Monterey Institute of International Studies

Financial Statements
June 30, 2008 and 2007

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PRICEWATERHOUSECOOPERS

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Report of Independent Auditors

To the Board of Trustees of
Monterey Institute of International Studies

In our opinion, the accompanying balance sheets and the related statements of activities and of cash flows present fairly, in all material respects, the financial position of Monterey Institute of International Studies at June 30, 2008 and 2007, 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 Institute's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

October 14, 2008

Monterey Institute of International Studies
Statements of Financial Position
June 30, 2008 and 2007

(in thousands)	2008	2007
Assets		
Cash and cash equivalents	$ 1,795	$ 1,884
Accounts receivable, net	2,236	1,756
Contributions receivable, net	2,725	269
Prepaid expenses and other assets	763	768
Deposits with bond trustees	4,520	4,004
Notes receivable, net	7,684	6,412
Investments	14,627	15,724
Contributions receivable from remainder trusts	301	349
Land, buildings and equipment, net	19,964	20,701
Total assets	$ 54,615	$ 51,867
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	$ 3,125	$ 3,332
Deferred revenue	2,285	2,639
Refundable government loan funds	2,481	2,500
Long-term debt	24,689	24,588
Total liabilities	32,580	33,059
Commitments and contingencies (Note 15)		
Net assets		
Unrestricted	2,173	3,056
Temporarily restricted	9,750	6,107
Permanently restricted	10,112	9,645
Total net assets	22,035	18,808
Total liabilities and net assets	$ 54,615	$ 51,867

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

Monterey Institute of International Studies
Statement of Activities
Year Ended June 30, 2008

(in thousands)	2008 Unrestricted	2008 Temporarily Restricted	2008 Permanently Restricted	2008 Total	2007 Total
Operating revenues and other support					
Comprehensive and other student fees	$ 22,725	$ -	$ -	$ 22,725	$ 21,279
Less: financial aid	(5,462)	-	-	(5,462)	(5,138)
Net comprehensive and other student fees	17,263	-	-	17,263	16,141
Contributions	842	6,911	-	7,753	3,795
Sponsored activities	5,599	-	-	5,599	6,056
Investment return					
Distribution	216	239	-	455	192
Other investment income	423	14	-	437	684
Other sources	1,193	1	-	1,194	1,250
Net assets released from restrictions	3,815	(3,815)	-	-	-
Total operating revenues and other support	29,351	3,350	-	32,701	28,118
Operating expenses					
Educational and general					
Instruction	12,036	-	-	12,036	9,203
Academic support	2,723	-	-	2,723	2,368
Student services	2,689	-	-	2,689	2,319
Institutional support	5,609	-	-	5,609	5,799
Sponsored activities	5,599	-	-	5,599	6,470
Total educational and general	28,656	-	-	28,656	26,159
Auxiliary enterprises	499	-	-	499	470
Total operating expenses	29,155	-	-	29,155	26,629
Change in net assets from operations	196	3,350	-	3,546	1,489
Nonoperating activities					
Endowment return, net of distribution	(1,112)	16	59	(1,037)	941
Contributions	-	350	389	739	3,765
Change in value of deferred gifts	-	(20)	(1)	(21)	64
Other	33	(53)	20	-	(468)
Total nonoperating activities	(1,079)	293	467	(319)	4,302
Increase (decrease) in net assets	(883)	3,643	467	3,227	5,791
Net Assets					
Beginning of year	3,056	6,107	9,645	18,808	13,017
End of year	$ 2,173	$ 9,750	$ 10,112	$ 22,035	$ 18,808

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

Monterey Institute of International Studies
Statement of Activities
Year Ended June 30, 2007

(in thousands)	2007 Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating revenues and other support				
Comprehensive and other student fees	$ 21,279	$ -	$ -	$ 21,279
Less: financial aid	(5,138)	-	-	(5,138)
Net comprehensive and other student fees	16,141	-	-	16,141
Contributions	1,046	2,749	-	3,795
Sponsored activities	6,056	-	-	6,056
Investment return				
Distribution	56	136	-	192
Other investment income	684	-	-	684
Other sources	1,250	-	-	1,250
Net assets released from restrictions	2,882	(2,882)	-	-
Total operating revenues and other support	28,115	3	-	28,118
Operating expenses				
Educational and general				
Instruction	9,203	-	-	9,203
Academic support	2,368	-	-	2,368
Student services	2,319	-	-	2,319
Institutional support	5,799	-	-	5,799
Sponsored activities	6,470	-	-	6,470
Total educational and general	26,159	-	-	26,159
Auxiliary enterprises	470	-	-	470
Total operating expenses	26,629	-	-	26,629
Change in net assets from operations	1,486	3	-	1,489
Nonoperating activities				
Endowment return, net of distribution	859	-	82	941
Contributions	1,250	10	2,505	3,765
Change in value of deferred gifts	-	45	19	64
Other	81	(1,299)	750	(468)
Net assets released from restrictions for nonoperating purposes	573	(573)	-	-
Total nonoperating activities	2,763	(1,817)	3,356	4,302
Increase (decrease) in net assets	4,249	(1,814)	3,356	5,791
Net Assets				
Beginning of year	(1,193)	7,921	6,289	13,017
End of year	$ 3,056	$ 6,107	$ 9,645	$ 18,808

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

Monterey Institute of International Studies
Statements of Cash Flows
June 30, 2008 and 2007

(in thousands)	2008	2007
Cash flows from operating activities		
Change in net assets	$ 3,227	$ 5,791
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	876	787
Amortization of bond issuance costs	29	29
Realized and unrealized losses (gains)	1,389	(1,634)
Unrealized loss (gain) on contributions receivable from remainder trusts	48	(41)
Non-cash contribution revenue from remainder trusts	-	(122)
Changes in operating assets and liabilities		
Accounts receivables	(480)	(70)
Contributions receivable, net	(2,456)	(83)
Prepaid expenses and other assets	(24)	162
Accounts payable and accrued liabilities	(207)	(386)
Deferred revenues	(354)	280
Other	(19)	256
Permanently restricted contributions and investment gains	(587)	(4,588)
Receipt of contributed securities	(117)	(128)
Net cash provided by operating activities	1,325	253
Cash flows from investing activities		
Proceeds from sales of investments	1,303	8,229
Purchases of investments	(1,595)	(9,478)
Sale of contributed securities	117	128
Purchases of land, buildings and equipment	(139)	(2,648)
Student loans granted	(2,362)	(2,295)
Student loans repaid	1,090	1,757
Deposits with trustees	(516)	(608)
Net cash used in investing activities	(2,102)	(4,915)
Cash flows from financing activities		
Permanently restricted contributions and investment gains	587	4,588
Proceeds from related-party debt (Note 13)	503	904
Payment on long-term debt	(402)	(389)
Net cash provided by financing activities	688	5,103
Net (decrease) increase in cash and cash equivalents	(89)	441
Cash and cash equivalents		
Beginning of year	1,884	1,443
End of year	$ 1,795	$ 1,884
Supplementary cash flow information		
Cash paid during the year for interest	$ 1,289	$ 1,303
Contributed securities	117	128
Noncash contributions revenue from remainder trusts	-	122

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

(in thousands)

1. Background

The Monterey Institute of International Studies (the "Institute") is a nonprofit public benefit corporation, located in Monterey, California, providing higher education in international policies, international business, translation and interpretation, and language education. In addition, there are three research centers at the Institute: the Center for Nonproliferation Studies, the Center for East Asian Studies, and the Center for Russian and Eurasian Studies. The Institute is affiliated with Middlebury College ("Middlebury"), a liberal arts college located in Middlebury, Vermont (Note 13).

Tax-Exempt Status

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

2. Summary of Significant Accounting Policies

Basis of Statement Presentation

The financial statements are prepared on the accrual basis of accounting and present net assets and revenues, expenses, gains and losses based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Permanently Restricted Net Assets

Net assets subject to donor-imposed stipulations that they be maintained permanently by the Institute. Generally, the donors of these assets permit the Institute 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 Institute and or passage of time, as well as unspent appreciation.

Unrestricted Net Assets

Net assets not subject to donor-imposed stipulations.

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

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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. Actual results could differ from those estimates.

(in thousands)

Cash and Cash Equivalents
Cash and cash equivalents include interest-bearing money market accounts not held for investment purposes. Cash equivalents have scheduled maturities of less than three months at the date of purchase and amount to $1,795 and $1,884 at June 30, 2008 and 2007, respectively.

Land, Buildings and Equipment, Net
Land, buildings and equipment, net are stated at cost at the date of acquisition or fair value at date of donation in the case of gifts-in-kind. Depreciation is computed on the straight-line method by category as follows:

Category	Range of Estimated Useful Lives (Years)
Land improvements	15
Buildings and renovations	15-50
Equipment	3-7

Asset Retirement Obligations
Asset retirement obligations ("ARO") are legal obligations 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 Institute 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 Institute derecognizes ARO liabilities when the related obligations are settled. The Institute has recorded a liability included in accrued expenses of $449 and $486 at June 30, 2008 and 2007, respectively.

Deferred Revenue
Deferred revenue consists primarily of student fees and sponsored activities related to the Institute. This liability consists mainly of the summer and fall student billing and sponsored activity.

Refundable Government Loan Funds
This liability represents Perkins loan funds provided to students by the federal government through the Institute. The Institute is required to collect the loans on behalf of the federal government. The amounts due from the students are reported in the Institute's financial statements as notes receivable to the Institute and the amount due to the federal government, if the Institute should no longer participate, is reported as refundable government loan funds. It is not practicable to determine the fair value of student notes 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.

(in thousands)

Contributions
Contributions are recognized as revenue in the period received at the fair market value on the date of the contribution. Gifts of noncash assets are recorded at their fair market value on the date of the contribution. Conditional promises to give are not recorded as revenue until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions received with donor-imposed restrictions that are met in the same year as received are reported as unrestricted operating or nonoperating revenue depending on the use of the proceeds.

Contributions of land, buildings and equipment without donor stipulations concerning the use of such long-lived assets are reported as nonoperating revenue of the unrestricted net asset class. Contributions of cash or other assets which a donor has stipulated be used to acquire land, building and equipment are reported as nonoperating revenue of the temporarily restricted net asset class if the donor does not stipulate how such long-lived assets are to be used. The temporary restrictions are considered to be released at the time when such long-lived assets are placed in service.

Terminology appearing in these financial statements that relate to contributions are described below:

Contributions Receivable
Contributions receivable include pledges that are recorded at their present value using a discount rate of .98% to 6.40% which represents the risk-free rate of return at the date when the pledges were recorded. An allowance is made for potentially uncollectible contributions based upon management's past collection experience and other relevant factors.

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

Deposits with Trustees
In conjunction with the issuance of long-term debt, the Institute is required to maintain certain funds in a restricted account. These funds are reserved and withdrawn solely for the purpose of making up any deficiency in the bond fund including amounts for the repayment or redemption of all bonds then outstanding. On May 19, 2005, the revenue bonds restructuring agreement was amended to extend the term over which the Institute has limited access to borrow against the reserve fund. Deposits with trustees are carried at cost which approximates fair value.

Estimated Fair Value of Financial Instruments
The estimated fair value of the Institute's financial instruments approximates the carrying amount reported in the statements of financial position for cash and cash equivalents, investments, deposits with bond trustees, and accounts receivable and payable, except for certain investments.

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

(in thousands)

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. All allocable costs are based upon the use of facilities and equipment.

Reclassifications
Certain amounts in the 2007 financial statements have been reclassified to conform to the 2008 financial statement presentation.

The Institute has reclassified certain balances in the 2007 statement of cash flows to appropriately reflect the initial receipt of donated securities as a noncash transaction, and subsequent sale as an investing transaction, in accordance with SFAS No. 95, *Statement of Cash Flows.*

New Accounting Pronouncements
In September, 2006 the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ("SFAS 157"). SFAS 157 defines the term fair value, establishes a framework for measuring it within generally accepted accounting principles and expands disclosures about its measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007.

In February, 2007 the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ("SFAS 159"). SFAS 159 permits entities to choose to measure any financial instruments and certain other items at fair value. SFAS 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007.

In August, 2008 the FASB issued FASB staff position FAS117-1, *Endowments of Not-For-Profit Organizations*: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"), and Enhanced Disclosures for all Endowment Funds ("FSP FAS 117-1"). This FSP requires additional disclosures about endowments (both donor restricted funds and board designated funds) for all organizations, including those that are not yet subject to an enacted version of UPMIFA. The provisions of this FSP shall be effective for fiscal years ending after December 15, 2008. Management is still evaluating the impact of SFAS No. 157, SFAS No. 159 and Staff Position 117-1, but does not believe their adoption will have a material impact on the financial statements.

(in thousands)

3. Investments

The Institute's investments, both pooled and separately invested, are recorded in the following manner:

	Values as Recorded
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, if available
Real estate, mortgages and other	Estimated fair value determined by the real estate partnership
Absolute return funds	Estimated fair value determined by Investment managers

Through an investment agreement with Middlebury College, as of January 2007 the majority of the Institute's investments were pooled for investment purposes. Shares in the pool are assigned on the basis of market value at the time the funds to be invested were received. Income is distributed thereafter on a per share basis. As of June 30, 2008 and 2007 the fair value of the Institute's investment was $8,412 and $6,817, respectively.

The Institute's Board of Trustee's approves a distribution of investment return based on the average asset value as determined at the end of the four prior calendar quarters.

Investments held by the Institute at June 30, 2008 and 2007, including pooled investments and other separately invested funds, were comprised of the following:

	As Recorded		
June 30, 2008	Pooled	Separately Invested	Total at Fair Value
Money market funds	$ 248	$ 4,222	$ 4,470
Due from broker	152	-	152
Equity securities	2,330	1,928	4,258
Absolute return	2,466	-	2,466
Debt securities	656	53	709
Real estate and mortgages	184	12	196
Private equity partnerships, fair value basis	2,142	-	2,142
Other investments	234	-	234
	$ 8,412	$ 6,215	$ 14,627

(in thousands)

June 30, 2007	Pooled	As Recorded Separately Invested	Total at Fair Value
Money market funds	$ 203	$ 7,644	$ 7,847
Due from broker	23	-	23
Equity securities	2,429	1,189	3,618
Absolute return	2,261	-	2,261
Debt securities	403	61	464
Real estate and mortgages	128	13	141
Private equity partnerships, fair value basis	1,183	-	1,183
Other investments	187	-	187
	$ 6,817	$ 8,907	$ 15,724

The aggregate amount of the deficiencies for all donor-restricted pooled endowment funds for which the fair value of the assets at June 30, 2008 and 2007 was less than the level required by donor stipulation is $2,427 and $2,139, respectively. In accordance with FASB Statement No. 24, these amounts have been recorded as a reduction in unrestricted net assets.

4. Contributions Receivable, Net

Contributions receivable consisted of the following at June 30, 2008 and 2007:

	2008	2007
Gross amounts due in		
Less than one year	$ 1,923	$ 140
One to five years	892	155
	2,815	295
Less discount	(90)	(26)
Total contributions receivable	$ 2,725	$ 269

There has been no allowance for uncollectible contributions receivable recorded for the years ended June 30, 2008 and 2007.

The Institute received a conditional challenge pledge of $3,000 in December 2007. The intention of the gift is to encourage more contributions of all sizes to the Institute. As of June 30, 2008, the Institute has recognized $1,613 toward this pledge.

(in thousands)

5. Land, Buildings and Equipment

Land, buildings and equipment as of June 30, 2008 and 2007 consists of the following:

	2008	2007
Land	$ 4,597	$ 4,597
Buildings and improvements	24,460	24,457
Equipment	6,808	6,743
Equipment – capitalized leases	17	17
Construction in process	11	-
	35,893	35,814
Less accumulated depreciation	(15,929)	(15,113)
Total land, buildings and equipment	$ 19,964	$ 20,701

The total disposals as of June 30, 2008 and 2007 were $60 and $75, respectively.

Franklin Templeton has a first lien on the Institute's real estate, except for real estate purchased in 2007 in the amount of $1,650.

6. Notes Receivable

Notes receivable, net as of June 30, 2008 and 2007 consists of the following:

	2008	2007
Federal Perkins Loan Program	$ 7,582	$ 6,289
Fletcher Jones Program	202	223
Total notes receivable	7,784	6,512
Less allowance for doubtful accounts	(100)	(100)
Notes receivable, net	$ 7,684	$ 6,412

Notes receivable represents amounts due from students for federal and Institute approved loans.

(in thousands)

7. Long-Term Debt

Long-term debt as of June 30, 2008 and 2007 consists of the following:

	2008	2007
Revenue bonds issued through the California Statewide Communities Development Agency, due July 1, 2031	$ 21,525	$ 21,525
Capitalized lease obligations, due in various amounts monthly through October 2009	5	9
First National Bank Agreement	1,352	1,750
Middlebury Affiliation Loan	1,407	904
Note payable	400	400
Total debt	$ 24,689	$ 24,588

As part of entering into the affiliation with Middlebury College, the Institute entered into a forbearance agreement with the First National Bank, on which they had owed $2,150. The Institute is accruing interest on this agreement and payments are due every December over the next three years at a rate of 6%. The first payment was made in December 2005. As part of the affiliation, the College has agreed to loan the Institute enough funds to cover the amount due to the First National Bank at an interest rate of 6%. Repayment to the College is not required until the revenue bonds have been paid in full or the College executes an irrevocable written guarantee of the revenue bonds, issued by the California Statewide Communities Development Agency, or the revenue bonds receive a rating of "BBB" or better from the rating agency up until the repayment commences.

According to the terms of the California Revenue Bonds, the Institute is not required to make payments until July 1, 2031. In accordance with the agreement, when repayment begins the principal will bear a fixed interest rate of 7.75% annually. However, as part of the affiliation agreement, Franklin Templeton agreed to suspend the interest rate on the revenue bonds from 7.75% to 5.50% interest. In addition, the optional redemption date was changed to July 1, 2018 (at 101), July 1, 2019 (at 100.5), and July 1, 2020 (at 100).

During fiscal year 2007, the Institute received a contribution from a donor and a related party for the purchase of real property. As part of this agreement, there was also a note payable issued for $1,250 with the donor for improvements to be made to the property by the Institute. The total amount outstanding at June 30, 2008 and 2007 is $400. This note payable has been issued on a nonrecourse basis and is secured by the aforementioned property purchased. The term is five years and the note payable does not incur interest.

Based on its prior bond agreements the Institute had agreed that it could not incur any indebtedness with a maturity in excess of one year other than an affiliation loan with Middlebury College. These terms were waived by the creditor on a one-time basis in order to receive the contribution from the donor.

The estimated fair value of the Institute's total existing debt is approximately $21,953 at June 30, 2008. The fair value is estimated based on quoted market prices for the same or similar debt instruments.

(in thousands)

The aggregate maturities of long-term debt for each of the five years subsequent to June 30, 2008 is as follows:

2009	$	433
2010		449
2011		475
2012		400
2013		-
Thereafter		22,932
	$	24,689

8. Pension Plan

The Institute participates in the Teachers Insurance Annuity Association and College Retirement Equity Fund (TIAA CREF) and the Variable Annuity Life Insurance Company (VALIC) defined contribution multi employer pension plans which cover substantially all full time employees of the Institute.

The defined contribution plan requires that employees complete one year of service before being eligible for employer contributions. In addition, the employer contributions shall be determined at the discretion of the Institute.

Total Institute contributions were $453 and $313 at June 30, 2008 and 2007, respectively.

9. Temporarily Restricted Net Assets

Temporarily restricted net assets consisted of the following at June 30, 2008 and 2007:

		2008		2007
Gifts for scholarship and prizes	$	840	$	281
Gifts for professorships		140		80
Gifts for special purposes		5,695		5,158
Contribution receivable		2,495		269
Gifts for capital projects		339		-
Annuity and life income funds		241		319
	$	9,750	$	6,107

(in thousands)

10. Permanently Restricted Net Assets

Permanently restricted net assets consisted of the following at June 30, 2008 and 2007:

	2008	2007
Donor-restricted loan funds	$ 300	$ 300
Annuity and life income funds	106	107
Contribution receivable	230	-
Donor-restricted endowment funds	9,476	9,238
	$ 10,112	$ 9,645

11. Expenses by Function

Expenses by functional classification after allocating operation and maintenance of plant, depreciation, and interest expense are as follows for the year ended June 30, 2008 and 2007:

	2008	2007
Salaries and wages	$ 16,368	$ 15,135
Employee benefits	3,411	2,775
Food	176	138
Utilities	521	448
Repairs and maintenance	546	488
Contracted services	1,156	384
Supplies	642	494
Library books and periodicals	438	389
Interest	1,401	1,372
Depreciation	876	787
Travel	1,289	1,187
Taxes and insurance	316	165
Other	2,015	2,867
	$ 29,155	$ 26,629

12. Related Party Transaction

During fiscal year 2007 a donor and related party issued a note payable for $1,250 to the Institute (Note 7). The total amount outstanding at June 30, 2008 and 2007 is $400.

(in thousands)

13. Affiliation

In 2006 Middlebury College made a conditional promise to give $5,100 to the Institute to improve facilities and technology resources, and to promote admissions and fund-raising activities. The condition of this promise to give is that the funds may be released at the discretion of the Middlebury College President. For each of the years ended June 30, 2008 and 2007, the Institute recognized $2,020 of this conditional promise, in temporarily restricted net assets As of June 30, 2008 and 2007, the remaining conditional promise to give was $1,060 and $3,080, respectively.

Additionally, the Institute has an affiliation loan from the College. The total amount outstanding as of June 30, 2008 and 2007 is $1,407 and $904, respectively.

Amounts due to Middlebury College for services provided, included in accounts payable and accrued expenses, are $525 and $272 at June 30, 2008 and 2007, respectively.

14. Leases

The Institute leases office space under a noncancelable operating lease that extends through December 31, 2011. Rental expense as of June 30, 2008 and 2007, was $126 and $132, respectively. Future minimum rental payments under this lease are as follows:

2009	$	150
2010		157
2011		164
2012		84
	$	555

15. Commitments and Contingencies

The Institute has legal cases arising in the normal course of its operations. The Institute believes that the outcome of these cases will have no material adverse effect on the financial position of the Institute.

During the year ended June 30, 2003, the Institute borrowed $1,100 from the Grover Herman Foundation as approved by the donor. In consideration of this agreement, the Institute agreed to transfer $2,300, representing the original contribution and an additional amount to the endowment fund by fiscal year 2014. At June 30, 2008 and 2007, the amount due to the endowment fund was $2,014 and $2,139, respectively.

16. Subsequent Events

On September 25, 2008 the Institute borrowed $1,418 from Middlebury College and used those funds to repay First National Bank in full.

On October 14, 2008 Middlebury College guaranteed the Franklin Templeton debt. As a result of the guarantee, the interest rate was permanently reduced to 5.5%, the liens on the Institute property were released, and the reserve funds were released to the Institute.