Middlebury College

Report on Federal Awards in Accordance with OMB Circular A-133
June 30, 2012
Entity Identification Number
03-0179298

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

Financial Statements

Report of Independent Auditors

To the President and Fellows of
Middlebury College

In our opinion, the accompanying consolidated statements of financial position and the related consolidated statements of activities and of cash flows present fairly, in all material respects, the financial position of Middlebury College (the "College") at June 30, 2012 and 2011 and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2012 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters for the year ended June 30, 2012. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the College's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards for the year ended June 30, 2012 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*, and is not a required part of the basic consolidated financial statements. The information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The Schedule of Expenditures of Federal Awards has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

PricewaterhouseCoopers LLP

October 22, 2012

Middlebury College
Consolidated Statements of Financial Position
June 30, 2012 and 2011

(in thousands of dollars)	**2012**	**2011**
Assets		
Cash and cash equivalents	$ 25,004	$ 26,507
Accounts receivable, net	7,905	7,448
Contributions receivable, net	33,012	33,980
Inventories, prepaid expenses, and other assets	7,004	4,999
Deposits with bond trustees	52,254	1,045
Student loans receivable, net	21,651	23,310
Investments	927,310	952,247
Contributions receivable from remainder trusts	2,971	3,146
Beneficial interest in perpetual trusts held by others	23,777	25,872
Land, buildings, and equipment, net	368,697	364,336
Total assets	$ 1,469,585	$ 1,442,890
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	$ 41,392	$ 44,781
Funds held for others	5,879	4,793
Deferred revenues	18,614	17,175
Annuities and other split interest obligations	19,726	18,774
Refundable government loan funds	13,992	13,798
Long-term debt	338,590	287,430
Total liabilities	438,193	386,751
Commitments and contingencies		
Net assets		
Unrestricted	303,072	324,200
Temporarily restricted	432,345	444,835
Permanently restricted	295,975	287,104
Total net assets	1,031,392	1,056,139
Total liabilities and net assets	$ 1,469,585	$ 1,442,890

Middlebury College
Consolidated Statements of Activities
Year Ended June 30, 2012, with Comparative Totals

(in thousands of dollars)	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2012	Total 2011
Operating revenues and other support					
Comprehensive and other student fees	$ 183,192	$ -	$ -	$ 183,192	$ 179,968
Less: Financial aid	(47,100)	-	-	(47,100)	(47,913)
Net comprehensive and other student fees	136,092	-	-	136,092	132,055
Contributions	8,455	14,509	-	22,964	25,624
Sponsored activities	11,828	-	-	11,828	9,575
Investment return					
Endowment distribution	44,606	3,636	-	48,242	48,639
Other investment income	1,330	(720)	-	610	4,099
Other sources	13,569	134	-	13,703	11,893
Net assets released from restrictions	16,025	(16,025)	-	-	-
Total operating revenues and other support	231,905	1,534	-	233,439	231,885
Operating expenses					
Educational and general					
Instruction	74,829	-	-	74,829	70,952
Academic support	34,205	-	-	34,205	30,156
Student services	31,410	-	-	31,410	29,166
Institutional support	42,383	-	-	42,383	40,131
Sponsored activities	9,540	-	-	9,540	9,575
Total educational and general	192,367	-	-	192,367	179,980
Auxiliary enterprises	39,044	-	-	39,044	37,337
Other deductions	136	-	-	136	149
Total operating expenses	231,547	-	-	231,547	217,466
Change in net assets from operations	358	1,534	-	1,892	14,419
Nonoperating activities					
Endowment return, net of distribution	(20,752)	(16,726)	191	(37,287)	103,890
Contributions	1,414	3,966	10,718	16,098	12,074
Other investment income	11	184	96	291	703
Change in value of deferred gifts	(503)	684	(2,061)	(1,880)	4,282
Realized and unrealized loss on interest rate swap	-	-	-	-	(2,182)
Campaign expenditures	(1,300)	-	-	(1,300)	(1,200)
Early retirement expense	-	-	-	-	(79)
Adjustment for funds underwater	1,492	(1,492)	-	-	-
Other	(1,848)	(640)	(73)	(2,561)	(4,659)
Total nonoperating activities	(21,486)	(14,024)	8,871	(26,639)	112,829
Increase (decrease) in net assets	(21,128)	(12,490)	8,871	(24,747)	127,248
Net assets					
Beginning of year	324,200	444,835	287,104	1,056,139	928,891
End of year	$ 303,072	$ 432,345	$ 295,975	$ 1,031,392	$ 1,056,139

Middlebury College
Consolidated Statements of Activities
Year Ended June 30, 2012, with Comparative Totals

(in thousands of dollars)	Unrestricted	Temporarily Restricted	Permanently Restricted	2011 Total
Operating revenues and other support				
Comprehensive and other student fees	$ 179,968	$ -	$ -	$ 179,968
Less: Financial aid	(47,913)	-	-	(47,913)
Net comprehensive and other student fees	132,055	-	-	132,055
Contributions	12,712	12,912	-	25,624
Sponsored activities	9,575	-	-	9,575
Investment return				
Endowment distribution	45,203	3,436	-	48,639
Other investment income	926	3,173	-	4,099
Other sources	11,789	104	-	11,893
Net assets released from restrictions	11,441	(11,441)	-	-
Total operating revenues and other support	223,701	8,184	-	231,885
Operating expenses				
Educational and general				
Instruction	70,952	-	-	70,952
Academic support	30,156	-	-	30,156
Student services	29,166	-	-	29,166
Institutional support	40,131	-	-	40,131
Sponsored activities	9,575	-	-	9,575
Total educational and general	179,980	-	-	179,980
Auxiliary enterprises	37,337	-	-	37,337
Other deductions	149	-	-	149
Total operating expenses	217,466	-	-	217,466
Change in net assets from operations	6,235	8,184	-	14,419
Nonoperating activities				
Endowment return, net of distribution	29,396	74,063	431	103,890
Contributions	873	111	11,090	12,074
Other investment income	423	252	28	703
Change in value of deferred gifts	1	1,131	3,150	4,282
Realized and unrealized loss on interest rate swap	(2,182)	-	-	(2,182)
Campaign expenditures	(1,200)	-	-	(1,200)
Early retirement expense	(79)	-	-	(79)
Adjustment for funds underwater	1,430	(1,430)	-	-
Other	(3,063)	(1,818)	222	(4,659)
Total nonoperating activities	25,599	72,309	14,921	112,829
Increase (decrease) in net assets	31,834	80,493	14,921	127,248
Net assets				
Beginning of year, as restated	292,366	364,342	272,183	928,891
End of year	$ 324,200	$ 444,835	$ 287,104	$ 1,056,139

Middlebury College
Consolidated Statements of Cash Flows
Years Ended June 30, 2012 and 2011

(in thousands of dollars)	2012	2011
Cash flows from operating activities		
Change in net assets	$ (24,747)	$ 127,248
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation	22,387	21,758
Contributions restricted for long-term investments	(16,643)	(15,040)
Receipt of contributed securities	(7,326)	(7,068)
Contributions of real property	(4,700)	-
Amortization of bond issuance costs	96	91
Loss on defeasance of debt	-	572
Amortization of bond discount and premium, net	(401)	(243)
Bond premium	6,859	6,757
Loss on disposal of buildings and equipment	38	849
Contributions receivable bad debt expense	328	302
Change in value of deferred gifts	952	1,898
Realized and unrealized (gain) on investments	(14,035)	(149,121)
Payment on interest rate swap	-	(12,854)
Unrealized loss on interest rate swap	-	1,421
Unrealized loss (gain) on contributions receivable from remainder trusts	175	(712)
Unrealized loss (gain) on beneficial interest in perpetual trusts	2,095	(4,164)
Changes in operating assets and liabilities		
Accounts receivable	(457)	(1,560)
Contributions receivable	640	4,700
Inventories, prepaid expenses, and other assets	(1,504)	(586)
Accounts payable and accrued expenses	(3,389)	(491)
Deferred revenues	1,439	(1,592)
Funds held for others	1,086	390
Other	194	192
Gifts in kind	(76)	(102)
Net cash used in operating activities	(36,989)	(27,355)
Cash flows from investing activities		
Proceeds from sales of investments	104,086	87,532
Purchases of investments	(60,414)	(50,444)
Purchases of property and equipment	(26,710)	(22,194)
Sales of contributed securities	7,326	7,068
Student loans granted	(1,943)	(2,404)
Student loans repaid	3,602	3,653
Net cash provided by investing activities	25,947	23,211
Cash flows from financing activities		
Contributions restricted for long-term investments	16,643	15,040
Source (use) of deposit with bond trustees, net of earnings	(51,209)	17
Proceeds from long-term debt	46,150	95,035
Payments on bonds and notes payable	(1,448)	(104,358)
Bond issue costs	(597)	(795)
Net cash provided by financing activities	9,539	4,939
Net increase in cash and cash equivalents	(1,503)	795
Cash and cash equivalents		
Beginning of year	26,507	25,712
End of year	$ 25,004	$ 26,507
Supplemental data		
Interest paid	$ 13,974	$ 11,827
Assets acquired and included in accounts payable	1,469	3,826

During 2012 and 2011, donor payments on pledges made with contributed securities were $2,359 and $1,950 respectively.

(in thousands of dollars)

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 of America 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 China, Egypt, France, Germany, Israel, Italy, Japan, Jordan, Russia, Spain, Brazil, Argentina, Uruguay, Chile and Mexico.

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

Tax-Exempt Status

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

2. Summary of Significant Accounting Policies

Basis of Presentation

Middlebury College has three affiliated entities, Delineation Corporation (the "Corporation"), 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 organization established for the purpose of receiving contributions from international sources.

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

(in thousands of dollars)

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 unappropriated appreciation on permanently restricted endowment funds.

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

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

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

Auxiliary enterprises include the operations of the dining services, residential halls, College bookstore, 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 with the exception of capital gifts, 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. Capital gifts are recorded as operating activity and are released to unrestricted net assets when the depreciation on the capital asset is recognized.

(in thousands of dollars)

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

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

Contributions Receivable
Contributions receivable include pledges that are recorded at their present value using discount rates ranging from approximately 1.0% to 5.5% through the year ended June 30, 2012. For 2012, the present value is calculated using a risk-free rate of return adjusted for the credit risk the College assumes for uncollectible pledges of 1.23%. 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 of dollars)

Fair Value Measurements

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

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

Level 2 Inputs to the valuation methodology include:

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

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

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

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. The fair value of the College's investments is determined in the following manner:

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

(in thousands of dollars)

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

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

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

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

Endowment
Vermont and California Uniform Prudent Management of Institutional Funds Act ("UPMIFA") requires unappropriated 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 of dollars)

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 asset.

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 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 2012, the College incurred a loss on its equity investment in MIL of approximately $674, 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 $3,854 and $3,658 at June 30, 2012 and 2011, respectively.

Deferred Revenues

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

(in thousands of dollars)

Annuities and Other Split Interest Obligations

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

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

Refundable Government Loan Funds

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

Functional Expenses

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

Sponsored Activities

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

Campaign Activities

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

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, 2012 through October 22, 2012, the date the financial statements were issued.

(in thousands of dollars)

Reclassifications
Certain amounts in the June 30, 2011 financial statements have been reclassified to conform to the June 30, 2012 financial statement presentation.

3. Receivables

Accounts Receivable
Accounts receivable consists of receivables for annual comprehensive fees, graduate school tuition, schools abroad tuition, and summer school room, board, and tuition. The provision for uncollectible amounts was $475 and $385 at June 30, 2012 and 2011, respectively.

Contributions Receivable
Contributions receivable consists of the following at June 30, 2012 and 2011:

	2012	2011
Due less than one year	$ 14,514	$ 13,319
One to five years	21,869	24,836
More than five years	3	-
	36,386	38,155
Less: Discount and allowance	(3,374)	(4,175)
	$ 33,012	$ 33,980

As of June 30, 2012 and 2011, the College had received conditional promises to give of $11,000 and $14,000, 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, 2012, the College has recognized $41,500 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 $805 and $920 at June 30, 2012 and 2011, respectively.

(in thousands of dollars)

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

Factors also considered by management when performing an assessment, in addition to general economic conditions and the other factors described above, include, but are not limited to, a detailed review of the aging of the student loan receivable detail and a review of the default rate by loan category in comparison to prior years. The level of the allowance is adjusted based on the results of management's analysis. 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.

	2012		2011	
	Receivable Balance	Related Allowance	Receivable Balance	Related Allowance
The College's Perkins loans	$ 3,021	$ 188	$ 4,861	$ 188
Other student loans	5,408	617	5,540	732
Other receivable	35	-	32	-
	$ 8,464	$ 805	$ 10,433	$ 920

(in thousands of dollars)

4. Financial Instruments

Investments

Investments held by the College at June 30, 2012 and 2011 including pooled investments and other separately invested funds, were comprised of the following:

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

	2011		
	Pooled	Separately Invested	Total at Fair Value
Money market funds	$ 39,825	$ 2,100	$ 41,925
Due from operations	4,363	-	4,363
Equity securities	262,678	44,138	306,816
Alternative equities	207,376	-	207,376
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

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.

(in thousands of dollars)

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

As of June 30, 2012 and 2011, the College had committed $130,256 and $122,130, respectively, of unrestricted net assets to be invested. These commitments are to fund private equity partnerships over a multi-year period. These capital calls are expected to be funded with cash on hand or using proceeds of liquidated securities.

The College has $129,628 and $118,787 of the investment portfolio at June 30, 2012 and 2011, respectively, invested in funds which invest in international securities. These investments are subject to the additional risk of currency fluctuations. Also included in investments are $47,949 and $42,086 at June 30, 2012 and 2011, respectively, for split interest agreements.

Investment Shares

The following table summarizes the status and results of pooled investments at June 30, 2012 and 2011:

	2012	**2011**
Number of principal shares (not in thousands)	587,688.753	603,091.713
Market value per share (not in thousands)	$ 1,459.813	$ 1,463.393
Distribution per share (not in thousands)	65.04	69.18

For the years ended June 30, 2012 and 2011, the difference between distribution per share and dividends and interest earned per share was funded by realized and unrealized gains of $39,785 and $40,314, respectively. During 2012 and 2011, distributions totaling $203 and $242, 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, 2012 and 2011:

	2012	**2011**
Interest, dividends, and other income	$ (2,179)	$ 8,306
Realized gains, net	24,781	29,800
Change in unrealized gains, net	(10,746)	119,225
	$ 11,856	$ 157,331

(in thousands of dollars)

The College recognized an impairment in its investments in the amount of $2,850 and $0 in 2012 and 2011, 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 $3,561 and $2,436 in 2012 and 2011, 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 seven investments with an unrealized loss as of June 30, 2012. The aggregate fair value of these investments as of June 30, 2012 was $119,709. The aggregate amount of the unrealized loss was $5,963. Six 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.

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

	Quoted Price in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Total
Investments				
Money market funds	$ 20,666	$ -	$ -	$ 20,666
Due to operations	(189)	-	-	(189)
Equity securities	38,977	-	278,898	317,875
Alternative equities	-	-	200,686	200,686
Debt securities	10,553	-	42,114	52,667
Real estate and mortgages	5,417	-	22,279	27,696
Private equity partnerships	-	2,047	291,222	293,269
Other investments	263	-	6,120	6,383
Total investments at fair value	75,687	2,047	841,319	919,053
Investments valued using the equity method	-	-	-	2,821
Investments valued using other methods	-	-	-	5,436
Total investments	75,687	2,047	841,319	927,310
Other Assets				
Remainder trusts	-	-	2,971	2,971
Perpetual trusts	-	-	23,777	23,777
Total other assets at fair value	-	-	26,748	26,748
Total investments and other assets	$ 75,687	$ 2,047	$ 868,067	$ 954,058

(in thousands of dollars)

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

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

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

	Quoted Price in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Total
Investments				
Money market funds	$ 41,925	$ -	$ -	$ 41,925
Due from operations	4,363	-	1,306	5,669
Equity securities	44,464	-	262,352	306,816
Alternative equities	-	-	206,070	206,070
Debt securities	9,803	-	40,659	50,462
Real estate and mortgages	4,978	-	17,423	22,401
Private equity partnerships	-	2,122	302,722	304,844
Other investments	430	-	10,135	10,565
Total investments at fair value	105,963	2,122	840,667	948,752
Investments valued using the equity method	-	-	-	3,495
Total investments	105,963	2,122	840,667	952,247
Other Assets				
Foreign exchange contract receivable	-	-	2	2
Remainder trusts	-	-	3,146	3,146
Perpetual trusts	-	-	25,872	25,872
Total other assets at fair value	-	-	29,020	29,020
Total investments and other assets	$ 105,963	$ 2,122	$ 869,687	$ 981,267

(in thousands of dollars)

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 to operations	-	-	-	-	-	-
Equity securities	234,799	7,991	44,949	(25,387)	-	262,352
Alternative equities	190,830	10,350	25,195	(18,999)	-	207,376
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 investments and other assets	$ 770,536	$ 29,800	$ 118,161	$ (48,810)	$ -	$ 869,687

(in thousands of dollars)

Following is additional information related to funds whose fair value is not readily determinable as of June 30, 2012.

	Strategy	Fair Value	# of Investments	Remaining Life	$ Amount of Unfunded Commitments	Timing to Drawdown of Commitments	Redemption Terms	Redemption Restrictions	Restrictions in Place at Year End
Equity securities	Global developed and emerging market equity	$ 278,898	2	N/A	$ -	No remaining commitments	Ranges between daily with no notice to monthly with no notice	None	None
Alternative equities	Long/short and long-biased equity and credit hedge funds	200,686	5	N/A	-	No remaining commitments	Ranges between monthly with no notice to annually	1 fund has a lock-up provision of 3 years from the purchase date	None
Debt securities	High yield and long/short fixed and fixed income hedge funds	42,114	2	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	22,279	11	1 to 7 years	411	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	291,221	29	1 to 10 years	129,757	1 to 10 years	Illiquid partnerships - cannot redeem	Illiquid partnerships - cannot redeem	Illiquid partnerships - cannot redeem
Other	Natural resources partnerships, illiquid properties/securities	6,121	10	1 to 10 years	88	1 to 3 years	Illiquid partnerships/properties/ securities - cannot redeem	Illiquid partnerships/properties/ securities - cannot redeem	Illiquid partnerships/properties/ securities - cannot redeem
		$ 841,319	59		$ 130,256				

(in thousands of dollars)

5. Land, Buildings, and Equipment

Land, buildings, and equipment at June 30, 2012 and 2011 consists of the following:

	2012	2011
Land and land improvements	$ 51,790	$ 50,803
Buildings	514,624	491,327
Equipment	73,573	67,437
Art/antiques	11,877	11,429
Construction in progress	6,735	11,267
	658,599	632,263
Less: Accumulated depreciation	(289,902)	(267,927)
	$ 368,697	$ 364,336

Depreciation expense in 2012 and 2011 was $22,387 and $21,758, respectively.

(in thousands of dollars)

6. Long-Term Debt

Long-term debt is comprised of the following at June 30, 2012 and 2011:

		2012		2011
VEHBFA Series 2002A serial bonds $16,455 original principal (uncollateralized) with annual principal payments increasing from $970 in 2012 to $1,440 in 2020, interest ranging from 4.00% - 5.25%	$	9,740	$	10,710
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 2006A term bonds $35,425 original principal, (uncollateralized) 40 year bullet with principal due 2047, interest at 5.00%		35,425		35,425
VEHBFA Series 2009 term bonds $59,445 original principal, (uncollateralized) due on November 1, 2038 issued at a premium, interest at 5.00%		59,445		59,445
VEHBFA Series 2010 term bonds $95,035 original principal, (uncollateralized) due on November 1, 2040 issued at a premium, interest at 5.00%		95,035		95,035
VEHBFA Series 2012A serial bonds $46,150 original principal (uncollateralized) with annual principal payments increasing from $2,485 in 2018 to $5,130 in 2033, interest ranging from 2.50% - 5.00%		46,150		-
Revenue bonds issued through the California Statewide Communities Development Agency, collateralized by the Monterey Institute campus with annual principal payments increasing from $0 in 2012 to $2,160 in 2031, interest at 5.50%		21,525		21,525
Other		446		923
		322,571		277,868
Less: Discount		(581)		(609)
Plus: Premium		16,600		10,171
	$	338,590	$	287,430

The estimated fair value of the College's total debt is approximately $354,000 and $284,000 at June 30, 2012 and 2011, respectively. The fair value is estimated based on quoted market prices for the same or similar issues.

(in thousands of dollars)

2012 Debt Issuance

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

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

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 Series 2010 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 Series 2010 Bonds bear interest at the rate of 5.00% per annum and will mature on November 1, 2040.

Credit Lines

As of June 30, 2012 and June 30, 2011, the College had a $50,000 three-year-term line of credit with an interest rate of one-month LIBOR plus 2.50%. As of June 30, 2012 and 2011, there were no outstanding balances on this line. The proceeds of the borrowings are to be used for short-term working capital needs, pre-funding capital projects prior to a bond issuance, or providing temporary liquidity for investment transactions.

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. The $64,625 of principal payments to be made in 2013 includes $64,545 of Series 2002A Bonds which will be refunded by the Series 2012A and Series 2012B Bonds.

(in thousands of dollars)

Annual principal requirements under all long-term debt obligations as of June 30, 2012 are as follows:

2013	$	64,625
2014		81
2015		410
2016		690
2017		745
Thereafter		256,020
	$	322,571

7. Retirement Plans

Retirement benefits for benefits eligible employees of the College, including the Institute as of January 1, 2011, are individually funded and vested under a defined contribution program with the Teachers Insurance and Annuity Association and the College Retirement Equities Fund (TIAA-CREF). Under this plan, the College makes contributions into the employee accounts based upon investment allocations exercised by the employee or defaulted into the Lifecycle mutual funds. This plan is administered by TIAA-CREF. The College's retirement contributions, including the Institute, for the years ended June 30, 2012 and 2011 were approximately $10,791 and $10,279, respectively.

The Institute participated under a separate plan prior to January 1, 2011 with the Teachers Insurance and 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. Assets in these plans have been transferred to the College's plans.

8. Derivative Financial Investments

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

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

(in thousands of dollars)

The College had no outstanding foreign currency contracts or interest rate swaps as of June 30, 2012. During the year, the College recognized a realized gain of $2 on a foreign currency contract. As of June 30, 2011 the College had one foreign currency contract with a notional amount of $172 and an accounts receivable of $2.

9. 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 of dollars)

The College's endowment for the years ended June 30, 2012 and 2011, delineated by net asset class and donor-restricted versus Board-designated funds were as follows:

	June 30, 2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 367,570	$ 295,975	$ 663,545
Adjustment for funds underwater	(880)	880	-	-
Board-designated endowment funds	288,533	-	-	288,533
Total endowment funds June 30, 2012	$ 287,653	$ 368,450	$ 295,975	$ 952,078

	June 30, 2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
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

Changes in Endowment

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at beginning of year	$ 305,435	$ 386,283	$ 287,104	$ 978,822
Investment return				
Endowment return	3,050	7,714	191	10,955
Other investment income	-	1,328	96	1,424
Change in value of deferred gifts	(504)	(109)	(2,062)	(2,675)
Total investment return	2,546	8,933	(1,775)	9,704
Contributions	1,389	4,127	10,718	16,234
Appropriation of endowment assets for spending distribution	(23,803)	(24,440)	-	(48,243)
Investment income spending	-	(4,810)	-	(4,810)
Other transfers and adjustments	324	(151)	(2,340)	(2,167)
Transfer to designated endowment funds	270	-	2,268	2,538
Adjustment for funds underwater - fair value less than historic dollar value	1,492	(1,492)	-	-
Endowment net assets at end of year	$ 287,653	$ 368,450	$ 295,975	$ 952,078

(in thousands of dollars)

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at beginning of year	$ 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

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, 2012 and 2011:

	2012	2011
Restricted for loan funds	$ 3,181	$ 3,180
Restricted for annuity and life income funds	9,454	9,406
Restricted contribution receivable	9,565	7,698
Restricted for endowment funds	273,775	266,820
	$ 295,975	$ 287,104

Temporarily Restricted Net Assets

	2012	2011
Portion of permanent endowment funds subject to an appropriation restriction under Vermont and California UPMIFA statutes, as restated	$ 322,963	$ 341,181
Restricted endowment gifts for special purposes	45,487	45,102
	$ 368,450	$ 386,283

(in thousands of dollars)

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 were $880 and $2,369 as of June 30, 2012 and 2011, 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 5.00%. The corresponding calculated spending allocations are distributed monthly from the current net total or accumulated net total investment returns for individual endowment funds.

(in thousands of dollars)

10. Temporarily Restricted Net Assets

		2012		2011
The portion of permanent endowment funds subject to an appropriation restriction under Vermont and California UPMIFA statutes and classified as temporarily restricted net assets	$	322,963	$	341,181
Restricted gifts for scholarship and prizes		18,191		23,121
Restricted gifts for professorships		1,085		3,261
Restricted gifts for special purposes		34,618		31,631
Restricted gifts for capital projects		17,321		9,227
Restricted contribution receivable		23,172		25,764
Restricted annuity and life income gifts		14,995		10,650
	$	432,345	$	444,835

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 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 years thereafter. The College has recorded a payable of $8,989 and $9,135 for years ended June 30, 2012 and 2011, respectively. The full commitment was for $18,000 and was discounted at a rate of 5.00%.

12. Operating Expenses

Operating expenses by natural classification for the years ended June 30, 2012 and 2011 were as follows:

		2012		2011
Salaries and wages	$	103,496	$	97,401
Employee benefits		31,942		30,863
Food		4,045		3,689
Utilities		8,733		7,908
Contracted services		13,297		12,114
Supplies		4,393		3,850
Library books and periodicals		2,144		2,087
Interest		14,502		12,860
Amortization and depreciation		21,986		21,548
Travel		6,357		5,466
Taxes and insurance		3,320		2,923
Other		17,332		16,757
	$	231,547	$	217,466

(in thousands of dollars)

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

14. 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. For the years ending June 30, 2012 and 2011, the liability was $1,750 and $2,297, respectively.

Middlebury College
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2012

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Student Financial Assistance - Cluster			
Department of Education			
Direct Programs			
Federal Supplemental Education Opportunity Grant	84.007		$ 267,839
Federal Work Study Program	84.033		469,878
Federal Pell Grant Program	84.063		1,205,762
Total Department of Education			1,943,479
Total Student Financial Assistance Cluster			1,943,479
Research and Development - Cluster			
National Oceanic & Atmospheric Administration			
Direct Programs			
Special Oceanic and Atmospheric Research	11.460		2,196
Total National Oceanic & Atmospheric Administration - Direct			2,196
Total National Oceanic & Atmospheric Administration			2,196
Department of Health and Human Services			
Direct Programs			
Oral Diseases and Disorders Research	93.121		205,346
Mental Health Research Grants	93.242		107,532
ARRA Trans-NIH Recovery Act Research Support	93.701		46,284
Population Research	93.864		6,790
Total Department of Health and Human Services - Direct			365,952
Pass-Through Programs from			
University of California at Berkeley	93.061	00006968	236,709
University of Vermont	93.389	2P20RR016462/P740-123	359,044
Total Department of Health and Human Services - Pass-Through			595,753
Total Department of Health and Human Services			961,705
National Science Foundation			
Direct Programs			
Mathematical and Physical Sciences	47.049		247,698
Geosciences	47.050		428,705
Computer and Information Science and Engineering	47.070		75,106
Biological Sciences	47.074		181,955
Social, Behavioral & Economic Sciences	47.075		85,622
ARRA Social Behavioral and Economic Sciences	47.075		23,077
Polar Programs	47.078		27,963
ARRA Trans-NSF Recovery Research Support	47.082		1,701,121
Total National Science Foundation - Direct			2,771,247
Pass-Through Programs from			
Wesleyan University	47.049	AST-0647325	2,620
University of Alaska - Fairbanks	47.074	UAF07-0105	13,174
Total National Science Foundation - Pass-Through			15,794
Total National Science Foundation			2,787,041
Department of Defense			
Direct Programs			
Collaborative Research and Development	12.114		2,001,061
Total Department of Defense- Direct			2,001,061
Total Department of Defense			2,001,061

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

Middlebury College
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2012

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Middlebury College Expenditures
Research and Development - Cluster, continued			
Department of State			
Direct Programs			
Synthetic Biology Workshop	19.901		$ 30,932
Global Connections and Exchange-Russia	19.415		22,295
Export Control Training-Yemen	19.901		140,000
Total Department of State-Direct			193,227
Pass-Through Programs from			
Fulbright Preacademic Program	19.400	2011	113,399
English Language Fellows Program	19.421	MIIS-RX2050-896-08-B	10,021
Total Department of State-Pass-Through			123,420
Total Department of State			316,647
United States Department of Agriculture			
Direct Programs			
Agricultural and Rural Economic Research	10.250		12,917
Agricultural and Rural Economic Research	10.310		107,753
Technical Agricultural Assistance	10.960		170,215
Total United States Department of Agriculture - Direct			290,885
Total United States Department of Agriculture			290,885
National Aeronautics and Space Administration			
Pass-through Programs from			
Smithsonian Astrophysical Observatory	43.001	GO9-0075C	17,459
University of Vermont	43.001	G01-12115B	4,405
Jet Propulsion Laboratory	43.001	24501	3,004
Jet Propulsion Laboratory	43.001	1355552	10,018
Space Telescope Science Institute	43.001	HST-GO-11659.01	17,306
Total National Aeronautics and Space Administration - Pass-Through			52,192
Total National Aeronautics and Space Administration			52,192
Department of Energy			
Direct Programs			
Defense Nuclear Nonproliferation Research-Russia	81.113		480,613
Defense Nuclear Nonproliferation Research-Asia	81.113		119,263
NREL Solar Decathlon	81.117		84,500
Total Department of Energy - Direct Programs			684,376
Pass-through Programs from			
State of Vermont	81.041	02240-ASEP-REN-017	81,830
San Diego State University	81.079	3TE155	3,759
Argonne National Laboratory	81.113	2F-31302	11,003
Battelle Memorial Institute-Newly Independent States Program	81.113	101149	101,741
Battelle Memorial Institute-Newly Independent States Program	81.113	132127	7,135
Battelle Memorial Institute-Newly Independent States Program	81.113	161497	37,931
Lawrence Livermore National Laboratories	81.113	B599175	2,450
Los Alamos National Laboratories	81.113	85326-001-10	55,422
Total Department of Energy Pass-Through			301,271
Total Department of Energy			985,647
Institute of Language Instruction			
Direct Programs			
DI Contracts	13.		80,203
Total Institute of Language Instruction-Direct			80,203
Total Institute of Language Instruction			80,203
Environmental Protection Agency			
Direct Programs			
Environmental Policy and Innovation Grants	66.611		67,351
Total Environmental Protection Agency-Direct			67,351
Total Environmental Protection Agency			67,351
Department of Commerce			
Direct Programs			
Measurement and Engineering Research and Standards	11.609		6,584
Total Department of Commerce-Direct			6,584
Total Department of Commerce			6,584
Total Research and Development Cluster			$ 7,551,512

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

Middlebury College
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2012

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Other Programs			
Department of Defense			
Pass-Through Programs from			
National Foreign Language Center University of Maryland	12.901	H98230-10-1-0173	$ 9,097
Total Department of Defense - Pass-Through			9,097
Total Department of Defense			9,097
National Endowment for the Arts			
Pass-Through Programs from			
NER Artistic Excellence	45.024	11-5200-7053	10,000
Northeast Foundation for the Arts	45.025	2009-13769	2,630
Total National Endowment for the Arts - Pass-Through			12,630
Total National Endowment for the Arts			12,630
National Endowment for the Humanities			
Direct Programs			
Promotion of the Humanities_Fellowships and Stipends	45.160		99,199
Total National Endowment for the Humanities - Direct			99,199
Total National Endowment for the Humanities			99,199
Department of the Interior			
Direct Programs			
United States Fish & Wildlife	15.650		7,007
Total Department of the Interior - Direct			7,007
Total Department of the Interior			7,007
Total Other Federal Assistance			127,933
Total Expenditures of Federal Awards			$ 9,622,924

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

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the “Schedule”) summarizes the expenditures of Middlebury College (the “College”) under federal government programs for the year ended June 30, 2012 using the accrual basis of accounting in accordance with the provisions of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations*. The Schedule includes the expenditures of the College's two campuses: Middlebury College and the Monterey Institute of International Studies.

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

2. Facilities and Administrative Cost Recoveries

Facilities and administrative costs are charged to federal grants and contracts at a predetermined rate. The current approved facilities and administrative cost rate for the Middlebury College campus for the period July 1, 2011 through June 30, 2013 is 62%. The Monterey Institute of International Studies campus has a separate rate for the period July 1, 2011 to June 30, 2013 of 50%. Facilities and administrative cost recoveries are reported as part of federal expenditures.

3. Federal Direct Loan Program (84.268)

Federally guaranteed loans issued to students of the College under the Federal Direct Loan Program during the year ended June 30, 2012 amounted to $20,131,092. Federally guaranteed loans issued to parents of students of the College under the PLUS Loan Program during the year ended June 30, 2012 amounted to $3,419,345. The College is responsible only for the performance of certain administrative duties with respect to the program and, accordingly, balances and transactions relating to it are not included in the College’s financial statements.

4. Federal Perkins Loan Program

	CFDA Number	Outstanding Balance at June 30, 2012	Disbursements Fiscal 2012
Federal Perkins Loan Program	84.038	$ 16,825,446	$ 1,407,364

The above disbursements for the Federal Perkins Loan Program include disbursements and expenditures for loans to students and administrative expenditures. There were no new federal capital contributions during the year ended June 30, 2012. Perkins loan cancellations (CFDA # 84.037) amounted to $75,334 for the year ended June 30, 2012.

5. Administrative Cost Allowance

The College received an allowance of $118,824 for administrative costs for the Perkins Loan Program. The College received an allowance of $534 for administrative costs for the Federal Work Study Program.

6. Subrecipients

The College passed through $1,341,921 to sub-recipients in the Research and Development Cluster during the year ended June 30, 2012.

Part II

Internal Controls and Compliance

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

To the President and Fellows of
Middlebury College

We have audited the consolidated financial statements of Middlebury College (the "College") as of and for the year ended June 30, 2012, and have issued our report thereon dated October 22, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

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

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

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Compliance and Other Matters

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

We noted certain matters that we reported to management of the College in a separate letter dated October 1, 2012.

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

PricewaterhouseCoopers LLP

October 22, 2012

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

To the President and Fellows of
Middlebury College

Compliance

We have audited the compliance of Middlebury College (the "College") with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012, except as described in the second paragraph of this report. The College's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of the College's management. Our responsibility is to express an opinion on the College's compliance based on our audit.

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

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

In our opinion, based on our audit and the report of other auditors, the College complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 12-01 and12-02.

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

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

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

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

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

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

PricewaterhouseCoopers LLP

October 22, 2012

Part III

Schedule of Findings and Questioned Costs

I. Summary of Independent Auditor's Results

Financial Statements	
Type of auditor's report issued	Unqualified
Internal Control over Financial Reporting	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	None reported
Noncompliance material to the financial statements noted?	No
Federal Awards	
Internal control over major programs	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	None reported
Type of auditor's report issued on compliance for major program:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	Yes
Identification of major programs	
CFDA Number	**Name of Federal Program or Cluster**
Various	Student Financial Assistance Cluster
Various	Research and Development Cluster
Dollar threshold used to distinguish between Type A and Type B programs	$300,000
Auditee qualifies as a low-risk auditee	No

I. Findings related to the financial statements which are required to be reported in accordance with Government Auditing Standards.

No findings to report.

II. Federal Award Findings and Questioned Costs.

Finding No. 12-01

Compliance Requirements: Special tests and provisions - Return of Title IV Funds

Federal Programs Involved	Federal CFDA Number	Award Year
Federal Direct Student Loans	84.268	7/1/11-6/30/12

Criteria
Per Federal Regulation 668.22(f)(1), "For purposes of paragraph (e)(2)(i) of this section, the percentage of the payment period or period of enrollment completed is determined--- (i) In the case of a program that is measured in credit hours, by dividing the total number of calendar days in the payment period or period of enrollment into the number of calendar days completed in that period as of the student's withdrawal date."

Condition
We selected 4 students for testing out of 11 students who withdrew during the year.

We noted that for one out of the 4 students selected for testing, the Title IV refund was not returned to the Federal government in the proper amount. The refund returned amounted to $9,428 but should have been $11,221, a difference of $1,793.

Cause
The error was caused by an oversight of College personnel. An incorrect number of days in the payment period was used to calculate the refund amount.

Effect
The error resulted in the College calculating less unearned Title IV funds to be returned to the Federal government than required.

Amount of Questioned Costs
$1,793 of Federal Direct Student Loans was not returned to the Federal government within the required timeframe.

Recommendation
Management should enhance the process to ensure unearned Title IV refunds are calculated appropriately. This may include performing additional reviews of Title IV refund calculations by the Associate Vice President of Student Financial Services for both the Middlebury campus and the Monterey Institute of International Studies campus to ensure federal compliance. The College should also return the additional $1,793 to the Federal government.

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

Finding No. 12-02

Compliance Requirements: Special tests and provisions - Student Status Change Reporting

Federal Programs Involved	Federal CFDA Number	Award Year
Federal Direct Student Loans	84.268	7/1/11-6/30/12

Criteria
Per Federal Regulation 685.309(b)(2), "Unless it expects to submit its next student status confirmation report to the Secretary within the next 60 days, [a school shall] notify the Secretary within 30 days. If it discovers that a Direct Subsidized, Direct Unsubsidized, or Direct PLUS Loan has been made to or on behalf of a student who---(i) Enrolled at the school but has ceased to be enrolled on at least a half-time basis."

Per the October 2010 National Student Loan Data System (the "NSLDS") Enrollment Reporting Guide, Section 1.2, "Schools must review, update, and verify student enrollment statuses, effective dates of the enrollment status, and the anticipated completion dates that appear on the Enrollment Reporting roster file or on the Enrollment Maintenance page of the NSLDSFAP Web site."

Condition
We selected 25 students for testing.

We noted that for one out of the 25 students selected for testing, the College reported an inaccurate effective date of the student's withdrawal to NSLDS. The student's effective date was reported 38 days earlier than the accurate date.

Cause
The error was caused by an oversight of College personnel in which the system automatically determined an incorrect last date of attendance which was not reviewed by College personnel. In this instance the student provided their notification of withdrawal for the spring semester during the fall semester. The student completed the fall semester but the withdrawal effective date was reported as the date the notification was provided rather than the last day of attendance.

Effect
Inaccurate submission of status changes could impact the student's grace period as well as the government's payment of interest subsidies.

Amount of Questioned Costs
There are no questioned costs as the finding pertains to the transfer of information.

Recommendation
Management should be sure to review all student status changes to ensure that the correct effective date of the status change is reported and manually modify the date if necessary in cases of students providing advance notice of withdrawal.

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

Middlebury

Middlebury College
Middlebury, Vermont 05753

Middlebury College – Finding 12-01

The College will implement the following procedures related to Finding 12-01 regarding compliance requirements: Special tests and provisions – Return of Title IV Funds

Corrective plan for Title IV refunds for fiscal year ending June 30, 2012

- Director of Student Financial Planning will process 100% of Return of Title IV Fund calculations at the Monterey Institute of International Studies campus.
- Associate Vice President of Student Financial Services at the Middlebury campus will review 100% of the Return of Title IV Fund calculations to ensure accuracy.
- Return of additional $1,793 was sent to the student's lender on June 6, 2012

Middlebury College – Finding 12-02

The College will implement the following procedures related to Finding 12-02 regarding compliance requirements: Special tests and provisions – Student Status Change Reporting

Corrective plan for enrollment reporting for fiscal year ending June 30, 2012

- Manually report all future spring withdrawals to the National Student Clearinghouse between fall and spring batch reporting. This will ensure withdrawal records are reviewed after they have been entered, and that the effective withdrawal date is accurate. This will also ensure reporting within the regulated deadlines.

Kim Downs-Burns
Associate Vice President for Student Financial Services
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Middlebury

Middlebury College
Middlebury, Vermont 05753

<u>Prior Year Update</u>

Middlebury College – Finding 11-01

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

Update to Corrective plan for fiscal year ending June 30, 2012

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

- Management is continuing to perfect the process to calculate the endowment net asset required for the annual UPMIFA reporting using the system generated reports available
- Management has reviewed and updated the principal activity report created from the Banner system
- Management performed a semi- annual reconciliation of the principal activity report back to the investment return as calculated on an interim financial statement report and will continue to review the monthly principal activity reports and perform a semi- annual roll forward to the investment lead sheet.

Middlebury College – Finding 11-02

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

- The College no longer allows undergraduates students receiving Federal Work Study to earn Federal Work Study funds for stipend positions such as resident assistant positions or first year counselors
- Email communication goes out on an annual basis to eligible students explaining they may not earn Federal Work Study funds for stipend positions
- Student Employment Office, Human Resources and Student Financial Services oversees the process that restricts Federal Work Study students from earning wages for stipend positions
- Questioned costs of $1,000 was returned to the government

Middlebury College – Finding 11-03

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

- Office of SFS has transitioned processing of all applicable deferment and cancellation cases to our third party servicer (Campus Partners)
- Campus Partners retains all copies of forms received and makes them available to Middlebury through their imaging system (system 3i)
- With Campus Partners servicing these documents, it has freed up SFS resources to inspect and review deferred and cancelled loans serviced by Campus Partners
- Middlebury now retains copies of documents sent directly to the College before sending them to Campus Partners

Middlebury

Middlebury College – Finding 11-04

The College has implemented the following procedures related to Finding 11-04 to ensure accuracy of cost of attendance budgets for all students

- Office of Student Financial Services reviews Cost of Attendance budget and aid awards for students who are identified as going abroad during the academic year in August
- Student Financial Services receives a final and verified list of students going abroad, to capture any remaining changes, from the International Programs and Off-Campus Study Office and reviews the list again in October(for Fall and Spring semesters)
- Student Financial Services receives an updated list of students going abroad from International Programs and Off-Campus Study and reviews the list again in February (for Fall and Spring semesters)