Middlebury College

Consolidated Financial Statements
June 30, 2009 and 2008

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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, 2009 and 2008, 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, in 2009, the College adopted FASB Staff Position No. 117-1, Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds.

PricewaterhouseCoopers LLP

September 25, 2009

Middlebury College
Consolidated Statements of Financial Position
June 30, 2009 and 2008

(in thousands)	**2009**	**2008**
Assets		
Cash and cash equivalents	$ 10,265	$ 3,830
Accounts receivable, net	4,591	4,943
Contributions receivable, net	46,698	54,120
Inventories, prepaid expenses and other assets	3,910	3,887
Deposits with bond trustees	1,558	13,532
Student loans receivable, net	24,748	23,795
Investments	757,072	964,010
Contributions receivable from remainder trusts	2,285	3,201
Interest in perpetual trusts held by others	20,589	25,708
Land, buildings and equipment, net	374,063	367,610
Total assets	$ 1,245,779	$ 1,464,636
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	$ 37,730	$ 39,052
Funds held for others	3,887	4,374
Deferred revenues	20,016	18,029
Annuities and other split interest obligations	16,558	20,637
Refundable government loan funds	13,507	13,395
Long-term debt	290,364	295,119
Total liabilities	382,062	390,606
Commitments and contingencies (Note 11)		
Net assets		
Unrestricted	276,470	707,031
Temporarily restricted	327,267	107,621
Permanently restricted	259,980	259,378
Total net assets	863,717	1,074,030
Total liabilities and net assets	$ 1,245,779	$ 1,464,636

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

Middlebury College
Consolidated Statement of Activities
Year Ended June 30, 2009

(in thousands)	Unrestricted	Temporarily Restricted	Permanently Restricted	2009 Total	2008 Total
Operating revenues and other support					
Comprehensive and other student fees	$ 165,936	$ -	$ -	$ 165,936	$ 156,352
Less: Financial aid	(46,194)	-	-	(46,194)	(40,863)
Net comprehensive and other student fees	119,742	-	-	119,742	115,489
Contributions	14,684	6,471	-	21,155	23,377
Sponsored activities	9,752	-	-	9,752	8,511
Investment return				-	
Distribution	53,459	5,708	-	59,167	51,201
Other investment income	235	(5,330)	-	(5,095)	(5,931)
Other sources	12,080	66	-	12,146	12,630
Net assets released from restrictions	13,374	(13,374)	-	-	-
Total operating revenues and other support	223,326	(6,459)	-	216,867	205,277
Operating expenses					
Educational and general					
Instruction	70,943	-	-	70,943	67,287
Academic support	31,835	-	-	31,835	29,104
Student services	29,228	-	-	29,228	30,037
Institutional support	42,817	-	-	42,817	39,486
Sponsored activities	9,752	-	-	9,752	8,511
Total educational and general	184,575			184,575	174,425
Auxiliary enterprises	37,082	-	-	37,082	38,152
Other deductions	105	-	-	105	109
Total operating expenses	221,762	-	-	221,762	212,686
Change in net assets from operations	1,564	(6,459)	-	(4,895)	(7,409)
Nonoperating activities					
Endowment return, net of distribution	(83,734)	(115,231)	254	(198,711)	(77,784)
Contributions	2,851	1,100	5,579	9,530	24,986
Other investment income	3	47	-	50	663
Change in value of deferred gifts	(749)	375	(4,538)	(4,912)	159
Unrealized loss on interest rate swap	(2,449)	-	-	(2,449)	(2,548)
Campaign contributions	-	-	-	-	317
Campaign expenditures	(1,200)	-	-	(1,200)	(2,032)
Early retirement expense	(4,130)	-	-	(4,130)	-
Adjustment for funds underwater - fair value less than historic dollar value	(9,336)	9,336	-	-	-
Other	4,269	(7,172)	(693)	(3,596)	(4,939)
Net assets released from restrictions	1,494	(1,494)	-	-	-
Total nonoperating activities	(92,981)	(113,039)	602	(205,418)	(61,178)
(Decrease) increase in net assets before cumulative effect of adoption of UPMIFA statutes	(91,417)	(119,498)	602	(210,313)	(68,587)
Cumulative effect of adoption of UPMIFA statutes	(339,144)	339,144	-	-	-
(Decrease) increase in net assets	(430,561)	219,646	602	(210,313)	(68,587)
Net assets at beginning of year	707,031	107,621	259,378	1,074,030	1,142,617
Net assets at end of year	$ 276,470	$ 327,267	$ 259,980	$ 863,717	$ 1,074,030

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

Middlebury College
Consolidated Statement of Activities
Year Ended June 30, 2008

(in thousands)	Unrestricted	Temporarily Restricted	Permanently Restricted	2008 Total
Operating revenues and other support				
Comprehensive and other student fees	$ 156,352	$ -	$ -	$ 156,352
Less: Financial aid	(40,863)	-	-	(40,863)
Net comprehensive and other student fees	115,489	-	-	115,489
Contributions	10,498	12,879	-	23,377
Sponsored activities	8,511	-	-	8,511
Investment return				
Distribution	49,594	1,607	-	51,201
Other investment income	376	(6,307)	-	(5,931)
Other sources	12,570	60	-	12,630
Net assets released from restrictions	17,265	(17,265)	-	-
Total operating revenues and other support	214,303	(9,026)	-	205,277
Operating expenses				
Educational and general				
Instruction	67,287	-	-	67,287
Academic support	29,104	-	-	29,104
Student services	30,037	-	-	30,037
Institutional support	39,486	-	-	39,486
Sponsored activities	8,511	-	-	8,511
Total educational and general	174,425	-	-	174,425
Auxiliary enterprises	38,152	-	-	38,152
Other deductions	109	-	-	109
Total operating expenses	212,686	-	-	212,686
Change in net assets from operations	1,617	(9,026)	-	(7,409)
Nonoperating activities				
Endowment return, net of distribution	(72,675)	(5,539)	430	(77,784)
Contributions	7,405	4,341	13,240	24,986
Other investment income	568	95	-	663
Change in value of deferred gifts	592	1,494	(1,927)	159
Gain on swap option	-	-	-	-
Unrealized loss on interest rate swap	(2,548)	-	-	(2,548)
Campaign contributions	-	317	-	317
Campaign expenditures	(2,032)	-	-	(2,032)
Reclassification of net assets for change in donor designation	-	5,475	(5,475)	-
Other	2,274	(7,955)	742	(4,939)
Net assets released from restrictions	389	(389)	-	-
Total nonoperating activities	(66,027)	(2,161)	7,010	(61,178)
Increase (decrease) in net assets	(64,410)	(11,187)	7,010	(68,587)
Net assets at beginning of year	771,441	118,808	252,368	1,142,617
Net assets at end of year	$ 707,031	$ 107,621	$ 259,378	$ 1,074,030

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

Middlebury College
Consolidated Statements of Cash Flows
Years Ended June 30, 2009 and 2008

(in thousands)	2009	2008
Cash flows from operating activities		
Change in net assets	$ (210,313)	$ (68,587)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation	21,001	19,573
Amortization of bond issuance costs	92	90
Loss on defeasance of debt	-	754
Amortization of bond discount, net	50	49
Loss on disposal of buildings and equipment	16	223
Contributions receivable bad debt expense	1,890	1,421
Change in value of deferred gifts	(4,629)	180
Realized and unrealized losses on investments	144,705	37,797
Unrealized loss on interest rate swap	2,449	2,548
Unrealized loss on contributions receivable from remainder trusts	916	143
Unrealized loss on interest in perpetual trusts	5,119	2,178
Changes in operating assets and liabilities		
Accounts receivable	352	(1,025)
Contributions receivable	5,532	(4,488)
Inventories, prepaid expenses and other assets	(115)	(10)
Accounts payable and accrued expenses	2,665	(637)
Deferred revenues	1,987	(1,008)
Other	112	-
Gifts in kind	(206)	(1,014)
Increase in liabilities related to deferred gifts	2,855	1,335
Contributions received for long-term investments	(7,643)	(10,714)
Receipt of contributed securities	(1,302)	(12,260)
Net cash used in operating activities	(34,467)	(33,452)
Cash flows from investing activities		
Proceeds from sales of investments	346,607	304,337
Purchases of investments	(284,374)	(275,933)
Sale of contributed securities	1,302	12,260
Purchases of property and equipment	(28,347)	(36,354)
Student loans granted	(3,789)	(5,199)
Student loans repaid	2,836	3,242
Funds held for others	(487)	108
Proceeds utilized from deposits with bond trustees	11,974	11,276
Net cash provided by investing activities	45,722	13,737
Cash flows from financing activities		
Contributions and investment gain restricted for long-term investment	7,643	10,714
Payments to annuitants for deferred gifts	(2,305)	(2,484)
Proceeds from long-term debt	-	55,260
Payments on bonds and notes payable	(4,805)	(58,557)
Bond issue costs	-	(347)
Increase (decrease) in cash overdraft	(5,353)	4,851
Net cash (used in) provided by financing activities	(4,820)	9,437
Net increase (decrease) in cash and cash equivalents	6,435	(10,278)
Cash and cash equivalents at beginning of year	3,830	14,108
Cash and cash equivalents at end of year	$ 10,265	$ 3,830
Supplemental data		
Interest paid, net of interest capitalized	$ 12,590	$ 14,306
Contributed securities	1,302	12,260
Gifts in kind	206	1,014
Assets acquired and included in accounts payable	2,335	3,418

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 2,350 undergraduate students come from throughout the United States and seventy countries. Approximately 70% of the students are from outside of New England.

Over 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 and the Middle East.

The College's summer program, enrolling more than 2,400 students, consists of ten language schools and the Bread Loaf School of English and Middlebury-Monterey Language Academy. 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, Mexico, and at Oxford in the United Kingdom. The Middlebury-Monterey Language Academy offers summer language immersion in Arabic, Chinese, French and Spanish for middle school and high schools students. This program operates in two locations; Green Mountain College in Poultney, Vermont and partners with Johns Hopkins University Center for Talented Youth at Bard College at Simon’s Rock in Great Barrington, Massachusetts.

Tax-Exempt Status

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

The Institute qualifies under the provisions of Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the California Revenue and Taxation Code and is exempt from federal and state income taxation on related sources of income.

2. Summary of Significant Accounting Policies

Basis of Presentation

Middlebury College has four affiliated entities, Monterey Institute of International Studies (“MIIS”), 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 was formed for the purpose of recording catering and retail dining operations of the College. International Philanthropy is a nonprofit for the purpose of receiving international contributions from international sources.

On June 23, 2005, the trustees of Middlebury College and the Monterey Institute of International Studies approved a letter of intent to make MIIS an affiliate of the College. The affiliation combines the strengths of two institutions renowned for their expertise in international education, language teaching, and cultural studies. Both institutions executed the affiliation agreement on December 2, 2005.

(in thousands)

The Institute is a nonprofit public benefit corporation, located in Monterey, California, providing higher education in international policy studies, international business, translation and interpretation, and language education.

The financial statements consolidate Middlebury College and its affiliated corporations, herein referred to as the "College". All interentity transactions have been eliminated.

Basis of Accounting

The financial statements are prepared on the accrual basis of accounting and present net assets and 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.

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. 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, 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 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 scheduled maturities of three months or less at the date of purchase and amount to $10,265 and $3,830 at June 30, 2009 and 2008, respectively.

Contributions
Contributions, including interest 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 .98% to 6.40% through the year ended June 30, 2008. For 2009, the present value is calculated using the June 30, 2009 risk-free rate of return plus the credit risk the College assumes for uncollectible pledges which is 5.53%. 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)

Deposits with Trustees
In connection with the issuance of long-term debt, the College and the Institute are required to maintain certain funds in a restricted account. The funds maintained by the Institute were established and withdrawn solely for the purpose of making up any deficiency in the bond fund including amounts for the repayment or redemption of all bonds then outstanding. In 2008, the College unconditionally and irrevocably guaranteed all of the Institute's borrowings under its California Development Agency loan. Because of the aforementioned guarantee, the Institute is no longer required to hold deposits with the Bond Trustee other than for a debt service reserve. The debt service reserve can and is being used to fund the semi-annual interest payments until the remaining balances are extinguished.

The College was required to deposit the proceeds from the 2006 Revenue Bonds Series A into this account to fund ongoing construction projects. The amount remaining in this account is the amount left to draw down by the College.

Deposits with trustees are carried at cost which approximates fair value.

Fair Value Measurements
In 2009, the College adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ("SFAS 157"), which 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 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under SFAS 157 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 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.

(in thousands)

The fair value of the College's investments is determined in the following manner:

Investments	**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

The preceding methods described 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 derivative financial instruments under Statement of Financial Accounting Standards No. 133, *Accounting for Derivatives and Hedging Activities*, ("SFAS 133"), as amended. Under the provisions of SFAS 133, all derivatives except those qualifying for the normal purchase/normal sale exception are recognized on the balance sheet at fair value. Fair value is determined using current quoted market prices. 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 have met the normal purchase/normal sale exception under SFAS 133 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 College has also purchased and written put options on the S&P 500 index to hedge against an equity market downturn. These options are recorded on the balance sheet at fair value.

(in thousands)

Endowment
In 2009, the College adopted FASB Staff Position No. 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds ("FSP 117-1")*, which provides guidance on the net asset classification of donor-restricted endowment funds for organizations subject to a Uniform Prudent Management of Institutional Funds Act ("UPMIFA"). Vermont and California enacted their UPMIFA statutes in 2009. FSP 117-1 requires a change in net asset classification for certain donor created endowments previously classified as unrestricted net assets, as well as enhanced disclosures for endowment funds including information regarding endowment fund net assets, spending policies, and related investment policies. Due to the time constraint placed upon the use of the assets, they are considered temporarily restricted. This change in classification does not impact Board-designated endowments classified as unrestricted. The impact of the reclassification is to increase temporarily restricted net assets and decrease unrestricted net assets by $339,144 for the year ended June 30, 2009.

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 the fair value as of the date of the gift, and adjusted to fair value at year-end.

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 assets, as follows:

Category	**Range of Estimated Useful Lives (Years)**
Land improvements	25
Buildings and Middlebury houses	20-60
Equipment	3-20

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

(in thousands)

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 $3,247 and $3,143 at June 30, 2009 and 2008, 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.

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.

In addition, certain 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.

(in thousands)

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 net cost of operating the *Middlebury Initiative* is reported as nonoperating activity on the statement of activities. Expected completion of the *Middlebury Initiative* is 2012.

Subsequent Events
The College adopted Statement of Financial Accounting Standards No. 165, *Subsequent Events* ("SFAS 165"). SFAS 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Accordingly, management has evaluated subsequent events for the period after June 30, 2009 through September 25, 2009, the date the financial statements were available to be issued.

Reclassifications
Certain amounts in the 2008 consolidated financial statements have been reclassified to conform to the 2009 financial statement presentation.

3. 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 $275 and $294 at June 30, 2009 and 2008, respectively.

Contributions Receivable
Contributions receivable consist of the following at June 30, 2009 and 2008:

	2009	2008
Due less than one year	$ 24,604	$ 19,236
One to five years	18,801	32,615
More than five years	10,380	15,270
	53,785	67,121
Less: Discount and allowance	(7,087)	(13,001)
	$ 46,698	$ 54,120

The allowance for uncollectible contributions receivable is $0 and $4,212 as of June 30, 2009 and 2008, respectively.

As of June 30, 2009 and 2008, the College had received conditional promises to give of $24,000 and $27,000, 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. As of June 30, 2009, the College has recognized $26,000 of this pledge from the donor. The remaining portion of the conditional pledge will be recognized as future fund-raising goals are reached.

(in thousands)

The Institute received a conditional challenge pledge of $3,000 in December 2007. The intention of the gift is to encourage more contributions of all sizes to the Institute. As of June 30, 2009, the Institute has recognized $2,839 of this pledge. 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 $1,100 and $1,102 at June 30, 2009 and 2008, respectively.

4. Financial Instruments

Investments
Investments held by the College at June 30, 2009 and 2008 including pooled investments and other separately invested funds, were comprised of the following:

2009	Pooled	Separately Invested	Total at Fair Value
Money market funds	$ 34,562	$ 3,505	$ 38,067
Due from broker	1,858	-	1,858
Equity securities	185,543	40,446	225,989
Absolute return	193,037	-	193,037
Debt securities	45,868	9,846	55,714
Real estate and mortgages	16,300	6,389	22,689
Private equity partnerships	207,063	61	207,124
Other investments	6,460	6,134	12,594
	$ 690,691	$ 66,381	$ 757,072

2008	Pooled	Separately Invested	Total at Fair Value
Money market funds	$ 25,722	$ 5,762	$ 31,484
Due from broker	15,808	-	15,808
Equity securities	241,568	54,609	296,177
Absolute return	255,596	-	255,596
Debt securities	68,038	6,090	74,128
Real estate and mortgages	19,082	17,682	36,764
Private equity partnerships	221,985	-	221,985
Other investments	24,250	7,818	32,068
	$ 872,049	$ 91,961	$ 964,010

Included within equity securities, absolute return, private equities and real estate are alternative investments with a market value of $671,581 and $846,234 at June 30, 2009 and 2008.

(in thousands)

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, 2009 and 2008, the College had committed $169,601 and $240,321, 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. Long-term investments are liquidated as the funds are called.

The College has $134,429 and $161,047 of the investment portfolio at June 30, 2009 and 2008, respectively, invested in international securities. These investments are subject to the additional risk of currency fluctuations. Also included in investments are $34,373 and $47,296 at June 30, 2009 and 2008, respectively, for split-interest agreements.

Investment Shares

The following table summarizes the status and results of pooled investments at June 30, 2009 and 2008:

	2009	**2008**
Number of principal shares (not in thousands)	576,086.925	595,834.149
Market value per share (not in thousands)	$ 1,198.934	$ 1,463.577
Distribution per share (not in thousands)	$ 73.10	$ 75.17

For the years ended June 30, 2009 and 2008, the difference between distribution per share and dividends and interest earned per share was funded by realized gains of $42,777 and $45,681. During 2009 and 2008, distributions totaling $254 and $430, respectively, were added back to the 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.

(in thousands)

The components of total investment return from all sources consist of the following for the years ended June 30, 2009 and 2008:

	2009	2008
Interest, dividends, and other income	$ 245	$ 5,946
Realized (losses) gains, net	(4,527)	85,736
Change in unrealized gains, net	(140,307)	(123,533)
	$ (144,589)	$ (31,851)

During the year ended June 30, 2009, the College recognized $18,988 for the impairment of certain of its private equity investments where the decline in market 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. No impairment was recorded for the year ended June 30, 2008.

Direct, external investment management fees were $2,651 and $4,064 in 2009 and 2008, 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.

(in thousands)

The following table represents the College's financial assets and liabilities by level as of June 30, 2009:

June 30, 2009	Fair Value	Fair Value Measurements: Quoted Prices in in Active Markets for Identical Assets (Level 1)	Fair Value Measurements: Significant Other Observable Inputs (Level 2)	Fair Value Measurements: Significant Unobservable Inputs (Level 3)
Investments				
Money market funds	$ 38,067	$ 38,067	$ -	$ -
Due from (to) broker	1,858	(59)	-	1,917
Equity Securities	225,989	40,689	-	185,300
Absolute return	193,037	-	-	193,037
Debt securities	55,714	8,225	-	47,489
Real estate and mortgages	22,689	3,467	-	19,222
Private equity partnerships	207,124	-	1,764	205,360
Other investments	12,594	-	-	12,594
Total investments	757,072	90,389	1,764	664,919
Remainder trusts	2,285	-	-	2,285
Perpetual trusts	20,589	-	-	20,589
Total assets at fair value	$ 779,946	$ 90,389	$ 1,764	$ 687,793
Liabilities				
Interest rate swap liability	$ 10,257	$ -	$ 10,257	$ -
Total liabilities at fair value	$ 10,257	$ -	$ 10,257	$ -

The following table sets forth a summary of changes in the fair value of the College's level 3 assets for the year ended June 30, 2009:

Beginning balance at June 30, 2008	$ 820,731
Net realized and unrealized loss	(135,805)
Purchases, sales, issuances, and settlements, net	2,867
Balance at June 30, 2009	$ 687,793

(in thousands)

5. Land, Buildings and Equipment

Land, buildings and equipment at June 30, 2009 and 2008 consist of the following:

	2009	2008
Land and land improvements	$ 49,411	$ 47,029
Buildings	477,441	441,228
Equipment	60,572	57,731
Equipment capital leases	17	17
Art/antiques	10,899	10,527
Construction in progress	2,530	17,005
	600,870	573,537
Less accumulated depreciation	(226,807)	(205,927)
	$ 374,063	$ 367,610

Interest costs totaling $1,522 and $1,372 were capitalized as of June 30, 2009 and 2008, respectively.

Total depreciation expense as of June 30, 2009 and 2008 was $21,001 and $19,573, respectively.

(in thousands)

6. Long-Term Debt:

Long-term debt is comprised of the following at June 30, 2009 and 2008:

	2009	2008
Vermont Educational and Health Buildings Financing Agency (VEHBFA) Series 1988A adjustable rate bonds, $40,000 original principal, interest (2009: 0.60% - 3.40%) (2008: 1.90% - 3.70%)) (uncollateralized) with annual principal payments increasing from $730 in 2009 to $3,140 through 2028	$ 32,550	$ 33,280
VEHBFA Series 1999 bonds $60,000 original principal, (uncollateralized) due on November 1, 2038 issued at a discount, interest at 5%	60,000	60,000
VEHBFA Series 2002A serial bonds $16,455 original principal, (uncollateralized) with annual principal payments increasing from $835 in 2009 to $1,440 in 2020, interest ranging from 4.00% - 5.25%	12,510	13,345
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 (2009: 1.75% -3.40%) (2008: 3.40% - 3.58%) (uncollateralized) due on November 1, 2032	20,000	20,000
VEHBFA Series 2006A bonds $35,425 original principal, (uncollateralized) 40 year bullet with principal due 2047, interest at 5%	35,425	35,425
VEHBFA Series 2008 adjustable rate bonds, $55,260 original principal, interest (2009: 0.10% -7.50%) (uncollateralized) with annual principal payments increasing from $1,780 in 2009 to $4,350 through 2027	53,480	55,260
Revenue bonds issued through the California Statewide Communities Development Agency, collateralized by the Monterey Institute campus with annual principal payments increasing from $-0- in 2009 to $2,160 in 2031, interest at 5.50%	21,525	21,525
First National Bank of Central California Loan, subordinate to the revenue bonds issued through the California Statewide Communities Development Agency, term loan paid in fiscal 2009, interest at 6.00%	-	1,352
Capitalized lease obligations, due in various amounts monthly through October 2009, interest at 8.57%	2	5
Other	1,103	1,209
	$ 291,400	$ 296,206
Less discount	(2,221)	(2,303)
Plus premium	1,185	1,216
	$ 290,364	$ 295,119

(in thousands)

The estimated fair value of the College's total debt is approximately $293,000 at June 30, 2009. The fair value is estimated based on quoted market prices for the same or similar issues.

The College loaned the Institute sufficient funds to cover the amount due to the First National Bank. Repayment to the College is not required until a) the California Revenue Bonds have been paid in full, b) the College executes an irrevocable written guarantee of the Revenue Bonds, or c) the Revenue Bonds receive a rating of "BBB" or better from the rating agencies.

On September 24, 2008, in anticipation of the pending California Revenue Bonds guarantee, the College loaned the Institute an additional $1,418 to be used to pay off the First National Bank loan. On October 14, 2008, Middlebury College unconditionally and irrevocably guaranteed the California Revenue Bonds. This action triggered the repayment clause from the Institute to the College. A total of $1,250 of the Middlebury College loan was paid down by the Institute on November 4, 2008. The remaining balance of $1,576 with interest at 7.75% is being paid off over 60 months with the first payment made in November 2008.

According to the terms of the California Revenue Bonds, the Institute is not required to make payments until July 1, 2031. As part of the affiliation agreement and subsequent guarantee by Middlebury College, Franklin Templeton agreed to maintain the interest rate on the California Revenue Bonds at 5.50% interest and removed liens on the real estate as well as other debt covenants and conditions. The optional redemption date was changed to July 1, 2018 (at 101 percent of the face amount of the bonds), July 1, 2019 (at 100.5 percent of the face amount of the bonds), and July 1, 2020 (at 100 percent of the face amount of the bonds).

2006 Debt Issuance and Interest Rate Swap

In November 2006, the College issued $92,000 of the Vermont Educational and Health Buildings Financing Agency (VEHBFA) Revenue Bonds (Middlebury College Project) Series 2006 in a tax-exempt bond backed financing. The new debt was issued in two series. The $35,425, 5.00% Series A bonds were used to fund the current acquisition, construction, renovation, and equipping of the College's existing facilities, including the renovation of the College's Starr Library to the Axinn Center, site development for the Axinn Center, construction of a new biomass gasification heating and power system and other various improvements. The $56,575 Series B bonds were used to refund the Series 1996 bonds in the amount of $56,520.

In connection with the Series B Bonds, the College has 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 will 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 will end in November 2026.

The College has the right to terminate the swap at any time, at its sole discretion, at the then current mid-market value of the swap. Goldman can only terminate when there has been an Event of Default by the College or if and when the College is rated lower than A3/A-. The termination at such time will be at the then current mid-market value of the swap as well.

(in thousands)

As of June 30, 2009 and 2008, the fair value of the swap was a liability of $10,257 and $7,808, respectively, which represents the amount the College, would have to pay to terminate the agreement at the end of the fiscal year. This liability has been recorded within accounts payable on the balance sheet and within the statement of activities line item, "unrealized loss on interest rate swap."

2008 Debt Issuance

On February 21, 2008, the College gave notice that it would be exercising its option to redeem, on March 25, 2008, the $54,875 of outstanding Series 2006B Bonds. These bonds were 7-day auction rate securities, guaranteed by Ambac Assurance Corporation, the principal operating subsidiary of Ambac Financial Corporation. The redemption was pursued due to the deterioration in the auction rate securities market during fiscal 2008, and the resulting higher variable interest rates the College was paying on the Series 2006B bonds.

On March 25, 2008, the College redeemed the Series 2006B bonds using funds drawn down from a short-term line of credit with TD Banknorth. Bond issue costs of $754 were expensed in fiscal 2008 as a result of this transaction.

On April 1, 2008 the College issued $55,260 of VEHBFA Revenue Bonds (Middlebury College Project) Series 2008 in a tax-exempt financing, the proceeds of which were used to pay off the line of credit and cover costs of issuance. The term of the issue is 18 years to approximate the amortization schedule of the refunded Series 2006B bonds, upon which the existing interest rate swap is based. These new bonds are weekly resetting variable rate bonds on which the interest is paid monthly.

Standby Bond Purchase Agreement

The College has a standby bond purchase agreement with a bank to provide liquidity support for the Series 2008 variable rate bonds. In the event some or all of the bonds were tendered and not remarketed, the facility provides for the purchase of the unremarketed bonds by the bank. Any funds provided by this liquidity facility would be payable to the bank by the College no later than April 1, 2012. There have been no bonds purchased by the bank under the Agreement as of June 30, 2009.

Credit Lines

As of June 30, 2009, the College had a $25,000 demand line of credit with an interest rate of one month LIBOR plus 2.50%, and a $50,000 3 year term line of credit with an interest rate of one month LIBOR plus 2.50%. As of June 30, 2008 the College had a $25,000 line of credit. At June 30, 2009 and 2008, 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.

(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 are as follows:

2010	$	3,654
2011		3,828
2012		4,449
2013		4,280
2014		4,541
Thereafter		270,648
	$	291,400

Adjustable Rate Bonds
The VEHBFA Series 1988A adjustable rate bonds, the VEHBFA Series 2002B adjustable rate bonds, and the VEHBFA 2008 adjustable rate bonds provide for the bondholder to tender their bonds at the date the interest rate is adjusted during the period that such bonds bear a variable interest rate. To the extent that the College is unable to remarket the 1988A and 2002B bonds, the College would be obligated to purchase these bonds from the College's resources. With respect to the 2008 bonds, the bonds would be repurchased from the proceeds of the College's standby bond purchase agreement. The above long term debt maturities table reflects the payment of principal on these bonds according to their scheduled maturity dates. If the 1988A, 2002B, and 2008 bonds were fully tendered by the bondholders to the College as of June 30, 2009, the table of annual principal payments would become:

2010	$	53,539
2011		993
2012		54,929
2013		1,100
2014		1,156
Thereafter		179,683
	$	291,400

7. Retirement Plans

Retirement benefits for substantially all full-time employees of the College, excluding the Institute, 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 employee accounts based upon options exercised by the employee. This plan is administered by TIAA/CREF. The College's retirement contributions related to this plan for the years ended June 30, 2009 and 2008 were approximately $9,234 and $8,761, respectively.

(in thousands)

Under a separate plan, the Institute participates in the Teachers Insurance Annuity Association and College Retirement Equity Fund (TIAA/CREF) and the variable annuity Life Insurance Company (VALIC) defined contribution multiemployer pension plans which cover substantially all full time employees of the Institute. The defined contribution plan requires that employees complete one year of service before being eligible for employer contributions. In addition, the employer contributions shall be determined at the discretion of the Institute. Total Institute contributions were $671 and $453 for the years ended June 30, 2009 and 2008, respectively.

8. 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 forward 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 notional amount of the currencies the College has committed to buy at June 30, 2009 and 2008 is $307 and $724, respectively. The fair value of these contracts included in accounts receivable at June 30, 2009 and 2008 is $16.

9. Endowment

The College’s endowment consists of donor restricted endowment funds and board-designated funds to function as endowments for a variety of purposes plus the following where the assets have been designated for endowment: pledges receivable, 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.

(in thousands)

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.

The College's endowment for the years ended June 30, 2009 and 2008, delineated by net asset class and donor-restricted versus Board-designated funds were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 268,066	$ 259,980	$ 528,046
Adjustment for funds underwater	(10,823)	10,823	-	
Board-designated endowment funds	253,714	-	-	253,714
Total endowment funds June 30, 2009	$ 242,891	$ 278,889	$ 259,980	$ 781,760
Donor-restricted endowment funds	$ 337,661	$ 56,704	$ 259,378	$ 653,743
Board-designated endowment funds	340,198	-	-	340,198
Total endowment funds June 30, 2008	$ 677,859	$ 56,704	$ 259,378	$ 993,941

(in thousands)

Changes in endowment
Net assets for the year ended June 30, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Total net assets:				
Endowment net assets, beginning of year	$ 677,859	$ 56,704	$ 259,378	$ 993,941
Cumulative effect of adoption of Vermont and California UPMIFA statutes	(339,144)	339,144	-	-
Investment return:				
Endowment return	(30,275)	(109,523)	254	(139,544)
Other investment income operations	-	(5,337)	-	(5,337)
Change in value of deferred gifts	(592)	472	(4,538)	(4,658)
Total investment return	(30,867)	(114,388)	(4,284)	(149,539)
Contributions	3,532	195	5,579	9,306
Appropriation of endowment assets for spending (distribution)	(53,459)	(6,054)	-	(59,513)
Transfer (from) to designated endowment funds	(5,694)	(6,048)	(693)	(12,435)
Adjustment for funds underwater - fair value less than historic dollar value	(9,336)	9,336	-	-
Endowment net assets, end of year	$ 242,891	$ 278,889	$ 259,980	$ 781,760

Changes in endowment
Net assets for the year ended June 30, 2008

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Total net assets:				
Endowment net assets, beginning of year	$ 758,010	$ 42,935	$ 252,368	$ 1,053,313
Investment return:				
Endowment return	(26,019)	(3,932)	430	(29,521)
Other investment income (losses)	321	(7,360)	-	(7,039)
Change in value of deferred gifts	592	1,514	(1,927)	179
Total investment return	(25,106)	(9,778)	(1,497)	(36,381)
Contributions	6,043	416	13,240	19,699
Appropriation of endowment assets for spending (distribution)	(49,881)	(1,892)	-	(51,773)
Transfer to other funds	(976)	667	-	(309)
Transfer (from) to designated endowment funds	(10,231)	24,356	(4,733)	9,392
Endowment net assets, end of year	$ 677,859	$ 56,704	$ 259,378	$ 993,941

(in thousands)

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, 2009 and 2008:

	2009	2008
Restricted for loan funds	$ 3,143	$ 3,123
Restricted for annuity and life income funds	10,568	10,380
Restricted contribution receivable	19,225	26,432
Restricted for endowment funds	227,044	219,443
	$ 259,980	$ 259,378

Temporarily Restricted Net Assets

	2009	2008
Portion of permanent endowment funds subject to an appropriation restriction under Vermont and California UPMIFA statutes	$ 232,197	$ -
Restricted endowment gifts for special purposes	46,692	56,704
	$ 278,889	$ 56,704

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 $10,823 and $1,487 as of June 30, 2009 and 2008, 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.

(in thousands)

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.

The Institute's Board of Trustees approves a distribution of investment return based on the average asset value as determined at the end of the four prior calendar quarters. Calculations are performed for individual endowment funds at a rate of 4.0%. The corresponding calculated spending allocations are distributed monthly from the current net total or accumulated net total investment returns for individual endowment funds

10. Temporarily Restricted Net Assets

	2009	2008
The portion of permanent endowment funds subject to an appropriation restriction under Vermont and California UPMIFA statutes and classified as temporarily restricted net assets:	$ 232,197	$ -
Restricted gifts for scholarship and prizes	24,400	29,604
Restricted gifts for professorships	1,144	1,945
Restricted gifts for special purposes	29,436	32,806
Restricted gifts for capital projects	2,672	3,975
Restricted Contribution receivable	25,415	27,688
Restricted annuity and life income gifts	12,003	11,603
	$ 327,267	$ 107,621

11. 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 Town of Middlebury ("Town") is in the planning stages of a bridge and road construction project known as the "Cross Street Bridge Project" ("Project"). The Project will involve the construction of a new highway bridge over Otter Creek. The College believes that a second bridge over Otter Creek will improve timely emergency response for students, faculty and staff. The total cost of the Project is estimated at $16,000 and the Town has voted to finance the construction of the Project with a $16,000 bond. The College has agreed to commit itself to assist the Town in the financing by paying the Town the sum of $600 per year commencing after the bridge has been fully constructed and is available for use by the public and continuing until thirty (30) years thereafter.

(in thousands)

During the year ended June 30, 2003, the Institute borrowed $1,100 from Grover Herman Foundation as approved by the donor. In consideration of this agreement, the Institute agreed to transfer $2,300, representing the original contribution and an additional amount into the endowment fund by fiscal year 2014. At June 30, 2009 and 2008, the amount due to the endowment fund was $1,814 and $2,014, respectively.

12. Related Party Transaction

During fiscal year 2007, the Institute received a contribution from a related party to be used for the purchase of real property. As part of this agreement, the Institute issued the related party a five-year note payable in the amount of $1,250 for improvements to be made to the property. This note has been issued on a nonrecourse basis and is secured by the aforementioned real property. The total amount outstanding on the note at June 30, 2009 and 2008 is $400.

13. Operating Expenses

Operating expenses by natural classification for the years ended June 30, 2009 and 2008 were as follows:

	2009	2008
Salaries and wages	$ 103,264	$ 98,247
Employee benefits	30,254	28,246
Food	3,988	4,057
Utilities	8,660	8,291
Contracted services	11,223	7,841
Supplies	4,325	4,963
Library books and periodicals	2,124	2,294
Interest	11,643	12,241
Depreciation	21,002	19,573
Amortization	63	62
Travel	5,039	5,908
Taxes and insurance	2,393	2,303
Other	17,784	18,660
	$ 221,762	$ 212,686

14. Leases

The Institute leases office space under a noncancelable operating lease that extends through December 31, 2011. Rental expense for the years ended June 30, 2009 and 2008 were $163 and $126, respectively. Future fiscal year minimum rental payments under this lease are as follows:

2010	$ 157
2011	164
2012	84
	$ 405

(in thousands)

15. Early Retirement Program

On February 2, 2009, the College announced a voluntary early retirement program to staff members who were: (1) active and benefits eligible employees and (2) employed at least ten consecutive years in a benefits-eligible employment status after the age of 45 with at least 10 years of service.

The purpose of this program was to give staff additional flexibility in planning their retirements while at the same time achieving necessary staff reductions through voluntary means to prevent or minimize the need for future involuntary terminations. The early retirement program provides incentives to encourage eligible employees to voluntarily end employment with the College.

The College accounts for the costs related to this early retirement program in accordance with FAS 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and Termination Benefits*. Accordingly, $4,130 in termination benefits have been accrued in the accompanying financial statements in relation to these activities. The $4,130 in termination benefits is comprised of (1) $866 in cash compensation payment to early retirees, (2) $784 for the accrued liability for future compensation payment to early retirees, and (3) $2,480 for the accrued liability for related post-retirement health benefits.