Middlebury College

Consolidated Financial Statements
President and Friends of Middlebury College
The Monterey Institute of International Studies
International Philanthropy
Delineation Corporation
June 30, 2008 and 2007

Middlebury College
Index
June 30, 2008 and 2007

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
125 High Street
Boston MA 02110
Telephone (617) 530 5000
Facsimile (617) 530 5001

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 cash flows present fairly, in all material respects, the financial position of Middlebury College (the "College") at June 30, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the 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 14, 2008

Middlebury College
Consolidated Statements of Financial Position
June 30, 2008 and 2007

(in thousands)	2008	2007
Assets		
Cash and cash equivalents	$ 3,830	$ 14,108
Accounts receivable, net (Note 3)	4,943	3,918
Contributions receivable, net (Note 3)	54,120	51,053
Inventories, prepaid expenses and other assets	3,887	4,374
Deposits with bond trustees	13,532	24,808
Notes receivable, net (Note 3)	23,795	21,838
Investments (Note 4)	964,010	1,030,211
Contributions receivable from remainder trusts	3,201	3,344
Interest in perpetual trusts held by others	25,708	27,886
Land, buildings and equipment, net (Note 5)	367,610	348,995
Total assets	$ 1,464,636	$ 1,530,535
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	$ 39,052	$ 31,247
Funds held for others	4,374	4,266
Deferred revenue	18,029	19,037
Annuities and other split interest obligations	20,637	21,606
Refundable government loan funds	13,395	13,395
Long-term debt (Note 4)	295,119	298,367
Total liabilities	390,606	387,918
Commitments and contingencies (Note 10)		
Net assets		
Unrestricted	707,031	771,441
Temporarily restricted (Note 8)	107,621	118,808
Permanently restricted (Note 9)	259,378	252,368
Total net assets	1,074,030	1,142,617
Total liabilities and net assets	$ 1,464,636	$ 1,530,535

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

Middlebury College
Consolidated Statement of Activities
Year Ended June 30, 2008

(in thousands)	Unrestricted	Temporarily Restricted	Permanently Restricted	2008 Total	2007 Total
Operating revenues and other support					
Comprehensive and other student fees	$ 156,352	$ -	$ -	$ 156,352	$ 143,770
Less: Financial aid	(40,863)	-	-	(40,863)	(36,799)
Net comprehensive and other student fees	115,489	-	-	115,489	106,971
Contributions	10,498	12,879	-	23,377	23,053
Sponsored activities	8,511	-	-	8,511	10,014
Investment return					
Distribution	49,594	1,607	-	51,201	46,188
Other investment income	376	(6,307)	-	(5,931)	10,561
Other sources	12,570	60	-	12,630	12,202
Net assets released from restrictions	17,265	(17,265)	-	-	-
Total operating revenues and other support	214,303	(9,026)	-	205,277	208,989
Operating expenses					
Educational and general					
Instruction	67,287	-	-	67,287	61,771
Academic support	29,104	-	-	29,104	28,081
Student services	30,037	-	-	30,037	26,402
Institutional support	39,486	-	-	39,486	39,258
Sponsored activities	8,511	-	-	8,511	10,428
Total educational and general	174,425	-	-	174,425	165,940
Auxiliary enterprises	38,152	-	-	38,152	35,893
Other deductions	109	-	-	109	96
Total operating expenses	212,686	-	-	212,686	201,929
Change in net assets from operations	1,617	(9,026)	-	(7,409)	7,060
Nonoperating activities					
Endowment return, net of distribution	(72,675)	(5,539)	430	(77,784)	131,624
Contributions	7,405	4,341	13,240	24,986	71,273
Other investment income	568	95	-	663	829
Change in value of deferred gifts	592	1,494	(1,927)	159	2,929
Gain on swap option	-	-	-	-	824
Unrealized loss on interest rate swap	(2,548)	-	-	(2,548)	(5,260)
Campaign contributions	-	317	-	317	-
Campaign expenditures	(2,032)	-	-	(2,032)	-
Reclassification of net assets for change in donor designation	-	5,475	(5,475)	-	-
Other	2,274	(7,955)	742	(4,939)	(7,507)
Net assets released from restrictions	389	(389)	-	-	-
Total nonoperating activities	(66,027)	(2,161)	7,010	(61,178)	194,712
Increase (decrease) in net assets	(64,410)	(11,187)	7,010	(68,587)	201,772
Net assets at beginning of year	771,441	118,808	252,368	1,142,617	940,845
Net assets at end of year	$ 707,031	$ 107,621	$ 259,378	$ 1,074,030	$ 1,142,617

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

Middlebury College
Consolidated Statement of Activities
Year Ended June 30, 2007

(in thousands)	Unrestricted	Temporarily Restricted	Permanently Restricted	2007 Total
Operating revenues and other support				
Comprehensive and other student fees	$ 143,770	$ -	$ -	$ 143,770
Less: Financial aid	(36,799)	-	-	(36,799)
Net comprehensive and other student fees	106,971	-	-	106,971
Contributions	12,284	10,769	-	23,053
Sponsored activities	10,014	-	-	10,014
Investment return				
Distribution	43,932	2,256	-	46,188
Other investment income	3,221	7,340	-	10,561
Other sources	12,139	63	-	12,202
Net assets released from restrictions	15,465	(15,465)	-	-
Total operating revenues and other support	204,026	4,963	-	208,989
Operating expenses				
Educational and general				
Instruction	61,771	-	-	61,771
Academic support	28,081	-	-	28,081
Student services	26,402	-	-	26,402
Institutional support	39,258	-	-	39,258
Sponsored activities	10,428	-	-	10,428
Total educational and general	165,940	-	-	165,940
Auxiliary enterprises	35,893	-	-	35,893
Other deductions	96	-	-	96
Total operating expenses	201,929	-	-	201,929
Change in net assets from operations	2,097	4,963	-	7,060
Nonoperating activities				
Endowment return, net of distribution	119,957	11,345	322	131,624
Contributions	16,805	10,228	44,240	71,273
Other investment income	686	143	-	829
Change in value of deferred gifts	1,036	113	1,780	2,929
Gain on swap option	824	-	-	824
Unrealized loss on interest rate swap	(5,260)	-	-	(5,260)
Other	(2,885)	(5,252)	630	(7,507)
Net assets released from restrictions	3,229	(3,229)	-	-
Total nonoperating activities	134,392	13,348	46,972	194,712
Increase in net assets	136,489	18,311	46,972	201,772
Net assets at beginning of year	634,952	100,497	205,396	940,845
Net assets at end of year	$ 771,441	$ 118,808	$ 252,368	$ 1,142,617

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

Middlebury College
Consolidated Statements of Cash Flows
Years Ended June 30, 2008 and 2007

(in thousands)	2008	2007
Cash flows from operating activities		
Change in net assets	$ (68,587)	$ 201,772
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation	19,573	19,144
Amortization of bond issuance costs	90	1,400
Loss on defeasance of debt	754	418
Amortization of bond discount, net	49	1,974
Loss on disposal of buildings and equipment	223	150
Contributions receivable bad debt expense	1,421	3,005
Change in value of deferred gifts	180	2,929
Realized and unrealized losses (gains)	37,797	(179,222)
Unrealized (gain) on swap option	-	(824)
Unrealized loss on interest rate swap	2,548	5,260
Unrealized loss (gain) on contributions receivable from remainder trusts	143	(572)
Noncash contribution revenue from remainder trusts	-	(122)
Unrealized loss (gain) on interest in perpetual trusts	2,178	(3,740)
Changes in assets and liabilities that increase (decrease) cash		
Accounts receivable	(1,025)	1,693
Contributions receivable	(4,488)	(30,295)
Inventories, prepaid expenses and other	(10)	(1,273)
Accounts payable and accrued expenses	(637)	1,705
Deferred revenue	(1,008)	(6,674)
Other	-	317
Gifts in kind	(1,014)	-
Increase in liabilities related to deferred gifts	1,335	1,936
Contributions received for long-term investments	(10,714)	(36,929)
Receipt of contributed securities	(12,260)	(16,689)
Net cash used in operating activities	(33,452)	(34,637)
Cash flows from investing activities		
Proceeds from sales of investments	304,337	211,205
Purchases of investments	(275,933)	(203,207)
Sale of contributed securities	12,260	16,689
Purchases of property and equipment	(36,354)	(34,650)
Student loans granted	(5,199)	(5,642)
Student loans repaid	3,242	4,268
Funds held for others	108	591
Use of (additions to) deposit with bond trustees	11,276	(20,764)
Net cash provided by (used in) investing activities	13,737	(31,510)
Cash flows from financing activities		
Contributions and investment gain restricted for long-term investment	10,714	36,929
Payments to annuitants for deferred gifts	(2,484)	(2,530)
Proceeds from long-term debt	55,260	93,669
Payments on bonds and notes payable	(58,557)	(58,382)
Bond issue costs	(347)	(1,113)
Increase (decrease) in negative cash	4,851	(1,697)
Net cash provided by financing activities	9,437	66,876
Net (decrease) increase in cash and cash equivalents	(10,278)	729
Cash and cash equivalents at beginning of year	14,108	13,379
Cash and cash equivalents at end of year	$ 3,830	$ 14,108
Supplemental data		
Interest paid, net of interest capitalized	$ 14,306	$ 14,383
Contributed securities	12,260	16,689
Gifts in kind	1,014	-
Assets acquired and included in accounts payable	3,418	2,375

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 2,350 undergraduate students come from throughout the United States and seventy countries. Approximately 70% of the students are from outside New England.

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

The College's summer programs, enrolling more than 1,800 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.

On June 28, 2008, the College launched the Middlebury-Monterey Language Academy, a summer language immersion program for pre-college students. Over 600 students attended four-week residential camps offering Arabic, Chinese, French and Spanish at campus locations in Vermont, Massachusetts, and California.

On June 23, 2005, the trustees of Middlebury College and the Monterey Institute of International Studies ("MIIS" or the "Institute") approved a letter of intent to make MIIS an affiliate of Middlebury. The affiliation combines the strengths of two institutions renowned for their expertise in international education, language teaching, and cultural studies. Both institutions executed the affiliation agreement on December 2, 2005. As a result of this agreement, the Institute's financial position and results of operations are included in the consolidated financial statements of the College.

This affiliation allows both institutions to be at the forefront of shaping international education, based on language proficiency and cultural understanding. It also provides additional networking opportunities for students and alumni and is expected to lead to innovative research and teaching opportunities for faculty from both Middlebury and MIIS.

The Institute is a nonprofit public benefit corporation, located in Monterey, California, providing higher education in international policy studies, international business, translation and interpretation, and language education. In addition, there are three research centers at the Institute: the Center for Nonproliferation Studies, the Center for East Asian Studies, and the Center for Russian and Eurasian Studies.

Tax-Exempt Status
The College located in Middlebury, Vermont is a tax-exempt organization as described in Section 501(c)(3) of the Internal Revenue Code.

(in thousands)

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

2. Summary of Significant Accounting Policies

Basis of Statement Presentation
The financial statements consolidate Middlebury College and its affiliated corporations, herein referred to as the "College". All interentity transactions have been eliminated.

Middlebury College has four affiliated entities, The Monterey Institute of International Studies, the Delineation Corporation (the "Corporation"), the President and Friends of Middlebury College and the International Philanthropy. The Monterey Institute of International Studies is a California nonprofit corporation affiliated with the College. The Delineation 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 was formed for the purpose of recording catering and retail dining operations of the College. International Philanthropy is a nonprofit for the purpose of receiving international contributions from international sources.

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

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the 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.

Unrestricted Net Assets - Net assets not subject to donor-imposed stipulations.

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

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 operations such as dining services, residential halls, College bookstore, Snowbowl and the golf course. Revenues from auxiliary enterprises, except for the revenue from residential and dining halls is included in other sources of operating revenues in the statement of activities.

(in thousands)

The revenues derived from residential and dining halls are included in the comprehensive fee.

Other sources of operating revenues consist primarily of revenues from the College bookstore, golf course, Snowbowl, catering and snack bars, real estate rentals, laundry, photocopy and vending machines. 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 pay for past service, net assets released from restriction for nonoperating purposes and the change in value of deferred gifts.

Use of Estimates
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents
Cash and cash equivalents include interest-bearing money market accounts not held for investment purposes. Cash equivalents have scheduled maturities of less than three months at the date of purchase and amount to $3,830 and $14,108 at June 30, 2008 and 2007, respectively.

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

Land, Buildings and Equipment, Net
Land, buildings, equipment, arts and antiques are recorded at cost at date of acquisition or fair value at date of gift. Depreciation is computed on the straight-line method by category as follows:

Category	Range of Estimated Useful Lives (Years)
Land improvements	25
Buildings and Middlebury houses	20-60
Equipment	3-20

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

Conditional Asset Retirement Obligations
Asset retirement obligations ("ARO") are legal obligations associated with the retirement of long-lived assets. These liabilities are initially recorded at fair value and the related asset retirement costs are capitalized by increasing the carrying amount of the related assets by the same amount as the liability. Asset retirement costs are subsequently depreciated over the useful lives of the related assets. Subsequent to initial recognition, the 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 adjusts ARO liabilities when the related obligations are settled. A liability has been recorded and included in accrued expenses of $3,143 and $3,052 at June 30, 2008 and 2007, respectively.

(in thousands)

Deferred Revenue
Deferred revenue consists 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.

Refundable Government Loan Funds
This liability represents 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 notes receivable to the College and 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 notes receivable because they are primarily federally sponsored student loans with U.S. government mandated interest rates and repayment terms and are subject to significant restrictions as to their transfer and disposition.

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

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

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

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

Contributions Receivable from Remainder Trusts
Several 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 include 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 their fair value as of the date of the gift, and adjusted to fair value at year-end.

Annuities and Other Split Interest Obligations
Some 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 classified 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.

Deposits with Trustees
In connection with the issuance of long-term debt, both the College and Institute are required to maintain certain funds in a restricted account. The funds maintained by the Institute are reserved and withdrawn solely for the purpose of making up any deficiency in the bond fund including amounts for the repayment or redemption of all bonds then outstanding. The College was required to deposit the proceeds from the 2006 Revenue Bonds Series A into this account to fund ongoing construction projects (Note 4). The amount remaining in this account is the amount left to draw down by the College. Deposits with trustees are carried at cost which approximates fair value.

Derivatives
The College accounts for derivative financial instruments under Statement of Financial Accounting Standards ("SFAS") No. 133, *Accounting for Derivatives and Hedging Activities*, and SFAS No. 149, Amendment of SFAS No. 133 on *Derivative Instruments and Hedging Activities*, as amended. Under the provisions of SFAS No. 133, all derivatives except those qualifying for the normal purchase/normal sale exception are recognized on the balance sheet at fair value. Fair value is determined using current quoted market prices. 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 have met the normal purchase/normal sale exception under SFAS 133 and, therefore, have not been recorded on the College's statement of financial position. The College has also entered into foreign currency contracts, a swap option agreement and an interest rate swap which have been recorded on the College's statement of financial position (Notes 4 and 7). The College has also purchased and written put options on the S&P 500 index to hedge against an equity market downturn. These options are recorded on the balance sheet at fair value.

Estimated Fair Value of Financial Instruments
The estimated fair value of the College's financial instruments approximates the carrying amount reported in the statements of financial position for cash and cash equivalents, investments, deposits with bond trustees, and accounts receivable and payable, except for certain investments and long-term debt (Note 4) and notes receivable (Note 3).

(in thousands)

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

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

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

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.

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 which is evaluated during periodic inventories. Interest is allocated based on specific identification of the use of debt proceeds.

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 2012.

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

The College has reclassified certain balances in the 2007 statement of cash flows to appropriately reflect the receipt of donated securities as a noncash transaction, and subsequent sale as an investing transaction, in accordance with *SFAS No. 95, Statement of Cash Flows*, and the payment of debt issue costs in accordance with EITF No. 95-13, *Classification of Debt Issue Costs in the Statement of Cash flows*.

(in thousands)

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 were $294 and $333 at June 30, 2008 and 2007, respectively.

Contributions Receivable

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

	2008	2007
Due less than one year	$ 19,236	$ 17,150
One to five years	32,615	34,212
More than five years	15,270	14,817
	67,121	66,179
Less: Discount and allowance	(13,001)	(15,126)
	$ 54,120	$ 51,053

The allowance for uncollectible contributions receivable are $4,212 and $4,462 at June 30, 2008 and 2007, respectively.

As of June 30, 2008 and 2007, the College received conditional promises to give of $27,000 and $32,000, 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, 2008, the College has recognized $23,000 towards this pledge from the donor. The remaining portion of the conditional pledge will be fulfilled as future fund-raising goals are reached over the next six years.

The Institute received a conditional challenge pledge of $3,000 in December 2007. The intention of the gift is to encourage more contributions of all sizes to the Institute. As of June 30, 2008, the Institute has recognized $1,613 towards this pledge. The remaining portion of the conditional pledge will be fulfilled as future fund-raising goals are reached over the next years.

Notes Receivable

Notes receivable represents amounts due from students for federal and college approved loans. The provision for uncollectible amounts are $1,102 and $1,150 at June 30, 2008 and 2007, respectively.

(in thousands)

4. Financial Instruments

Investments

The College's investments are recorded in the following manner:

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

The major portion of investments are pooled for investment purposes. Shares in the pool are assigned on the basis of market value at the time the funds to be invested are received. Income is distributed thereafter on a per-share basis.

Investment Shares

The following table summarizes the status and results of pooled investments at June 30, 2008 and 2007:

	2008	2007
Number of principal shares (not in thousands)	595,834.149	582,458.155
Market value per share (not in thousands)	$ 1,463.577	$ 1,591.298
Distribution per share (not in thousands)	$ 75.17	$ 75.86

As of June 30, 2008 and 2007, the difference between distribution per share and dividends and interest earned per share was funded by realized gains of $45,681 and $44,047. During 2008 and 2007, distributions totaling $430 and $322, respectively, were added back to the 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.

(in thousands)

The components of total investment return from all sources consist of the following at June 30, 2008 and 2007:

	2008	2007
Interest, dividends, and other income	$ 5,946	$ 9,980
Realized gains, net	85,736	59,324
Change in unrealized gains, net	(123,533)	119,898
	$ (31,851)	$ 189,202

Direct, external investment management fees were $4,064 and $4,113 in 2008 and 2007, 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.

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

	As Recorded		
2008	**Pooled**	**Separately Invested**	**Total at Fair Value**
Money market funds	$ 25,722	$ 5,762	$ 31,484
Due from broker	15,808	-	15,808
Equity securities	241,568	54,609	296,177
Absolute return	255,596	-	255,596
Debt securities	68,038	6,090	74,128
Real estate and mortgages	19,082	17,682	36,764
Private equity partnerships, fair value basis	221,985	-	221,985
Other investments	24,250	7,818	32,068
	$ 872,049	$ 91,961	$ 964,010

	As Recorded		
2007	**Pooled**	**Separately Invested**	**Total at Fair Value**
Money market funds	$ 15,774	$ 10,631	$ 26,405
Due from broker	3,128	-	3,128
Equity securities	334,890	62,712	397,602
Absolute return	311,773	-	311,773
Debt securities	55,549	14,900	70,449
Real estate and mortgages	17,630	13,822	31,452
Private equity partnerships, fair value basis	162,347	-	162,347
Other investments	25,774	1,281	27,055
	$ 926,865	$ 103,346	$ 1,030,211

(in thousands)

Included within equity securities, absolute return, private equities and real estate are alternative investments with a market value of $846,234 and $833,626 at June 30, 2008 and 2007.

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.

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 noted above, investments in certain private equity partnerships are recorded based upon estimated fair value as determined by the general partner. The College enters into private equity partnerships with the intention of remaining invested in them until their liquidation. Because of the inherent uncertainty of valuations, the estimated values as determined by general partners and investment 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.

As of June 30, 2008 and 2007, the College had committed $240,321 and $227,932, 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. Long-term investments are liquidated as the funds are called.

The College has $161,047 and $204,403 of the investment portfolio at June 30, 2008 and 2007, respectively, invested in international securities. These investments are subject to the additional risk of currency fluctuations. Also included in investments are $48,793 and $54,130 at June 30, 2008 and 2007, respectively, for split-interest agreements.

As of June 30, 2008 and 2007, the market value attributable to certain of the College's endowment funds was less than the permanently restricted original gift in the amount of $895 and $200, respectively. In addition, the aggregate amount of the deficiencies of the Institute for all donor-restricted pooled endowment funds for which the fair value of the assets at June 30, 2008 and 2007 was less than the level required by donor stipulation, are $2,427 and $2,139, respectively (Note 10). In accordance with FASB Statement No. 124, these amounts have been recorded as a reduction in unrestricted net assets.

(in thousands)

Long-Term Debt:
Long-term debt is comprised of the following at June 30, 2008 and 2007:

	2008	2007
Adjustable rate Vermont Educational and Health Buildings Financing Agency (VEHBFA) Series 1988A bonds, $40,000 (2008: 1.90% - 3.70%) (2007: 3.16% - 3.72%) (uncollateralized) with annual principal payments increasing from $670 in 2008 to $3,140 through 2028	$ 33,280	$ 33,950
5%, $60,000 VEHBFA Series 1999 bonds (uncollateralized) due on November 1, 2038 issued at a discount	60,000	60,000
4.00% - 5.25%, $16,455 VEHBFA Series 2002A serial bonds (uncollateralized) with annual principal payments increasing from $810 in 2008 to $1,440 in 2020	13,345	14,155
5.00% - 5.375%, $54,805 VEHBFA Series 2002A term bonds (uncollateralized) $4,805 and $50,000 due on November 1, 2022 and November 1, 2032, respectively	54,805	54,805
Adjustable rate VEHBFA Series 2002B bonds, $20,000 (2008: 3.40% - 3.58%) (2007; 3.16% - 3.58%) (uncollateralized) due on November 1, 2032	20,000	20,000
5%, $35,425 VEHBFA Series 2006A bonds (uncollateralized), 40 year bullet with principal due 2047	35,425	35,425
Adjustable rate VEHBFA Series 2006B bonds, $56,575 (2008: 3.32% - 8.22%) (2007: 3.38% - 4.00%) (uncollateralized) with annual principal payments increasing from $1,700 in 2008 to $4,350 in 2027: redeemed March 25, 2008	-	56,575
Adjustable rate VEHBFA Series 2008 bonds, $55,260 (2008: 1.30% - 2.45%) (uncollateralized) with annual principal payments increasing from $0 in 2008 to $4,350 through 2027	55,260	-
5.50%, revenue bonds issued through the California Statewide Communities Development Agency, secured by the Monterey Institute campus with annual principal payments increasing from $0 in 2007 to $2,160 in 2031	21,525	21,525
6.00%, First National Bank of Central California Agreement, subordinate to the revenue bonds issued through the California Statewide Communities Development Agency, term loan, with annual principal payments increasing from $375 in 2007 to $475 in 2011	1,352	1,750
8.57%, capitalized lease obligations, due in various amounts monthly through October 2009	5	9
Other	1,209	1,309
	296,206	299,503
Less discount, net	(1,087)	(1,136)
	$ 295,119	$ 298,367

(in thousands)

The estimated fair value of the College's total existing debt is approximately $295,000 at June 30, 2008. The fair value is estimated based on quoted market prices for the same or similar issues.

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 over the next five years under all long-term debt obligations are as follows:

2009	$ 3,884
2010	4,101
2011	4,303
2012	4,449
2013	4,280
Thereafter	275,189
	$ 296,206

2006 Debt Issuance and Interest Rate Swap

In November 2006, the College issued $92,000 of the Vermont Educational and Health Buildings Financing Agency (VEHBFA) Revenue Bond (Middlebury College Project) Series 2006 in a tax-exempt bond backed financing. The new debt was issued in two series. The $35,425, 5.00% Series A bonds were used to fund the current acquisition, construction, renovation, and equipping of the College's existing facilities, including the renovation of the College's Starr Library to the Axinn Center, site development for the Axinn Center, construction of a new biomass gasification heating and power system and other various improvements. The $56,575 Series B bonds were used to refund the Series 1996 bonds in the amount of $56,520.

In connection with the Series B 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 swap is subject to termination prior to the scheduled termination date noted above.

As of June 30, 2008 and 2007, the fair value of the swap was $7,808 and $5,260 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."

2008 Debt Issuance

On February 21, 2008, the College gave notice that it would be exercising its option to redeem, on March 25, 2008, the $54,875 of outstanding Series 2006B Bonds. These bonds were 7-day auction rate securities, guaranteed by Ambac Assurance Corporation, the principal operating subsidiary of Ambac Financial Corporation. The redemption was pursued due to the deterioration in the auction rate securities market during fiscal 2008, and the resulting higher variable interest rates the College was paying on the Series 2006B bonds.

(in thousands)

On March 25, 2008, the College redeemed the Series 2006B bonds using funds drawn down from a short-term line of credit with TD Banknorth. Bond issue costs of $754 were recognized in fiscal 2008.

On April 1, 2008 the College issued $55,260 of VEHBFA Revenue Bonds (Middlebury College Project) Series 2008 in a tax-exempt financing, the proceeds of which were used to pay off the line of credit and cover costs of issuance. The term of the issue is 18 years to closely match the amortization schedule of the refunded Series 2006B bonds, upon which the existing interest rate swap is based. These new bonds are weekly resetting variable rate bonds on which the interest is paid monthly. Bond issue costs of $347 have been deferred in fiscal 2008.

Credit Line
As of June 30, 2008, the College, excluding the Institute, had a $25,000 line of credit with an interest rate of one month LIBOR plus 0.75%. At June 30, 2008 and 2007, there was no outstanding balance. 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.

As part of entering into the affiliation with Middlebury College, the Institute entered into a forbearance agreement with the First National Bank, on which they had owed $2,150. The Institute is accruing interest on this agreement and payments are due every December over the next three years at a rate of 6%. The first payment was made in December 2005.

5. Land, Buildings and Equipment

Land, buildings and equipment of the College at June 30, 2008 and 2007 consisted of the following:

	2008	2007
Land and land improvements	$ 45,623	$ 44,720
Buildings	448,473	409,547
Equipment	51,892	47,928
Equipment capital leases	17	17
Art/antiques	10,527	10,279
Construction in progress	17,005	25,601
	573,537	538,092
Less accumulated depreciation	(205,927)	(189,097)
	$ 367,610	$ 348,995

Interest costs totaling $1,372 and $707 were capitalized as of June 30, 2008 and 2007, respectively.

Total depreciation expense as of June 30, 2008 and 2007 was $19,573 and $19,144, respectively.

(in thousands)

The College had total disposals, net of accumulated depreciation of $2,743 and $358 as of June 30, 2008 and 2007. These costs have been recorded in "nonoperating activities - other" in the College's statement of activities.

As of June 30, 2008, the College has contractually committed approximately $3,710 for future construction projects.

6. Retirement Plan

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 options exercised by the employee. This plan is administered by TIAA/CREF. The College's retirement expense related to this plan for the years ended June 30, 2008 and 2007 was approximately $8,761 and $8,160, respectively.

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 $453 and $313 for the years ended June 30, 2008 and 2007, respectively.

7. 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 foreign 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 market value of a forward currency contract fluctuates with changes in forward 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. The notional amount of the currencies the College has committed to buy is $724 and $1,050, respectively, at June 30, 2008 and 2007. The fair value of these contracts, included in accounts receivable, is $16 and $6, respectively, at June 30, 2008 and 2007.

December 2003 Swap Option

In December 2003, the College sold an option to an affiliate of the Goldman Sachs Group, L.P. (Goldman) to initiate an interest rate swap with the College on November 1, 2006, the first call date of the 1996 bonds. This transaction was not entered into for speculative purposes, but rather for the purpose of facilitating a current refunding of the College's 1996 bonds. On November 1, 2006 the counterparty exercised the option to the interest rate swap and the College refunded its 1996 bonds, issued new variable rate refunding bonds, and simultaneously entered into the floating-to-fixed interest rate swap.

(in thousands)

The College received an upfront premium payment of $4,265 for selling the option to initiate a swap ("swaption"). Through June 2006, this amount was recorded as deferred revenue on the College's Statement of Financial Position. Upon the exercise of this option in 2007, the College recognized the amount previously deferred as nonoperating revenue.

8. Temporarily Restricted Net Assets

	2008	2007
Gifts and other unexpended revenues available for scholarships and prizes	$ 29,604	$ 47,952
Gifts and other unexpended revenues for professorships	1,945	3,579
Gifts and other unexpended revenues for special purposes	32,806	27,460
Gifts and other unexpended revenues for capital projects	3,975	4,788
Contributions receivable	27,688	24,032
Annuity and life income funds	11,603	10,997
	$ 107,621	$ 118,808

9. Permanently Restricted Net Assets

	2008	2007
Donor-restricted loan funds	$ 3,123	$ 3,103
Annuity and life income funds	10,380	8,593
Contributions receivable	26,432	27,021
Donor-restricted endowment funds	219,443	213,651
	$ 259,378	$ 252,368

10. Commitments and Contingencies

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

The Town of Middlebury ("Town") is in the planning stages of a bridge and road construction project known as the "Cross Street Bridge Project" ("Project"). The Project will involve the construction of a new highway bridge over the Otter Creek. The College believes that a second bridge over the Otter Creek will improve timely emergency response for students, faculty and staff. The total cost of the Project is estimated at $16,000 and the Town has voted to finance the construction of the Project with a $16,000 bond. The College has agreed to commit itself to assist the Town in the financing by paying the Town the sum of $600 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.

(in thousands)

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

11. Related Party Transaction

During fiscal year 2007, the Institute received a contribution from a trustee and a related party for the purchase of real property. As part of this agreement, there was also a note payable issued for $1,250 with the donor for improvements to be made to the property by the Institute. The total amount outstanding at June 30, 2008 and 2007 is $400. This note payable has been issued on a nonrecourse basis and is secured by the aforementioned property purchased. The term of this note payable is 5 years.

12. Operating Expenses

Operating expenses for the years ended June 30, 2008 and 2007 were classified as follows:

	2008	2007
Salaries and wages	$ 98,247	$ 91,300
Employee benefits	28,246	27,127
Food	4,057	4,162
Utilities	8,291	6,975
Repairs and maintenance	3,065	3,189
Contracted services	7,841	6,311
Supplies	4,963	4,799
Library books and periodicals	2,294	2,282
Interest	12,241	13,221
Depreciation	19,573	19,144
Amortization	62	61
Travel	5,908	5,261
Taxes and insurance	2,303	2,137
Other	15,595	15,960
	$ 212,686	$ 201,929

(in thousands)

13. Leases

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

2009	$	150
2010		157
2011		164
2012		84
	$	555

14. Subsequent Events

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

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

The College works with various counterparties in the management of its investments and cash. In late September and early October 2008, the College was notified by the Commonfund that the Commonfund Short Term Fund would be liquidated. To ensure an orderly liquidation of the fund, a plan was instituted to restrict the withdrawals from the fund. As of October 6, 2008 the College is only able to withdraw up to a certain percent of its investments. Balances in such funds were $5,952 and $2,491 as of June 30th, 2008 and 2007, respectively, and $8,384 as of October 6, 2008.