

Middlebury College

**Report on Federal Awards in Accordance with
OMB Circular A-133**

June 30, 2010

**Entity Identification Numbers
03-0179298 and 94-1425570**

Middlebury College
Report on Federal Awards on OMB Circular A-133
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June 30, 2010

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Part I
Financial Statements

Report of Independent Auditors

To the President and Fellows of
Middlebury College

In our opinion, the accompanying consolidated statements of financial position and the related consolidated statements of activities and of cash flows present fairly, in all material respects, the financial position of Middlebury College (the "College") at June 30, 2010 and 2009 and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. As discussed in Note 2, the consolidated financial statements include the activities of Middlebury College as well as Delineation Corporation, the President and Friends of Middlebury College, and International Philanthropy. The financial statements of Delineation Corporation, the President and Friends of Middlebury College, and International Philanthropy were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2010 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters for the year ended June 30, 2010. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the College's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The accompanying schedule of expenditures of federal awards for the year ended June 30, 2010 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 consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic consolidated financial statements taken as a whole.

PricewaterhouseCoopers LLP

October 18, 2010

Middlebury College
Consolidated Balance Sheets
June 30, 2010 and 2009

(In thousands)

	2010	2009
Assets		
Cash and cash equivalents	\$ 25,712	\$ 10,265
Accounts receivable, net	5,888	4,591
Contributions receivable, net	38,982	46,698
Inventories, prepaid expenses and other assets	4,281	3,910
Deposits with bond trustees	1,062	1,558
Student loans receivable, net	24,559	24,748
Investments	840,214	757,072
Contributions receivable from remainder trusts	2,434	2,285
Beneficial interest in perpetual trusts held by others	21,708	20,589
Land, buildings and equipment, net	361,347	374,063
Total assets	<u>\$ 1,326,187</u>	<u>\$ 1,245,779</u>
Liabilities and net assets		
Liabilities		
Accounts payable and accrued expenses	\$ 53,405	\$ 37,730
Funds held for others	4,403	3,887
Deferred revenues	18,767	20,016
Annuities and other split interest obligations	16,876	16,558
Refundable government loan funds	13,606	13,507
Long-term debt	290,239	290,364
Total liabilities	<u>397,296</u>	<u>382,062</u>
Commitments and contingencies (Note 11)		
Net assets		
Unrestricted	394,983	276,470
Temporarily restricted	261,725	327,267
Permanently restricted	272,183	259,980
Total net assets	<u>928,891</u>	<u>863,717</u>
Total liabilities and net assets	<u>\$ 1,326,187</u>	<u>\$ 1,245,779</u>

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

Middlebury College
Consolidated Statement of Activities
Year Ended June 30, 2010, with Comparative Totals for the Year Ended
June 30, 2009

(In thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2010 Total	2009 Total
Operating revenues and other support					
Comprehensive and other student fees	\$ 175,043	\$ -	\$ -	\$ 175,043	\$ 165,936
Less: Financial aid	(48,990)	-	-	(48,990)	(46,194)
Net comprehensive and other student fees	126,053	-	-	126,053	119,742
Contributions	14,855	8,123	-	22,978	21,155
Sponsored activities	10,228	-	-	10,228	9,752
Investment return					
Endowment distribution	47,118	5,144	-	52,262	59,167
Other investment income	1,625	2,675	-	4,300	(5,095)
Other sources	12,081	119	-	12,200	12,146
Net assets released from restrictions	9,844	(9,844)	-	-	-
Total operating revenues and other support	221,804	6,217	-	228,021	216,867
Operating expenses					
Educational and general					
Instruction	72,504	-	-	72,504	70,943
Academic support	32,431	-	-	32,431	31,835
Student services	28,354	-	-	28,354	29,228
Institutional support	35,348	-	-	35,348	42,817
Sponsored activities	10,228	-	-	10,228	9,752
Total educational and general	178,865	-	-	178,865	184,575
Auxiliary enterprises	37,207	-	-	37,207	37,082
Other deductions	80	-	-	80	105
Total operating expenses	216,152	-	-	216,152	221,762
Change in net assets from operations	5,652	6,217	-	11,869	(4,895)
Nonoperating activities					
Endowment return, net of distribution	122,892	(59,415)	197	63,674	(198,711)
Contributions	3,182	1	8,461	11,644	9,530
Other investment income	12	213	-	225	50
Change in value of deferred gifts	(38)	381	610	953	(4,912)
Unrealized loss on interest rate swap	(1,176)	-	-	(1,176)	(2,449)
Campaign expenditures	(1,200)	-	-	(1,200)	(1,200)
Early retirement expense	(5,730)	-	-	(5,730)	(4,130)
Adjustment for funds underwater - fair value less than historic dollar value	7,021	(7,021)	-	-	-
Other	(12,102)	(5,918)	2,935	(15,085)	(3,596)
Net assets released from restrictions				-	-
Total nonoperating activities	112,861	(71,759)	12,203	53,305	(205,418)
Increase (decrease) in net assets	118,513	(65,542)	12,203	65,174	(210,313)
Net assets					
Beginning of year	276,470	327,267	259,980	863,717	1,074,030
End of year	\$ 394,983	\$ 261,725	\$ 272,183	\$ 928,891	\$ 863,717

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

Middlebury College

Consolidated Statement of Activities

Year Ended June 30, 2009

(In thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2009 Total
Operating revenues and other support				
Comprehensive and other student fees	\$ 165,936	\$ -	\$ -	\$ 165,936
Less: Financial aid	(46,194)	-	-	(46,194)
Net comprehensive and other student fees	119,742	-	-	119,742
Contributions	14,684	6,471	-	21,155
Sponsored activities	9,752	-	-	9,752
Investment return				
Endowment distribution	53,459	5,708	-	59,167
Other investment income	235	(5,330)	-	(5,095)
Other sources	12,080	66	-	12,146
Net assets released from restrictions	13,374	(13,374)	-	-
Total operating revenues and other support	223,326	(6,459)	-	216,867
Operating expenses				
Educational and general				
Instruction	70,943	-	-	70,943
Academic support	31,835	-	-	31,835
Student services	29,228	-	-	29,228
Institutional support	42,817	-	-	42,817
Sponsored activities	9,752	-	-	9,752
Total educational and general	184,575	-	-	184,575
Auxiliary enterprises	37,082	-	-	37,082
Other deductions	105	-	-	105
Total operating expenses	221,762	-	-	221,762
Change in net assets from operations	1,564	(6,459)	-	(4,895)
Nonoperating activities				
Endowment return, net of distribution	(83,734)	(115,231)	254	(198,711)
Contributions	2,851	1,100	5,579	9,530
Other investment income	3	47	-	50
Change in value of deferred gifts	(749)	375	(4,538)	(4,912)
Unrealized loss on interest rate swap	(2,449)	-	-	(2,449)
Campaign expenditures	(1,200)	-	-	(1,200)
Early retirement expense	(4,130)	-	-	(4,130)
Adjustment for funds underwater - fair value less than historic dollar value	(9,336)	9,336	-	-
Other	4,269	(7,172)	(693)	(3,596)
Net assets released from restrictions	1,494	(1,494)	-	-
Total nonoperating activities	(92,981)	(113,039)	602	(205,418)
(Decrease) increase in net assets before cumulative effect of adoption of UPMIFA statutes	(91,417)	(119,498)	602	(210,313)
Cumulative effect of adoption of UPMIFA statutes	(339,144)	339,144	-	-
(Decrease) increase in net assets	(430,561)	219,646	602	(210,313)
Net assets				
Beginning of year	707,031	107,621	259,378	1,074,030
End of year	\$ 276,470	\$ 327,267	\$ 259,980	\$ 863,717

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

Middlebury College

Consolidated Statements of Cash Flows

Years Ended June 30, 2010 and 2009

(In thousands)

	2010	2009
Cash flows from operating activities		
Change in net assets	\$ 65,174	\$ (210,313)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation	21,625	21,002
Contributions restricted for long-term investments	(6,858)	(7,643)
Receipt of contributed securities	(7,724)	(1,302)
Amortization of bond issuance costs	93	92
Loss on defeasance of debt	1,971	-
Amortization of bond discount, net	-	50
Loss on disposal of buildings and equipment	61	16
Contributions receivable bad debt expense	697	1,890
Change in value of deferred gifts	1,071	(4,629)
Realized and unrealized (gain) loss on investments	(119,225)	144,705
Unrealized loss on interest rate swap	1,176	2,449
Unrealized (gain) loss on contributions receivable from remainder trusts	(149)	916
Unrealized (gain) loss on beneficial interest in perpetual trusts	(1,119)	5,119
Changes in operating assets and liabilities		
Accounts receivable	(1,297)	352
Contributions receivable	(2,299)	5,532
Inventories, prepaid expenses and other assets	(354)	(115)
Accounts payable and accrued expenses	15,030	2,665
Deferred revenues	(1,249)	1,987
Funds held for others	516	(487)
Other	100	111
Gifts in kind	(532)	(206)
Increase in liabilities related to deferred gifts	1,412	2,855
Net cash used in operating activities	<u>(31,880)</u>	<u>(34,954)</u>
Cash flows from investing activities		
Proceeds from sales of investments	124,887	346,607
Purchases of investments	(88,804)	(284,374)
Sale of contributed securities	7,724	1,302
Purchases of property and equipment	(8,970)	(28,347)
Student loans granted	(3,181)	(3,789)
Student loans repaid	3,370	2,836
Proceeds utilized from deposits with bond trustees	496	11,974
Net cash provided by investing activities	<u>35,522</u>	<u>46,209</u>
Cash flows from financing activities		
Contributions restricted for long-term investments	16,176	7,643
Payments to annuitants for deferred gifts	(2,165)	(2,305)
Proceeds from long-term debt	62,014	-
Payments on bonds and notes payable	(63,654)	(4,805)
Bond issue costs	(566)	-
Cash overdraft	-	(5,353)
Net cash provided by (used in) financing activities	<u>11,805</u>	<u>(4,820)</u>
Net increase in cash and cash equivalents	15,447	6,435
Cash and cash equivalents		
Beginning of year	10,265	3,830
End of year	<u>\$ 25,712</u>	<u>\$ 10,265</u>
Supplemental data		
Interest paid, net of interest capitalized	\$ 9,893	\$ 12,590
Assets acquired and included in accounts payable	552	1,083

During 2010, donor payments on pledges made with contributed securities were \$1,786

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

Middlebury College

Notes to Consolidated Financial Statements

June 30, 2010 and 2009

(in thousands)

1. Background

Middlebury College is a liberal arts college located in Middlebury, Vermont. The College was founded in 1800 and is a leading liberal arts college with an emphasis on literature, languages, international studies and environmental studies. Approximately 2,465 undergraduate students come from throughout the United States and seventy countries. Approximately 70% of the students are from outside of New England.

Over one-half of the students spend at least one semester off campus, primarily outside of the United States of America. In addition to the Middlebury campus, the College has schools located in France, Germany, Italy, Russia, Spain, Latin America, China, Japan, and the Middle East.

The College's summer program, enrolling more than 2,000 students, consists of ten language schools and the Bread Loaf School of English. Programs in French, German, Italian, Russian and Spanish are offered at both the undergraduate and graduate levels, with undergraduate courses offered in Arabic, Chinese, Japanese, Portuguese, and Hebrew. In addition to the summer courses offered in Vermont, the Bread Loaf School of English offers summer sessions in New Mexico, North Carolina, Mexico, and at Oxford in the United Kingdom.

The College's graduate school, The Monterey Institute of International Studies, the "Institute", is located in Monterey, California. The Institute provides higher education in international policies, international business, translation and interpretation, and language education. In addition, there are three research centers on campus: the James Martin Center for Nonproliferation Studies, the Center for East Asian Studies, and the Center for Russian and Eurasian Studies.

Effective June 30, 2010, the Monterey Institute of International Studies was merged with and into Middlebury College.

Tax-Exempt Status

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

2. Summary of Significant Accounting Policies

Basis of Presentation

Middlebury College has three affiliated entities, Delineation Corporation (the "Corporation"), the President and Friends of Middlebury College, and International Philanthropy. The Corporation is a nonprofit organization founded for the purpose of holding property for the College. The College advances funds to the Corporation for expenses incurred for the maintenance of real property. The President and Friends of Middlebury College were formed for the purpose of providing catering and retail dining operations of the College. International Philanthropy is a nonprofit established for the purpose of receiving international contributions from international sources.

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

Middlebury College

Notes to Consolidated Financial Statements

June 30, 2010 and 2009

(in thousands)

Basis of Accounting

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

Permanently restricted net assets

Net assets subject to donor-imposed stipulations that they be maintained permanently by the College. Generally, the donors of these assets permit the College to use all or part of the income earned on related investments for general or specific purposes.

Temporarily restricted net assets

Net assets subject to donor-imposed stipulations that will be met by actions of the College and/or passage of time, as well as unspent appreciation on permanently restricted endowment funds.

Unrestricted net assets

Net assets not subject to donor-imposed stipulations.

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

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

Auxiliary enterprises include the operations of the dining services, residential halls, College bookstore, Snowbowl and the golf course. Revenues from auxiliary enterprises, except for the revenue from residential and dining halls, are included in other sources of operating revenues in the statement of activities. The revenues derived from residential and dining halls are included in the comprehensive fee.

Nonoperating activities include net realized and unrealized gains and losses on investments, less amounts distributed for operating purposes, permanently restricted contributions for long-term investment, temporarily restricted and unrestricted contributions for nonoperating activities, retirement expense for past service, net assets released from restriction for nonoperating purposes and the change in value of deferred gifts.

Middlebury College

Notes to Consolidated Financial Statements

June 30, 2010 and 2009

(in thousands)

Use of Estimates

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

Cash and Cash Equivalents

Cash and cash equivalents include interest-bearing money market accounts not held for investment purposes. Cash equivalents have maturities of three months or less at the date of purchase.

Contributions

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

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

Contributions Receivable

Contributions receivable include pledges that are recorded at their present value using discount rates ranging from approximately 3.0% to 6.4% through the year ended June 30, 2009. For 2010, the present value is calculated using a risk-free rate of return, adjusted for the credit risk the College assumes for uncollectible pledges which is 3.8%. An allowance is made for potentially uncollectible contributions based upon management's past collection experience and other relevant factors.

Inventories

Inventories are stated at lower of cost, utilizing the first-in, first-out method, or market.

Middlebury College
Notes to Consolidated Financial Statements
June 30, 2010 and 2009

(in thousands)

Fair Value Measurements

In 2009, the College adopted a new accounting standard related to valuation and disclosures of its financial assets and liabilities. The standard defines fair value and establishes a framework for measuring fair value. The framework provides a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under this principle are as follows:

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

Level 2 Inputs to the valuation methodology include:

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

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

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

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

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

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

Middlebury College
Notes to Consolidated Financial Statements
June 30, 2010 and 2009

(in thousands)

Absolute return funds

Estimated fair value determined by the fund manager

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

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

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

Derivatives

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

Endowment

In 2009, the College adopted a new accounting standard which provides guidance on the net asset classification of donor-restricted endowment funds for organizations subject to a Uniform Prudent Management of Institutional Funds Act ("UPMIFA"). Vermont and California enacted their UPMIFA statutes in 2009. This guidance 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 implementation impact of the reclassification is to increase temporarily restricted net assets and decrease unrestricted net assets by \$339,144 for the year ended June 30, 2009.

Contributions Receivable from Remainder Trusts

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

Middlebury College

Notes to Consolidated Financial Statements

June 30, 2010 and 2009

(in thousands)

Interest in Perpetual Trusts Held by Others

Interest in perpetual trusts held by others includes irrevocable trusts established for the benefit of the College whereby the principal is held in perpetuity by others and the earnings are remitted to the College. The interest in perpetual trusts is recorded at fair value as of the date of the gift, and adjusted to fair value at year-end.

Land, Buildings and Equipment

Land, buildings, equipment, arts and antiques are recorded at cost at date of acquisition or fair value at date of gift. Depreciation is computed utilizing the straight-line method over the estimated lives of the depreciable assets, as follows:

Category	Range of Estimated Useful Lives (years)
Land improvements	20
Buildings	20-60
Equipment	4-10

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

Joint Venture

In May, 2010, the College entered into a joint venture arrangement with K12, Inc., ("K12"), an unrelated publicly held company. The new company, Middlebury Interactive Languages, LLC, ("MIL"), was created for the purpose of pursuing commercial opportunities associated with developing and delivering language learning software and delivering residential, language immersion education to pre-college students.

The College agreed to fund the joint venture by contributing to MIL certain intangible assets with a fair value of \$14,000 and \$4,000 in cash. The College has a 40% initial ownership interest in MIL. As the College does not control the joint venture but does exercise influence, this investment is recorded using the equity method.

In 2010, the College incurred a loss on its equity investment in MIL of approximately \$364, which is included in non-operating gains (losses) in the consolidated statement of operations.

Asset Retirement Obligation

An asset retirement obligation ("ARO") is a legal obligation associated with the retirement of long-lived assets. These liabilities are initially recorded at fair value and the related asset retirement costs are capitalized by increasing the carrying amount of the related assets by the same amount as the liability. Asset retirement costs are subsequently depreciated over the useful lives of the related assets. Subsequent to initial recognition, the College records period-to-period changes in the ARO liability resulting from the passage of time and revisions to either the timing or the amount of the original estimate of undiscounted cash flows. The College derecognizes ARO liabilities when the related obligation is settled. The College has recorded an ARO liability in accrued expenses of \$3,500 and \$3,247 at June 30, 2010 and 2009, respectively.

Middlebury College

Notes to Consolidated Financial Statements

June 30, 2010 and 2009

(in thousands)

Deferred Revenues

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

Annuities and Other Split Interest Obligations

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

In addition, certain donors have made contributions to the College with the stipulation that their contributions be invested and all or a portion of the resulting income be paid to beneficiaries during their lifetimes. Upon the death of the named beneficiaries, the assets become the property of the College. The present value of the contributed assets is recognized as revenue at the time the assets are received and the difference between the assets contributed and the present value of the contributed assets is included in annuities and other split interest obligations.

Refundable Government Loan Funds

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

Functional Expenses

Depreciation, operations and maintenance costs and interest are allocated to the functional expense categories reported within the operating section of the statement of activities.

Depreciation and operations and maintenance costs are allocated based upon the use of facilities and equipment. Interest is allocated based on specific identification of the use of debt proceeds.

Sponsored Activities

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

Campaign Activities

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

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Subsequent Events

The College has adopted the accounting guidance for accounting and disclosure of events that occur after the balance sheet date but before the financial statements are issued or available to be issued. Accordingly, management has evaluated subsequent events for the period after June 30, 2010 through October 18, 2010, the date the financial statements were issued.

3. Receivables

Accounts Receivable

Accounts receivable consists of receivables for annual comprehensive fees, graduate school tuition, schools abroad and summer school room, board and tuition. The provision for uncollectible amounts was \$412 and \$275 at June 30, 2010 and 2009, respectively.

Contributions Receivable

Contributions receivable consist of the following at June 30, 2010 and 2009:

	2010	2009
Due less than one year	\$ 14,525	\$ 24,604
One to five years	19,645	18,801
More than five years	<u>10,299</u>	<u>10,380</u>
	44,469	53,785
Less: Discount and allowance	<u>(5,487)</u>	<u>(7,087)</u>
	<u>\$ 38,982</u>	<u>\$ 46,698</u>

As of June 30, 2010 and 2009, the College had received conditional promises to give of \$18,000 and \$24,000, respectively. Because of their conditional nature, these gifts have not been recognized as contribution revenue by the College. During 2004, the College received a conditional pledge ("Challenge Grant") of \$50,000 from an anonymous donor. The intention of the gift is to encourage more contributions of all sizes to the College. As of June 30, 2010, the College has recognized \$32,000 of this pledge from the donor. The remaining portion of the conditional pledge will be recognized as future fund-raising goals are reached.

Student Loans Receivable

Student loans receivable represents amounts due from students for federal and college approved loans. The provision for uncollectible amounts is \$832 and \$1,100 at June 30, 2010 and 2009, respectively.

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4. Financial Instruments

Investments

Investments held by the College at June 30, 2010 and 2009 including pooled investments and other separately invested funds, were comprised of the following:

2010	Pooled	Separately Invested	Total at Fair Value
Money market funds	\$ 27,439	\$ 1,045	\$ 28,484
Due from broker	5,223	-	5,223
Equity securities	235,059	41,813	276,872
Absolute return	189,566	-	189,566
Debt securities	45,658	9,440	55,098
Real estate and mortgages	13,826	6,891	20,717
Private equity partnerships	252,008	61	252,069
Other investments	6,129	6,056	12,185
	<u>\$ 774,908</u>	<u>\$ 65,306</u>	<u>\$ 840,214</u>
2009	Pooled	Separately Invested	Total at Fair Value
Money market funds	\$ 34,562	\$ 3,505	\$ 38,067
Due from broker	1,858	-	1,858
Equity securities	185,543	40,446	225,989
Absolute return	193,037	-	193,037
Debt securities	45,868	9,846	55,714
Real estate and mortgages	16,300	6,389	22,689
Private equity partnerships	207,063	61	207,124
Other investments	6,460	6,134	12,594
	<u>\$ 690,691</u>	<u>\$ 66,381</u>	<u>\$ 757,072</u>

Included within equity securities, absolute return, private equities and real estate are alternative investments with a fair value of \$757,353 and \$671,581 at June 30, 2010 and 2009.

The College has developed a diversified endowment investment portfolio with a strong orientation to equity investments and to strategies designed to take advantage of market inefficiencies. The College's investment objectives are guided by the College's asset allocation policy and are achieved in partnership with external investment managers operating through a variety of vehicles, including separate accounts, limited partnerships, and commingled funds. Investments in real estate and mortgages include the College's investment in real estate partnerships.

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

As of June 30, 2010 and 2009, the College had committed \$106,029 and \$169,601, respectively, of unrestricted net assets to be invested for long-term growth. These commitments are to fund private equity partnerships over a multi-year period. These capital calls are funded with cash on hand or using proceeds of liquidated securities.

The College has \$117,467 and \$134,429 of the investment portfolio at June 30, 2010 and 2009, respectively, invested in international securities. These investments are subject to the additional risk of currency fluctuations. Also included in investments are \$36,806 and \$34,373 at June 30, 2010 and 2009, respectively, for split-interest agreements.

Investment Shares

The following table summarizes the status and results of pooled investments at June 30, 2010 and 2009:

	2010	2009
Number of principal shares (not in thousands)	569,065.296	576,086.925
Market value per share (not in thousands)	\$ 1,361.723	\$ 1,198.934
Distribution per share (not in thousands)	70.82	73.10

For the years ended June 30, 2010 and 2009, the difference between distribution per share and dividends and interest earned per share was funded by realized gains of \$40,809 and \$42,777, respectively. During 2010 and 2009, distributions totaling \$197 and \$254, respectively, were added back to principal in accordance with donor restrictions.

The Board of Trustees approves a distribution of investment return based on the average per share market value of the pooled investments over the twelve calendar quarters preceding the beginning of the next fiscal year.

The components of total investment return from all sources consist of the following for the years ended June 30, 2010 and 2009:

	2010	2009
Interest, dividends, and other income	\$ 1,236	\$ 245
Realized gains, net	14,667	(4,527)
Change in unrealized gains, net	104,558	(140,307)
	<u>\$ 120,461</u>	<u>\$ (144,589)</u>

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The College recognized an impairment in its investments in the amount of \$18,733 and \$18,988 in 2010 and 2009, respectively, where the decline in fair value was determined to be other-than-temporary. In assessing whether the decline in fair value of these investments was other-than-temporary, the College determined that it does not have significant positive evidence to conclude that the decline was temporary.

Direct, external investment management fees were \$1,513 and \$2,651 in 2010 and 2009, respectively, and are netted against interest, dividends and other income in the statement of activities. Purchase and sale transactions are recorded on a trade date basis.

The following table represents the College's financial assets and liabilities by fair value measurements as of June 30, 2010:

	Total	Quoted Price in Active Markets for Identical Assets level 1	Significant Other Observable Inputs level 2	Significant Unobservable Inputs level 3
Investments				
Money market funds	\$ 28,484	\$ 28,484	\$ -	\$ -
Due from broker	5,223	3,959	-	1,264
Equity securities	276,871	42,072	-	234,799
Absolute return	189,566	-	-	189,566
Debt securities	55,098	9,282	-	45,816
Real estate and mortgages	20,718	4,161	-	16,557
Private equity partnerships	248,304	-	2,025	246,279
Other investments	12,185	72	-	12,113
Total investments at fair value	836,449	88,030	2,025	746,394
Investments valued using the equity method	3,765	-	-	-
Total investments	840,214	88,030	2,025	746,394
Remainder trusts	2,434	-	-	2,434
Perpetual trusts	21,708	-	-	21,708
Total assets at fair value	\$ 864,356	\$ 88,030	\$ 2,025	\$ 770,536
Liabilities				
Interest rate swap payable	\$ 11,433	\$ -	\$ 11,433	\$ -
Foreign exchange contract payable	172	-	172	-
Total liabilities at fair value	\$ 11,605	\$ -	\$ 11,605	\$ -

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The following table summarizes the College's level 3 activity for the year ended June 30, 2010

	Beginning Balance at June 30, 2009	Realized Gains (Losses)	Change in Unrealized Gains (Losses)	Net Purchases Sales and Settlements	Net Transfer in (out) of level 3	Ending Balance at June 30, 2010
Level 3 Assets						
Money market funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Due from (to) broker	1,917	323	287	(1,263)	-	1,264
Equity securities	185,300	4,162	27,942	17,395	-	234,799
Absolute return	193,037	23,808	18,516	(45,795)	-	189,566
Debt securities	47,489	-	8,379	(10,052)	-	45,816
Real estate and mortgages	19,222	(3,564)	845	54	-	16,557
Private equity partnerships	205,360	(12,485)	43,209	10,195	-	246,279
Other investments	12,594	2,423	384	(3,288)	-	12,113
Total investments	664,919	14,667	99,562	(32,754)	-	746,394
Remainder trusts	2,285	-	149	-	-	2,434
Perpetual trusts	20,589	-	1,119	-	-	21,708
Total assets at fair value	\$ 687,793	\$ 14,667	\$ 100,830	\$ (32,754)	\$ -	\$ 770,536

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

	Total	Quoted Price in Active Markets for Identical Assets level 1	Significant Other Observable Inputs level 2	Significant Unobservable Inputs level 3
Investments				
Money market funds	\$ 38,067	\$ 38,067	\$ -	\$ -
Due from (to) broker	1,858	(59)	-	1,917
Equity securities	225,989	40,689	-	185,300
Absolute return	193,037	-	-	193,037
Debt securities	55,714	8,225	-	47,489
Real estate and mortgages	22,689	3,467	-	19,222
Private equity partnerships	207,124	-	1,764	205,360
Other investments	12,594	-	-	12,594
Total investments at fair value	757,072	90,389	1,764	664,919
Remainder trusts	2,285	-	-	2,285
Perpetual trusts	20,589	-	-	20,589
Foreign exchange contract receivable	16	-	16	-
Total assets at fair value	\$ 779,962	\$ 90,389	\$ 1,780	\$ 687,793
Liabilities				
Interest rate swap payable	10,257	-	10,257	\$ -
Total liabilities at fair value	\$ 10,257	\$ -	\$ 10,257	\$ -

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The following table summarizes the College's level 3 activity for the year ended June 30, 2009.

	Beginning Balance at June 30, 2008	Realized Gains (Losses)	Change in Unrealized Gains (Losses)	Net Purchases Sales and Settlements	Net Transfer in (out) of level 3	Ending Balance at June 30, 2009
Level 3 Assets						
Money market funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Due from (to) broker	2,556	-	(639)	-	-	1,917
Equity securities	199,270	(2,286)	(34,456)	22,772	-	185,300
Absolute return	255,596	1,307	(29,933)	(33,933)	-	193,037
Debt securities	74,212	3,956	(9,908)	(20,771)	-	47,489
Real estate and mortgages	22,004	-	3,329	(6,111)	-	19,222
Private equity partnerships	225,061	(17,530)	(44,679)	42,508	-	205,360
Other investments	13,123	1,701	(633)	(1,597)	-	12,594
Total investments	791,822	(12,852)	(116,919)	2,868	-	664,919
Remainder trusts	3,201	-	(916)	-	-	2,285
Perpetual trusts	25,708	-	(5,119)	-	-	20,589
Total assets at fair value	\$ 820,731	\$ (12,852)	\$ (122,954)	\$ 2,868	\$ -	\$ 687,793

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Following is additional information related to funds whose fair value is not readily determinable as of June 30, 2010.

	Strategy	Fair Value	# of Investments	Remaining Life	\$ Amount of Unfunded Commitments	Timing to Draw Down Commitments	Redemption Terms	Redemption Restrictions	Restrictions in Place at Year End
Equity securities	Global developed and emerging market equity	\$ 234,799	2	N/A	\$ -	No remaining commitments	Ranges between daily with no notice to monthly with no notice	None	None
Absolute return	Long/short and long-biased equity and credit hedge funds	189,566	3	N/A	-	No remaining commitments	Ranges between monthly with no notice to annually	1 fund has a lock up provision of 3 years from the purchase date	None
Debt securities	High yield and long/short fixed fixed income hedge funds	45,816	3	N/A	-	No remaining commitments	Ranges from quarterly with 60 days notice to semi-annually with 90 days notice	1 fund has a lock up provision of 3 years from the purchase date; 1 fund limits annual withdrawals to one-third of original contribution	None
Real estate and mortgages	Commercial, residential, office, and industrial partnerships	16,657	10	0	629	1 to 3 years	Illiquid partnerships - cannot redeem	Illiquid partnerships - cannot redeem	Illiquid partnerships - cannot redeem
Private equity partnerships	Venture and buyout, in the U.S. and international	246,279	27	1 to 10 years	104,800	1 to 10 years	Illiquid partnerships - cannot redeem	Illiquid partnerships - cannot redeem	Illiquid partnerships - cannot redeem
Other	Natural resources partnerships, illiquid properties/securities	13,377	10	1 to 10 years	600	1 to 3 years	Illiquid partnerships/properties/securities - cannot redeem	Illiquid partnerships/properties/securities - cannot redeem	Illiquid partnerships/properties/securities - cannot redeem
		<u>\$ 746,394</u>	<u>55</u>		<u>\$ 106,029</u>				

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5. Land, Buildings, and Equipment

Land, buildings and equipment at June 30, 2010 and 2009 consist of the following:

	2010	2009
Land and land improvements	\$ 50,193	\$ 49,411
Buildings	482,363	477,441
Equipment	62,706	60,572
Equipment capital leases	17	17
Art/antiques	11,084	10,899
Construction in progress	3,054	2,530
	<u>609,417</u>	<u>600,870</u>
Less: Accumulated depreciation	<u>(248,070)</u>	<u>(226,807)</u>
	<u>\$ 361,347</u>	<u>\$ 374,063</u>

Interest costs totaling \$0 and \$1,522 were capitalized in 2010 and 2009, respectively.

Depreciation expense in 2010 and 2009 was \$21,625 and \$21,001, respectively.

As of June 30, 2010, the College has contractually committed approximately \$2,085 for future construction projects.

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6. Long-Term Debt:

Long-term debt is comprised of the following at June 30, 2010 and 2009:

	2010	2009
Vermont Educational and Health Buildings Financing Agency (VEHBFA) Series 1988A adjustable rate bonds, \$40,000 original principal, interest (2010: 0.48% - 1.75%) (2009: 0.60% - 3.40%) (uncollateralized) with annual principal payments increasing from \$785 in 2010 to \$3,140 through 2028	\$ 31,765	\$ 32,550
VEHBFA Series 1999 bonds \$60,000 original principal, (uncollateralized) due on November 1, 2038 issued at a discount, interest at 5%	-	60,000
VEHBFA Series 2002A serial bonds \$16,455 original principal, (uncollateralized) with annual principal payments increasing from \$880 in 2010 to \$1,440 in 2020, interest ranging from 4.00% - 5.25%	11,630	12,510
VEHBFA Series 2002A term bonds \$54,805 original principal, (uncollateralized) \$4,805 and \$50,000 due on November 1, 2022 and November 1, 2032, respectively, interest ranging from 5.00% - 5.375%	54,805	54,805
VEHBFA Series 2002B adjustable rate bonds, \$20,000 original principal, interest (2010: 0.50% - 1.75%) (2009: 1.75% -3.40%) (uncollateralized) due on November 1, 2032	20,000	20,000
VEHBFA Series 2006A bonds \$35,425 original principal, (uncollateralized) due October 31, 2046, issued at a premium, interest at 5%	35,425	35,425
VEHBFA Series 2008 adjustable rate bonds, \$55,260 original principal, interest (2010: 0.10% - 0.33%) (2009: 0.10% - 7.50%) (uncollateralized) with annual principal payments increasing from \$1,880 in 2010 to \$4,350 through 2027	51,600	53,480
VEHBFA Series 2009 bonds \$59,445 original principal, (uncollateralized) due on November 1, 2038 issued at a premium, interest at 5%	59,445	-
Revenue bonds issued through the California Statewide Communities Development Agency, collateralized by the Monterey Institute campus with annual principal payments increasing from \$0 in 2010 to \$2,160 in 2031, interest at 5.50%	21,525	21,525
Capitalized lease obligations, due in various amounts monthly through October 2009, interest at 8.57%	-	2
Other	997	1,103
	<u>287,192</u>	<u>291,400</u>
Less: Discount	(638)	(2,221)
Plus: Premium	3,685	1,185
	<u>\$ 290,239</u>	<u>\$ 290,364</u>

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The estimated fair value of the College's total debt is approximately \$296,000 and \$293,000 at June 30, 2010 and 2009, respectively. The fair value is estimated based on quoted market prices for the same or similar issues.

Interest Rate Swap

In connection with the Series 2008 Bonds, the College has entered into an interest rate swap transaction with an affiliate of the Goldman Sachs Group L.P. (Goldman). Under the terms of the swaption agreement, the College will pay a fixed rate of 4.76% and receive a variable rate, ranging from 65% to 100% of the 1-month London Interbank Offer Rate (LIBOR), in each case with reference to the notional amount equal to the principal amount of the 1996 bonds. Payments under the swap commenced on November 2006 and will end in November 2026.

The College has the right to terminate the swap at any time, at its sole discretion, at the then current mid-market value of the swap. Goldman can only terminate when there has been an Event of Default by the College or if and when the College is rated lower than Aa3. The termination at such time will be at the then current mid-market value of the swap as well.

As of June 30, 2010 and 2009, the fair value of the swap was a liability of \$11,433 and \$10,257, respectively, which represents the amount the College, would have to pay to terminate the agreement at the end of the fiscal year. This liability has been recorded within accounts payable on the balance sheet and within the statement of activities line item, "unrealized loss on interest rate swap."

2010 Debt Issuance

In January 2010, the College issued \$59,445 of the Vermont Educational and Health Buildings Financing Agency (VEHBFA) Revenue Refunding Bonds (Middlebury College Project) Series 2009 ("The Bonds") in a tax-exempt financing. The proceeds from this issuance were used to refund the Vermont Educational and Health Buildings Financing Agency (VEHBFA) Revenue Bonds (Middlebury College Project) Series 1999 and to cover costs of issuance. The Bonds bear interest at the rate of 5.00% per annum and will mature on November 1, 2038.

Standby Bond Purchase Agreement

The College has a standby bond purchase agreement with a bank to provide liquidity support for the Series 2008 adjustable rate bonds. In the event some or all of the bonds were tendered and not remarketed, the facility provides for the purchase of the unremarketed bonds by the bank. Any funds provided by this liquidity facility would be payable to the bank by the College no later than April 1, 2013. There have been no bonds purchased by the bank under the Agreement as of June 30, 2010.

Credit Lines

As of June 30, 2010 and 2009, the College had a \$25,000 demand line of credit with an interest rate of one month LIBOR plus 2.50%, and a \$50,000 3 year term line of credit with an interest rate of one month LIBOR plus 2.50%. At June 30, 2010 and 2009, there were no outstanding balances on these lines. The proceeds of the borrowings are to be used for short-term working capital needs, pre-funding capital projects prior to a bond issuance, or providing temporary liquidity for investment transactions.

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Debt Maturities

According to the terms of the VEHBFA bonds, the College is required to make sinking fund deposits to the bond trustee in amounts sufficient to satisfy future debt service obligations. Annual principal requirements under all long-term debt obligations as of June 30, 2010 are as follows:

2011	\$ 3,828
2012	4,448
2013	4,280
2014	4,541
2015	5,100
Thereafter	<u>264,995</u>
	<u>\$ 287,192</u>

Variable Rate Bonds

The VEHBFA Series 1988A adjustable rate bonds, the VEHBFA Series 2002B adjustable rate bonds, and the VEHBFA 2008 adjustable rate bonds provide for the bondholder to tender their bonds at the date the interest rate is adjusted during the period that such bonds bear a variable interest rate. To the extent that the College is unable to remarket the 1988A and 2002B bonds, the College would be obligated to purchase these bonds from the College's resources. With respect to the 2008 bonds, the bonds would be repurchased from the proceeds of the College's standby bond purchase agreement. The above long term debt maturities table reflects the payment of principal on these bonds according to their scheduled maturity dates. If the 1988A, 2002B, and 2008 bonds were fully tendered by the bondholders to the College as of June 30, 2010, the table of annual principal payments would become:

2011	\$ 52,758
2012	1,448
2013	52,700
2014	1,156
2015	1,525
Thereafter	<u>177,605</u>
	<u>\$ 287,192</u>

7. Retirement Plans

Retirement benefits for substantially all full-time employees of the College, excluding the Institute, are individually funded and vested under a defined contribution program with the Teachers Insurance and Annuity Association and the College Retirement Equities Fund (TIAA/CREF). Under this plan, the College makes contributions into employee accounts based upon investment allocations exercised by the employee. This plan is administered by TIAA/CREF. The College's retirement contributions related to this plan for the years ended June 30, 2010 and 2009 were approximately \$9,188 and \$9,234, respectively.

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Under a separate plan, the Institute participates in the Teachers Insurance Annuity Association and College Retirement Equity Fund (TIAA/CREF) and the Variable Annuity Life Insurance Company (VALIC) defined contribution multiemployer pension plans which cover substantially all full time employees of the Institute. The defined contribution plan requires that employees complete one year of service before being eligible for employer contributions. In addition, the employer contributions shall be determined at the discretion of the Institute. Total Institute contributions were \$963 and \$671 for the years ended June 30, 2010 and 2009, respectively.

8. Derivative Financial Investments

Foreign Currency Contracts

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

Interest Rate Swap

As previously described in Footnote 6, the College uses swaps to manage its interest rate exposure. Swaps expose the College to interest rate risk, counterparty risk, and basis risk. The College believes that the prudent use of interest rate swaps can be an effective tool in managing its debt portfolio.

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The following table lists the fair value of derivatives used by contract type as included in the statement of financial position at June 30, 2010 and 2009. This table excludes exposures relating to derivatives held indirectly through commingled investment funds:

June 30, 2010	Balance Sheet Location	Asset Derivatives		Liability Derivatives	
		Notional	Fair Value	Notional	Fair Value
Derivatives not designated as hedging instruments					
Interest rate swaps	Accounts payable and accrued expenses	\$ -	\$ -	\$ 51,225	\$ (11,433)
Foreign exchange contracts	Accounts payable and accrued expenses	-	-	2,463	(172)
Total derivatives not designated as hedging instruments			<u>\$ -</u>		<u>\$ (11,605)</u>

June 30, 2009	Balance Sheet Location	Asset Derivatives		Liability Derivatives	
		Notional	Fair Value	Notional	Fair Value
Derivatives not designated as hedging instruments					
Interest rate swaps	Accounts payable and accrued expenses	\$ -	\$ -	\$ 53,100	\$ (10,257)
Foreign exchange contracts	Accounts receivable, net	307	<u>16</u>	-	-
Total derivatives not designated as hedging instruments			<u>\$ 16</u>		<u>\$ (10,257)</u>

The following table indicates the realized and unrealized gains and losses or changes in value by contract type, as included in the statements of activities and changes in net assets for the years ended June 30, 2010 and 2009.

June 30, 2010	Balance Sheet Location	Location of Gain or (Loss) or Change in Value Recognized as Income on Derivatives	Location of Gain or (Loss) or Change in Value
			Recognized as Income on Derivatives
Derivatives not designated as hedging instruments			
Interest rate swaps	Accounts payable and accrued expenses	Unrealized loss on interest rate swap	\$ (1,176)
Foreign exchange contracts	Accounts payable and accrued expenses	Other	(188)
Total derivatives not designated as hedging instruments			<u>\$ (1,364)</u>

June 30, 2009	Balance sheet location	Location of Gain or (Loss) or Change in Value Recognized as Income on Derivatives	Location of Gain or (Loss) or Change in Value
			Recognized as Income on Derivatives
Derivatives not designated as hedging instruments			
Interest rate swaps	Accounts payable and accrued expenses	Unrealized loss on interest rate swap	\$ (2,449)
Foreign exchange contracts	N/A	Other	-
Total derivatives not designated as hedging instruments			<u>\$ (2,449)</u>

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9. Endowment

The College's endowment consists of donor restricted endowment funds and board-designated funds to function as endowment for a variety of purposes in addition to assets which have been designated for endowment, split interest agreements, and other net assets. The net assets associated with endowment funds are classified and reported based on the existence or absence of donor imposed restrictions. The Board of Trustees of the College and Institute have interpreted Vermont's and California's Uniform Prudent Management of Institutional Funds Act ("UPMIFA") statutes as requiring the preservation of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the College classifies as permanently restricted net assets, (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the College in a manner consistent with the standard of prudence prescribed by the UPMIFA statutes.

In accordance with the UPMIFA statutes, the College considers the following factors in making a determination to appropriate or accumulate endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the College and the donor restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the College
- (7) The investment policies of the College.

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The College's endowment for the years ended June 30, 2010 and 2009, delineated by net asset class and donor-restricted versus Board-designated funds were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
June 30, 2010				
Donor-restricted endowment funds	\$ -	\$ 205,231	\$ 272,183	\$ 477,414
Adjustment for funds underwater	(3,802)	3,802	-	-
Board-designated endowment funds	393,474	-	-	393,474
Total endowment funds June 30, 2010	<u>\$ 389,672</u>	<u>\$ 209,033</u>	<u>\$ 272,183</u>	<u>\$ 870,888</u>
June 30, 2009				
Donor-restricted endowment funds	\$ -	\$ 268,066	\$ 259,980	\$ 528,046
Adjustment for funds underwater	(10,823)	10,823	-	-
Board-designated endowment funds	253,714	-	-	253,714
Total endowment funds June 30, 2009	<u>\$ 242,891</u>	<u>\$ 278,889</u>	<u>\$ 259,980</u>	<u>\$ 781,760</u>

Changes in endowment

Changes to the College's endowment for the years ended June 30, 2010 and 2009 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 242,891	\$ 278,889	\$ 259,980	\$ 781,760
Investment return				
Endowment return	177,265	(61,270)	197	116,192
Other investment income	-	2,674	-	2,674
Change in value of deferred gifts	(38)	381	610	953
Total investment return	<u>177,227</u>	<u>(58,215)</u>	<u>807</u>	<u>119,819</u>
Contributions	1,602	-	8,461	10,063
Appropriation of endowment assets for spending distribution	(47,118)	(5,144)	-	(52,262)
Transfer from other funds	6,470	250	37	6,757
Transfer to designated endowment funds	1,579	274	2,898	4,751
Adjustment for funds underwater - fair value less than historic dollar value	7,021	(7,021)	-	-
Endowment net assets, end of year	<u>\$ 389,672</u>	<u>\$ 209,033</u>	<u>\$ 272,183</u>	<u>\$ 870,888</u>

Middlebury College
Notes to Consolidated Financial Statements
June 30, 2010 and 2009

(in thousands)

Net assets for the year ended June 30, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 677,859	\$ 56,704	\$ 259,378	\$ 993,941
Cumulative effect of adoption of Vermont and California UPMIFA statutes	(339,144)	339,144	-	-
Investment return				
Endowment return	(30,275)	(109,869)	254	(139,890)
Other investment income	-	(5,337)	-	(5,337)
Change in value of deferred gifts	(592)	472	(4,538)	(4,658)
Total investment return	(30,867)	(114,734)	(4,284)	(149,885)
Contributions	3,532	195	5,579	9,306
Appropriation of endowment assets for spending distribution	(53,459)	(5,708)	-	(59,167)
Transfer from designated endowment funds	(5,694)	(6,048)	(693)	(12,435)
Adjustment for funds underwater - fair value less than historic dollar value	(9,336)	9,336	-	-
Endowment net assets, end of year	<u>\$ 242,891</u>	<u>\$ 278,889</u>	<u>\$ 259,980</u>	<u>\$ 781,760</u>

Permanently Restricted Net Assets

The portion of permanent endowment funds that is required to be retained permanently either by explicit donor stipulation or by Vermont and California UPMIFA statutes at June 30, 2010 and 2009:

	2010	2009
Restricted for loan funds	\$ 3,161	\$ 3,143
Restricted for annuity and life income funds	9,888	10,568
Restricted contribution receivable	13,448	19,225
Restricted for endowment funds	245,686	227,044
	<u>\$ 272,183</u>	<u>\$ 259,980</u>

Temporarily Restricted Net Assets

	2010	2009
Portion of permanent endowment funds subject to an appropriation restriction under Vermont and California UPMIFA statutes	\$ 165,965	\$ 232,197
Restricted endowment gifts for special purposes	43,068	46,692
	<u>\$ 209,033</u>	<u>\$ 278,889</u>

Middlebury College

Notes to Consolidated Financial Statements

June 30, 2010 and 2009

(in thousands)

Underwater Endowment Funds

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the value of the initial and subsequent donor gift amounts (underwater endowments). When underwater endowments exist, any decrease in fair value below the fund's historic dollar value is recorded as a change and transfer from unrestricted net assets to temporarily restricted net assets. Cumulative transfers from unrestricted net assets to temporarily restricted net assets of the College and Institute were \$3,802 and \$10,823 as of June 30, 2010 and 2009, respectively. These resulted from unfavorable market fluctuations that occurred shortly after the investment of newly established endowments, and authorized appropriation that was deemed prudent.

Return Objectives and Risk Parameters

The College has adopted endowment investment and spending policies that provide for a predictable stream of funding to programs supported by its endowment while seeking to maintain the permanent nature of endowment assets. Under this policy, the return objective for the endowment assets, measured over a full market cycle, shall be to maximize the return against a blended index, based on the endowment's target allocation applied to the appropriate individual benchmarks. The College expects its endowment funds, over time, to generate an average rate of return sufficient to provide for its spending needs plus the rate of growth in expenses at the College, which reflects inflation pressures as well as real growth in the College's program.

Strategies Employed for Achieving Investment Objectives

To achieve its long-term rate of return objectives, the College relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized gains) and current yield (interest and dividends). The College targets a diversified asset allocation that places greater emphasis on equity-based investments to achieve its long-term objectives within prudent risk constraints.

Endowment Spending Allocation and Relationship of Spending Policy to Investment Objectives

The College's Board of Trustees approves a distribution of investment return based on the average asset value as determined at the end of the twelve prior calendar quarters. Calculations are performed for individual endowment funds at a rate of 5.0%. The corresponding calculated spending allocations are distributed monthly from the current net total or accumulated net total investment returns for individual endowment funds.

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

Middlebury College
Notes to Consolidated Financial Statements
June 30, 2010 and 2009

(in thousands)

10. Temporarily Restricted Net Assets

	2010	2009
The portion of permanent endowment funds subject to an appropriation restriction under Vermont and California UPMIFA statutes and classified as temporarily restricted net assets:	\$ 165,965	\$ 232,197
Restricted gifts for scholarship and prizes	25,204	24,400
Restricted gifts for professorships	966	1,144
Restricted gifts for special purposes	30,404	29,436
Restricted gifts for capital projects	1,754	2,672
Restricted Contribution receivable	25,534	25,415
Restricted annuity and life income gifts	11,898	12,003
	<u>\$ 261,725</u>	<u>\$ 327,267</u>

11. Commitments and Contingencies

The College has claims arising in the normal course of its operations. The College believes that the outcome of these claims will not have a material adverse effect on the financial position, activities, or cash flows of the College.

The Town of Middlebury (the "Town") is in the final stages of a bridge and road construction project known as the "Cross Street Bridge Project (the "Project)". The Project will involve the construction of a new highway bridge over Otter Creek. The College believes that a second bridge over Otter Creek will improve timely emergency response for students, faculty, staff and facilities. The College has agreed to commit itself to assist the Town in the financing by paying the Town the sum of \$300 twice per year commencing after the bridge has been fully constructed and is available for use by the public and continuing until thirty (30) years thereafter. The bridge is scheduled to be completed in the fall of 2010. The College has recorded a payable of \$9,273. The full commitment of \$18,000 was discounted at a rate of 5.00%. The first two payments totalling \$600 are due in fiscal year 2011.

Middlebury College
Notes to Consolidated Financial Statements
June 30, 2010 and 2009

(in thousands)

12. Operating Expenses

Operating expenses by natural classification for the years ended June 30, 2010 and 2009 were as follows:

	2010	2009
Salaries and wages	\$ 98,257	\$ 103,264
Employee benefits	30,639	30,254
Food	3,630	3,988
Utilities	7,131	8,660
Contracted services	11,629	11,223
Supplies	3,616	4,325
Library books and periodicals	2,196	2,124
Interest	12,634	11,643
Depreciation	21,625	21,002
Amortization	2,047	63
Travel	4,795	5,039
Taxes and insurance	2,667	2,393
Other	15,286	17,784
	<u>\$ 216,152</u>	<u>\$ 221,762</u>

13. 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, 2010 and 2009 was \$157 and \$163, respectively. Future fiscal year minimum rental payments under this lease are as follows:

2011	\$ 164
2012	171
2013	87
	<u>\$ 422</u>

14. Early Retirement Program

On February 2, 2009, the College announced a voluntary early retirement program to eligible staff members. On October 15, 2009, the College announced a second voluntary early retirement program, a voluntary separation program, and a faculty retirement incentive program. An amount of \$5,730 in termination benefits has been expensed in the accompanying financial statements in relation to these activities. As of June 30, 2010, the remaining liability was \$6,018.

15. Subsequent Event

The Trustees of the College have approved the refinancing of the following bonds: Series 1988A, 2002B, and 2008.

Middlebury College

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2010

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Middlebury Campus Expenditures	Monterey Campus Expenditures	Total Middlebury College Expenditures
Student Financial Assistance - Cluster					
Department of Education					
Direct Programs					
Federal Supplemental Education Opportunity Grant	84.007		\$ 367,839	\$ -	\$ 367,839
Federal Work Study Program	84.033		504,276	-	504,276
Federal Pell Grant Program	84.063		1,293,790	-	1,293,790
Academic Competitiveness Grant	84.375		99,900	-	99,900
National Science and Mathematics Access to Retain Talent Grant	84.376		156,000	-	156,000
Total Department of Education			<u>2,421,805</u>	<u>-</u>	<u>2,421,805</u>
Total Student Financial Aid Cluster			<u>2,421,805</u>	<u>-</u>	<u>2,421,805</u>
Research and Development - Cluster					
National Oceanic & Atmospheric Administration					
Direct Programs					
Special Oceanic and Atmospheric Research	11.460		<u>82,282</u>	<u>-</u>	<u>82,282</u>
Total National Oceanic & Atmospheric Administration - Direct			<u>82,282</u>	<u>-</u>	<u>82,282</u>
Total National Oceanic & Atmospheric Administration			<u>82,282</u>	<u>-</u>	<u>82,282</u>
Department of Health and Human Services					
Direct Programs					
Oral Diseases and Disorders Research	93.121		117,036	-	117,036
Mental Health Research Grants	93.242		140,815	-	140,815
ARRA Trans-NIH Recovery Act Research Support	93.701		21,805	-	21,805
Biomedical Research and Research Training	93.859		40,310	-	40,310
Population Research	93.864		61,511	-	61,511
Total Department of Health and Human Services - Direct			<u>381,477</u>	<u>-</u>	<u>381,477</u>
Pass-Through Programs from					
University of California at Berkeley	93.061	00006968	-	163,329	163,329
University of Vermont	93.389	2P20RR016462/P740-123	264,274	-	264,274
Total Department of Health and Human Services - Pass-Through			<u>264,274</u>	<u>163,329</u>	<u>427,603</u>
Total Department of Health and Human Services			<u>645,751</u>	<u>163,329</u>	<u>809,080</u>
National Science Foundation					
Direct Programs					
Mathematical and Physical Sciences	47.049		303,939	-	303,939
Geosciences	47.050		194,626	-	194,626
Computer and Information Science and Engineering	47.070		46,799	-	46,799
Biological Sciences	47.074		132,931	-	132,931
Social, Behavioral & Economic Sciences	47.075		133,304	-	133,304
ARRA Social, Behavioral & Sciences	47.075		72,048	-	72,048
Education and Human Resources	47.076		-	5,000	5,000
Polar Programs	47.078		50,528	-	50,528
ARRA Trans-NSF Recovery Research Support	47.082		375,728	-	375,728
Total National Science Foundation - Direct			<u>1,309,903</u>	<u>5,000</u>	<u>1,314,903</u>
Pass-Through Programs from					
Wesleyan University	47.049	AST-0647325	7,684	-	7,684
SUNY-Buffalo State	47.050	1066095-1-32918	1,598	-	1,598
University of Alaska - Fairbanks	47.074	UAF07-0105	27,794	-	27,794
University of Vermont	47.076	EPS-0701410	30,348	-	30,348
University of Vermont	47.080	EPS-0701410	23,887	-	23,887
Total National Science Foundation - Pass-Through			<u>91,311</u>	<u>-</u>	<u>91,311</u>
Total National Science Foundation			<u>1,401,214</u>	<u>5,000</u>	<u>1,406,214</u>
Department of Defense					
Direct Programs					
Collaborative Research and Development	12.114		-	1,695,082	1,695,082
Total Department of Defense- Direct			<u>-</u>	<u>1,695,082</u>	<u>1,695,082</u>
Pass-Through Programs from					
Science Applications International Corporation	12.114	4400159299	-	46,100	46,100
Total Department of Defense -Pass Through			<u>-</u>	<u>46,100</u>	<u>46,100</u>
Total Department of Defense			<u>-</u>	<u>1,741,182</u>	<u>1,741,182</u>

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

Middlebury College

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2010

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Middlebury Campus Expenditures	Monterey Campus Expenditures	Total Middlebury College Expenditures
Research and Development - Cluster, continued					
Department of State					
Direct Programs					
Program for Study of Eastern Europe and the Independent States of the Former Soviet Union	19.300		-	18,737	18,737
Total Department of State-Direct			-	18,737	18,737
Pass-Through Programs from					
Fulbright Preacademic Program	19.418	S-ECAAE-09-CA-027(CS)	-	70,645	70,645
English Language Fellows Program	19.421	MIIS-RX2050-896-08-B	-	30,407	30,407
National Council of Eurasia and East European Research	19.300	824-13	25,369	-	25,369
University of Delaware	19.300	20005	12,100	-	12,100
Total Department of State-Pass-Through			37,469	101,052	138,521
Total Department of State			37,469	119,789	157,258
United States Department of Agriculture					
Direct Programs					
Agricultural and Rural Economic Research	10.250		5,500	-	5,500
Technical Agricultural Assistance	10.960		-	165,199	165,199
Total United States Department of Agriculture - Direct			5,500	165,199	170,699
Total United States Department of Agriculture			5,500	165,199	170,699
National Aeronautics and Space Administration					
Pass-through Programs from					
Smithsonian Astrophysical Observatory	43.001	GO9-0075C	13,501	-	13,501
Smithsonian Astrophysical Observatory	43.001	G06-7073C	9,978	-	9,978
University of Vermont	43.001	NNG05GH16H	4,918	-	4,918
Jet Propulsion Laboratory	43.001	1330031	1,918	-	1,918
Space Telescope Science Institute	43.001	HST-GO-11659.01	17,651	-	17,651
Space Telescope Science Institute	43.001	HST-GO-10916.04A	9,888	-	9,888
Total National Aeronautics and Space Administration - Pass-Through			57,854	-	57,854
Total National Aeronautics and Space Administration			57,854	-	57,854
Department of Education					
Direct Programs					
Overseas Programs - Faculty Research Abroad	84.019		27,102	-	27,102
Total Department of Education - Direct			27,102	-	27,102
Total Department of Education			27,102	-	27,102
Department of Energy					
Direct Programs					
Defense Nuclear Nonproliferation Research	81.113		-	568,306	568,306
Total Department of Energy - Direct Programs			-	568,306	568,306
Pass-through Programs from					
San Diego State University	81.079	3TE155	2,061	-	2,061
Battelle Memorial Institute-Newly Independent States Program	81.113	12436-AD4	-	82,228	82,228
Battelle Memorial Institute-Newly Independent States Program	81.113	70989	-	69,793	69,793
Sandia National Laboratories-Highly Enriched Uranium Repatriation	81.113	434008	-	18,551	18,551
Sandia National Laboratories-Nonproliferation Education	81.113	731732	-	1,824	1,824
Total Department of Energy Pass-Through			2,061	172,396	174,457
Total Department of Energy			2,061	740,702	742,763
Institute of Language Instruction					
Direct Programs					
Institute for Language Instruction Translation & Interpretation Training	13.		-	943,707	943,707
DI Contracts	13.		-	142,472	142,472
Total Institute of Language Instruction-Direct			-	1,086,179	1,086,179
Total Institute of Language Instruction			-	1,086,179	1,086,179
Environmental Protection Agency					
Direct Programs					
Environmental Policy and Innovation Grants	66.611		13,189	-	13,189
Total Environmental Protection Agency-Direct			13,189	-	13,189
Total Environmental Protection Agency			13,189	-	13,189
Department of Commerce					
Direct Programs					
Measurement and Engineering Research and Standards	11.609		5,385	-	5,385
Total Department of Commerce-Direct			5,385	-	5,385
Total Department of Commerce			5,385	-	5,385
Total Research and Development Cluster			2,277,807	4,021,380	6,299,187

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

Middlebury College

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2010

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Middlebury Campus Expenditures	Monterey Campus Expenditures	Total Middlebury College Expenditures
Other Programs					
Department of Defense					
Pass-Through Programs from					
National Foreign Language Center University of Maryland	12.901	H98230-10-1-0173	7,242	-	7,242
National Foreign Language Center University of Maryland	12.901	H98230-10-1-0068	59,811	-	59,811
National Foreign Language Center University of Maryland	12.901	H98230-09-1-0269	26,854	-	26,854
National Foreign Language Center University of Maryland	12.901	H98230-09-1-0270	20,540	-	20,540
National Foreign Language Center University of Maryland	12.901	H98230-09-1-0314	15,015	-	15,015
Bryn Mawr College	12.551	U-631006-BMC-EUR	8,307	-	8,307
Total Department of Defense - Pass-Through			<u>137,769</u>	<u>-</u>	<u>137,769</u>
Total Department of Defense			<u>137,769</u>	<u>-</u>	<u>137,769</u>
Corporation for National and Community Service					
Direct Programs					
Learn and Serve America - Higher Education	94.005		<u>18,099</u>	<u>-</u>	<u>18,099</u>
Total Corporation for National and Community Service - Direct			<u>18,099</u>	<u>-</u>	<u>18,099</u>
Pass-Through Programs from					
Campus Compact New Hampshire	94.005	GH 06VSANH002	<u>20,677</u>	<u>-</u>	<u>20,677</u>
Total Corporation for National and Community Service - Pass-Through			<u>20,677</u>	<u>-</u>	<u>20,677</u>
Total Corporation for National and Community Service			<u>38,776</u>	<u>-</u>	<u>38,776</u>
National Endowment for the Arts					
Pass-Through Programs from					
Northeast Foundation for the Arts	45.025	2009-13769	<u>4,701</u>	<u>-</u>	<u>4,701</u>
Total National Endowment for the Arts - Pass-Through			<u>4,701</u>	<u>-</u>	<u>4,701</u>
Total National Endowment for the Arts			<u>4,701</u>	<u>-</u>	<u>4,701</u>
Institute of Museum and Library Services					
Pass-Through Program from					
Vermont Department of Libraries	45.310	01130_ACAD_FF09-006	<u>1,200</u>	<u>-</u>	<u>1,200</u>
Total Institute of Museum and Library Services Pass-Through			<u>1,200</u>	<u>-</u>	<u>1,200</u>
Total Institute of Museum and Library Services			<u>1,200</u>	<u>-</u>	<u>1,200</u>
Total Other Federal Assistance			<u>182,446</u>	<u>-</u>	<u>182,446</u>
Total Expenditures of Federal Awards			<u>\$ 4,882,058</u>	<u>\$ 4,021,380</u>	<u>\$ 8,903,438</u>

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

Middlebury College
Notes to Schedule of Expenditures of Federal Awards
June 30, 2010

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") summarizes the expenditures of Middlebury College (the "College") under federal government programs for the year ended June 30, 2010 using the accrual basis of accounting in accordance with the provisions of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. The College includes the expenditures of Middlebury College and the Monterey Institute of International Studies. In prior years, Middlebury College and the Monterey Institute of International Studies had separate A-133 audit performed. Effective June 30, 2010, the Monterey Institute of International Studies was merged with and into Middlebury College and one consolidated A-133 audit was performed for the year ended June 30, 2010.

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

2. Facilities and Administrative Cost Recoveries

Facilities and administrative costs are charged to federal grants and contracts at a predetermined rate. The current approved facilities and administrative cost rate for Middlebury College for the period July 1, 2008 through June 30, 2011 is 63%. The Monterey Institute of International Studies, has a separate rate for the period July 1, 2007 to June 30, 2010 of 38%. Facilities and administrative cost recoveries are reported as part of federal expenditures.

3. Federal Family Education Loan Program (84.032)

Federally guaranteed loans issued to students of the College under the Stafford Loan Program during the year ended June 30, 2010 amounted to \$18,409,154. Federally guaranteed loans issued to parents of students of the College under the PLUS Loan Program during the year ended June 30, 2010 amounted to \$3,485,762. The College is responsible only for the performance of certain administrative duties with respect to the program and, accordingly, balances and transactions relating to it are not included in the College's financial statements.

4. Federal Perkins Loan Program

	CFDA Number	Outstanding Balance at June 30, 2010	Disbursements Fiscal 2010
Federal Perkins Loan Program	84.038	\$ 19,797,908	\$ 2,354,865

The above disbursements for the Federal Perkins Loan Program include disbursements and expenditures for loans to students and administrative expenditures. The College received an allowance of \$162,174 for administrative costs for this program. There were no new federal capital contributions during the year ended June 30, 2010.

5. Subrecipients

The College passed through \$35,578 to sub-recipients in the Research and Development Cluster during the year ended June 30, 2010.

Part II
Internal Controls and Compliance

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

To the President and Fellows of
Middlebury College

We have audited the consolidated financial statements of Middlebury College (the "College") as of and for the year ended June 30, 2010, and have issued our report thereon October 18, 2010. 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. The consolidated financial statements include the activities of Middlebury College as well as Delineation Corporation, the President and Friends of Middlebury College, and International Philanthropy. The financial statements of Delineation Corporation, the President and Friends of Middlebury College, and International Philanthropy were not audited in accordance with *Government Auditing Standards*.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of the College in a separate letter dated October 18, 2010.

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

PricewaterhouseCoopers LLP

October 18, 2010

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

To the President and Fellows of
Middlebury College

Compliance

We have audited the compliance of Middlebury College (the "College") with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010, except as described in the second paragraph of this report. The College's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of the College's management. Our responsibility is to express an opinion on the College's compliance based on our audit.

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

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

In our opinion, based on our audit and the report of other auditors, the College complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 10-01 through 10-03.

Internal Control over Compliance

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

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

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

Our consideration 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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. Also, the report of the other auditors did not identify any deficiencies in internal control over compliance that they consider to be material weaknesses as defined above.

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

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

PricewaterhouseCoopers LLP

January 21, 2011

Part III

Schedule of Findings and Questioned Costs

Middlebury College
Schedule of Findings and Questioned Costs
Year Ended June 30, 2010

I. Summary of Independent Auditor's Results

Financial Statements

Type of auditor's report issued	Unqualified
Internal Control over Financial Reporting	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	None reported
Noncompliance material to the financial statements noted?	No

Federal awards

Internal control over major programs	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	None reported
Type of auditor's report issued on compliance for major program:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	Yes

Identification of major programs

CFDA Number	Name of Federal Program or Cluster
Various	Student Financial Assistance Cluster
Various	Research and Development Cluster
Dollar threshold used to distinguish between Type A and Type B programs	\$300,000
Auditee qualifies as a low-risk auditee	Yes

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

None noted.

Middlebury College
Schedule of Findings and Questioned Costs
Year Ended June 30, 2010

III. Federal Award Findings and Questioned Costs

Finding No. 10-01

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

Federal Programs Involved	Federal CFDA Number	Award Year
Federal Family Education Loans	84.032	7/1/09-6/30/10

Criteria

Per Federal Regulation 682.610(c)(2), "Unless it expects to submit its next student status confirmation report to the Secretary or guaranty agency within the next 60 days, [a school shall] notify 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 has ceased to be enrolled on at least a half-time basis."

Per the October 2009 NSLDS Enrollment Reporting Guide, Section 1.8, "The School is ultimately responsible for timely and accurate reporting, even when it uses an enrollment reporting service to submit the Enrollment Reporting files."

Condition

We selected 40 students for Student Status Confirmation Report testing.

We noted that for three out of the 40 students selected for testing, the College failed to ensure the NSLDS or lenders, servicers, and guarantors were notified of the students' withdrawal or graduation within the required time frame in accordance with federal regulations. The status changes were reported between two and thirteen days late.

Cause

The lateness of reporting the student enrollment changes was due to a misunderstanding regarding the role of the enrollment reporting service organization, the National Student Clearinghouse.

Effect

The effective administration of Title IV loans could be impacted when changes in students' status are not reported timely. Late submission of status changes could impact students' deferment eligibility, grace periods and repayment schedules, as well as the government's payment of interest subsidies.

Middlebury College
Schedule of Findings and Questioned Costs
Year Ended June 30, 2010

Recommendation

Management should review and strengthen the process used for student status change reporting by enhancing the process for ensuring that the status change is reported within the required time frame.

These procedures may include working with the National Student Clearinghouse to ensure scheduled transmissions are frequent enough to capture all status changes timely, and reviewing the reporting schedule between the National Student Clearinghouse and NSLDS to identify situations when a status change will not be reported timely so that pre-emptive corrective actions can be taken.

Additionally, management should ensure that individuals who are responsible for processing the changes via the National Student Clearinghouse website are adequately trained on the reporting requirements.

Management's Views and Corrective Action Plan

See the College's views and corrective action plan.

Middlebury College
Schedule of Findings and Questioned Costs
Year Ended June 30, 2010

Finding No. 10-02

Compliance Requirements: Special tests and provisions - Student Loan Repayments (N)

Federal Programs Involved	Federal CFDA Number	Award Year
Federal Perkins Loan	84.038	7/1/09-6/30/10

Criteria

Per Federal Regulation 674.42(b)(1), "...If a borrower withdraws from the institution without the institution's prior knowledge or fails to complete an exit counseling session as required, the institution must ensure that exit counseling is provided through either interactive electronic means or by mailing counseling materials to the borrower at the borrower's last known address within 30 days after learning that the borrower has withdrawn from the institution or failed to complete exit counseling as required."

Condition

We selected 21 students for testing.

We noted that one out of the 21 students selected for testing did not have exit interview materials sent to them within the required 30 days. The materials were sent eighteen days late.

Cause

The error was caused by an oversight of College personnel.

Effect

The exit interview was performed late.

Recommendation

Management should enhance the process to ensure that exit interviews are held within the required timeframe.

Management's Views and Corrective Action Plan

See the College's views and corrective action plan.

Middlebury College
Schedule of Findings and Questioned Costs
Year Ended June 30, 2010

Finding No. 10-03

Compliance Requirements: Reporting (L)

Federal Programs Involved	Federal CFDA Number	Award Number	Award Year
NASA	43.001	G06-7073C	9/23/05-12/31/09

Criteria

Per the Chandra General Observer Program Report Filing Guide, a final "Program Performance Report" is due 90 days after the expiration date of this award.

Condition

We selected a total of 17 reports, across multiple agencies for testing.

We noted that for one out of the 17 reports, the report was not filed by the due date. The report was filed 71 days late.

Cause

The lateness was caused by an oversight by the principal investigator.

Effect

The pass-through entity did not receive the required information in accordance with the policy.

Amount of Questioned Costs

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

Recommendation

We recommend that the College prepare and file all reports in a timely manner to comply with federal requirements. We recommend that the College develop a tracking program such that upon receipt of an award, report due dates are entered so that reminder notices can be sent to the principal investigators 30 days prior to a due date.

Management's Views and Corrective Action Plan

See the College's views and corrective action plan.



Middlebury

Middlebury College
Middlebury, Vermont 05753

Middlebury College – Finding 10-01

The College has implemented the following procedures related to Finding 10-01 to ensure ‘Student Status Confirmation Reporting’ is completed by Clearinghouse within regulatory timeframe.

Corrective plan for enrollment reporting:

- Revised reporting schedule to Clearinghouse
- Manually entering all Spring withdrawals between Fall and Spring reporting
- Bi-annual meetings with Commons Deans, Registrar and Student Financial Services

Middlebury College – Finding 10-02

The College has implemented the following procedures related to Finding 10-02 to ensure ‘Perkins exit materials are forwarded to students within 30 days of notification of withdrawal’

Corrective plan for exit mailings since December 2009

- Electronic Exits with Campus Partners live

Kim Downs-Burns
Associate Vice President for Student Financial Services
Middlebury College
(802) 443-5158



Middlebury

Middlebury College
Middlebury, Vermont 05753

Middlebury College – Finding 10-03

The College will implement the following procedures related to Finding 10-03 to ensure the timely filing of Progress Reports by the Principal Investigators:

Corrective plan for reporting:

- Principal Investigators are responsible for timely filing of progress reports
- Finance and Sponsored Research offices will develop a process for monitoring progress report filings and will follow up with principal investigators to ensure report are filed timely
- Finance will use the National Science Foundation and National Institutes of Health electronic tracking systems for monitoring the filing of progress reports and will work with the principal investigators to utilize this system

Cindy R. Wemette
Controller
Middlebury College
(802) 443-5373



Middlebury

Middlebury College
Middlebury, Vermont 05753

Prior Year Update

Middlebury College – Finding 09-01

The College has implemented the following procedures related to Finding 09-01 in FY09 Audit to ensure Perkins exit documentation is completed with 30 days of notification of withdrawal of students:

- Electronic Exits with Campus Partners are live and exit materials have been forwarded to students with 30 days of notification of date of withdrawal since December 2009.

Monterey Institute of International Studies – Finding 09-01

The Institute has implemented the following procedures related to Finding 09-01 in FY09 Audit to ensure timely reporting with the National Student Loan Data System:

- The Institute has revised and implemented a new schedule for submissions to the National Student Loan Data System to ensure filing within the 60 day period.

Kim Downs-Burns
Associate Vice President for Student Financial Services
Middlebury College
(802) 443-5158