Middlebury College
Consolidated Financial Statements
June 30, 2013 and 2012

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Independent Auditors' Report

To the President and Fellows of
Middlebury College

We have audited the accompanying consolidated financial statements of Middlebury College (the "College"), which comprise the consolidated statements of financial position as of June 30, 2013 and 2012, and the related consolidated statements of activities and cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the College's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Middlebury College at June 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

October 22, 2013

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Middlebury College
Consolidated Statement of Financial Position
June 30, 2013 and 2012

(in thousands of dollars)	**2013**	**2012**
Assets		
Cash and cash equivalents	$ 29,864	$ 25,004
Accounts receivable, net	7,445	7,905
Contributions receivable, net	43,282	33,012
Inventories, prepaid expenses, and other assets	5,267	7,004
Deposits with bond trustees	1,044	52,254
Student loans receivable, net	20,153	21,651
Investments	1,027,229	927,310
Contributions receivable from remainder trusts	3,522	2,971
Beneficial interest in perpetual trusts held by others	25,521	23,777
Land, buildings, and equipment, net	370,803	368,697
Total assets	$ 1,534,130	$ 1,469,585
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	$ 41,707	$ 41,392
Funds held for others	6,227	5,879
Deferred revenues	18,504	18,614
Annuities and other split interest obligations	21,262	19,726
Refundable government loan funds	14,178	13,992
Long-term debt	287,754	338,590
Total liabilities	389,632	438,193
Commitments and contingencies		
Net assets		
Unrestricted	321,476	303,072
Temporarily restricted	515,603	432,345
Permanently restricted	307,419	295,975
Total net assets	1,144,498	1,031,392
Total liabilities and net assets	$ 1,534,130	$ 1,469,585

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

Middlebury College
Consolidated Statements of Activities
Year Ended June 30, 2013, with Comparative Totals

(in thousands of dollars)	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2013	Total 2012
Operating revenues and other support					
Comprehensive and other student fees	$ 191,686	$ -	$ -	$ 191,686	$ 183,192
Less: Financial aid	(49,525)	-	-	(49,525)	(47,100)
Net comprehensive and other student fees	142,161	-	-	142,161	136,092
Contributions	9,915	26,158	-	36,073	22,964
Sponsored activities	9,326	-	-	9,326	11,828
Investment return					
Endowment distribution	50,506	3,566	-	54,072	48,242
Other investment income	1,369	3,617	-	4,986	610
Other sources	14,019	72	-	14,091	13,703
Net assets released from restrictions	14,477	(14,477)	-	-	-
Total operating revenues and other support	241,773	18,936	-	260,709	233,439
Operating expenses					
Educational and general					
Instruction	77,947	-	-	77,947	74,829
Academic support	38,339	-	-	38,339	34,205
Student services	33,448	-	-	33,448	31,410
Institutional support	46,125	-	-	46,125	42,383
Sponsored activities	9,326	-	-	9,326	9,540
Total educational and general	205,185	-	-	205,185	192,367
Auxiliary enterprises	40,146	-	-	40,146	39,044
Other deductions	99	-	-	99	136
Total operating expenses	245,430	-	-	245,430	231,547
Change in net assets from operations	(3,657)	18,936	-	15,279	1,892
Nonoperating activities					
Endowment return, net of distribution	19,750	63,129	194	83,073	(37,287)
Contributions	1,132	4,735	10,481	16,348	16,098
Other investment income	307	183	275	765	291
Change in value of deferred gifts	(106)	478	1,241	1,613	(1,880)
Campaign expenditures	(1,300)	-	-	(1,300)	(1,300)
Adjustment for funds underwater	690	(690)	-	-	-
Other	1,588	(3,513)	(747)	(2,672)	(2,561)
Total nonoperating activities	22,061	64,322	11,444	97,827	(26,639)
Increase (decrease) in net assets	18,404	83,258	11,444	113,106	(24,747)
Net assets					
Beginning of year	303,072	432,345	295,975	1,031,392	1,056,139
End of year	$ 321,476	$ 515,603	$ 307,419	$ 1,144,498	$ 1,031,392

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

Middlebury College
Consolidated Statement of Activities
Year Ended June 30, 2012

(in thousands of dollars)	Unrestricted	Temporarily Restricted	Permanently Restricted	2012 Total
Operating revenues and other support				
Comprehensive and other student fees	$ 183,192	$ -	$ -	$ 183,192
Less: Financial aid	(47,100)	-	-	(47,100)
Net comprehensive and other student fees	136,092	-	-	136,092
Contributions	8,455	14,509	-	22,964
Sponsored activities	11,828	-	-	11,828
Investment return				
Endowment distribution	44,606	3,636	-	48,242
Other investment income	1,330	(720)	-	610
Other sources	13,569	134	-	13,703
Net assets released from restrictions	16,025	(16,025)	-	-
Total operating revenues and other support	231,905	1,534	-	233,439
Operating expenses				
Educational and general				
Instruction	74,829	-	-	74,829
Academic support	34,205	-	-	34,205
Student services	31,410	-	-	31,410
Institutional support	42,383	-	-	42,383
Sponsored activities	9,540	-	-	9,540
Total educational and general	192,367	-	-	192,367
Auxiliary enterprises	39,044	-	-	39,044
Other deductions	136	-	-	136
Total operating expenses	231,547	-	-	231,547
Change in net assets from operations	358	1,534	-	1,892
Nonoperating activities				
Endowment return, net of distribution	(20,752)	(16,726)	191	(37,287)
Contributions	1,414	3,966	10,718	16,098
Other investment income	11	184	96	291
Change in value of deferred gifts	(503)	684	(2,061)	(1,880)
Campaign expenditures	(1,300)	-	-	(1,300)
Adjustment for funds underwater	1,492	(1,492)	-	-
Other	(1,848)	(640)	(73)	(2,561)
Total nonoperating activities	(21,486)	(14,024)	8,871	(26,639)
Increase (decrease) in net assets	(21,128)	(12,490)	8,871	(24,747)
Net assets				
Beginning of year	324,200	444,835	287,104	1,056,139
End of year	$ 303,072	$ 432,345	$ 295,975	$ 1,031,392

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

Middlebury College
Consolidated Statements of Cash Flows
Years Ended June 30, 2013 and 2012

(in thousands of dollars)	**2013**	**2012**
Cash flows from operating activities		
Change in net assets	$ 113,106	$ (24,747)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation	23,444	22,387
Contributions restricted for long-term investments	(11,859)	(16,643)
Contributions of real property and gifts in kind	(696)	(4,776)
Amortization of bond issuance costs	125	96
Amortization of bond discount and premium, net	(260)	(401)
Bond premium	2,164	6,859
Loss on disposal of buildings and equipment	249	38
Contributions receivable bad debt expense	386	328
Change in value of deferred gifts	1,536	952
Realized and unrealized gain on investments	(137,944)	(14,035)
Unrealized (gain) loss on contributions receivable from remainder trusts	(551)	175
Unrealized (gain) loss on beneficial interest in perpetual trusts	(1,744)	2,095
Changes in operating assets and liabilities		
Accounts receivable	460	(457)
Contributions receivable	(10,656)	640
Inventories, prepaid expenses, and other assets	1,653	(1,504)
Accounts payable and accrued expenses	(1,112)	(1,032)
Deferred revenues	(110)	1,439
Funds held for others	348	1,086
Other	286	194
Net cash used in operating activities	(21,175)	(27,306)
Cash flows from investing activities		
Proceeds from sales of investments	78,254	104,086
Purchases of investments	(39,759)	(60,414)
Purchases of property and equipment	(24,146)	(29,067)
Student loans granted	(2,026)	(1,943)
Student loans repaid	3,524	3,602
Net cash provided by investing activities	15,847	16,264
Cash flows from financing activities		
Contributions restricted for long-term investments	11,860	16,643
Source (use) of deposit with bond trustees, net of earnings	51,209	(51,209)
Proceeds from long-term debt	11,885	46,150
Payments (advance refunding) on long-term debt	(63,525)	-
Payments on bonds and notes payable	(1,100)	(1,448)
Bond issue costs	(141)	(597)
Net cash provided by financing activities	10,188	9,539
Net increase (decrease) in cash and cash equivalents	4,860	(1,503)
Cash and cash equivalents		
Beginning of year	25,004	26,507
End of year	$ 29,864	$ 25,004
Supplemental data		
Interest paid	$ 15,128	$ 13,974
Assets acquired and included in accounts payable	2,899	1,469

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

(in thousands of dollars)

1. Background

Middlebury College ("the 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 of America and 70 countries. Approximately 70% of the students are from outside of New England. Over one-half of the students spend at least one semester off campus, primarily outside of the United States of America. In addition to the Middlebury campus, the College has schools located in Argentina, Brazil, Cameroon, Chile, China, Egypt, France, Germany, India, Israel, Italy, Japan, Jordan, Russia, Spain, and Uruguay.

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, Hebrew, Japanese, and Portuguese. 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 translation, interpretation and language education and international policy management. In addition, there are two research centers on campus, the James Martin Center for Nonproliferation Studies and the Center for East Asian Studies. Also, the Institute has a research center located in Vienna, Austria, the Vienna Center for Disarmament and Non-proliferation.

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

2. Summary of Significant Accounting Policies

Basis of Presentation
Middlebury College has three affiliated entities, Delineation Corporation (the "Corporation"), President and Friends of Middlebury College, and International Philanthropy. The Corporation is a nonprofit organization founded for the purpose of holding certain property for the College. The College advances funds to the Corporation for expenses incurred for maintenance of real property. The President and Friends of Middlebury College is a nonprofit organization formed for the purpose of providing catering and retail dining operations of the College. International Philanthropy is a nonprofit organization established for the purpose of receiving contributions from international sources.

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

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:

(in thousands of dollars)

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 unappropriated 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, Snow Bowl, Carroll and Jane Rikert Nordic Center, and the Ralph Myhre Golf Course. Revenues from auxiliary enterprises, except for the revenue from residential and dining halls, are included in other sources of operating revenues in the statement of activities. The revenues derived from residential and dining halls are included in the comprehensive fee.

Nonoperating activities include net realized and unrealized gains and losses on investments, less amounts distributed for operating purposes, permanently restricted contributions for long-term investment, temporarily restricted and unrestricted contributions for nonoperating activities with the exception of capital gifts, adjustments for funds underwater, campaign expenditures, and the change in value of deferred gifts. Capital gifts are recorded as operating activity and are released to unrestricted net assets when the depreciation on the capital asset is recognized.

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

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

(in thousands of dollars)

its investments and derivative instruments as well as the estimated net realizable value of receivables for contributions, gifts, pledges, student loans and accounts receivable, the estimated useful lives of buildings and equipment and its liabilities for its asset retirement obligations and its split interest agreements. Actual results could differ from those estimates.

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 and non-cash assets, 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 or when the conditions on which they depend are substantially met. Contributions received with donor-imposed restrictions that are met in the same year as received are reported as unrestricted operating or nonoperating revenue depending on the use of the proceeds.

Contributions of land, buildings, and equipment without donor stipulations are reported as unrestricted nonoperating revenue. Contributions of cash or other assets which a donor has stipulated be used to acquire land, buildings, and equipment are reported as temporarily restricted operating revenue. The temporary restrictions are considered to be released when assets are placed in service except for contributions for capital assets which are released from restriction when placed in service and to the extent that depreciation is recognized.

Contributions Receivable

Contributions receivable include pledges that are recorded at their present value using discount rates ranging from approximately 1.0% to 5.5% through the year ended June 30, 2013. For pledges received in 2013, the present value is calculated using a risk-free rate of return adjusted for the credit risk the College assumes for uncollectible pledges of 1.41%. An allowance is made for potentially uncollectible contributions based upon management's past collection experience and other relevant factors.

Inventories

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

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 measurement). The three levels of the fair value hierarchy under this principle are as follows:

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

(in thousands of dollars)

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 or College
Alternative equity securities	Estimated fair value determined by the fund manager

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 appropriate 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 the appropriate manager or general partners may differ significantly from the values that would have been used had a ready market for the investments existed, and the differences could be material.

(in thousands of dollars)

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 its 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 which have been recorded on the College's statement of financial position.

Foreign Currency Contracts
The College has at times 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.

The College had no outstanding foreign currency contracts as of June 30, 2013, or June 30, 2012. During fiscal year 2013, the College did not recognize any gain or loss on its foreign currency contracts. During fiscal year 2012, the College recognized a realized gain of $2 on a foreign currency contract.

Interest Rate Swap
The College may use 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 college did not have any interest rate swap exposure during fiscal year 2013 or fiscal year 2012.

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 of dollars)

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

	Range of Estimated Useful Lives (Years)
Category	
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 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.

The College has incurred losses on its equity investment in MIL of approximately $244 and $674 at June 30, 2013 and 2012, respectively. The losses are 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 ARO liabilities are accreted when the related obligation is settled. The College has recorded an ARO liability in accrued expenses of $4,044 and $3,854 at June 30, 2013 and 2012, 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 multi-year prepayment plan, summer school billing (net of financial aid), and sponsored activity.

(in thousands of dollars)

Funds Held for Others
The College acts as a custodian or fiscal agent for student organizations, certain long term faculty professional development funds, athletic fundraising accounts, and certain endowment funds for various organizations. These endowment funds are not included in the definition of the endowment assets of the College.

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. These contributions are recorded in revenue at fair value with corresponding estimated liabilities for future amounts payable to other beneficiaries recorded in annuities and other split interest obligations. The liabilities associated with these gifts are adjusted to fair value at each reporting period using the terms of the related gift instrument.

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 less expenditures total to the net balance of the Middlebury Initiative, a $500,000 fundraising campaign to fund four strategic priorities: (1) access and opportunity, (2) teaching and mentoring, (3) programs and infrastructure, and (4) increasing institutional flexibility. The cost of operating the Middlebury Initiative is reported as nonoperating activity on the statement of activities. Expected completion of the Middlebury Initiative is 2014.

(in thousands of dollars)

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, 2013 through October 22, 2013, the date the financial statements were issued.

3. Receivables

Accounts Receivable
Accounts receivable consists of receivables for annual comprehensive fees, graduate school tuition, schools abroad tuition, and summer school room, board, and tuition. The provision for uncollectible amounts was $475 at both June 30, 2013 and 2012.

Contributions Receivable
Contributions receivable consists of the following at June 30, 2013 and 2012:

	2013	2012
Due less than one year	$ 15,865	$ 14,514
One to five years	31,213	21,869
More than five years	2	3
	47,080	36,386
Less: Discount and allowance	(3,798)	(3,374)
	$ 43,282	$ 33,012

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. Because of their conditional nature, these gifts have not been recognized as contribution revenue by the College. During fiscal years ending June 30, 2013 and 2012, the College has received Challenge Grant pledge payments of $6,000 and $9,500, respectively. As of June 30, 2013, the College has recognized $46,500 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.

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, 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 the Department of Education annually. In these situations, the Federal portion of the loan balance is guaranteed.

(in thousands of dollars)

Factors also considered by management when performing an assessment, in addition to general economic conditions and the other factors described above, include, but are 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.

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. 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.

	2013		2012	
	Receivable Balance	Related Allowance	Receivable Balance	Related Allowance
The College's Perkins loans	$ 1,521	$ 186	$ 3,021	$ 188
Other student loans	5,255	615	5,408	617
Other receivable	-	-	35	-
	$ 6,776	$ 801	$ 8,464	$ 805

4. Financial Instruments

Investments
Investments held by the College at June 30, 2013 and 2012, including pooled investments and other separately invested funds, were comprised of the following:

	2013		
	Pooled	Separately Invested	Total at Fair Value
Money market funds	$ 20,504	$ 2,792	$ 23,296
Due to operations	(5,464)	-	(5,464)
Equity securities	337,595	43,478	381,073
Alternative equities	234,784	-	234,784
Debt securities	41,287	11,281	52,568
Real estate and mortgages	14,761	13,470	28,231
Private equity partnerships	304,101	43	304,144
Other investments	3,989	4,608	8,597
	$ 951,557	$ 75,672	$ 1,027,229

(in thousands of dollars)

	2012		
	Pooled	Separately Invested	Total at Fair Value
Money market funds	$ 18,833	$ 1,833	$ 20,666
Due to operations	(189)	-	(189)
Equity securities	279,216	38,659	317,875
Alternative equities	200,686	-	200,686
Debt securities	41,907	10,760	52,667
Real estate and mortgages	17,252	12,847	30,099
Private equity partnerships	296,046	43	296,089
Other investments	4,164	5,253	9,417
	$ 857,915	$ 69,395	$ 927,310

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 guide its 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 alternative equity managers seek to generate high returns regardless of the direction of the overall stock market and may use derivatives to exploit inefficiencies in securities markets. Accordingly, derivatives in the 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 in alternative equity funds is limited to the amount it currently has invested in the funds. The College's risk in private equity partnerships is limited to the amount it currently has invested in the funds, legally obligated uncalled capital commitments to the funds, and certain distributions previously received.

As of June 30, 2013 and 2012, the College had outstanding commitments of $139,584 and $130,256, respectively, to be funded with unrestricted net assets. These commitments are to fund private equity partnerships over a multi-year period. These capital calls are expected to be funded with cash on hand or using proceeds of liquidated securities.

The College has $201,035 and $195,310 of the investment portfolio at June 30, 2013 and 2012, respectively, invested in funds which invest in international securities. These investments are subject to the additional risk of currency fluctuations. Also included in investments are $52,137 and $47,949 at June 30, 2013 and 2012, respectively, for split interest agreements.

Investment Shares

The Board of Trustees approves a distribution of investment return based on the average per share market value of the pooled investments over the 12 calendar quarters preceding the beginning of the next fiscal year.

(in thousands of dollars)

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

	2013	2012
Interest, dividends, and other income, net	$ 4,952	$ (2,179)
Realized gains, net	29,561	24,781
Change in unrealized gains (losses), net	108,383	(10,746)
	$ 142,896	$ 11,856

The following table summarizes the status and results of pooled investments at June 30, 2012.

	2013	2012
Number of principal shares (not in thousands)	587,956.91	587,688.75
Per share value (not in thousands)	$ 1,618.41	$ 1,459.81
Distribution per share (not in thousands)	$ 69.55	$ 65.04

Direct, external investment management fees were $4,287 and $3,561 in 2013 and 2012, 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.

For the years ended June 30, 2013 and 2012, the difference between distribution per share and dividends and interest earned per share was funded by realized and unrealized gains of $44,098 and $39,785, respectively. During 2013 and 2012, distributions totaling $194 and $203, respectively, were added back to principal in accordance with donor restrictions.

The College recognized an impairment in its investments in the amount of $2,367 and $2,850 in 2013 and 2012, 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 in these cases it does not have significant positive evidence to conclude that the decline was temporary.

The College had 13 investments with an unrealized loss as of June 30, 2013. The aggregate fair value of these investments as of June 30, 2013 was $131,797. The aggregate amount of the unrealized loss was $6,043. Seven 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 of dollars)

The following table represents the College's financial assets and liabilities by fair value measurements as of June 30, 2013:

	Quoted Price in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Other Valuation Methods	Total
Investments					
Money market funds	$ 23,296	$ -	$ -	$ -	$ 23,296
Due to operations	(5,464)	-	-	-	(5,464)
Equity securities	43,848	-	337,225	-	381,073
Alternative equities	-	-	234,784	-	234,784
Debt securities	11,044	-	41,524	-	52,568
Real estate and mortgages	5,569	-	22,661	-	28,230
Private equity partnerships	-	2,247	299,321	-	301,568
Other investments	126	-	6,065	-	6,191
Total investments at fair value	78,419	2,247	941,580		1,022,246
Equity method investments	-	-	-	2,577	2,577
Investments valued using other methods	-	-	-	2,406	2,406
Total investments	$ 78,419	$ 2,247	$ 941,580	$ 4,983	$ 1,027,229
Other Assets					
Remainder trusts	-	-	3,522	-	3,522
Perpetual trusts	-	-	25,521	-	25,521
Total other assets at fair value	$ -	$ -	$ 29,043	$ -	$ 29,043

The following table summarizes the College's Level 3 activity for the year ended June 30, 2013:

	Beginning Balance at June 30, 2012	Realized Gains (Losses)	Change in Unrealized Gains (Losses)	Purchases	Sales	Net Transfer in (out) of Level 3	Ending Balance at June 30, 2013
Level 3 Assets							
Equity securities	$ 278,898	$ 2,222	$ 61,079	$ 37	$ (5,011)	$ -	$ 337,225
Alternative equities	200,686	6,143	38,461	-	(10,506)	-	234,784
Debt securities	42,114	-	(620)	-	30	-	41,524
Real estate and mortgages	22,279	-	1,226	-	(844)	-	22,661
Private equity partnerships	291,222	20,315	4,951	39,722	(56,889)	-	299,321
Other investments	6,120	882	266	-	(1,203)	-	6,065
Total investments	841,319	29,562	105,363	39,759	(74,423)	-	941,580
Foreign exchange receivable	-	-	-	-	-	-	-
Remainder trusts	2,971	-	551	-	-	-	3,522
Perpetual trusts	23,777	-	1,744	-	-	-	25,521
Total investments and other assets	$ 868,067	$ 29,562	$ 107,658	$ 39,759	$ (74,423)	$ -	$ 970,623

(in thousands of dollars)

The following table represents the College's financial assets and liabilities by fair value measurements as of June 30, 2012:

	Quoted Price in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Other Valuation Methods	Total
Investments					
Money market funds	$ 20,666	$ -	$ -	$ -	$ 20,666
Due to operations	(189)	-	-	-	(189)
Equity securities	38,977	-	278,898	-	317,875
Alternative equities	-	-	200,686	-	200,686
Debt securities	10,553	-	42,114	-	52,667
Real estate and mortgages	5,417	-	22,279	-	27,696
Private equity partnerships	-	2,047	291,222	-	293,269
Other investments	263	-	6,120	-	6,383
Total investments at fair value	75,687	2,047	841,319	-	919,053
Equity method investments	-	-	-	2,821	2,821
Investments valued using other methods	-	-	-	5,436	5,436
Total investments	$ 75,687	$ 2,047	$ 841,319	$ 8,257	$ 927,310
Other Assets					
Remainder trusts	-	-	2,971	-	2,971
Perpetual trusts	-	-	23,777	-	23,777
Total other assets at fair value	$ -	$ -	$ 26,748	$ -	$ 26,748

The following table summarizes the College's Level 3 activity for the year ended June 30, 2012:

	Beginning Balance at June 30, 2011	Realized Gains (Losses)	Change in Unrealized Gains (Losses)	Purchases	Sales	Net Transfer in (out) of Level 3	Ending Balance at June 30, 2012
Level 3 Assets							
Equity securities	$ 262,352	$ (1,399)	$ (3,965)	$ 20,510	$ 1,400	$ -	$ 278,898
Alternative equities	207,376	7,067	1,638	2	(15,397)	-	200,686
Debt securities	40,659	-	2,324	-	(869)	-	42,114
Real estate and mortgages	17,423	-	2,927	-	1,929	-	22,279
Private equity partnerships	302,722	18,739	(11,222)	39,902	(58,919)	-	291,222
Other investments	10,135	374	613	-	-	(5,002)	6,120
Total investments	840,667	24,781	(7,685)	60,414	(71,856)	(5,002)	841,319
Foreign exchange receivable	2	-	-	-	(2)	-	-
Remainder trusts	3,146	-	(175)	-	-	-	2,971
Perpetual trusts	25,872	-	(2,095)	-	-	-	23,777
Total investments and other assets	$ 869,687	$ 24,781	$ (9,955)	$ 60,414	$ (71,858)	$ (5,002)	$ 868,067

(in thousands of dollars)

Following is additional information related to funds whose fair value is not readily determinable as of June 30, 2013.

	Strategy	Fair Value	# of Investments	Remaining Life	$ Amount of Unfunded Commitments	Timing to Drawdown of Commitments	Redemption Terms	Redemption Restrictions	Restrictions in Place at Year End
Equity securities	Global developed and emerging market equity	$ 337,225	2	N/A	$ -	No remaining commitments	Ranges between daily with no notice to monthly with no notice	None	None
Alternative equities	Long/short and long-biased equity and credit hedge funds	234,784	5	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 and fixed income hedge funds	41,524	2	N/A	-	No remaining commitments	Ranges from quarterly with 60 days notice to semi-annually with 90 days notice	1 fund limits annual withdrawals to to one-third of original contribution	None
Real estate and mortgages	Commercial, residential, office, and industrial partnerships	22,661	10	1 to 7 years	190	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	299,321	23	1 to 10 years	139,319	1 to 10 years	Illiquid partnerships - cannot redeem	Illiquid partnerships - cannot redeem	Illiquid partnerships - cannot redeem
Other	Natural resources partnerships, illiquid properties/securities	6,065	10	1 to 10 years	75	1 to 3 years	Illiquid partnerships/properties/ securities - cannot redeem	Illiquid partnerships/properties/ securities - cannot redeem	Illiquid partnerships/properties/ securities - cannot redeem
		$ 941,580	52		$ 139,584				

(in thousands of dollars)

5. Land, Buildings, and Equipment

Land, buildings, and equipment at June 30, 2013 and 2012 consist of the following:

	2013	2012
Land and land improvements	$ 51,723	$ 51,790
Buildings	521,433	514,624
Equipment	78,507	73,573
Art/antiques	12,182	11,877
Construction in progress	17,660	6,735
	681,505	658,599
Less: Accumulated depreciation	(310,702)	(289,902)
	$ 370,803	$ 368,697

Depreciation expense in 2013 and 2012 was $23,444 and $22,387, respectively.

(in thousands of dollars)

6. Long-Term Debt

Long-term debt is comprised of the following at June 30, 2013 and 2012:

	2013	2012
VEHBFA Series 2002A serial bonds $16,455 original principal (uncollateralized) with annual principal payments increasing from $0 in 2013 to $0 in 2020, interest ranging from 4.00% - 5.25%	$ -	$ 9,740
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
VEHBFA Series 2006A term bonds $35,425 original principal, (uncollateralized) 40 year bullet with principal due 2047, interest at 5.00%	35,425	35,425
VEHBFA Series 2009 term bonds $59,445 original principal, (uncollateralized) due on November 1, 2038 issued at a premium, interest at 5.00%	59,445	59,445
VEHBFA Series 2010 term bonds $95,035 original principal, (uncollateralized) due on November 1, 2040 issued at a premium, interest at 5.00%	95,035	95,035
VEHBFA Series 2012A serial bonds $46,150 original principal (uncollateralized) with annual principal payments increasing from $2,485 in 2018 to $5,130 in 2033, interest ranging from 2.50% - 5.00%	46,150	46,150
VEHBFA Series 2012B serial bonds $11,885 original principal (uncollateralized) with annual principal payments increasing from $1,560 in 2020 to $1,435 in 2024, interest at 5.00%	11,885	-
Revenue bonds issued through the California Statewide Communities Development Agency, collateralized by the Monterey Institute campus with annual principal payments increasing from $330 in 2015 to $2,160 in 2031, interest at 5.50%	21,525	21,525
Other	366	446
	269,831	322,571
Less: Discount	-	(581)
Plus: Premium	17,923	16,600
	$ 287,754	$ 338,590

The estimated fair value of the College's total debt is approximately $285,000 and $354,000 at June 30, 2013 and 2012, respectively. The fair value is estimated based on quoted market prices for the same or similar issues.

(in thousands of dollars)

2012 Debt Issuance

In April 2012, the College borrowed $46,150 in the form of the Vermont Educational and Health Buildings Financing Agency (VEHBFA) Revenue Refunding Bonds (Middlebury College Project) Series 2012A ("the Series 2012A Bonds") in a tax-exempt financing. The proceeds from this issuance were used to advance refund a portion of the VEHBFA Revenue Bonds (Middlebury College Project) Series 2002A and to pay certain costs of issuance of the Bonds. The net proceeds are held in an escrow account and are presented in the Deposits with Bond Trustees line on the financial statements. The Series 2012A Bonds are payable in annual installments with principal payments ranging from $1,120 to $5,130 beginning November 1, 2017, bear interest at the rate of 2.50% to 5.00% per annum, and have a final maturity date of November 1, 2032. There are no principal payments in 2020, 2021, or 2022.

In April 2012, the College sold $11,885 Revenue Refunding Bonds (Middlebury College Project) Series 2012B (Forward Delivery Bonds) ("the Series 2012B Bonds") in a tax-exempt financing. As the bonds are forward issue bonds, they were issued and delivered on August 7, 2012. The proceeds from this issuance were used to refund the portion of the VEHBFA Revenue Bonds (Middlebury College Project) Series 2002A that were not advance refunded by the Series 2012A Bonds, and to pay certain costs of issuance of the Bonds. The Series 2012B Bonds are payable in annual installments with principal payments ranging from $1,560 to $3,115 beginning November 1, 2019, bear interest at the rate of 5.00% per annum, and have a final maturity date of November 1, 2023.

Credit Lines

As of June 30, 2013 and June 30, 2012, the College had a $50,000 three-year-term line of credit with an interest rate of the greater of one-month LIBOR plus 2.50% or 3.25%. As of June 30, 2013 and 2012, there were no outstanding balances on this line. The proceeds of the borrowings are to be used for short-term working capital needs, pre-funding capital projects prior to a bond issuance, or providing temporary liquidity for investment transactions. The maturity date for the line of credit is March 31, 2016.

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, 2013 are as follows:

2014	$ 81
2015	410
2016	690
2017	745
2018	3,285
Thereafter	264,620
	$ 269,831

(in thousands of dollars)

7. Retirement Plans

Retirement benefits for benefits eligible employees of the College, including the Institute, as of January 1, 2011, are individually funded and vested under a defined contribution program with the Teachers Insurance and Annuity Association and the College Retirement Equities Fund (TIAA-CREF). Under this plan, 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, including the Institute, for the years ended June 30, 2013 and 2012 were approximately $11,079 and $10,791, respectively.

8. Endowment

The College's endowment consists of donor-restricted endowment funds and board-designated funds to function as endowment for a variety of purposes. The net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The Board of Trustees of the College and Institute have interpreted Vermont's and California's Uniform Prudent Management of Institutional Funds Acts ("UPMIFA") statutes as requiring the preservation of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, 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 of dollars)

The College has redefined the definition of its endowment assets to include only the pooled investments, delineation assets, separately invested endowment funds, and interests in perpetual trusts. The footnotes for the years ending June 30, 2013 and 2012, are presented according to the new definition of endowment assets. The decrease in the total endowment assets from June 30, 2011 to July 1, 2012 was $71,154.

The College's endowment for the years ended June 30, 2013 and 2012, delineated by net asset class and donor-restricted versus Board-designated funds were as follows:

	June 30, 2013			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Donor-restricted endowment funds	$ -	$ 402,587	$ 283,668	$ 686,255
Adjustment for funds underwater	(1,844)	1,844	-	-
Board-designated endowment funds	286,737	-	-	286,737
Total endowment funds June 30, 2013	$ 284,893	$ 404,431	$ 283,668	$ 972,992

	June 30, 2012			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Donor-restricted endowment funds	$ -	$ 337,349	$ 272,136	$ 609,485
Adjustment for funds underwater	(2,513)	2,513	-	-
Board-designated endowment funds	270,205	-	-	270,205
Total endowment funds June 30, 2012	$ 267,692	$ 339,862	$ 272,136	$ 879,690

(in thousands of dollars)

Changes in Endowment

Changes to the College's endowment for the year ended 2013 as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at beginning of year	$ 267,692	$ 339,862	$ 272,136	$ 879,690
Investment return:				
Endowment return	41,683	93,510	194	135,387
Other investment income	66	972	70	1,108
Change in value of deferred gifts	-	40	1,909	1,949
Total investment return	41,749	94,522	2,173	138,444
Contributions	426	674	8,513	9,613
Appropriation of endowment assets for spending distribution	(28,086)	(25,985)	-	(54,071)
Investment income spending	(66)	(972)	-	(1,038)
Other transfers and adjustments	3,107	(2,726)	-	381
Transfer to/from designated endowment funds	(598)	(275)	846	(27)
Adjustment for funds underwater - fair value less than historic dollar value	669	(669)	-	-
Endowment net assets at end of year	$ 284,893	$ 404,431	$ 283,668	$ 972,992

Changes to the College's endowment for the year ended June 30, 2012 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at beginning of year recasted	$ 288,539	$ 354,420	$ 264,708	$ 907,667
Investment return:				
Endowment return	1,293	9,085	203	10,581
Other investment income	-	1,111	99	1,210
Change in value of deferred gifts	-	(24)	(2,017)	(2,041)
Total investment return	1,293	10,172	(1,715)	9,750
Contributions	787	692	8,494	9,973
Appropriation of endowment assets for spending distribution	(23,802)	(24,440)	-	(48,242)
Investment income spending	-	(1,201)	-	(1,201)
Other transfers and adjustments	630	78	91	799
Transfer to/from designated endowment funds	386	-	558	944
Adjustment for funds underwater - fair value less than historic dollar value	(141)	141	-	-
Endowment net assets at end of year	$ 267,692	$ 339,862	$ 272,136	$ 879,690

Underwater Endowment Funds

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the value of the initial and subsequent donor gift amounts (underwater endowments). When underwater endowments exist, any decrease in fair value below the fund's historic dollar value is recorded as a transfer from unrestricted net assets to temporarily restricted

(in thousands of dollars)

net assets. Cumulative transfers from unrestricted net assets to temporarily restricted net assets of the College were $1,844 and $2,513 as of June 30, 2013 and 2012, 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 overall investment portfolio'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 5.00%. 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 of dollars)

9. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are comprised of the following:

	2013	2012
The portion of permanent endowment funds subject to an appropriation restriction under Vermont and California UPMIFA statutes	$ 385,403	$ 321,185
Restricted gifts for scholarship and prizes	19,612	18,191
Restricted gifts for professorships	1,137	1,085
Restricted gifts for special purposes	37,297	36,538
Restricted gifts for capital projects	25,693	17,179
Restricted contribution receivable	31,983	23,172
Restricted annuity and life income gifts	14,478	14,995
	$ 515,603	$ 432,345

Permanently restricted net assets are comprised of the following:

	2013	2012
Restricted for loan funds	$ 3,182	$ 3,181
Restricted for annuity and life income funds	9,414	9,454
Restricted contribution receivable	10,751	9,565
Restricted funds	404	1,639
Restricted for endowment funds	283,668	272,136
	$ 307,419	$ 295,975

10. 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 has agreed to pay the Town the sum of $300 twice per year starting in fiscal year 2011 and continuing until thirty years thereafter. The College has recorded a payable of $8,837 and $8,989 for years ended June 30, 2013 and 2012, respectively. The full commitment was for $18,000 and was discounted at a rate of 5.00%.

(in thousands of dollars)

11. Operating Expenses

Operating expenses by natural classification for the years ended June 30, 2013 and 2012 were as follows:

	2013	2012
Salaries and wages	$ 110,203	$ 103,496
Employee benefits	36,626	31,942
Food	4,152	4,045
Utilities	7,985	8,733
Contracted services	13,101	13,297
Supplies	4,228	4,393
Library books and periodicals	2,191	2,144
Interest	14,521	14,502
Amortization and depreciation	23,381	21,986
Travel	6,768	6,357
Taxes and insurance	3,547	3,320
Other	18,727	17,332
	$ 245,430	$ 231,547

12. 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 (the 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 agreement also contains an option to purchase. The College can exercise this option any time after March 8, 2011 or immediately upon the cessation of the Buyer's economic development operations at the premises; the loss of the Buyer's Section 501(c) (3) nonprofit status or the termination or dissolution of the Buyer. The option price will be the lesser of fair market value, as determined by an appraisal or $2,000. The College's intention is to exercise this option and has recognized a liability of $2,000 on the balance sheet.