Middlebury College

Consolidated Financial Statements
June 30, 2011 and 2010 (as restated)

Middlebury College
Index
June 30, 2011 and 2010 (as restated)

Page(s)

Report of Independent Auditors 1

Consolidated Financial Statements

Consolidated Statements of Financial Position 2

Consolidated Statements of Activities 3–4

Consolidated Statements of Cash Flows 5

Notes to Consolidated Financial Statements 6–31

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. 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.

PricewaterhouseCoopers LLP

October 31, 2011

PricewaterhouseCoopers LLP, 677 Broadway, Albany, NY 12207
T: (518) 462 2030, F: (518) 427 4499, www.pwc.com/us

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.