Middlebury College

Consolidated Financial Statements
June 30, 2005 and 2004

Middlebury College
Index
June 30, 2005 and 2004

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, 2005 and 2004, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

October 8, 2005

Middlebury College
Consolidated Statements of Financial Position
June 30, 2005 and 2004

(in thousands)	2005	2004
Assets		
Cash and cash equivalents	$ 10,519	$ 6,272
Accounts receivable, net (Note 3)	5,142	4,594
Contributions receivable, net (Note 3)	34,392	58,556
Inventories, prepaid expenses and other assets	3,289	2,740
Deposits with bond trustees	652	15,369
Notes receivable, net (Note 3)	15,069	15,021
Investments (Note 4)	759,390	698,218
Contributions receivable from remainder trusts (Note 2)	2,372	2,321
Interest in perpetual trusts held by others (Note 2)	23,208	22,852
Land, buildings and equipment, net (Note 5)	315,415	310,515
Total assets	$ 1,169,448	$ 1,136,458
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	$ 24,093	$ 24,276
Funds held for others	3,596	6,000
Deferred revenue (Note 2)	23,500	20,119
Annuities and other split interest obligations (Note 2)	19,200	17,777
Refundable government loan funds (Note 2)	10,936	10,687
Long-term debt (Note 4)	240,086	242,404
Total liabilities	321,411	321,263
Commitments and contingencies (Note 10)		
Net assets		
Unrestricted	569,354	545,719
Temporarily restricted (Note 8)	92,484	95,302
Permanently restricted (Note 9)	186,199	174,174
Total net assets	848,037	815,195
Total liabilities and net assets	$ 1,169,448	$ 1,136,458

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

Middlebury College
Consolidated Statements of Activities
Year Ended June 30, 2005
(with comparative totals for the year ended June 30, 2004)

(in thousands)	2005 Unrestricted	2005 Temporarily Restricted	2005 Permanently Restricted	2005 Total	2004 Total
Operating revenues and other support					
Comprehensive and other student fees	$ 111,849	$	$	$ 111,849	$ 104,386
Less: Financial aid	(26,577)			(26,577)	(23,908)
Net comprehensive and other student fees	85,272			85,272	80,478
Contributions	9,017	5,785		14,802	24,003
Sponsored activities	4,006			4,006	3,528
Investment return					
Distribution	42,934			42,934	38,525
Other investment income	1,676	57		1,733	450
Other sources	10,600	25		10,625	10,463
Net assets released from restrictions	2,413	(2,413)		-	-
Total operating revenues and other support	155,918	3,454		159,372	157,447
Operating expenses					
Educational and general					
Instruction	45,262			45,262	42,863
Academic support	21,957			21,957	18,121
Student services	20,799			20,799	20,311
Institutional support	32,077			32,077	29,828
Sponsored activities	4,006			4,006	3,528
Total educational and general	124,101			124,101	114,651
Auxiliary enterprises	31,612			31,612	28,614
Other deductions	159			159	132
Total operating expenses	155,872			155,872	143,397
Change in net assets from operations	46	3,454		3,500	14,050
Nonoperating activities					
Endowment return, net of distribution	29,182	1,519	3	30,704	82,234
Contributions		10,202	8,638	18,840	20,592
Distribution of investment return			578	578	591
Other investment income		199		199	242
Change in value of deferred gifts	5	(1,044)	198	(841)	361
Loss on swap option	(4,326)			(4,326)	(105)
Other	(4,494)	(13,926)	2,608	(15,812)	(297)
Net assets released from restrictions for nonoperating purposes	3,222	(3,222)			
Total nonoperating activities	23,589	(6,272)	12,025	29,342	103,618
Increase (decrease) in net assets	23,635	(2,818)	12,025	32,842	117,668
Net assets at beginning of year	545,719	95,302	174,174	815,195	697,527
Net assets at end of year	$ 569,354	$ 92,484	$ 186,199	$ 848,037	$ 815,195

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

Middlebury College
Consolidated Statement of Activities
Year Ended June 30, 2004

(in thousands)	2004 Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating revenues and other support				
Comprehensive and other student fees	$ 104,386	$	$	$ 104,386
Less: Financial aid	(23,908)			(23,908)
Net comprehensive and other student fees	80,478			80,478
Contributions	7,433	16,570		24,003
Sponsored activities	3,528			3,528
Investment return				
Distribution	36,808	1,717		38,525
Other investment income	383	67		450
Other sources	10,372	91		10,463
Net assets released from restrictions	4,512	(4,512)		
Total operating revenues and other support	143,514	13,933		157,447
Operating expenses				
Educational and general				
Instruction	42,863			42,863
Academic support	18,121			18,121
Student services	20,311			20,311
Institutional support	29,828			29,828
Sponsored activities	3,528			3,528
Total educational and general	114,651			114,651
Auxiliary enterprises	28,614			28,614
Other deductions	132			132
Total operating expenses	143,397			143,397
Change in net assets from operations	117	13,933		14,050
Nonoperating activities				
Endowment return, net of distribution	79,410	2,820	4	82,234
Contributions	597	11,888	8,107	20,592
Distribution of investment return			591	591
Other investment income	105	137		242
Change in value of deferred gifts	657	(424)	128	361
Loss on swap option	(105)			(105)
Other	(3,658)	4,029	(668)	(297)
Net assets released from restrictions for nonoperating purposes	15,288	(15,288)		
Total nonoperating activities	92,294	3,162	8,162	103,618
Increase in net assets	92,411	17,095	8,162	117,668
Net assets at beginning of year	453,308	78,207	166,012	697,527
Net assets at end of year	$ 545,719	$ 95,302	$ 174,174	$ 815,195

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

Middlebury College
Consolidated Statements of Cash Flows
Years Ended June 30, 2005 and 2004

(in thousands)	2005	2004
Cash flows from operating activities		
Change in net assets	$ 32,842	$ 117,668
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation	15,950	13,424
Loss on disposal of buildings and equipment	176	574
Change in value of deferred gifts	(841)	361
Realized and unrealized gains	(62,767)	(113,942)
Unrealized loss on swap option	4,326	105
Contributions receivable from remainder trusts	(51)	185
Interest in perpetual trusts	(356)	(1,739)
Capitalized interest	(743)	(2,986)
Amortization of bond issuance costs	55	95
Amortization of bond discount	176	176
Changes in assets and liabilities that increase (decrease) cash		
Accounts receivable	(548)	417
Contributions receivable	24,164	(8,407)
Inventories, prepaid expenses and other	(604)	963
Accounts payable and accrued expenses	1,828	1,318
Funds held for others	(2,404)	(144)
Deferred revenue	3,381	8,694
Increase in liabilities related to deferred gifts	2,264	473
Permanently restricted contributions and investment gains	(10,257)	(9,356)
Net cash provided by operating activities	6,591	7,879
Cash flows from investing activities		
Proceeds from sales of investments	265,890	234,531
Purchases of investments	(264,295)	(266,414)
Purchases of property and equipment	(26,573)	(40,689)
Student loans granted	(3,482)	(2,925)
Student loans repaid	3,434	2,976
Net cash used in investing activities	(25,026)	(72,521)
Cash flows from financing activities		
Contributions and investment gain restricted for long-term investment	10,257	9,356
Receipts (payments) of refundable government loan funds	249	(1,505)
Use of deposits with bond trustees, net of earnings	14,717	52,600
Payments on bonds and notes payable	(2,494)	(23,160)
Increase (decrease) in negative cash	(47)	1,886
Net cash provided by financing activities	22,682	39,177
Net increase (decrease) in cash and cash equivalents	4,247	(25,465)
Cash and cash equivalents at beginning of year	6,272	31,737
Cash and cash equivalents at end of year	$ 10,519	$ 6,272
Supplemental data		
Interest paid, net of interest capitalized	$ 9,846	$ 11,364
Gifts in kind	114	50
Contributions of securities and real estate	9,074	12,616
Assets acquired and included in accounts payable	585	6,874

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, Mexico, and at Oxford in the United Kingdom.

2. Summary of Significant Accounting Policies

Basis of Statement Presentation
The financial statements consolidate the College and its affiliated corporations.

The College has three affiliated entities, the Delineation Corporation (the "Corporation") and the President and Friends of Middlebury College and the International Philanthropy. 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 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 $8,331 and $4,991 at June 30, 2005 and 2004, 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)

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 expenditures for such long-lived assets are incurred.

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 6.25% 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.

(in thousands)

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

Annuities and Other Split Interest Obligations
Some donors have contributed assets to the College in exchange for a promise that the College will pay the donor or other beneficiaries a fixed amount or percentage of assets over their lifetimes. The present value of these promises is a liability of the College and is classified as annuities and other split interest obligations.

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

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.

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.

(in thousands)

Reclassifications
Certain 2004 information has been reclassed to conform to 2005 presentation.

Certain classification adjustments have been made to the 2004 statement of cash flows to conform with the 2005 presentation. These classification adjustments include negative cash ($1,886, reclassified as a financing activity); construction-related accruals ($2,638, reclassified as a noncash transaction); permanently restricted contributions and investment gains ($1,194, reclassified as a financing activity); and interest in perpetual trusts ($1,739, reclassified as an operating activity).

3. Receivables

Accounts Receivable
Accounts receivable consists of receivables for annual comprehensive fees, schools abroad and summer school room, board and tuition. The provision for uncollectible amounts was $358 in 2005 and $363 in 2004.

Contributions Receivable
Contributions receivable consisted of the following at June 30, 2005 and 2004:

	2005	2004
Due less than one year	$ 17,374	$ 23,533
One to five years	23,692	42,433
More than five years	-	10
	41,066	65,976
Less: Discount and allowance	(6,674)	(7,420)
	$ 34,392	$ 58,556

The allowance was $4,853 and $3,052 at June 30, 2005 and 2004, respectively.

During 2005, the College had written off $11,375 of contributions receivable deemed uncollectible. This charge has been recorded in nonoperating other in the College's statement of activities.

As of June 30, 2005 and 2004, the College has received and not recognized conditional promises to give of $46,500 and $52,500, respectively. 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, 2005, the College has recorded $6,000 towards this pledge from the donor. The remaining portion of the 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 provision for uncollectible amounts was $1,440 and $1,214 at June 30, 2005 and 2004, respectively.

(in thousands)

4. Financial Instruments

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

Investments	Values as Recorded
Short-term investments consisting principally of money market funds and short-term notes	At quoted market value which approximates cost
Equity securities and debt securities	At quoted market value or 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

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, 2005 and 2004:

Per Share	2005	2004
Number of principal shares (not in thousands)	544,856.907	522,335.358
Market value (not in thousands) (excluding Delination)	$ 1,274.40	$ 1,223.37
Distribution per share (not in thousands)	$ 81.06	$ 78.08

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. However, in 2004 the difference was funded entirely from realized gains of $32,008 with the difference being added back to principal. During 2005 and 2004, distributions totaling $578 and $591, 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.

(in thousands)

The components of total investment return from all sources consist of the following at June 30, 2005 and 2004:

	2005	2004
Interest, dividends, and other income	$ 13,381	$ 8,100
Realized gains, net	30,982	59,861
Change in unrealized gains, net	31,785	54,081
	$ 76,148	$ 122,042

Investment management fees were $2,706 and $3,124 in 2005 and 2004, respectively, and are netted against interest, dividends and other income in the statement of activities. Purchase and sale transactions are recorded on a trade date basis.

Investments held by the College at June 30, 2005 and 2004, including pooled investments held in the Associated Trust Funds and other separately invested funds, were comprised of the following:

	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

	As Recorded			
June 30, 2004	**Pooled**	**Separately Invested**	**Total at Fair Value**	**Cost**
Money market funds	$ 27,688	$ 856	$ 28,544	$ 28,544
Due from broker	15,824	-	15,824	15,392
Equity securities	261,587	22,420	284,007	179,467
Absolute return	143,383	10,027	153,410	126,359
Debt securities	58,320	11,304	69,624	61,868
Real estate and mortgages	9,013	13,234	22,247	25,832
Private equity partnerships, fair value basis	120,093	-	120,093	121,513
Other investments	3,100	1,366	4,466	3,708
	$ 639,008	$ 59,207	$ 698,215	$ 562,683

(in thousands)

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

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

As noted above, investments in certain private equity partnerships are recorded based upon estimated fair value, 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, 2005 and 2004, the College had committed $74,107 and $51,134, 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 $138,352 and $115,376 of the investment portfolio at June 30, 2005 and 2004, respectively, invested in international securities. These investments are subject to the additional risk of currency fluctuations.

Also included in investments are $40,762 and $36,323 at June 30, 2005 and 2004, respectively, for split interest agreements.

As of June 30, 2005 and 2004, the market value attributable to certain endowment funds was less than the permanently restricted original gift in the amount of $724 and $1,052, respectively. In accordance with FASB Statement No. 124, 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, 2005 and 2004:

	2005	2004
Adjustable rate Vermont Educational and Health Buildings Financing Agency (VEHBFA) Series 1988A bonds, $40,000 (2005: 1.10% - 2.91%) (2004: 1.10% - 1.85%) (uncollateralized) with annual principal payments increasing from $535 in 2005 to $3,140 through 2028	$ 35,150	$ 35,685
5% - 6%, $65,000 VEHBFA Series 1996 bonds (uncollateralized) with annual principal payments increasing from $1,335 in 2005 to $4,330 through 2027 issued at a discount	57,935	59,270
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 $710 in 2005 to $1,440 in 2020	15,655	16,365
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 (2005; 1.10% - 1.96%) (2004; 1.10% - 1.80%) (uncollateralized) due on November 1, 2032	20,000	20,000
Other	1,096	1,010
	244,641	247,135
Less discount	4,555	4,731
	$ 240,086	$ 242,404

The estimated fair value of the College's total existing debt is approximately $270,000 at June 30, 2005. The fair value is estimated based on quoted market prices for the same or similar issues.

Deposits with bond trustees at June 30, 2004 include $14,545 of unspent construction proceeds in conjunction with the Series 2002 bonds. The remaining proceeds were spent in 2005.

(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, 2005.

2006	$ 2,815
2007	2,960
2008	3,155
2009	3,330
2010	3,520
Thereafter	228,861
	244,641
Less discount	4,555
	$ 240,086

Credit Line
As of June 30, 2005 and 2004, the College has a $10,000 line of credit, which will and has expired on December 31 of each year. At June 30, 2005 and 2004, there was no outstanding balance. The proceeds of the borrowings are 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, 2005 and 2004 consisted of the following:

	2005	2004
Land and land improvements	$ 38,127	$ 37,707
Buildings	369,003	274,178
Equipment	33,017	27,312
Art/antiques	9,447	9,050
Construction in progress	4,209	84,807
	453,803	433,054
Less accumulated depreciation	(138,388)	(122,539)
	$ 315,415	$ 310,515

Interest costs totaling $743 and $2,986 were capitalized in 2005 and 2004, respectively.

The total disposals, net of accumulated depreciation of $101 and $177 as of June 30, 2005 and 2004, were $176 and $574, respectively.

As of June 30, 2005, the College has contractually committed approximately $1,103 for future construction projects.

(in thousands)

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, 2005 and 2004 was approximately $6,922 and $6,536, respectively.

7. Derivative Financial Investments

Foreign Currency Contracts
The College has entered into forward currency contracts in connection 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 revenue. 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 value of the currencies the College has committed to buy or sell is included in accounts payable are $954 and $1,486, respectively, and included in accounts receivable are $937 and $1,475 at June 30, 2005 and 2004.

December 2003 Swap Option
In December 2003, the College sold an option to an appropriate 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 an advance refunding of the College's 1996 bonds. If the option is exercised by the counterparty in 2006, the College will at that time advance refund its 1996 bonds, issue new variable rate refunding bonds, and simultaneously enter into a floating-to-fixed interest rate swap. 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 $4,386 for selling the option to initiate a swap ("swaption"), of which $4,265 has been recorded in deferred revenue for both years ending June 30, 2005 and 2004, respectively. 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 estimated fair value of this transaction was $8,696 as of June 30, 2005, 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 $4,431 has been recorded as an accrued liability and a reduction to unrestricted nonoperating other investment income.

(in thousands)

8. Temporarily Restricted Net Assets

	2005	2004
Gifts and other unexpended revenues available for scholarships and prizes	$ 21,908	$ 7,437
Gifts and other unexpended revenues for professorships	5,256	2,476
Gifts and other unexpended revenues for special purposes	26,982	22,356
Gifts and other unexpended revenues for capital projects	4,733	5,118
Contributions receivable	26,566	50,480
Annuity and life income funds	7,039	7,435
	$ 92,484	$ 95,302

9. Permanently Restricted Net Assets

Permanently restricted net assets consisted of the following at June 30, 2005 and 2004:

	2005	2004
Donor-restricted loan funds	$ 2,859	$ 883
Annuity and life income funds	6,302	6,202
Contributions receivable	7,826	8,076
Donor-restricted endowment funds	169,212	159,013
	$ 186,199	$ 174,174

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 thousands)

11. Operating Expenses

Operating expenses for the years ended June 30, 2005 and 2004 were classified as follows:

	2005	2004
Salaries and wages	$ 66,330	$ 61,317
Employee benefits	20,630	20,401
Food	3,881	3,562
Utilities	5,288	4,648
Repairs and maintenance	1,747	1,705
Contracted services	5,995	5,544
Supplies	3,268	3,345
Library books and periodicals	1,755	1,758
Interest	10,105	8,290
Depreciation	15,967	13,424
Amortization	55	95
Travel	3,788	3,229
Taxes and insurance	1,722	1,588
Sponsored activities	4,006	3,528
Other	11,335	10,963
	$ 155,872	$ 143,397

12. 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 expect to reach final terms on the affiliation before December 23, 2005.

This affiliation would allow both institutions to be at the forefront of shaping international education, based on language proficiency and cultural understanding. It would also provide 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 expects to make financial resources available to MIIS to improve facilities and technology resources and to promote admissions and fund-raising activities. These financial resources will take the form of gifts received specifically for this affiliation and, if needed, secured loans. After an initial investment, it is expected that MIIS will be self-sufficient.

(in thousands)

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.

13. Subsequent Event

During fiscal year 2005, the Investment Committee (IC) of the Middlebury College Board of Trustees completed a comprehensive review of Middlebury's endowment management process. The IC sought to adopt an endowment management model with a higher probability of enabling Middlebury College to achieve its goal of generating top quartile returns against a relevant educational endowment peer group over the long term.

The IC ultimately hired Investure, LLC ("Investure") to serve as the external investment office charged with the investment management of our endowment. In June 2005, Middlebury formally entered into an agreement with Investure to manage its investment portfolio under the continuing oversight of the IC.

As of June 30, 2005, Middlebury invested $10,300 in Investure's Alternative Equity Pooled Fund.

Subsequent to June 30, 2005, the College invested $86,000 in the Investure Alternate Equity Pooled Fund and committed $40,000 to Investure Private Partners II LP, of which $1,100 has been called and $38,900 remains unfunded.