Monterey Institute of International Studies

Financial Statements
June 30, 2009 and 2008

Monterey Institute of International Studies
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June 30, 2009 and 2008

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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. 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 Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds.

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
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.