# Monterey Institute of International Studies

**Report on Federal Awards in Accordance with OMB Circular A-133**
**June 30, 2009**
**Entity Identification #94-1425570**

# Monterey Institute of International Studies
## Index
## June 30, 2009

**Page(s)**

# Part I

# Financial Statements

PRICEWATERHOUSECOOPERS

**PricewaterhouseCoopers LLP**
185 Asylum Street, Suite 2400
Hartford, CT 06103-3404
Telephone (860) 241 7000
Facsimile (860) 241 7590

# Report of Independent Auditors

To the Board of Trustees of
Monterey Institute of International Studies

In our opinion, the accompanying statements of financial position 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 (the "Institute") at June 30, 2009 and 2008 and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the 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 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.

As discussed in Note 2, in 2009, the Institute adopted FASB Staff Position No. 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2009 on our consideration of the Institute'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, 2009. 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 Institute’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.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards for the year ended June 30, 2009 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 Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

PricewaterhouseCoopers LLP

September 25, 2009

# Monterey Institute of International Studies
## Statements of Financial Position
## June 30, 2009 and 2008

| *(in thousands)* | 2009 | 2008 |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | $ 5,137 | $ 1,795 |
| Accounts receivable, net | 2,374 | 2,236 |
| Contributions receivable, net | 2,058 | 2,725 |
| Prepaid expenses and other assets | 714 | 763 |
| Deposits with bond trustees | 1,088 | 4,520 |
| Student loans receivable, net | 7,855 | 7,684 |
| Investments | 13,415 | 14,627 |
| Contributions receivable from remainder trusts | 216 | 301 |
| Land, buildings and equipment, net | 19,517 | 19,964 |
| Total assets | $ 52,374 | $ 54,615 |
| **Liabilities and Net Assets** | | |
| Liabilities | | |
| Accounts payable and accrued expenses | $ 2,704 | $ 3,125 |
| Deferred revenues | 2,842 | 2,285 |
| Refundable government loan funds | 2,570 | 2,481 |
| Long-term debt | 23,326 | 24,689 |
| Total liabilities | 31,442 | 32,580 |
| Commitments and contingencies (Note 15) | | |
| Net assets | | |
| Unrestricted | 237 | 2,173 |
| Temporarily restricted | 10,372 | 9,750 |
| Permanently restricted | 10,323 | 10,112 |
| Total net assets | 20,932 | 22,035 |
| Total liabilities and net assets | $ 52,374 | $ 54,615 |

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

# Monterey Institute of International Studies
## Statement of Activities
## Year Ended June 30, 2009

| (in thousands) | 2009 Unrestricted | 2009 Temporarily Restricted | 2009 Permanently Restricted | 2009 Total | 2008 Total |
|---|---|---|---|---|---|
| **Operating revenues and other support** | | | | | |
| Comprehensive and other student fees | $ 26,053 | $ - | $ - | $ 26,053 | $ 22,725 |
| Less: financial aid | (6,370) | - | - | (6,370) | (5,462) |
| Net comprehensive and other student fees | 19,683 | - | - | 19,683 | 17,263 |
| Contributions | 1,604 | 3,061 | - | 4,665 | 7,753 |
| Sponsored activities | 6,485 | - | - | 6,485 | 5,599 |
| Investment return | | | | | |
| Distribution | 22 | 397 | - | 419 | 455 |
| Other investment income | 71 | 7 | - | 78 | 437 |
| Other sources | 716 | 41 | - | 757 | 1,194 |
| Net assets released from restrictions | 3,626 | (3,626) | - | - | - |
| Total operating revenues and other support | 32,207 | (120) | - | 32,087 | 32,701 |
| **Operating expenses** | | | | | |
| Educational and general | | | | | |
| Instruction | 11,729 | - | - | 11,729 | 12,036 |
| Academic support | 2,949 | - | - | 2,949 | 2,723 |
| Student services | 2,622 | - | - | 2,622 | 2,689 |
| Institutional support | 7,232 | - | - | 7,232 | 5,609 |
| Sponsored activities | 6,485 | - | - | 6,485 | 5,599 |
| Total educational and general | 31,017 | - | - | 31,017 | 28,656 |
| Auxiliary enterprises | 444 | - | - | 444 | 499 |
| Total operating expenses | 31,461 | - | - | 31,461 | 29,155 |
| Change in net assets from operations | 746 | (120) | - | 626 | 3,546 |
| **Nonoperating activities** | | | | | |
| Endowment return, net of distribution | (904) | (1,149) | 42 | (2,011) | (1,037) |
| Contributions | 258 | 33 | 202 | 493 | 739 |
| Change in value of deferred gifts | - | (97) | (29) | (126) | (21) |
| Adjustment for funds underwater - fair value less than historic dollar value | (1,201) | 1,201 | - | - | - |
| Other | (91) | 10 | (4) | (85) | - |
| Total nonoperating activities | ($1,938) | ($2) | $211 | ($1,729) | ($319) |
| Increase (decrease) in net assets before cumulative effect of change in accounting principle | (1,192) | (122) | 211 | (1,103) | 3,227 |
| Cumulative effect of adoption of California UPMIFA statute (Note 2) | (744) | 744 | - | - | - |
| Increase (decrease) in net assets | (1,936) | 622 | 211 | (1,103) | 3,227 |
| **Net Assets** | | | | | |
| Beginning of year | 2,173 | 9,750 | 10,112 | 22,035 | 18,808 |
| End of year | $ 237 | $ 10,372 | $ 10,323 | $ 20,932 | $ 22,035 |

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

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

# Monterey Institute of International Studies
## Statements of Cash Flows
## Years ended June 30, 2009 and 2008

| *(in thousands)* | **2009** | **2008** |
|---|---|---|
| **Cash flows from operating activities** | | |
| Change in net assets | $ (1,103) | $ 3,227 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities | | |
| Depreciation | 870 | 876 |
| Amortization of bond issuance costs | 29 | 29 |
| Realized and unrealized losses on investments | 1,676 | 1,389 |
| Unrealized loss on contributions receivable from remainder trusts | 85 | 48 |
| Changes in operating assets and liabilities | | |
| Accounts receivable | (138) | (480) |
| Contributions receivable, net | 667 | (2,456) |
| Prepaid expenses and other assets | 20 | (24) |
| Accounts payable and accrued expenses | (421) | (207) |
| Deferred revenues | 557 | (354) |
| Other | 89 | (19) |
| Permanently restricted contributions and investment gains | (242) | (587) |
| Receipt of contributed securities | (70) | (117) |
| Net cash provided by operating activities | 2,019 | 1,325 |
| **Cash flows from investing activities** | | |
| Proceeds from sales of investments | 2,301 | 1,303 |
| Purchases of investments | (2,765) | (1,595) |
| Sale of contributed securities | 70 | 117 |
| Purchases of land, buildings and equipment | (423) | (139) |
| Student loans granted | (1,178) | (2,362) |
| Student loans repaid | 1,007 | 1,090 |
| Proceeds utilized from deposits with trustees | 3,432 | (516) |
| Net cash provided by (used in) investing activities | 2,444 | (2,102) |
| **Cash flows from financing activities** | | |
| Permanently restricted contributions and investment gains | 242 | 587 |
| Proceeds from related-party debt (Note 12) | 1,418 | 503 |
| Payment on long-term debt | (2,781) | (402) |
| Net cash (used in) provided by financing activities | (1,121) | 688 |
| Net increase (decrease) in cash and cash equivalents | 3,342 | (89) |
| **Cash and cash equivalents** | | |
| Beginning of year | 1,795 | 1,884 |
| End of year | $ 5,137 | $ 1,795 |
| **Supplementary cash flow information** | | |
| Cash paid during the year for interest | $ 1,283 | $ 1,289 |
| Contributed securities | 70 | 117 |

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. The Institute provides 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 releases from restrictions between the applicable classes of net assets.

*(in thousands)*

**Use of Estimates**
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The Institute's significant estimates include the valuation of its investments as well as the estimated net realizable value of receivables for contributions, student loans and accounts receivable, and the estimated useful lives of buildings and equipment. Actual results could differ from those estimates.

**Cash and Cash Equivalents**
Cash and cash equivalents include interest-bearing money market accounts not held for investment purposes. Cash equivalents have scheduled maturities of three months or less at the date of purchase and amount to $5,137 and $1,795 at June 30, 2009 and 2008, respectively.

**Land, Buildings and Equipment**
Land, buildings and equipment 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 utilizing the straight-line method over the estimated lives of the depreciable assets, as follows:

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

**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 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 obligation is settled. The Institute has recorded an ARO liability in accrued expenses of $474 and $449 at June 30, 2009 and 2008, respectively.

**Deferred Revenues**
Deferred revenues consist primarily of student fees for the summer and fall as well as sponsored activities.

*(in thousands)*

**Refundable Government Loan Funds**
Refundable government loan funds represent 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 student loans receivable to the Institute. The amount due to the federal government, in the event that the Institute 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.

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

Contributions of land, buildings and equipment without donor stipulations are reported as unrestricted nonoperating revenue. Contributions of cash or other assets which a donor has stipulated be used to acquire land, building and equipment are reported as temporarily restricted nonoperating revenue. The temporary restrictions are considered to be released at the time when such long-lived assets are placed in service.

**Contributions Receivable**
Contributions receivable include pledges that are recorded at their present value using discount rates ranging from .98% to 6.40% through the year ended June 30, 2008 which represents the risk-free rate of return at the date when the pledges were recorded. For 2009, the present value is calculated using the June 30, 2009 risk-free rate of return plus the credit risk the Institute assumes for uncollectible pledges which is 5.50%. 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 was required to maintain certain funds in a restricted account. These funds were established and withdrawn for the purpose of making up any deficiency in the bond fund including amounts for the repayment or redemption of all bonds then outstanding or for Trustee approved maintenance expenditures. 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. On October 14, 2008, Middlebury College unconditionally and irrevocably guaranteed all of the Institute's borrowings under the loan (Note 7). Because of the aforementioned guarantee, the Institute is no longer required to hold deposits with the Bond Trustee other than for a debt service reserve. The debt service reserve can and is being used to fund the semi-annual interest payments until the remaining balances are extinguished. The remaining deposit with the Trustee is carried at cost which approximates fair value.

*(in thousands)*

**Fair Value of Financial Instruments**
In 2009, the Institute adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ("SFAS 157") which establishes a framework for measuring fair value. The framework provides a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under SFAS 157 are as follows:

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

Level 2 - Inputs to the valuation methodology include:

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

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

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

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

Following is a description of the valuation methodologies used for assets measured at fair value.

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

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

*(in thousands)*

The preceding methods described may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Institute 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.

**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.

**Endowment**
In 2009, the Institute adopted FASB Staff Position No. 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* (FSP 117-1), which provides guidance on the net asset classification of donor-restricted endowment funds for organizations subject to a Uniform Prudent Management of Institutional Funds Act (UPMIFA). California enacted its UPMIFA statute in January 2009. FSP 117-1 requires a change in net asset classification for certain donor created endowments previously classified as unrestricted net assets, as well as enhanced disclosures for endowment funds, including information regarding endowment fund net assets, spending policies, and related investment policies. Due to the time constraint placed upon the use of the assets, they are considered temporarily restricted. This change in classification does not impact Board-designated endowments classified as unrestricted. The impact of the adoption was a reclassification to increase temporarily restricted net assets and decrease unrestricted net assets by $744 for the year ended June 30, 2009.

**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.

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

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

*(in thousands)*

## 3. Investments

The majority of the Institute's investments are pooled with Middlebury College's investments, pursuant to an investment agreement. Shares in the pool are assigned on the basis of fair value at the time the funds to be invested were received. Income is distributed thereafter on a per share basis. As of June 30, 2009 and 2008 the fair value of the Institute's investments pooled with Middlebury College was $9,102 and $8,412, respectively.

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

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

| June 30, 2009 | Pooled | Separately Invested | Total at Fair Value |
|---|---|---|---|
| Money market funds | $ 456 | $ 2,749 | $ 3,205 |
| Due from broker | 25 | - | 25 |
| Equity securities | 2,516 | 1,530 | 4,046 |
| Absolute return | 2,555 | - | 2,555 |
| Debt securities | 606 | 25 | 631 |
| Real estate and mortgages | 226 | 9 | 235 |
| Private equity partnerships | 2,632 | - | 2,632 |
| Other investments | 86 | - | 86 |
| | $ 9,102 | $ 4,313 | $ 13,415 |

| 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 | 2,142 | - | 2,142 |
| Other investments | 234 | - | 234 |
| | $ 8,412 | $ 6,215 | $ 14,627 |

*(in thousands)*

The following table presents the Institute's assets by level as of June 30, 2009.

| **June 30, 2009** | **Fair Value** | **Fair Value Measurements Using: Quoted Prices in in Active Markets for Identical Assets (Level 1)** | **Fair Value Measurements Using: Significant Unobservable Inputs (Level 3)** |
|---|---|---|---|
| Money market funds | $ 3,205 | $ 3,205 | $ - |
| Due from broker | 25 | - | 25 |
| Equity Securities | 4,046 | 1,533 | 2,513 |
| Absolute return | 2,555 | - | 2,555 |
| Debt securities | 631 | 25 | 606 |
| Real estate and mortgages | 235 | 9 | 226 |
| Private equity partnerships, fair value basis | 2,632 | - | 2,632 |
| Other investments | 86 | - | 86 |
| **Total investments** | **$ 13,415** | **$ 4,772** | **$ 8,643** |
| Contributions receivable from remainder trusts | 216 | - | 216 |
| **Total assets at fair value** | **$ 13,631** | **$ 4,772** | **$ 8,859** |

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

| | **(Level 3)** |
|---|---|
| Beginning balance at June 30, 2008 | $ 7,479 |
| Net realized and unrealized loss | (1,892) |
| Purchases, issuances, and settlements, net | 3,272 |
| | **$ 8,859** |

Investments are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the Institute's financial statements.

*(in thousands)*

## 4. Contributions Receivable

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

| | 2009 | 2008 |
|---|---|---|
| Gross amounts due in | | |
| Less than one year | $ 1,475 | $ 1,923 |
| One to five years | 642 | 892 |
| | 2,117 | 2,815 |
| Less discount | (59) | (90) |
| Total contributions receivable | $ 2,058 | $ 2,725 |

There was no allowance for uncollectible contributions receivable recorded as of June 30, 2009 and 2008.

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. The Institute has recognized $1,226 and $1,613, for the years ended June 30, 2009 and 2008, respectively, of this pledge.

## 5. Land, Buildings and Equipment

Land, buildings and equipment as of June 30, 2009 and 2008 consists of the following:

| | 2009 | 2008 |
|---|---|---|
| Land | $ 4,597 | $ 4,597 |
| Buildings and improvements | 24,818 | 24,460 |
| Equipment | 6,877 | 6,808 |
| Equipment – capitalized leases | 17 | 17 |
| Construction in process | - | 11 |
| | 36,309 | 35,893 |
| Less accumulated depreciation | (16,792) | (15,929) |
| Total land, buildings and equipment | $ 19,517 | $ 19,964 |

*(in thousands)*

## 6. Student Loans Receivable

Student loans receivable, net as of June 30, 2009 and 2008 consists of the following:

| | 2009 | 2008 |
|---|---|---|
| Federal Perkins Loan Program | $ 7,799 | $ 7,582 |
| Fletcher Jones Program | 156 | 202 |
| Total student loans receivable | 7,955 | 7,784 |
| Less allowance for doubtful accounts | (100) | (100) |
| Student loans receivable, net | $ 7,855 | $ 7,684 |

## 7. Long-Term Debt

Long-term debt as of June 30, 2009 and 2008 consists of the following:

| | 2009 | 2008 |
|---|---|---|
| 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 | 2 | 5 |
| First National Bank loan | - | 1,352 |
| Middlebury College loan | 1,399 | 1,407 |
| Note payable | 400 | 400 |
| Total debt | $ 23,326 | $ 24,689 |

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

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

*(in thousands)*

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

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, 2009 and 2008 is $400. This note payable was issued on a nonrecourse basis and is collateralized by the property purchased. The term is five years and the note payable does not incur interest.

The estimated fair value of the Institute's total debt is approximately $25,631 at June 30, 2009 The fair value is estimated based on quoted market prices for the same or similar debt instruments.

The aggregate maturities of long-term debt are as follows:

| | | |
|---|---|---|
| 2010 | $ | 285 |
| 2011 | | 305 |
| 2012 | | 730 |
| 2013 | | 356 |
| Thereafter | | 21,650 |
| | $ | 23,326 |

## 8. Retirement 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 $671 and $453 for the years ended June 30, 2009 and 2008, respectively.

*(in thousands)*

**9. Endowment**

The Institute's endowment consists of donor restricted endowment funds and board-designated funds to function as endowments for a variety of purposes plus the following where the assets have been designated for endowment: pledges receivable, split interest agreements, and other net assets. The net assets associated with endowment funds are classified and reported based on the existence or absence of donor imposed restrictions.

The Board of Trustees of the Institute has interpreted California's Uniform Prudent Management of Institutional Funds Act ("UPMIFA") 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 Institution 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 Institute in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Institute 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 Institute 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 Institute
7) The investment policies of the Institute.

*(in thousands)*

The Institute had the following endowment activities during the years ended June 30, 2009 and 2008, delineated by net asset class and donor-restricted versus Board-designated funds:

| Endowment net asset composition by type of fund as of June 30, 2009 and 2008: | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Donor-restricted endowment funds | $ - | $ 2,019 | $ 10,323 | $ 12,342 |
| Adjustment for funds underwater | (1,793) | 1,793 | - | |
| Board-designated endowment funds | 756 | - | - | 756 |
| **Total endowment funds June 30, 2009** | $ (1,037) | $ 3,812 | $ 10,323 | $ 13,098 |
| | | | | |
| Donor-restricted endowment funds | $ 156 | $ 2,016 | $ 10,112 | $ 12,284 |
| Board-designated endowment funds | 874 | - | - | 874 |
| **Total endowment funds June 30, 2008** | $ 1,030 | $ 2,016 | $ 10,112 | $ 13,158 |

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

| | | | | |
|---|---|---|---|---|
| **Total Net Assets:** | | | | |
| Endowment net assets, beginning of year | $ 1,030 | $ 2,016 | $ 10,112 | $ 13,158 |
| Cumulative effect of adoption of UPMIFA statute | (744) | 744 | - | - |
| **Investment return:** | | | | |
| Endowment return | (882) | (752) | 42 | (1,592) |
| Change in value of deferred gifts | - | - | (29) | (29) |
| Total investment return | (882) | (752) | 13 | (1,621) |
| Contributions | 937 | 1,000 | 202 | 2,139 |
| Appropriation of endowment assets for spending (distribution) | (22) | (397) | - | (419) |
| Transfer (from) to designated endowment funds | (155) | - | (4) | (159) |
| Adjustment for funds underwater - fair value less than historic dollar value | (1,201) | 1,201 | - | - |
| Endowment net assets | $ (1,037) | $ 3,812 | $ 10,323 | $ 13,098 |

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

| | | | | |
|---|---|---|---|---|
| **Total Net Assets:** | | | | |
| Endowment net assets, beginning of year | $ 2,169 | $ - | $ 9,645 | $ 11,814 |
| **Investment return:** | | | | |
| Endowment return | (896) | 255 | 59 | (582) |
| Change in value of deferred gifts | - | - | (1) | (1) |
| Total investment return | (896) | 255 | 58 | (583) |
| Contributions | - | 2,000 | 389 | 2,389 |
| Appropriation of endowment assets for spending | (216) | (239) | - | (455) |
| Other changes: | | | | |
| Transfer to other funds | (27) | - | - | (27) |
| Transfer to designated endowment funds | - | - | 20 | 20 |
| Endowment net assets, end of year | $ 1,030 | $ 2,016 | $ 10,112 | $ 13,158 |

*(in thousands)*

**Permanently Restricted Net Assets**

The portion of permanent endowment funds that is required to be retained permanently either by explicit donor stipulation or by California UPMIFA statute at June 30, 2009 and 2008:

| | 2009 | 2008 |
|---|---|---|
| Restricted for loan funds | $ 300 | $ 300 |
| Restricted for annuity and life income funds | 77 | 106 |
| Restricted for endowment funds | 9,946 | 9,706 |
| | $ 10,323 | $ 10,112 |

**Temporarily Restricted Net Assets**

| | 2009 | 2008 |
|---|---|---|
| Portion of permanent endowment funds subject to an appropriation restriction under California UPMIFA | $ 90 | $ - |
| Restricted gifts for special purposes | 3,722 | 2,016 |
| | $ 3,812 | $ 2,016 |

**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 were $1,793 and $592 as of June 30, 2009 and 2008, respectively. These resulted from unfavorable market fluctuations that occurred shortly after the investment of newly established endowments, and authorized appropriation that was deemed prudent.

**Return Objectives and Risk Parameters**

The Institute 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 Institute expects its endowment funds, over time, to provide an average rate of return of approximately 9.0 percent annually. Actual returns in any given year may vary from this amount.

**Strategies Employed for Achieving Investment Objectives**

To achieve its long-term rate of return objectives, the Institute 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 Institute targets a diversified asset allocation that places greater emphasis on equity-based investments to achieve its long-term objectives within prudent risk constraints.

*(in thousands)*

**Endowment Spending Allocation and Relationship of Spending Policy to Investment Objectives**
The Institute's Board of Trustees determines the method to be used to appropriate endowment funds for expenditure.

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

## 10. Temporarily restricted net assets

Temporarily restricted net assets consisted of the following at June 30, 2009 and 2008:

| | 2009 | 2008 |
|---|---|---|
| The portion of permanent endowment funds subject to an appropriation restriction under California UPMIFA and classified as temporarily restricted net assets | $ 90 | $ - |
| Restricted gifts for scholarship and prizes | 814 | 840 |
| Restricted gifts for professorships | 235 | 140 |
| Restricted gifts for special purposes | 8,745 | 8,190 |
| Restricted gifts for capital projects | 313 | 339 |
| Restricted annuity and life income gifts | 175 | 241 |
| | $ 10,372 | $ 9,750 |

## 11. Operating Expenses

Operating expenses by natural classification without allocating operation and maintenance of plant, depreciation, and interest expense are as follows for the year ended June 30, 2009 and 2008:

| | 2009 | 2008 |
|---|---|---|
| Salaries and wages | $ 16,984 | $ 16,368 |
| Employee benefits | 3,598 | 3,411 |
| Food | 3 | 176 |
| Utilities | 475 | 521 |
| Repairs and maintenance | 601 | 546 |
| Contracted services | 2,621 | 1,156 |
| Supplies | 367 | 642 |
| Library books and periodicals | 388 | 438 |
| Interest | 1,359 | 1,401 |
| Depreciation | 870 | 876 |
| Travel | 1,189 | 1,289 |
| Taxes and insurance | 310 | 316 |
| Other | 2,696 | 2,015 |
| | $ 31,461 | $ 29,155 |

*(in thousands)*

**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, 2009 and 2008 is $400.

**13. Affiliation with Middlebury College**

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, 2009 and 2008, the Institute recognized $1,060 and $2,020 respectively, of this conditional promise, in temporarily restricted net assets As of June 30, 2009, there was no more remaining conditional promise to give.

Additionally, the Institute has a loan from the College (Note 7). The total amount outstanding as of June 30, 2009 and 2008 is $1,399 and $1,407, respectively.

Amounts due to Middlebury College for services provided, included in accounts payable and accrued expenses, are $136 and $525 at June 30, 2009 and 2008, respectively.

**14. Leases**

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

| | | |
|---|---|---|
| 2010 | $ | 157 |
| 2011 | | 164 |
| 2012 | | 84 |
| | $ | 405 |

**15. Commitments and Contingencies**

The Institute has claims arising in the normal course of its operations. The Institute believes that the outcome of these claims will not have a material adverse effect on the financial position, activities, or cash flows 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, 2009 and 2008, the amount due to the endowment fund was $1,814 and $2,014, respectively.

# Monterey Institute of International Studies
## Schedule of Expenditures of Federal Awards
## Year Ended June 30, 2009

| Federal Grantor/Pass-Through Grantor/Program or Cluster Title | Federal CFDA Number | Pass-Through Entity Identifying Number | Federal Expenditures |
|---|---|---|---|
| **Student Financial Assistance - Cluster** | | | |
| Department of Education | | | |
| Direct Programs | | | |
| Federal Work-Study Program | 84.033 | | $ 230,242 |
| Perkins Loan Program | 84.038 | | 75,513 |
| Federal Pell Grant Program | 84.063 | | 24,940 |
| Federal Supplemental Educational Opportunity Grant Program | 84.007 | | 20,000 |
| Total Department of Education | | | 350,695 |
| Total Student Financial Assistance Cluster | | | 350,695 |
| **Research and Development - Cluster** | | | |
| Department of Defense | | | |
| Direct Programs | | | |
| ASCO Nonproliferation Research | 12.114 | | 1,099,500 |
| DLIFLC T&I Training | 12.114 | | 679,722 |
| Iraq Minerva Project | 12.114 | | 36,670 |
| Total Department of Defense-Direct | | | 1,815,892 |
| Pass-Through Programs from | | | |
| SAIC | 12.114 | 4400159299 | 167,880 |
| National Defense University | 12.114 | W9137B-07-P-0084 | 20,103 |
| CETIS-GDAIS | 12.114 | 0101-2008 | 11,027 |
| Total Department of Defense Pass-Through Programs | | | 199,010 |
| Total Department of Defense | | | 2,014,902 |
| Department of State | | | |
| Direct Programs | | | |
| Nonproliferation Education and Research | 19.300 | | 73,000 |
| Total Department of State-Direct | | | 73,000 |
| Pass-Through Programs from | | | |
| U.S. Civilian Research and Development Foundation | 19.300 | NP-2004-60 | 2,244 |
| Fulbright Preacademic Program | 19.418 | S-ECAAE-09-CA-027(CS) | 20,780 |
| English Language Fellows Program | 19.421 | MIIS-RX2050-896-08-B | 15,356 |
| Total Department of State Pass-Through Programs | | | 38,380 |
| Total Department of State | | | 111,380 |

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

# Monterey Institute of International Studies
## Schedule of Expenditures of Federal Awards
## Year Ended June 30, 2009

| Federal Grantor/Pass-Through Grantor/Program or Cluster Title | Federal CFDA Number | Pass-Through Entity Identifying Number | Federal Expenditures |
|---|---|---|---|
| Department of Energy | | | |
| Direct Programs | | | |
| Nonproliferation Education and Research-China | 81.113 | | 153,075 |
| Nuclear Cities Initiative | 81.113 | | 530,390 |
| Total Department of Energy-Direct | | | 683,465 |
| Pass-Through Programs from | | | |
| Battelle Memorial Institute-NIS Program | 81.113 | 12436-AD4 | 48,904 |
| Battelle Memorial Institute-NIS Program | 81.113 | 70989 | 60,761 |
| Sandia National Laboratories-HEU Repatriation | 81.113 | 434008 | 52,215 |
| Sandia National Laboratories-Nonproliferation Education | 81.113 | 731732 | 83,801 |
| Total Department of Energy Pass-Through Programs | | | 245,681 |
| Total Department of Energy | | | 929,146 |
| Department of Agriculture | | | |
| Direct Programs | | | |
| Higher Education and Workforce | 10.960 | | 157,969 |
| Total Department of Agriculture-Direct | | | 157,969 |
| Total Department of Agriculture | | | 157,969 |
| Department of Homeland Security | | | |
| Pass-Through Programs from | | | |
| University of Maryland | 97.061 | Z988501 | 46,000 |
| Total Department of Homeland Security-Pass-Through Programs | | | 46,000 |
| Total Department of Homeland Security | | | 46,000 |
| Institute of Language Instruction | | | |
| Direct Programs | | | |
| ILI Translation & Interpretation Training | 13 | | 978,489 |
| Total Institute of Language Instruction - Direct | | | 978,489 |
| Pass-Through Programs from | | | |
| Battelle Memorial Institute | 13 | 207395 | 139,795 |
| Total Institute of Language Instruction Pass-Through Programs | | | 139,795 |
| Total Institute of Language Instruction | | | 1,118,284 |
| National Science Foundation | | | |
| Direct Programs | | | |
| Education and Human Resources | 47.076 | | 30,000 |
| Total National Science Foundation - Direct | | | 30,000 |
| Total National Science Foundation | | | 30,000 |
| Total Research and Development Cluster | | | 4,407,681 |
| Total | | | $ 4,758,376 |

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

**Monterey Institute of International Studies**
**Notes to Schedule of Expenditures of Federal Awards**
**June 30, 2009**

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**1. Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the "Schedule") summarizes the expenditures of Monterey Institute of International Studies (the "Institute") under federal government programs for the year ended June 30, 2009 using the accrual basis of accounting. Because the Schedule presents only a selected portion of the operations of the Institute, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Institution.

For purposes of the Schedule, federal awards include all grants, contracts and similar agreements entered into directly between the Institute and agencies and departments of the federal government and all subawards to the Institute by nonfederal organizations pursuant to federal grants, contracts and similar agreements. The information in this Schedule is presented in accordance with the provisions of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*.

**2. Administrative Cost Allowance**

The Institute can receive an administrative cost allowance for certain programs. For the year ended June 30, 2009, the Institute received an administrative cost allowance comprised of the following:

| | |
|---|---|
| Federal Perkins Loan Program | $ 75,513 |

This amount is included as expenditures for the program.

**3. Federal Perkins Loan Program (CFDA 84.038)**

The Institute made loans under the Federal Perkins Loan Program in the current year totaling $1,176,603. The balance outstanding at June 30, 2009 was $7,827,648.

**4. Federal Family Education Loan Program (CFDA 84.032)**

Federal loans under the FFEL program issued to students of the Institute during the year ended June 30, 2009 totaled $11,913,004.

The Institute is responsible only for the performance of certain administrative duties with respect to this program and, accordingly, balances and transactions relating to this program are not included in the Institute's financial statements.

# Part II

# Reports on Internal Control and Compliance

PRICEWATERHOUSECOOPERS

**PricewaterhouseCoopers LLP**
185 Asylum Street, Suite 2400
Hartford, CT 06103-3404
Telephone (860) 241 7000
Facsimile (860) 241 7590

## 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 Board of Trustees of
Monterey Institute of International Studies

We have audited the financial statements of Monterey Institute of International Studies (the "Institute") as of and for the year ended June 30, 2009, and have issued our report thereon dated September 25, 2009. Our report referred to the adoption of FASB Staff Position No. 117-1 for endowment funds. 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 Institute'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 Institute's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Institute's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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.

**Compliance and Other Matters**
As part of obtaining reasonable assurance about whether the Institute'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 Institute in a separate letter dated September 25, 2009.

This report is intended solely for the information and use of the Institute'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

September 25, 2009

PRICEWATERHOUSECOOPERS

**PricewaterhouseCoopers LLP**
185 Asylum Street, Suite 2400
Hartford, CT 06103-3404
Telephone (860) 241 7000
Facsimile (860) 241 7590

## Report of Independent Auditors on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

To the Board of Trustees of
Monterey Institute of International Studies

**Compliance**

We have audited the compliance of Monterey Institute of International Studies (the "Institute") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2009, except as described in the second paragraph of this report. The Institute's major federal program is 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 program is the responsibility of the Institute's management. Our responsibility is to express an opinion on the Institute's compliance based on our audit.

We did not audit the Institute'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 Institute'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 Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable but not absolute 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 Institute'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 Institute's compliance with those requirements.

In our opinion, based on our audit and the report of other auditors, the Institute complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2009. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 09-01.

**Internal Control over Compliance**
The management of the Institute 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 Institute'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, 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 Institute'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 Institute's internal control over those compliance requirements, is based solely on the report of the other auditors.

A control deficiency in an entity's 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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 the internal control over compliance that they consider to be material weaknesses, as defined above.

The Institute's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Institute's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Institute'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

January 20, 2010

# Part III

# Schedule of Findings and Questioned Costs

# Monterey Institute of International Studies
## Part III Schedule of Findings and Questioned Costs
## Year Ended June 30, 2009

**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 which is 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 programs | 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 |
|---|---|
| 84.033, 84.038, 84.063, 84.007, 84.038, 84.032 | Student Financial Assistance Cluster |

| | |
|---|---|
| Dollar threshold used to distinguish between Type A and Type B programs | $535,439 |
| Auditee qualifies as a low-risk auditee | Yes |

**II. Findings Related to the Financial Statements which are Required to be Reported in Accordance with Government Auditing Standards**

None noted.

**III. Federal Award Findings and Questioned Costs**

**Finding No. 09-01: Special tests and provisions - Student Status Changes**

**Student Financial Assistance Cluster**

| **Federal Programs Involved** | **Federal CFDA Number** |
|---|---|
| Federal Family Education Loans (FFEL) | 84.032 |

Under 34 CFR § 682.610(c)(2)(i), "A school shall – (2) unless it expects to submit its next student status confirmation report to the Secretary or the guaranty agency within the next 60 days, notify the guaranty agency or lender within 30 days – (i) if it discovers that a Stafford, SLS, or PLUS Loan has been made to or on behalf of a student who enrolled at that school, but who has ceased to be enrolled on at least a halftime basis."

**Condition**
We noted that for 18 out of 30 students selected for student status confirmation report testing, the Institute failed to notify the National Student Loan Data System (NSLDS) that the students had graduated within the required time frame in accordance with Federal Regulations. Each of the 18 students graduated in May 2009; however, their change in status was not reported until September 2009.

**Cause**
The Institute has not established a reporting schedule with the NSLDS that ensures reporting every 60 days.

**Effect**
Student's status at the NSLDS may not be accurate.

**Questioned Costs**
There are no questioned costs as the finding pertains to the reporting of information.

**Recommendation**
We recommend that the Institute develop and implement procedures to ensure all changes in status are submitted to the NSLDS in a timely manner in accordance with Federal regulations.

**Management's Views and Corrective Action Plan**
Following this finding are the Institute's views and corrective action plan.
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Monterey Institute
of International Studies
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460 Pierce Street
Monterey, California 93940 USA
www.miis.edu

**Business Office**

December 18, 2009

The Institute agrees with the auditors recommendations. The Institute has scheduled two graduate only submissions and revised their existing submissions to ensure that all students are reported in a timely manner.

The dates for the two graduate only submissions are late January and late June.

Bob Huth

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Bob Huth

Acting Executive Director of Finance & Business Operations

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Update on prior year's finding

The Institute upgraded their effort reporting mechanism to include a time report for each task order for the contract in question. Now that time expended can be logged directly to each task order for the contract, the reporting has gone much smoother and the quarterly reports are submitted in a timely manner.

Bob Huth

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Bob Huth

Acting Executive Director of Finance & Business Operations