Middlebury College

Consolidated Financial Statements
June 30, 2010 and 2009

Middlebury College
Index
June 30, 2010 and 2009

	Page(s)
Report of Independent Auditors	1
Consolidated Financial Statements	
Statements of Financial Position	2
Statements of Activities	3–4
Statements of Cash Flows	5
Notes to Consolidated Financial Statements	6–31

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

Report of Independent Auditors

To the 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

October 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	$ 1,326,187	$ 1,245,779
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	397,296	382,062
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	928,891	863,717
Total liabilities and net assets	$ 1,326,187	$ 1,245,779

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	(31,880)	(34,954)
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	35,522	46,209
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	11,805	(4,820)
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	$ 25,712	$ 10,265
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

(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.

(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.

(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.

(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

(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.

(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.

(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.

(in thousands)

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	10,299	10,380
	44,469	53,785
Less: Discount and allowance	(5,487)	(7,087)
	$ 38,982	$ 46,698

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.

(in thousands)

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
	$ 774,908	$ 65,306	$ 840,214

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
	$ 690,691	$ 66,381	$ 757,072

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.

(in thousands)

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)
	$ 120,461	$ (144,589)

(in thousands)

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	$ -

(in thousands)

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	$ -

(in thousands)

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

(in thousands)

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	16,557	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
		$ 746,394	55		$ 106,029				

(in thousands)

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
	609,417	600,870
Less: Accumulated depreciation	(248,070)	(226,807)
	$ 361,347	$ 374,063

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.

(in thousands)

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
	287,192	291,400
Less: Discount	(638)	(2,221)
Plus: Premium	3,685	1,185
	$ 290,239	$ 290,364

(in thousands)

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.

(in thousands)

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		264,995
	$	287,192

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		177,605
	$	287,192

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.

(in thousands)

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.

(in thousands)

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 Notional	Asset Derivatives Fair Value	Liability Derivatives Notional	Liability Derivatives 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			$ -		$ (11,605)

June 30, 2009	Balance Sheet Location	Asset Derivatives Notional	Asset Derivatives Fair Value	Liability Derivatives Notional	Liability Derivatives 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	16	-	-
Total derivatives not designated as hedging instruments			$ 16		$ (10,257)

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			$ (1,364)

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			$ (2,449)

(in thousands)

9. Endowment

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

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

(1) The duration and preservation of the fund

(2) The purposes of the College and the donor restricted endowment fund

(3) General economic conditions

(4) The possible effect of inflation and deflation

(5) The expected total return from income and the appreciation of investments

(6) Other resources of the College

(7) The investment policies of the College.

(in thousands)

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	$ 389,672	$ 209,033	$ 272,183	$ 870,888
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	$ 242,891	$ 278,889	$ 259,980	$ 781,760

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	177,227	(58,215)	807	119,819
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	$ 389,672	$ 209,033	$ 272,183	$ 870,888

(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	$ 242,891	$ 278,889	$ 259,980	$ 781,760

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
	$ 272,183	$ 259,980

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
	$ 209,033	$ 278,889

(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.

(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
	$ 261,725	$ 327,267

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.

(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
	$ 216,152	$ 221,762

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
	$ 422

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.