Middlebury College

Consolidated Financial Statements
The Monterey Institute of International Studies
President and Friends of Middlebury College
International Philanthropy
Delineation Corporation
June 30, 2007 and 2006

Middlebury College
Index
June 30, 2007 and 2006

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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, 2007 and 2006, and the changes in its net assets and its cash flows for the year 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 13 to the financial statements, the College adopted the provisions of Financial Accounting Standards Board Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations (an interpretation of FASB Statement No. 143)*.

PricewaterhouseCoopers LLP

September 19, 2007

Middlebury College
Consolidated Statements of Financial Position
June 30, 2007 and 2006

(in thousands)	2007	2006
Assets		
Cash and cash equivalents	$ 14,128	$ 13,379
Accounts receivable, net (Note 3)	3,918	5,611
Contributions receivable, net (Note 3)	51,053	23,763
Inventories, prepaid expenses and other assets	4,374	3,807
Deposits with bond trustees	24,808	4,044
Notes receivable, net (Note 3)	21,838	20,464
Investments (Note 4)	1,030,109	858,885
Contributions receivable from remainder trusts	3,426	2,752
Interest in perpetual trusts held by others	27,886	24,146
Land, buildings and equipment, net (Note 5)	348,995	332,169
Total assets	$ 1,530,535	$ 1,289,020
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	$ 31,247	$ 25,333
Funds held for others	4,266	3,675
Deferred revenue	19,037	25,711
Annuities and other split interest obligations	21,606	19,271
Refundable government loan funds	13,395	13,079
Long-term debt (Note 4)	298,367	261,106
Total liabilities	387,918	348,175
Commitments and contingencies (Note 10)		
Net assets		
Unrestricted	771,441	634,952
Temporarily restricted (Note 8)	118,808	100,497
Permanently restricted (Note 9)	252,368	205,396
Total net assets	1,142,617	940,845
Total liabilities and net assets	$ 1,530,535	$ 1,289,020

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	2006 Total
Operating revenues and other support					
Comprehensive and other student fees	$ 143,770	$ -	$ -	$ 143,770	$ 137,454
Less: Financial aid	(37,789)	-	-	(37,789)	(32,790)
Net comprehensive and other student fees	105,981	-	-	105,981	104,664
Contributions	12,284	10,769	-	23,053	31,649
Sponsored activities	10,014	-	-	10,014	9,778
Investment return					
Distribution	43,932	2,256	-	46,188	45,042
Other investment income	3,221	7,340	-	10,561	3,472
Other sources	12,139	63	-	12,202	11,026
Net assets released from restrictions	15,465	(15,465)	-	-	-
Total operating revenues and other support	203,036	4,963	-	207,999	205,631
Operating expenses					
Educational and general					
Instruction	61,455	-	-	61,455	57,204
Academic support	28,062	-	-	28,062	25,042
Student services	25,393	-	-	25,393	24,354
Institutional support	39,370	-	-	39,370	40,973
Sponsored activities	10,428	-	-	10,428	10,318
Total educational and general	164,708	-	-	164,708	157,891
Auxiliary enterprises	36,135	-	-	36,135	35,029
Other deductions	96	-	-	96	84
Total operating expenses	200,939	-	-	200,939	193,004
Change in net assets from operations	2,097	4,963	-	7,060	12,627
Nonoperating activities					
Endowment return, net of distribution	119,957	11,345	322	131,624	46,143
Contributions	16,805	10,228	44,240	71,273	20,323
Other investment income	686	143	-	829	811
Change in value of deferred gifts	1,036	113	1,780	2,929	3,516
Gain (loss) on swap option	824	-	-	824	3,607
Unrealized loss on interest rate swap	(5,260)	-	-	(5,260)	-
Other	(2,885)	(5,252)	630	(7,507)	560
Net assets released from restrictions	3,229	(3,229)	-	-	-
Total nonoperating activities	134,392	13,348	46,972	194,712	74,960
Increase (decrease) in net assets before cumulative effect of change in accounting principle	136,489	18,311	46,972	201,772	87,587
Cumulative effect of change in accounting principle (Note 13)	-	-	-	-	(2,702)
Increase (decrease) in net assets after cumulative effect of change in accounting principle	136,489	18,311	46,972	201,772	84,885
Net assets at beginning of year	634,952	100,497	205,396	940,845	855,960
Net assets at end of year	$ 771,441	$ 118,808	$ 252,368	$ 1,142,617	$ 940,845

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

Middlebury College
Consolidated Statement of Activities
Year Ended June 30, 2006

(in thousands)	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating revenues and other support				
Comprehensive and other student fees	$ 137,454	$ -	$ -	$ 137,454
Less: Financial aid	(32,790)	-	-	(32,790)
Net comprehensive and other student fees	104,664	-	-	104,664
Contributions	9,361	22,288	-	31,649
Sponsored activities	9,778	-	-	9,778
Investment return				
Distribution	45,042	-	-	45,042
Other investment income	2,307	1,165	-	3,472
Other sources	10,887	139	-	11,026
Net assets released from restrictions	11,462	(11,462)	-	-
Total operating revenues and other support	193,501	12,130	-	205,631
Operating expenses				
Educational and general				
Instruction	57,204	-	-	57,204
Academic support	25,042	-	-	25,042
Student services	24,354	-	-	24,354
Institutional support	40,973	-	-	40,973
Sponsored activities	10,318	-	-	10,318
Total educational and general	157,891	-	-	157,891
Auxiliary enterprises	35,029	-	-	35,029
Other deductions	84	-	-	84
Total operating expenses	193,004	-	-	193,004
Change in net assets from operations	497	12,130	-	12,627
Nonoperating activities				
Endowment return, net of distribution	45,362	404	377	46,143
Contributions	9,313	373	10,637	20,323
Other investment income	579	232	-	811
Change in net asset classification	-	(1,200)	1,200	-
Change in value of deferred gifts	778	960	1,778	3,516
Gain on swap option	3,607	-	-	3,607
Other	624	(795)	731	560
Net assets released from restrictions	12,289	(12,289)	-	-
Total nonoperating activities	72,552	(12,315)	14,723	74,960
Increase (decrease) in net assets before cumulative effect of change in accounting principle	73,049	(185)	14,723	87,587
Cumulative effect of change in accounting principle (Note 13)	(2,702)	-	-	(2,702)
Increase (decrease) in net assets after cumulative effect of change in accounting principle	70,347	(185)	14,723	84,885
Net assets at beginning of year	564,605	100,682	190,673	855,960
Net assets at end of year	$ 634,952	$ 100,497	$ 205,396	$ 940,845

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

Middlebury College
Consolidated Statements of Cash Flows
Years Ended June 30, 2007 and 2006

(in thousands)	2007	2006
Cash flows from operating activities		
Change in net assets	$ 201,772	$ 84,885
Adjustments to reconcile change in net assets to net cash used in operating activities		
Cumulative effect of change in accounting principle	-	2,702
Depreciation	19,144	18,654
Amortization of bond issuance costs	705	85
Amortization of bond discount	1,996	175
Amortization of bond premium	(22)	-
Loss on disposal of buildings and equipment	150	270
Contributions receivable bad debt expense	3,005	3,057
Change in value of deferred gifts	2,929	3,516
Realized and unrealized gains	(179,222)	(87,562)
Unrealized (gain) on swap option	(824)	(3,607)
Unrealized loss on interest rate swap	5,260	-
Unrealized gain on contributions receivable from remainder trusts	(674)	(92)
Unrealized gain on interest in perpetual trusts	(3,740)	(938)
Changes in assets and liabilities that increase (decrease) cash		
Accounts receivable	1,693	62
Contributions receivable	(30,295)	8,021
Inventories, prepaid expenses and other	(1,273)	271
Accounts payable and accrued expenses	1,705	(650)
Funds held for others	591	79
Deferred revenue	(6,674)	(244)
Other	317	-
Increase (decrease) in liabilities related to deferred gifts	1,936	(1,179)
Permanently restricted contributions and investment gains	(45,751)	(12,636)
Net cash provided by operating activities	(27,272)	14,869
Cash flows from investing activities		
Proceeds from sales of investments	211,205	581,453
Purchases of investments	(203,207)	(589,111)
Purchases of property and equipment	(34,650)	(15,826)
Student loans granted	(5,642)	(5,308)
Student loans repaid	4,268	5,714
Use of deposit with bond trustees	(20,764)	(281)
Net cash used in investing activities	(48,790)	(23,359)
Cash flows from financing activities		
Contributions and investment gain restricted for long-term investment	45,751	12,636
Payments to annuitants for deferred gifts	(2,530)	(2,266)
Proceeds from long-term debt	93,669	2,126
Payments on bonds and notes payable	(58,382)	(5,033)
(Decrease) increase in negative cash	(1,697)	360
Net cash provided by financing activities	76,811	7,823
Net increase (decrease) in cash and cash equivalents	749	(667)
Cash and cash equivalents at beginning of year	13,379	14,046
Cash and cash equivalents at end of year	$ 14,128	$ 13,379
Supplemental data		
Interest paid, net of interest capitalized	$ 14,383	$ 12,516
Gifts in kind	59	172
Assets acquired and included in accounts payable	2,375	905
Asset retirement obligation recognized	157	2,895
Asset retirement cost, net recognized related to asset retirement obligation	197	194

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 and China.

The College's summer programs, enrolling more than 1,800 students, consists of nine 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, and Portuguese. 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 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.

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.

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.

(in thousands)

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".

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 affiliation between Middlebury College and the Institute required a business combination that has been accounted for under the pooling of interests method as of the date of affiliation on December 2, 2005. The financial statements referred to above are those of the combined entities, Middlebury College, and its affiliates and include twelve months of activity for the year ended June 30, 2006 in the required financial statements. All interentity transactions have been appropriately eliminated.

Prior to the business combination, the Institute's revenues and change in net assets for the period from July 1, 2005 through December 2, 2005 were as follows:

Total revenue	$	10,781
Change in net assets		1,337

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.

(in thousands)

The College charges undergraduate students attending the Vermont campus a comprehensive fee which includes the cost of tuition, room and board and 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 halls is included in other sources of operating revenues in the statement of activities.

The revenues derived from residential 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 nonoperations, 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 $14,128 and $13,379 at June 30, 2007 and 2006, 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.

(in thousands)

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.

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), sponsored activity, deferred revenue, and the swaption deferred revenue (Note 7).

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% which represents the risk-free rate of return at the date when the pledges were recorded. An allowance is made for potentially uncollectible contributions based upon management's past collection experience and other relevant factors.

(in thousands)

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.

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).

(in thousands)

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).

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.

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 $333 and $352 at June 30, 2007 and 2006, respectively.

Contributions Receivable
Contributions receivable consisted of the following at June 30, 2007 and 2006:

	2007	2006
Due less than one year	$ 17,150	$ 16,031
One to five years	34,212	11,336
More than five years	14,817	100
	66,179	27,467
Less: Discount and allowance	(15,126)	(3,704)
	$ 51,053	$ 23,763

The allowance for uncollectible contributions receivable are $4,462 and $2,213 at June 30, 2007 and 2006, respectively.

(in thousands)

As of June 30, 2007 and 2006, the College received conditional promises to give of $32,000 and $38,000, 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, 2007, the College has recognized $18,000 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.

Notes Receivable
Notes receivable represents amounts due from students for federal and college approved loans. The provision for uncollectible amounts are $1,150 and $1,978 at June 30, 2007 and 2006, respectively.

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 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 in Associated Trust Funds (ATF). 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.

(in thousands)

Investment Shares

The following table summarizes the status and results of pooled investments at June 30, 2007 and 2006:

	2007	2006
Number of principal shares (not in thousands)	582,458.155	553,869.870
Market value per share (not in thousands)	$ 1,591.298	$ 1,361.521
Distribution per share (not in thousands)	$ 75.86	$ 76.71

The 2007 per share data includes the Institute as their endowment was invested in the Middlebury ATF in 2007. The Institute is not reflected in the 2006 per share data.

As of June 30, 2007 and 2006, the difference between distribution per share and dividends and interest earned per share was funded by realized gains of $44,047 and $38,794. During 2007 and 2006, distributions totaling $322 and $377, 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 ATF 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 at June 30, 2007 and 2006:

	2007	2006
Interest, dividends, and other income	$ 9,980	$ 7,906
Realized gains, net	59,324	89,220
Change in unrealized gains, net	119,898	(1,658)
	$ 189,202	$ 95,468

Direct, external investment management fees were $4,113 and $3,833 in 2007 and 2006, 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.

(in thousands)

Investments held by the College at June 30, 2007 and 2006 including pooled investments held in the Associated Trust Funds and other separately invested funds, were comprised of the following:

	As Recorded			
2007	*Pooled*	*Separately Invested*	*Total at Fair Value*	*Cost*
Money market funds	$ 15,774	$ 10,631	$ 26,405	$ 25,947
Due from broker	3,128	-	3,128	3,268
Equity securities	334,890	62,610	397,500	244,467
Absolute return	311,773	-	311,773	220,154
Debt securities	55,549	14,900	70,449	57,809
Real estate and mortgages	17,630	13,822	31,452	33,832
Private equity partnerships, fair value basis	162,347	-	162,347	134,394
Other investments	25,774	1,281	27,055	25,151
	$ 926,865	$ 103,244	$ 1,030,109	$ 745,022

	As Recorded			
2006	**Pooled**	**Separately Invested**	**Total at Fair Value**	**Cost**
Money market funds	$ 11,397	$ 1,738	$ 13,135	$ 13,134
Due from broker	2,245	-	2,245	2,245
Equity securities	294,901	51,692	346,593	223,978
Absolute return	262,253	10,333	272,586	235,431
Debt securities	56,622	13,697	70,319	61,846
Real estate and mortgages	16,496	13,622	30,118	33,970
Private equity partnerships, fair value basis	115,580	-	115,580	116,061
Other investments	6,934	1,375	8,309	7,031
	$ 766,428	$ 92,457	$ 858,885	$ 693,696

Included within equity securities, absolute return, private equities and real estate are alternative investments with a market value of $836,328 and $718,212 at June 30, 2007 and 2006.

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,

(in thousands)

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, if available, 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, 2007 and 2006, the College had committed $227,932 and $146,330, 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 $204,403 and $129,052 of the investment portfolio at June 30, 2007 and 2006, respectively, invested in international securities. These investments are subject to the additional risk of currency fluctuations.

Also included in investments are $50,439 and $42,521 at June 30, 2007 and 2006, respectively, for split-interest agreements.

As of June 30, 2007 and 2006, the market value attributable to certain of the College's endowment funds was less than the permanently restricted original gift in the amount of $200 and $353, respectively. In accordance with FASB Statement No. 124, this amount is recorded as a reduction in unrestricted net assets.

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, 2007 and 2006 was less than the level required by donor stipulation is $2,113 and $2,264, respectively (Note 10).

(in thousands)

Long-Term Debt
Long-term debt is comprised of the following at June 30, 2007 and 2006:

	2007	2006
Adjustable rate Vermont Educational and Health Buildings Financing Agency (VEHBFA) Series 1988A bonds, $40,000 (2007: 3.16% - 3.72%) (2006: 1.96% - 3.72%) (uncollateralized) with annual principal payments increasing from $620 in 2007 to $3,140 through 2028	$ 33,950	$ 34,570
5.00% - 6.00%, $65,000 VEHBFA Series 1996 bonds (uncollateralized) refunded by 2006B bonds	-	56,520
5.00%, $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 $760 in 2007 to $1,440 in 2020	14,155	14,915
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 (2007: 3.16% - 3.58%) (2006; 1.96% - 3.16%) (uncollateralized) due on November 1, 2032	20,000	20,000
5.00%, $35,425 VEHBFA Series 2006A bonds (uncollateralized), due on October 31, 2046, issued at a premium	35,425	-
Adjustable rate VEHBFA Series 2006B bonds 2007 rates 3.16% - 3.58%, $56,575 (uncollateralized) annual principal payments increasing from $0 in 2007 to $4,350 in 2027	56,575	-
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	1,750	2,125
8.57%, capitalized lease obligations, due in various amounts monthly through October 2009	9	22
Other	1,309	1,004
	299,503	265,486
Less discount	(2,384)	(4,380)
Plus premium	1,248	-
	$ 298,367	$ 261,106

(in thousands)

The estimated fair value of the College's total existing debt is approximately $302,000 at June 30, 2007. 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 at June 30, 2007 and 2006.

	2007	2006
2008	$ 3,691	$ 3,362
2009	3,870	3,704
2010	4,096	4,071
2011	4,293	4,070
2012	4,439	3,859
Thereafter	279,114	246,420
	$ 299,503	$ 265,486

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. $35,425, 5.00% Series A bonds to be 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 improvement. The $56,575 Series B bonds which was used to repay 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). The swap provides that, Goldman will pay to the College a floating rate based on the London Interbank Offered Rate (LIBOR) and the College will pay a fixed rate, 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, 2007, the fair value of the swap was $5,260, 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.

Credit Line
As of June 30, 2007, 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, 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.

(in thousands)

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 four years at a rate of 6%. The first payment was made in December 2005. As part of the affiliation, the College has agreed to loan the Institute enough funds to cover the amount due to the First National Bank. Repayment to the College will not be made until the revenue bonds have been paid in full or the College executes an irrevocable written guarantee of the revenue bonds, issued by the California Statewide Communities Development Agency, or the revenue bonds receive a rating of "BBB" or better from the rating agency up until the repayment commences.

The balance on the Institute's term loan was $1,750 as of June 30, 2007.

5. Land, Buildings and Equipment

Land, buildings and equipment of the College at June 30, 2007 and 2006 consisted of the following:

	2007	2006
Land and land improvements	$ 44,720	$ 42,128
Buildings	409,547	400,263
Equipment	47,928	41,700
Equipment capital leases	17	187
Art/antiques	10,279	10,124
Construction in progress	25,601	8,078
	538,092	502,480
Less accumulated depreciation	(189,097)	(170,311)
	$ 348,995	$ 332,169

Interest costs totaling $707 and $252 were capitalized as of June 30, 2007 and 2006, respectively.

Total depreciation expense as of June 30, 2007 and 2006 are $19,144 and $18,654, respectively.

The College had total disposals, net of accumulated depreciation of $358 and $357 as of June 30, 2007 and 2006. These costs have been recorded in "nonoperating activities - other" in the College's statement of activities.

As of June 30, 2007, the College has contractually committed approximately $1,300 for future construction projects.

(in thousands)

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, 2007 and 2006 was approximately $8,160 and $7,475, 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 $313 and $76 for the years ended June 30, 2007 and 2006, respectively.

7. Derivative Financial Investments

Foreign Currency Contracts

The College has entered into forward currency contracts to hedge the currency exposure associated with 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 $1,050 and $954, respectively, at June 30, 2007 and 2006. The fair value of these contracts, included in accounts receivable, is $6 and $75, respectively, at June 30, 2007 and 2006.

December 2003 Swap Option

In December 2003, the College sold an option to an interest rate swap counterparty selected by the Investment Committee to initiate an interest rate swap with the College on November 1, 2006, the first call date for the 1996 bonds. This transaction was not entered into for speculative purposes, but rather for facilitating a current refunding of the College's 1996 bonds. Under the terms of the swap option agreement, the College would pay a fixed rate of 4.76% and receive a variable rate, ranging from 65% to 100% of the one-month London Interbank Offer Rate (LIBOR), on a notional amount of $56,575. The College received an upfront premium payment of $4,265 for selling the option to initiate the swap which was initially deferred.

Each period the instrument had been fair valued to represent the amount the College would have to pay to terminate the agreement at any given point in time. The difference between the fair value of the transaction and the amount recorded in deferred revenue (upfront premium) had been recorded as an accrued liability within accounts payable. The amount recorded in accounts payable for the year ended June 30, 2006 was $824. The upfront premium of $4,265 was

(in thousands)

recognized in 2007 in "nonoperating revenue - other" and the amount previously recorded in accounts payable of $824 has been recognized in "gain on swap option," when the counterparty exercised the option on the interest rate swap and the College refunded its 1996 bonds, issued new variable rate refunding bonds of 56,575, and simultaneously entered into the floating-to-fixed interest rate swap (Note 4).

8. Temporarily Restricted Net Assets

	2007	2006
Gifts and other unexpended revenues available for scholarships and prizes	$ 47,952	$ 33,777
Gifts and other unexpended revenues for professorships	3,579	2,704
Gifts and other unexpended revenues for special purposes	27,460	31,989
Gifts and other unexpended revenues for capital projects	4,788	6,667
Contributions receivable	24,032	17,015
Annuity and life income funds	10,997	8,345
	$ 118,808	$ 100,497

9. Permanently Restricted Net Assets

	2007	2006
Donor-restricted loan funds	$ 3,103	$ 3,302
Annuity and life income funds	8,593	6,707
Contributions receivable	27,021	6,748
Donor-restricted endowment funds	213,651	188,639
	$ 252,368	$ 205,396

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.

In prior years, the Institute utilized a $1,500 operating reserve fund provided by a grant from one foundation to cover operating deficiencies. The agreement with the foundation is that the Institute would replenish up to $750. As of June 30, 2006, the Institute has fully funded this balance.

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. The $2,113 total amount repaid during 2007 was $125, leaving the amount due to the endowment fund $2,100.

(in thousands)

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 line of credit issued of up to $1,250 with the donor for improvements to be made to the property by the Institute. The total amount outstanding at June 30, 2007 is $400. This line of credit has been issued on a nonrecourse basis and is secured by the aforementioned property purchased. The term is 5 years.

12. Operating Expenses

Operating expenses for the years ended June 30, 2007 and 2006 were classified as follows:

	2007	2006
Salaries and wages	$ 91,300	$ 84,930
Employee benefits	27,127	25,699
Food	4,162	4,308
Utilities	6,975	6,772
Repairs and maintenance	3,189	4,377
Contracted services	6,311	7,891
Supplies	4,799	4,734
Library books and periodicals	2,282	2,125
Interest	13,221	12,699
Depreciation	19,144	18,654
Amortization	61	56
Travel	5,261	5,181
Taxes and insurance	2,137	2,143
Other	14,970	13,435
	$ 200,939	$ 193,004

13. Asset Retirement Obligations

Financial Accounting Standards Interpretation No. 47 ("FIN 47"), *Accounting for Conditional Asset Retirement Obligations (an interpretation of FASB Statement No. 143)*, was issued in March 2005. SFAS 143, *Accounting for Asset Retirement Obligations*, requires the fair value of a liability for a legal obligation associated with an asset retirement be recorded in the period in which the obligation is incurred. Upon adoption of FIN 47 on June 30, 2006, the College recognized asset retirement obligations related to potential contamination, primarily related to asbestos, on the College campus and its properties and recorded a noncash transaction impact of $2,702 which is reported as a cumulative effect of a change in accounting principle in the statement of activities. As of June 30, 2007 and 2006, the College has recorded a liability for conditional asset retirement obligations of $3,052 and $2,895, respectively.