Middlebury College

Consolidated Financial Statements
President and Friends of Middlebury College
International Philanthropy
Delineation Corporation
June 30, 2006 and 2005

Middlebury College
Index
June 30, 2006 and 2005

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 of cash flows present fairly, in all material respects, the financial position of Middlebury College (the "College") at June 30, 2006 and 2005, 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.

As discussed in Note 12 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 15, 2006

Middlebury College
Consolidated Statements of Financial Position
June 30, 2006 and 2005

(in thousands)	2006	2005
Assets		
Cash and cash equivalents	$ 11,935	$ 10,519
Accounts receivable, net (Note 3)	3,960	4,204
Contributions receivable, net (Note 3)	23,577	34,392
Inventories, prepaid expenses and other assets	2,848	3,289
Deposits with bond trustees	648	652
Notes receivable, net	14,590	15,069
Investments	846,562	759,390
Contributions receivable from remainder trusts	2,464	2,372
Interest in perpetual trusts held by others	24,146	23,208
Land, buildings and equipment, net (Note 5)	313,328	315,415
Total assets	$ 1,244,058	$ 1,168,510
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	$ 21,663	$ 23,155
Funds held for others	3,675	3,596
Deferred revenue	23,352	23,500
Annuities and other split interest obligations	19,271	19,200
Refundable government loan funds	10,835	10,936
Long-term debt (Note 4)	237,434	240,086
Total liabilities	316,230	320,473
Commitments and contingencies (Note 10)		
Net assets		
Unrestricted	636,144	569,354
Temporarily restricted (Note 8)	92,577	92,484
Permanently restricted (Note 9)	199,107	186,199
Total net assets	927,828	848,037
Total liabilities and net assets	$ 1,244,058	$ 1,168,510

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

Middlebury College
Consolidated Statements of Activities
Year Ended June 30, 2006
(with comparative totals for the year ended June 30, 2005)

	2006				
(in thousands)	**Unrestricted**	**Temporarily Restricted**	**Permanently Restricted**	**Total**	**2005 Total**
Operating revenues and other support					
Comprehensive and other student fees	$ 118,124	$ -	$ -	$ 118,124	$ 111,849
Less: Financial aid	(28,992)	-	-	(28,992)	(26,577)
Net comprehensive and other student fees	89,132	-	-	89,132	85,272
Contributions	9,121	20,160	-	29,281	14,802
Sponsored activities	5,136	-	-	5,136	4,006
Investment return					
Distribution	44,916	-	-	44,916	42,934
Other investment income	2,065	905	-	2,970	1,733
Other sources	10,443	79	-	10,522	10,625
Net assets released from restrictions	6,806	(6,806)	-	-	-
Total operating revenues and other support	167,619	14,338	-	181,957	159,372
Operating expenses					
Educational and general					
Instruction	48,400	-	-	48,400	45,262
Academic support	23,421	-	-	23,421	21,957
Student services	22,311	-	-	22,311	20,799
Institutional support	33,172	-	-	33,172	32,077
Sponsored activities	5,136	-	-	5,136	4,006
Total educational and general	132,440	-	-	132,440	124,101
Auxiliary enterprises	34,527	-	-	34,527	31,612
Other deductions	84	-	-	84	159
Total operating expenses	167,051	-	-	167,051	155,872
Change in net assets from operations	568	14,338	-	14,906	3,500
Nonoperating activities					
Endowment return, net of distribution	45,251	404	-	45,655	30,704
Contributions	9,313	373	10,019	19,705	18,840
Distribution of investment return	-	-	377	377	578
Other investment income	579	232	-	811	199
Change in value of deferred gifts	778	950	1,781	3,509	(841)
Gain (loss) on swap option	3,607	-	-	3,607	(4,326)
Other	(3,256)	(3,915)	731	(6,440)	(15,812)
Net assets released from restrictions	12,289	(12,289)	-	-	-
Total nonoperating activities	68,561	(14,245)	12,908	67,224	29,342
Increase in net assets before cumulative effect of change in accounting principle	69,129	93	12,908	82,130	32,842
Cumulative effect of change in accounting principle (Note 12)	(2,339)	-	-	(2,339)	-
Increase in net assets after cumulative effect of change in accounting principle	66,790	93	12,908	79,791	32,842
Net assets at beginning of year	569,354	92,484	186,199	848,037	815,195
Net assets at end of year	$ 636,144	$ 92,577	$ 199,107	$ 927,828	$ 848,037

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

Middlebury College
Consolidated Statement of Activities
Year Ended June 30, 2005

	2005			
(in thousands)	**Unrestricted**	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Operating revenues and other support				
Comprehensive and other student fees	$ 111,849	$ -	$ -	$ 111,849
Less: Financial aid	(26,577)	-	-	(26,577)
Net comprehensive and other student fees	85,272	-	-	85,272
Contributions	9,017	5,785		14,802
Sponsored activities	4,006	-	-	4,006
Investment return				
Distribution	42,934	-	-	42,934
Other investment income	1,676	57	-	1,733
Other sources	10,600	25	-	10,625
Net assets released from restrictions	2,413	(2,413)	-	-
Total operating revenues and other support	155,918	3,454	-	159,372
Operating expenses				
Educational and general				
Instruction	45,262	-	-	45,262
Academic support	21,957	-	-	21,957
Student services	20,799	-	-	20,799
Institutional support	32,077	-	-	32,077
Sponsored activities	4,006	-	-	4,006
Total educational and general	124,101	-	-	124,101
Auxiliary enterprises	31,612	-	-	31,612
Other deductions	159	-	-	159
Total operating expenses	155,872	-	-	155,872
Change in net assets from operations	46	3,454	-	3,500
Nonoperating activities				
Endowment return, net of distribution	29,182	1,519	3	30,704
Contributions	-	10,202	8,638	18,840
Distribution of investment return	-	-	578	578
Other investment income	-	199	-	199
Change in value of deferred gifts	5	(1,044)	198	(841)
Loss on swap option	(4,326)	-	-	(4,326)
Other	(4,494)	(13,926)	2,608	(15,812)
Net assets released from restrictions	3,222	(3,222)	-	-
Total nonoperating activities	23,589	(6,272)	12,025	29,342
Increase in net assets	23,635	(2,818)	12,025	32,842
Net assets at beginning of year	545,719	95,302	174,174	815,195
Net assets at end of year	$ 569,354	$ 92,484	$ 186,199	$ 848,037

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

Middlebury College
Consolidated Statements of Cash Flows
Years Ended June 30, 2006 and 2005

(in thousands)	2006	2005
Cash flows from operating activities		
Change in net assets	$ 79,791	$ 32,842
Adjustments to reconcile change in net assets to net cash used in operating activities		
Cumulative effect of change in accounting principle	2,339	-
Depreciation	17,857	15,950
Loss on disposal of buildings and equipment	270	176
Bad debt expense for contributions receivable	3,057	9,574
Change in value of deferred gifts	3,509	(841)
Realized and unrealized gains	(87,156)	(62,767)
Unrealized (gain) loss on swap option	(3,607)	4,326
Contributions receivable from remainder trusts	(92)	(51)
Interest in perpetual trusts	(938)	(356)
Capitalized interest	(252)	(743)
Amortization of bond issuance costs	56	55
Amortization of bond discount	175	176
Changes in assets and liabilities that increase (decrease) cash		
Accounts receivable	244	(1,086)
Contributions receivable	7,758	14,590
Inventories, prepaid expenses and other	385	(604)
Accounts payable and accrued expenses	(1,009)	2,366
Funds held for others	79	(2,404)
Deferred revenue	(148)	3,381
(Decrease) increase in liabilities related to deferred gifts	(1,172)	4,540
Permanently restricted contributions and investment gains	(11,976)	(10,257)
Net cash provided by operating activities	9,170	8,867
Cash flows from investing activities		
Proceeds from sales of investments	581,453	265,890
Purchases of investments	(581,469)	(264,295)
Purchases of property and equipment	(15,363)	(26,573)
Student loans granted	(3,113)	(3,482)
Student loans repaid	3,491	3,434
Net cash used in investing activities	(15,001)	(25,026)
Cash flows from financing activities		
Contributions and investment gain restricted for long-term investment	11,976	10,257
(Payments) receipts of refundable government loan funds	-	249
Use of deposits with bond trustees, net of earnings	4	14,717
Payments to annuitants for deferred gifts	(2,266)	(2,276)
Payments on bonds and notes payable	(2,827)	(2,494)
Increase (decrease) in cash overdraft	360	(47)
Net cash provided by financing activities	7,247	20,406
Net increase in cash and cash equivalents	1,416	4,247
Cash and cash equivalents at beginning of year	10,519	6,272
Cash and cash equivalents at end of year	$ 11,935	$ 10,519
Supplemental data		
Interest paid, net of interest capitalized	$ 10,883	$ 9,846
Gifts in kind	172	114
Assets acquired and included in accounts payable	905	585
Asset retirement obligation recognized	2,444	-
Asset retirement cost, net recognized related to asset retirement obligation	105	-

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 2,300 undergraduate students come from throughout the United States and fifty 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 program, enrolling more than 1,500 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 Alaska, New Mexico, North Carolina, Mexico, and at Oxford in the United Kingdom.

2. Summary of Significant Accounting Policies

Basis of Statement Presentation

The College has three affiliated entities, the Delineation Corporation (the "Corporation"), the President and Friends of Middlebury College and the International Philanthropy consolidated in these financial statements. 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.

All inter-entity accounts are eliminated. 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.

(in thousands)

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.

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 contributions, retirement pay for past service, net assets released from restriction 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 $11,935 and $10,519 at June 30, 2006 and 2005, 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 derecognizes 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 consists mainly 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 revenue.

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 at the time when such long-lived assets are placed in service.

(in thousands)

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 1.38% to 5.17% 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.

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.

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).

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

(in thousands)

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.

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.

Auxiliary Enterprises
Auxiliary enterprises include operations such as dining services, residential halls, College bookstore and computer sales, Snowbowl and the golf course. Revenues from auxiliary enterprises are included in other sources of operating revenues in the statement of activities.

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.

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

Reclassifications
Certain amounts from the prior year have been reclassified in the accompanying financial statements to conform to current year presentation.

3. Receivables

Accounts Receivable
Accounts receivable consists of receivables for annual comprehensive fees, schools abroad and summer school room, board and tuition. The allowance for uncollectible amounts was $331 in 2006 and $358 in 2005.

Contributions Receivable
Contributions receivable consisted of the following at June 30, 2006 and 2005:

	2006	2005
Due less than one year	$ 15,986	$ 17,374
One to five years	11,165	23,692
More than five years	100	-
	27,251	41,066
Less: Discount and allowance	(3,674)	(6,674)
	$ 23,577	$ 34,392

(in thousands)

The allowance for uncollectible contributions receivable was $2,213 and $4,853 at June 30, 2006 and 2005, respectively.

During 2006 and 2005, the College charged to expense $417 and $11,375, respectively, of contributions receivable deemed uncollectible. These charges have been recorded in "nonoperating activities - other" in the College's statement of activities.

As of June 30, 2006 and 2005, the College has received conditional promises to give of $38,000 and $46,500, 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, 2006, the College has recognized $12,000 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 five to seven years.

Notes Receivable
Notes receivable represents amounts due from students for federal and college approved loans. The allowance for uncollectible amounts was $1,648 and $1,440 at June 30, 2006 and 2005, 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, if available, otherwise at cost
Real estate, mortgages and other	Estimated fair value determined by the real estate partnership, if available, otherwise at cost
Absolute return funds	Estimated fair value determined by investment managers

(in thousands)

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. The following table summarizes the status and results of pooled investments at June 30, 2006 and 2005:

Per Share	**2006**	**2005**
Number of principal shares (not in thousands)	553,869.870	544,856.907
Market value (not in thousands) (excluding Delineation)	$ 1,361.521	$ 1,274.40
Distribution per share (not in thousands)	$ 76.71	$ 81.06

For the year ended June 30, 2006, the difference between distribution per share and dividends and interest earned per share was funded by realized gains of $38,794. During 2005, the difference between distribution per share and dividends and interest earned per share was funded by realized gains of $30,982 as well as $1,485 of unrestricted net assets. During 2006 and 2005, distributions totaling $377 and $578, 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, 2006 and 2005:

	2006	**2005**
Interest, dividends, and other income	$ 7,573	$ 13,381
Realized gains, net	89,220	30,982
Change in unrealized gains, net	(2,064)	31,785
	$ 94,729	$ 76,148

Direct, external investment management fees were $3,833 and $2,706 in 2006 and 2005, 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, 2006 and 2005, including pooled investments held in the Associated Trust Funds and other separately invested funds, were comprised of the following:

	As Recorded			
June 30, 2006	**Pooled**	**Separately Invested**	**Total at Fair Value**	**Cost**
Money market funds	$ 3,479	$ 1,738	$ 5,217	$ 5,216
Due from broker	2,245	-	2,245	2,245
Equity securities	290,496	51,692	342,188	219,573
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
	$ 754,105	$ 92,457	$ 846,562	$ 681,373

	As Recorded			
June 30, 2005	**Pooled**	**Separately Invested**	**Total at Fair Value**	**Cost**
Money market funds	$ 2,455	$ 862	$ 3,317	$ 3,137
Due from broker	33,621	-	33,621	30,815
Equity securities	322,485	25,278	347,763	226,726
Absolute return	155,083	10,508	165,591	130,590
Debt securities	59,225	12,653	71,878	58,066
Real estate and mortgages	8,584	14,485	23,069	26,249
Private equity partnerships, fair value basis	108,133	-	108,133	111,213
Other investments	4,781	1,237	6,018	5,341
	$ 694,367	$ 65,023	$ 759,390	$ 592,137

Included in equity securities, absolute return, private equities and real estate are alternative investments with a market value of $713,807 and $616,502 at June 30, 2006 and 2005, respectively.

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

(in thousands)

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

As 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, 2006 and 2005, the College had committed $146,330 and $74,107, respectively, of unrestricted net assets to be invested for long-term growth. These commitments are to fund private equity partnerships. Long-term investments are liquidated as the funds are called.

The College has $129,052 and $138,352 of the investment portfolio at June 30, 2006 and 2005, respectively, invested in international securities. These investments are subject to the additional risk of currency fluctuations.

Also included in investments are $42,521 and $40,762 at June 30, 2006 and 2005, respectively, for split interest agreements.

As of June 30, 2006 and 2005, the market value attributable to certain endowment funds was less than the permanently restricted original gift in the amount of $589 and $724, respectively. In accordance with the Statement of Financial Accounting Standards ("SFAS") No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations,* this amount is recorded as a reduction in unrestricted net assets.

(in thousands)

Long-Term Debt

Long-term debt is comprised of the following at June 30, 2006 and 2005:

	2006	2005
Adjustable rate Vermont Educational and Health Buildings Financing Agency (VEHBFA) Series 1988A bonds, $40,000 (2006: 1.96% - 3.72%) (2005: 1.10% - 2.91%) (uncollateralized) with annual principal payments increasing from $580 in 2006 to $3,140 through 2028	$ 34,570	$ 35,150
5% - 6%, $65,000 VEHBFA Series 1996 bonds (uncollateralized) with annual principal payments increasing from $1,415 in 2006 to $4,330 through 2027, issued at a discount	56,520	57,935
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 $740 in 2006 to $1,440 in 2020	14,915	15,655
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 (2006: 1.96% - 3.16%) (2005; 1.10% - 1.96%) (uncollateralized) due on November 1, 2032	20,000	20,000
Other	1,004	1,096
	241,814	244,641
Less discount	4,380	4,555
	$ 237,434	$ 240,086

The estimated fair value of the College's total existing debt is approximately $242,000 at June 30, 2006. The fair value is estimated based on quoted market prices for the same or similar debt instruments.

(in thousands)

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 the long-term debt obligations, are as follows at June 30, 2006.

2007	$ 2,974
2008	3,169
2009	3,536
2010	3,537
2011	3,703
Thereafter	224,895
	241,814
Less discount	4,380
	$ 237,434

If the 2003 swaption is exercised by the counterparty in November 2006, the amounts payable in 2007 would increase from $2,974 to $57,980 caused by the current refunding of the Series 1996 Bonds (Note 7).

Credit Line
As of June 30, 2006, the College had a $25,000 line of credit. At June 30, 2006, 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 of June 30, 2005, the College had a $10,000 line of credit, which expired on or about May 18, 2006. At June 30, 2006 and 2005, there was no outstanding balance. The proceeds of the borrowings were to be used for temporary purposes to enhance liquidity for securities transactions.

5. Land, Buildings and Equipment

Land, buildings and equipment of the College at June 30, 2006 and 2005 consisted of the following:

	2006	2005
Land and land improvements	$ 38,281	$ 38,127
Buildings	377,484	369,003
Equipment	35,271	33,017
Art/antiques	10,124	9,447
Construction in progress	8,078	4,209
	469,238	453,803
Less accumulated depreciation	155,910	138,388
	$ 313,328	$ 315,415

(in thousands)

Interest costs totaling $252 and $743 were capitalized as of June 30, 2006 and 2005, respectively.

Total depreciation expense as of June 30, 2006 and 2005 was $17,857 and $15,950, respectively.

Total disposals, net of accumulated depreciation of $357 and $101 as of June 30, 2006 and 2005, were $270 and $176, respectively. These costs have been recorded in "nonoperating activities - other" in the College's statement of activities.

As of June 30, 2006, the College has contractually committed approximately $2,086 for future construction projects and has a nonbinding agreement for $2,920.

6. Retirement Plan

Retirement benefits for substantially all full-time employees 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 for the years ended June 30, 2006 and 2005 was approximately $7,475 and $6,922, 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 $951 and $954, respectively, at June 30, 2006 and 2005. The fair value of these contracts is $75 and ($17), respectively, at June 30, 2006 and 2005.

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 the purpose of facilitating a current refunding of the College's 1996 bonds. If the option is exercised by the counterparty, the College will at that time refund its 1996 bonds, issue new variable rate refunding bonds, and simultaneously enter into the floating-to-fixed interest rate swap. As of June 30, 2006, the value of the 1996 bonds is $56,520 and has been classified as long-term debt on the statement of financial position.

(in thousands)

Under the terms of 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), on a notional amount of $56,575.

The College received an upfront premium payment of $4,265 for selling the option to initiate a swap ("swaption"), which has been recorded in deferred revenue for the years ending June 30, 2006 and 2005. This premium is retained by the College regardless of whether the counterparty exercises the option. The College has the right to terminate the agreement at any time at the prevailing market rate. The premium will be recognized on November 1, 2006.

The estimated fair value of this transaction was $5,088 as of June 30, 2006, which represents the amount the College would have to pay to terminate the agreement at the end of the fiscal year. The difference between the fair value of the transaction and the amount recorded in deferred revenue of $823 has been recorded as an accrued liability, and an increase to unrestricted nonoperating other investment income for the change in the accrued liability from June 30, 2005 to June 30, 2006 of $3,607.

8. Temporarily Restricted Net Assets

	2006	2005
Gifts and other unexpended revenues available for scholarships and prizes	$ 33,204	$ 21,908
Gifts and other unexpended revenues for professorships	2,704	5,256
Gifts and other unexpended revenues for special purposes	24,828	26,982
Gifts and other unexpended revenues for capital projects	6,667	4,733
Contributions receivable	16,829	26,566
Annuity and life income funds	8,345	7,039
	$ 92,577	$ 92,484

9. Permanently Restricted Net Assets

Permanently restricted net assets consisted of the following at June 30, 2006 and 2005:

	2006	2005
Donor-restricted loan funds	$ 3,002	$ 2,859
Annuity and life income funds	6,707	6,302
Contributions receivable	6,748	7,826
Donor-restricted endowment funds	182,650	169,212
	$ 199,107	$ 186,199

(in thousands)

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.

11. Operating Expenses

Operating expenses for the years ended June 30, 2006 and 2005 were classified as follows:

	2006	2005
Salaries and wages	$ 70,476	$ 66,330
Employee benefits	22,605	20,630
Food	3,963	3,881
Utilities	6,358	5,288
Repairs and maintenance	2,032	1,747
Contracted services	6,298	5,995
Supplies	3,765	3,268
Library books and periodicals	1,781	1,755
Interest	11,135	10,105
Depreciation	18,302	15,967
Amortization	56	55
Travel	3,847	3,788
Taxes and insurance	1,795	1,722
Sponsored activities	5,136	4,006
Other	9,502	11,335
	$ 167,051	$ 155,872

12. Asset Retirement Obligations

Financial Accounting Standards (FASB) Interpretation No. 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. When the liability is initially recorded, the cost of the asset retirement obligation is capitalized. This interpretation provides clarification with respect to the timing of liability recognition for legal obligations associated with the retirement of tangible long-lived assets when the timing and/or method of settlement of the obligation is conditional on a future event. This interpretation requires that the fair value of a liability for a conditional asset retirement obligation be recognized in the period in which it occurred if a reasonable estimate of fair value can be made. 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 transition impact of $2,339 which is reported as a cumulative effect of a change in accounting principle in the statement of activities, and a liability for conditional asset retirement obligations of $2,444.

(in thousands)

If FIN No. 47 was applied retroactively, it would not have had a material impact on operating expenses for the years ended June 30, 2006 and 2005.

13. Monterey Institute of International Studies

On June 23, 2005, the trustees of Middlebury College and the Monterey Institute of International Studies ("MIIS") approved a letter of intent to make Monterey an affiliate of Middlebury. The affiliation will combine the strengths of two institutions renowned for their expertise in international education, language teaching, and cultural studies. Both institutions executed the affiliation agreement in December 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 it would likely lead to innovative research and teaching opportunities for faculty from both Middlebury and Monterey.

Middlebury contributed $7,400 in 2006 in the form of a $7,000 contribution and $400 of subordinated debt to MIIS to improve facilities and technology resources and to promote admissions and fund-raising activities. The $7,000 contribution to MIIS is shown as a charge in "nonoperating activities - other", under both unrestricted and temporary restricted in the College's statement of activities.

The Monterey Institute of International Studies, located in California, includes the Graduate School of International Policy Studies, the Graduate School of Translation and Interpretation, the Fisher Graduate School of international Business and the Graduate School of Language and Educational Linguistics and enrolls some 700 students. The institute also includes the internationally renowned Center for Nonproliferation Studies and Center for East Asian Studies.