and cancellation cases to our third party servicer (Campus Partners)
- Campus Partners retains all copies of forms received and makes them available to Middlebury through their imaging system (system 3i)
- With Campus Partners servicing these documents, it will enable Student Financial Services the time and resources to inspect and review deferred and cancelled loans serviced by Campus Partners
- Middlebury will retain copies of documents sent directly to the college before sending them to Campus Partners

Middlebury

Middlebury College
Middlebury, Vermont 05753

Middlebury College – Finding 11-04

The College has implemented the following procedures related to Finding 11-04 to ensure students' cost of attendance is accurate

Corrective plan for cost of attendance calculations - September 2011

- Office of Student Financial Services reviews the cost of attendance of students who are identified as going abroad during the academic year in August
- Student Financial Services receives a final and verified list of students going abroad from the International Programs and Off-Campus Study Office and reviews the list again in October (for Fall and Spring semesters) to catch any students missed on the August report
- Student Financial Services receives an updated list of students going abroad from International Programs and Off-Campus Study and reviews the list again in February (for Fall and Spring semesters) to ensure the cost of attendance is correct for all study abroad students

Kim Downs-Burns
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Middlebury

Middlebury College
Middlebury, Vermont 05753

Prior Year Updates

Middlebury College – Finding 10-01

The College has implemented the following procedures related to Finding 10-01 to ensure 'Student Status Confirmation Reporting' is completed by Clearinghouse within regulatory timeframe.

- Revised reporting schedule to Clearinghouse
- Manually entering all Spring withdrawals between Fall and Spring reporting
- Bi-annual meetings with Commons Deans, Registrar and Student Financial Services

Middlebury College – Finding 10-02

The College has implemented the following procedures related to Finding 10-02 in FY10 Audit to ensure Perkins exit documentations is completed with 30 days of notification of withdrawal of students:

- Electronic Exits with Campus Partners live will continue
- Perkins loans will be uploaded to Campus Partners on a monthly basis (Loan Coordinator), earlier than and on a more regular basis than in the past
- Director of Financial Aid Operations will check that this is done on a monthly basis
- Withdrawals will be tracked in three ways - Emails from Commons Deans, Status Change reports, and a monthly report from Registrars Office
- Loan Coordinator will be forwarded all reports and emails regarding withdrawals
- Loan Coordinator will adjust records in Campus Partners triggering the Electronic Exit process
- Loan Coordinator will put a print screen in each student's file for audit purposes
- In weekly meetings with Loan Coordinator, the supervisor will review any withdrawals during that time span
- Director of Financial Aid Operations (supervisor) will check completed Electronic Exits after Loan Coordinator has completed the exit process (weekly basis) in system 3i (Campus Partners)
- Associate Vice President for Student Financial Services will then re-check again to verify Electronic Exit process has been completed in system 3i

Middlebury

Middlebury College
Middlebury, Vermont 05753

Prior Year Update

Middlebury College – Finding 10-03

The College has implemented the following procedures related to Finding 10-03 to ensure the timely filing of Progress Reports by the Principal Investigators:

- Finance and Sponsored Research offices have developed a process for monitoring progress report filings and are working with principal investigators to implement the new process
- The Monterey Business Office monitors the progress reports with the principal investigators
- The National Science Foundation and the National Institutes of Health electronic tracking systems are being used to track grant awards made by these agencies
- An Oracle-based grants database tickler system has been implemented to monitor report on the Middlebury campus
- The Controller’s office and the Dean of Faculty will be notified of overdue reports
- The process will be reviewed annually