

**Williams College**  
**Financial Statements**  
**June 30, 2005 and 2004**

**Report of Independent Auditors**

To the Board of Trustees of  
Williams College:

In our opinion, the accompanying statements of financial position and the related statements of activities and of cash flows present fairly, in all material respects, the financial position of Williams 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*

November 10, 2005

**Williams College**  
**Statements of Financial Position**  
**June 30, 2005 and 2004**

	<u>2005</u>	<u>2004</u>
<b>Assets</b>		
Cash	\$ 3,245,019	\$ 4,039,849
Accounts receivable, net of allowance of \$63,477 in 2005 (\$72,643 in 2004)	957,696	947,240
Contributions receivable, net of allowance and discount of \$14,778,199 in 2005 (\$17,732,288 in 2004) (Note 2)	68,726,608	66,615,043
Notes receivable-student loans, net of allowance of \$157,076 in 2005 and 2004 (Note 3)	6,460,411	6,232,007
Notes receivable-other	3,066,000	2,805,000
On deposit with bond trustee	11,246,900	31,748,677
Accrued investment income	1,971,718	2,968,221
Collateral on securities loaned (Note 4)	61,222,614	
Other assets	3,451,284	3,364,555
Investments (Note 4)	1,514,248,065	1,389,266,399
Land, buildings and equipment, net (Note 5)	304,344,266	267,062,935
Total assets	<u>\$ 1,978,940,581</u>	<u>\$ 1,775,049,926</u>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	\$ 34,478,290	\$ 10,168,320
Accrued salaries and benefits (Notes 6 & 7)	12,432,820	10,683,260
Securities lending liability (Note 4)	61,222,614	
Deferred revenue and deposits	4,764,760	4,256,703
U. S. government advances for student loans	3,597,057	3,466,160
Present value of beneficiary payments	35,148,683	35,244,299
Bonds payable (Note 9)	169,380,000	170,595,000
Total liabilities	<u>\$ 321,024,224</u>	<u>\$ 234,413,742</u>
<b>Net Assets</b>		
Unrestricted	\$ 352,829,348	\$ 341,708,545
Temporarily restricted	943,941,050	859,751,972
Permanently restricted	361,145,959	339,175,667
Total net assets	<u>\$ 1,657,916,357</u>	<u>\$ 1,540,636,184</u>
Total liabilities and net assets	<u>\$ 1,978,940,581</u>	<u>\$ 1,775,049,926</u>

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

Williams College  
Statement of Activities  
For the year ended June 30, 2005 with summarized  
financial information for the year ended June 30, 2004

	Unrestricted	Temporarily Restricted	Permanently Restricted	2005 Total	2004 Total
<b>Operating revenue, gains and other:</b>					
Student revenues:					
Tuition and fees	\$60,568,661			\$60,568,661	\$57,394,512
Room and board	14,630,222			14,630,222	13,954,488
Less: financial aid	(20,098,549)			(20,098,549)	(18,543,227)
Net tuition and fees	55,100,334			55,100,334	52,805,773
Auxiliary enterprises - other	4,704,001			4,704,001	4,296,991
Special purpose grants expended	1,608,852			1,608,852	1,254,171
Gifts and grants, net	12,760,556	\$7,101,403		19,861,959	20,317,082
Investment income	14,734,463	3,471,263		18,205,726	16,567,911
Realized gains spent	5,373,559	34,506,499		39,880,058	39,231,009
Other	1,337,824			1,337,824	1,287,299
Net assets released from restrictions	47,859,356	(47,859,356)			
<b>Total operating revenue, gains, and other</b>	<b>143,478,945</b>	<b>(2,780,191)</b>		<b>140,698,754</b>	<b>135,760,236</b>
<b>Operating expenses and other:</b>					
Instructional and research	59,646,666			59,646,666	54,663,591
Academic support	12,312,853			12,312,853	11,945,965
Student services	20,413,921			20,413,921	18,417,614
Institutional support	23,473,281			23,473,281	24,199,140
Auxiliary enterprises	22,623,368			22,623,368	23,073,241
Other	1,245,659			1,245,659	792,730
<b>Total operating expenses and other</b>	<b>139,715,748</b>			<b>139,715,748</b>	<b>133,092,281</b>
<b>Change in net assets from operating activities</b>	<b>3,763,197</b>	<b>(2,780,191)</b>		<b>983,006</b>	<b>2,667,955</b>
<b>Non-operating activities:</b>					
Realized and unrealized gains on investments, investment income on split income agreements, and reinvested investment income after realized gains	12,835,840	86,573,088	\$2,245,718	101,654,646	145,345,278
Actuarial changes and payments of annuities	(4,366,447)	1,038,285	1,333,683	(1,994,479)	(1,561,308)
Life income and endowment gifts, net		1,777,347	17,482,973	19,260,320	29,992,110
Fund retirements and gifts further designated	1,511,533	(2,419,451)	907,918	0	
Loss on disposition of fixed assets	(1,250,830)			(1,250,830)	
Loss on financial contracts	(1,372,490)			(1,372,490)	
<b>Change in net assets from non-operating activities</b>	<b>7,357,606</b>	<b>86,969,269</b>	<b>21,970,292</b>	<b>116,297,167</b>	<b>173,776,080</b>
<b>Total change in net assets</b>	<b>11,120,803</b>	<b>84,189,078</b>	<b>21,970,292</b>	<b>117,280,173</b>	<b>176,444,035</b>
<b>Beginning net assets</b>	<b>341,708,545</b>	<b>859,751,972</b>	<b>339,175,667</b>	<b>1,540,636,184</b>	<b>1,364,192,149</b>
<b>Ending net assets</b>	<b>\$352,829,348</b>	<b>\$943,941,050</b>	<b>\$361,145,959</b>	<b>\$1,657,916,357</b>	<b>\$1,540,636,184</b>

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

Williams College  
Statement of Activities  
For the year ended June 30, 2004

	Unrestricted	Temporarily Restricted	Permanently Restricted	2004 Total
<b>Operating revenue, gains and other:</b>				
Student revenues:				
Tuition and fees	\$57,394,512			\$57,394,512
Room and board	13,954,488			13,954,488
Less: financial aid	(18,543,227)			(18,543,227)
Net tuition and fees	52,805,773			52,805,773
Auxiliary enterprises - other	4,296,991			4,296,991
Special purpose grants expended	1,254,171			1,254,171
Gifts and grants	13,297,874	\$7,019,208		20,317,082
Investment income	13,223,181	3,344,730		16,567,911
Realized gains spent	5,683,888	33,547,121		39,231,009
Other	1,287,299			1,287,299
Net assets released from restrictions	60,751,043	(60,751,043)		
<b>Total operating revenue, gains, and other</b>	<b>152,600,220</b>	<b>(16,839,984)</b>		<b>135,760,236</b>
<b>Operating expenses and other:</b>				
Instructional and research	54,663,591			54,663,591
Academic support	11,945,965			11,945,965
Student services	18,417,614			18,417,614
Institutional support	24,199,140			24,199,140
Auxiliary enterprises	23,073,241			23,073,241
Other	792,730			792,730
<b>Total operating expenses and other</b>	<b>133,092,281</b>			<b>133,092,281</b>
<b>Change in net assets from operating activities</b>	<b>19,507,939</b>	<b>(16,839,984)</b>		<b>2,667,955</b>
<b>Non-operating activities:</b>				
Realized and unrealized gains on investments, investment income on split income agreements, and reinvested investment income after realized gains	21,797,390	120,154,629	\$3,393,259	145,345,278
Actuarial changes and payments of annuities	(3,856,693)	1,064,746	1,230,639	(1,561,308)
Life income and endowment gifts		1,991,887	28,000,223	29,992,110
Fund retirements and gifts further designated	5,217,600	(6,744,461)	1,526,861	
Loss on debt retirement				
<b>Change in net assets from non-operating activities</b>	<b>23,158,297</b>	<b>116,466,801</b>	<b>34,150,982</b>	<b>173,776,080</b>
Total change in net assets	42,666,236	99,626,817	34,150,982	176,444,035
Beginning net assets	299,042,309	760,125,155	305,024,685	1,364,192,149
Ending net assets	<b>\$341,708,545</b>	<b>\$859,751,972</b>	<b>\$339,175,667</b>	<b>\$1,540,636,184</b>

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

**Williams College**  
**Statements of Cash Flows**  
**For the years ended June 30, 2005 and 2004**

	<u>2005</u>	<u>2004</u>
<b>Cash flow from operating activities</b>		
Total change in net assets	\$117,280,173	\$176,444,035
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	13,894,855	12,289,602
Provision for doubtful accounts receivable	(9,166)	(38,184)
Net unrealized and realized gains on investments and reinvested income	(138,305,978)	(181,247,873)
Loss (gain) on disposal of plant assets	1,250,833	(290,000)
Gifts restricted for long term investment	(18,573,291)	(18,489,115)
Gifts in kind	(2,261,578)	(3,280,900)
Changes in operating assets and liabilities:		
Accounts receivable	(1,290)	(127,134)
Contributions receivable	(2,111,565)	(9,743,517)
Accrued investment income	996,503	110,165
Other assets	(86,729)	59,390
Accounts payable, accrued liabilities and other	9,630,541	9,457,340
Accrued salaries and benefits	1,749,560	1,969,167
Deferred revenue and deposits	508,057	(276,450)
Net cash provided by (used in) operating activities	<u>(16,039,075)</u>	<u>(13,163,474)</u>
<b>Cash flow from investing activities</b>		
Proceeds from sale of investments	1,537,117,101	1,380,514,482
Purchase of investments	(1,523,792,789)	(1,384,588,972)
Additions to land, buildings & equipment	(51,579,181)	(41,261,337)
Net proceeds from sale of plant assets	103,000	
Additional student loans granted	(1,282,175)	(1,328,809)
Student loans repaid	1,053,771	1,084,131
Net cash used in investing activities	<u>(38,380,273)</u>	<u>(45,580,505)</u>
<b>Cash flow from financing activities</b>		
Gifts restricted for endowments	18,573,291	18,489,115
Payments to beneficiaries	(4,366,447)	(3,856,693)
On deposit with bond trustee	20,501,777	47,084,556
Issuance of new debt	18,000,000	
Repayment of debt	(19,215,000)	(1,200,000)
Proceeds from line of credit borrowing	20,000,000	
U.S. Government advances for student loans	130,897	85,390
Net cash provided by financing activities	<u>53,624,518</u>	<u>60,602,368</u>
<b>Net increase (decrease) in cash</b>	<b>(794,830)</b>	<b>1,858,389</b>
Cash at beginning of the year	4,039,849	2,181,460
Cash at end of the year	<u>\$3,245,019</u>	<u>\$4,039,849</u>
<b>Supplemental disclosures:</b>		
Interest paid	5,689,686	\$5,432,357
Exchange of land for notes receivable	\$321,000	\$693,000
Amounts included in accounts payable related to construction in progress	\$3,991,394	\$5,084,134
Non-cash Conversion of Series I debt	\$12,000,000	\$0

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

**Williams College**  
**Notes to Financial Statements**  
**June 30, 2005 and 2004**

**1. Summary of Significant Accounting Policies**

The financial statements of Williams College (the "College") have been prepared on the accrual basis of accounting in conformity with generally accepted accounting principles of the United States of America. Net assets are classified as unrestricted, temporarily restricted or permanently restricted based on the existence or absence of donor-imposed restrictions. In the accompanying financial statements, net assets that have similar characteristics have been combined into similar categories as follows:

**Permanently restricted** - 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 investment return on these assets. These net assets represent the College's permanent endowment funds.

**Temporarily restricted** - Net assets whose use by the College is subject to donor-imposed stipulations that can be fulfilled by actions of the College pursuant to those stipulations or that expire by the passage of time. Realized and unrealized gains and losses on permanently and temporarily restricted assets are reported as temporarily restricted net assets in accordance with donor stipulations and Massachusetts law.

**Unrestricted** - Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Trustees or may otherwise be limited by contractual agreements with outside parties.

Expenses are reported as decreases in unrestricted net assets. Expirations or changes in donor-imposed stipulations are reported as net assets released from restrictions and treated as reclassifications between the applicable classes of net assets.

***Contributions***

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Contributions and investment return with donor-imposed restrictions are reported as temporarily restricted revenues and are reclassified to unrestricted net assets when an expense is incurred that satisfies the donor-imposed restriction. Contributions restricted for the acquisition of land, buildings and equipment are reported as temporarily restricted revenues. These contributions are reclassified to unrestricted net assets upon acquisition of the assets. Gifts-in-kind are reported as unrestricted revenue unless use of the asset is restricted by the donor.

Non-operating activities represent transactions of a capital nature including realized and unrealized gains on investments to be invested by the College to generate a return that will support operations, additions to or changes in the value of split-interest arrangements and life income and endowment gifts.

Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value at the date of gift.

Contributions to be received after one year are discounted at a risk free discount rate commensurate with the terms of the pledge. Amortization of the discount is recorded as contribution revenue in accordance with donor-imposed restrictions, if any, on the contribution. An allowance is made for uncollectible contributions based upon management's judgment, past collection experience and other relevant factors. The current year increment to such allowance, along with modifications to contributions receivable for changes in payment methodology are netted against current year contribution revenue. Amounts netted against contribution revenue were \$4,500,000 and \$800,000 for the years ended June 30, 2005 and 2004, respectively.

***Other Assets***

Other assets consist of prepaid expenses and inventories. Inventories consist primarily of supplies and are valued at the lower of cost (determined using a first-in, first-out methodology) or market.

**Williams College**  
**Notes to Financial Statements**  
**June 30, 2005 and 2004**

*Investments*

Investments are recorded in the following manner:

INVESTMENTS	VALUE AS RECORDED
Temporary investments consisting principally of money market funds and short-term notes	At market value which approximates cost
Stocks, bonds, mutual funds, and other publicly traded securities	At quoted market value
Alternative investments (private equity, real estate, & hedge fund limited partnerships)	Estimated fair value determined by the general partner
Real estate and faculty and staff mortgages	Estimated fair value determined by the real estate partnership, if available, otherwise at cost

Temporary investments are defined as securities with dates of maturities at purchase of three months or less.

Alternative investment asset managers may invest in both publicly and privately owned securities; they are carried at estimated fair value provided by the management of the partnerships or funds as of June 30, 2005 and 2004. Because some of these investments are not readily marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investments existed and such differences could be material. The amount of gain or loss associated with these investments is reflected in the accompanying financial statements using the equity method of accounting.

Real estate and faculty and staff mortgages are carried at cost in the absence of evidence of an impairment value.

Realized gains and losses are recognized on a first-in, first-out basis when securities are sold.

The College pools most of its investments in a unitized account similar to an open-ended mutual fund. Funds added or withdrawn from the pools are recorded at their share of the then current market value of the pool. Investment income of the pools is recognized by the funds owning the assets based on their share of the investment pool, which is recalculated on a monthly basis.

The College utilizes a "total return" approach to managing the investment pool. This emphasizes total return, which consists of current yield (primarily interest and dividends) as well as the net appreciation in the market value of pooled investments.

In 1992, the College established a spending rate expressed as a percentage of the beginning of the year market value of the investment pool. This rate increases by a certain percentage each year, as determined by the College. The spending rate is allocated to pool participants, with the difference between the spending rate and current yield (which typically is lower than the spending rate) recorded as realized gains spent in operating revenue.

Total return in excess of the spending rate is reported as non-operating gains or losses.



**Williams College**  
**Notes to Financial Statements**  
**June 30, 2005 and 2004**

***On Deposit with Bond Trustee***

In conjunction with the issuance of Series H and I debt, the College was required to deposit the proceeds of the issuance into a restricted escrow account. These proceeds are available to the College upon receipt of supporting documentation for specified qualifying capital expenditures.

***Split Interest Agreements and Outside Trusts***

The College's split interest agreements generally consist of irrevocable charitable remainder trusts. For those trusts for which the College serves as trustee, the assets held are included with its pooled investments. Assets under these agreements are recorded at fair market value. The aggregate fair market value of the assets under these agreements is \$63,719,390 and \$75,783,855 as of June 30, 2005 and 2004, respectively. Contribution revenues are recognized at the dates the trusts are established after recording liabilities for the present value of the estimated future payments to be made to the donors and/or other beneficiaries. The liabilities, recorded in present value of beneficiary payments on the Statement of Financial Position, are adjusted during the term of the trusts for changes in the value of the assets, amortization of the discount and other changes in the estimates of future benefits.

For those irrevocable charitable remainder trusts for which the College does not serve as trustee, the College records its beneficial interest in those assets as contribution revenue and contributions receivable at the present value of the expected future cash inflows. Such trusts are recorded at the date the College has been notified of the trust's existence and sufficient information regarding the trust has been accumulated to form the basis for an accrual. Changes in the value of these assets related to the amortization of the discount or revisions in the income beneficiary's life expectancy are recorded as a non-operating change in the valuation of contributions receivable of either temporarily or permanently restricted net assets.

The College is also the beneficiary of certain perpetual trusts held and administered by others. The present values of the estimated future cash receipts from the trusts are recognized as contributions receivable and contribution revenues at the date the College is notified of the establishment of the trust and sufficient information regarding the trust has been obtained by the College. Distributions from the trusts are recorded as investment income in the period they are received. Changes in fair value of the trusts are recorded as non-operating gains or losses in temporarily and permanently restricted net assets.

***Land, Buildings and Equipment***

All capital expenditures for and gifts of land, buildings and equipment are recorded as additions to Land, Buildings or Equipment, as appropriate, and are carried at cost at date of acquisition or fair value at the date of donation, less accumulated depreciation, computed on a straight-line basis over the estimated useful lives of buildings (60 years), building systems, renovations and land improvements (20 years), equipment (3-10 years) and software (3 years).

The College's art and rare book collections are recorded at cost or appraised value at the date of acquisition. Collections are not depreciated.

***Employee Benefits***

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 and CREF). Under this agreement, the College and plan participants make monthly contributions to TIAA and CREF to purchase individual annuities equivalent to retirement benefits earned.

The College provides postretirement benefits that include retiree life insurance and a portion of early retiree medical, dental and life insurance premiums.

**Williams College**  
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The College accrues for postemployment benefits which include, but are not limited to, salary continuation, severance benefits, workers' compensation and other disability related benefits, and the post employment continuation of health care benefits, life insurance benefits and similar benefits to certain employees and beneficiaries.

***U.S. Government Advances for Student Loans***

Funds provided by the United States Government under the Federal Perkins Loan program are loaned to qualified students and may be reloaned after collection. If the College were to terminate the Federal Perkins Loan Program, these funds would be refundable to the government and, therefore, are included in other long-term liabilities.

***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.

***Allocation of Interest, Depreciation and Operation and Maintenance of Plant***

Certain expenses have been allocated to functional areas based on the following:

Interest – by bond issue, by functional nature of building use

Depreciation – by square footage, by functional nature of building use

Operation and maintenance of plant – by specific identification where applicable and by square footage, by functional nature of building use

**Reclassifications**

Certain reclassifications have been made to 2004 amounts to conform to the 2005 presentation.

**2. Contributions Receivable**

Contributions receivable, net, are summarized as follows at June 30:

<b>Expected Collection Period</b>	<b>2005</b>	<b>2004</b>
Less than one year	\$22,979,533	\$17,671,331
One year to five years	29,941,396	34,755,439
Over five years	7,525,481	10,396,183
Less: Discount	(9,553,953)	(10,511,410)
Allowance	<u>(5,224,246)</u>	<u>(7,220,878)</u>
Net contributions receivable less discount and reserve	45,668,211	45,090,665
Charitable remainder trusts held by others	<u>23,058,397</u>	<u>21,524,378</u>
<b>Net contributions receivable</b>	<b><u>\$68,726,608</u></b>	<b><u>\$66,615,043</u></b>

At June 30, 2005 and 2004, the College had also received conditional promises to give of approximately \$20,700,000 and \$18,700,000, respectively. These conditional promises to give are not recognized as assets until the removal or lapse of the condition.

**Williams College**  
**Notes to Financial Statements**  
**June 30, 2005 and 2004**

**3. Loans to Students**

Under Statement of Financial Accounting Standards No.107, *Disclosure about Fair Value of Financial Instruments*, the College is required to disclose fair value of student loans. Management believes that it is not practicable to determine the fair value of loans receivable because they are primarily federally sponsored student loans with U.S. government mandated interest rates and repayment terms subject to significant restrictions as to their transfer or disposition. College sponsored and donor provided loans are similarly restricted as to interest rate and disposition.

**4. Investments**

The carrying value and cost of investments held by the College consist of the following at June 30:

	2005	
	MARKET	COST
Temporary Investments	\$110,586,932	\$110,586,932
Stocks – Common and Preferred	502,432,195	388,179,287
Bonds/Asset Backed Securities	110,750,214	104,296,892
Real estate, mortgages, and other	31,812,973	36,889,050
Privately held partnerships	594,241,463	578,072,720
Mutual Funds	161,899,437	128,581,053
Net accounts receivable	<u>2,524,851</u>	<u>2,524,851</u>
<b>Total</b>	<b><u>\$1,514,248,065</u></b>	<b><u>\$1,349,130,785</u></b>
Comprised of:		
Endowment and Similar Funds	\$1,499,398,232	\$1,335,015,339
Other Funds	<u>14,849,833</u>	<u>14,115,446</u>
<b>Total</b>	<b><u>\$1,514,248,065</u></b>	<b><u>\$1,349,130,785</u></b>
	2004	
	MARKET	COST
Temporary Investments	\$186,088,308	\$185,911,010
Stocks – Common and Preferred	510,691,291	373,670,284
Bonds/Asset Backed Securities	153,325,830	144,037,765
Real estate, mortgages, and other	41,286,736	46,896,930
Privately held partnerships	385,017,692	412,761,384
Mutual funds	91,783,292	76,487,664
Net accounts receivable	<u>21,073,250</u>	<u>21,073,250</u>
<b>Total</b>	<b><u>\$1,389,266,399</u></b>	<b><u>\$1,260,838,287</u></b>
Comprised of:		
Endowment and Similar Funds	\$1,342,915,719	\$1,214,597,461
Other Funds	<u>46,350,680</u>	<u>46,240,826</u>
<b>Total</b>	<b><u>\$1,389,266,399</u></b>	<b><u>\$1,260,838,287</u></b>

As of June 30, 2005, accounts receivable and payable related to the unsettled sales and purchase of securities were \$3,568,223 and \$1,043,372, respectively. As of June 30, 2004, accounts receivable and payable related to the unsettled sales and purchases of securities were \$27,840,585 and \$6,767,335, respectively.

In 2005, the College began participating in a securities lending program that is designed to enhance return on certain asset holdings. The minimum collateral the College requires by contract on this program is 102% of the market value of the security loaned. During 2005, the College received advancements of cash and U.S. government debt as collateral on deposit for certain securities loaned to brokers and dealers totaling \$826,952,292, of

**Williams College**  
**Notes to Financial Statements**  
**June 30, 2005 and 2004**

which the College repaid \$765,729,678 prior to June 30, 2005. At June 30, 2005, the College held \$61,222,614 of collateral which is presented as an asset and related liability on the Statement of Financial Position. All rights to this collateral, of a secured party under applicable law, are available to the College in the case of a borrower's failure to deliver securities for any reason within the time specified by the applicable securities loan agreement. The securities temporarily on loan are included in the investments of the College with an estimated fair market value as of June 30, 2005 of \$59,716,966.

The College holds mortgages on residences of eligible faculty and staff members that amounted to \$10,833,551 and \$9,941,965 as of June 30, 2005 and 2004, respectively. The average interest rate on the mortgages for the year ended June 30, 2005 was 4.08%.

Realized net gains were \$109,632,695 and \$88,017,725 for the years ended June 30, 2005 and 2004, respectively. Unrealized appreciation for the years ended June 30, 2005 and 2004 were \$36,689,168 and 94,221,210, respectively. Investment income, other than reinvested amounts, was \$21,434,452 and \$19,896,325 for the years ended June 30, 2005 and 2004, respectively. Of this amount, \$3,228,726 and \$3,328,414 respectively, was investment income on split interest agreements. Reinvested income was \$1,371,379 and \$1,432,973, respectively. Investment income on split interest agreements and reinvested income are reflected as part of realized and unrealized gains on investments, investment income on split interest agreements, and reinvested income after realized gains in the non-operating section of the Statement of Activities.

All investment management fees paid by the College are netted against investment gains reducing reported non-operating gains on investments.

In connection with the investments managed by external investment advisors, derivative financial instruments, principally options, futures and options on futures, may be employed by certain advisors. Derivative financial instruments are not an integral part of the College's overall investment strategy. As a result, it is necessary to view the results for any investment activity, including the effect of derivative financial instruments, in the aggregate.

For the years ended June 30, 2005 and June 30, 2004, the aggregate realized gains (losses) on derivative transactions for direct investment accounts of the College was \$875,960 and (\$278,871) respectively. At June 30, 2005 and 2004, there were no open positions in derivative financial transactions.

Under the "total return" approach the College spent accumulated gains of \$39,880,058 and \$39,231,009 for the years ended June 30, 2005 and 2004, respectively. Total return in excess of the spending rate is reported as non-operating revenue or loss.

In 2004, unrealized losses of approximately \$88,000 related to permanently restricted endowment funds (the "underwater" endowed funds) were classified as a temporary reduction of unrestricted net assets. As of June 30, 2005 these losses were recovered and no endowed funds are underwater.

**5. Land, Buildings and Equipment**

Land, buildings and equipment of the College consist of the following at June 30:

	2005	2004
Land and land improvements	\$34,319,607	\$30,781,300
Buildings	324,014,794	264,921,602
Equipment	58,962,745	51,454,275
Art collections	32,581,859	30,168,202
Construction in progress	<u>18,064,065</u>	<u>44,351,114</u>
	\$467,943,070	\$421,676,493

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Less accumulated depreciation	<u>(163,598,804)</u>	<u>(154,613,558)</u>
<b>Total</b>	<b><u>\$304,344,266</u></b>	<b><u>\$267,062,935</u></b>

Approximately \$38,314,570 and \$12,992,000 was transferred from Construction in Progress to the appropriate categories within land, buildings and equipment in 2005 and 2004, respectively.

Included in land and land improvements are costs incurred of approximately \$2,082,940 at June 30, 2005 to develop property that the College intends to sell to qualified faculty or staff. The sales will be evidenced by notes that will be repaid at the time the property is sold or under certain other defined conditions. The College has the right of first refusal to reacquire this property.

**6. Retirement Benefits**

The College's expense under defined contribution retirement plans amounted to \$5,172,185 and \$5,039,417 for 2005 and 2004, respectively.

**7. Postretirement Benefits Other Than Pensions**

	<u>Postretirement Other Than Pension Plan</u>	
	2005	2004
<b>Change in Benefit Obligation</b>		
Postretirement benefit obligation at beginning of year	\$9,745,675	\$10,101,362
Service Cost	386,094	405,296
Interest Cost	590,516	549,470
Actuarial (gain)/loss	1,211,117	(896,202)
Benefits paid	<u>(426,498)</u>	<u>(414,250)</u>
Postretirement benefit obligations at end of year	\$11,506,904	\$9,745,676
<b>Change in Plan Assets</b>		
Employer contribution	\$426,498	\$414,250
Benefits paid	<u>(426,498)</u>	<u>(414,250)</u>
Fair value of plan assets at end of year	\$0	\$0
Funded status	(\$11,506,905)	(\$9,745,676)
Unrecognized actuarial (gain)/loss	2,555,544	1,381,406
Unrecognized prior service cost	<u>2,682,417</u>	<u>2,966,804</u>
(Accrued)/prepaid benefit cost	<u>(\$6,268,944)</u>	<u>(\$5,397,466)</u>
<b>Weighted-Average Assumptions to Determine Obligations</b>		
Discount rate at end of year	5.10%	6.25%

For measurements purposes, the assumed annual rate of increase in the per capita cost of covered medical and prescription drug benefits was 9.0% and 13.0%, 8.5% and 12.0%, and 8.0% and 11.0% respectively for fiscal years 2003, 2004 and 2005 graded down to 5.0% for fiscal year 2011 and thereafter. The assumed annual rate of increase in the per capita cost of covered dental benefits was 6.0%, 5.5% respectively for fiscal years 2003 and 2004 and thereafter.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plan. A one-percentage point change in assumed health care cost trend rates would have the following effect:

Impact of 1% increase in health care cost trend	
on interest cost plus service during past year	\$51,113
on accumulated postretirement benefit obligation	\$389,231

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Impact of 1% decrease in health care cost trend on interest cost plus service cost during past year on accumulated postretirement benefit obligation	(\$45,803) (\$351,896)
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	2005	2004
<b>Components of Net Periodic Benefit Cost</b>		
Service cost	\$386,094	\$405,296
Interest cost	590,516	549,470
Recognized actuarial loss	36,979	79,824
Amortization of prior service cost	<u>284,387</u>	<u>284,387</u>
Net periodic postretirement benefit cost	<u>\$1,297,976</u>	<u>\$1,318,977</u>
<b>Weighted-Average Assumptions to Determine Net Periodic Benefit Cost</b>		
Discount rate at beginning of year	6.25%	5.60%

In December 2003 the Medicare Prescription Drug Improvement and Modernization act of 2003 was enacted which provides certain prescription drug related benefits for retirees and subsidies for employers providing actuarial equipment benefits to their retirees beginning in 2006. As the College does not subsidize post-65 prescription drug costs for retirees, no adjustment has been made to the obligation and expense calculations for the current fiscal year.

**Expected Future Benefit Payments**

2006	\$587,720
2007	\$578,488
2008	\$598,377
2009	\$647,131
2010	\$668,734
2011 through 2015	\$4,035,859

**8. Commitments and Contingencies**

The College is committed as of June 30, 2005 to invest approximately \$252,000,000 in certain limited partnerships.

At June 30, 2005, the College has outstanding construction contracts totaling approximately \$31,950,000. Completion of these projects is estimated to extend through December 2006.

**9. Bonds Payable**

Borrowing for plant facilities consists of the following at June 30:

	2005	2004
Massachusetts Health and Educational Facilities Authority Bonds (Williams College):		
Series E, variable rate, due through 2014	\$17,200,000	\$17,700,000
Series F, 5.50% to 5.75%, due through 2026	32,000,000	32,000,000
Series G, 5.50%, due through 2014	9,255,000	9,255,000
Series H, 2.00% to 5.00% due through 2033	40,925,000	41,640,000
Series I, variable rate due through 2033	<u>70,000,000</u>	<u>70,000,000</u>
<b>Total Bonds Payable</b>	<u>\$169,380,000</u>	<u>\$170,595,000</u>

The Series E Bonds are variable rate demand revenue bonds. The annualized interest rate ranged from 1.00% to 3.02% during fiscal year 2005 with an average rate of 1.85% for the year. The bonds bear interest at a variable

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rate based on the prevailing market rate for equivalent bonds. The College may convert the bonds to a fixed rate at its option. Annual principal payments are currently \$500,000 and increase to \$1,750,000.

The Series F Bonds are fixed rate revenue bonds. The bonds are subject to redemption beginning July 1, 2015, with a payment of \$1,910,000; annual principal payments increase gradually through to a final payment on July 1, 2026 of \$3,560,000. Subject to 30 days notice, the bonds may be called by the College at 101% of par beginning on July 1, 2006; the call price then drops to 100.5% of par on July 1, 2007, and then to 100% of par beginning on July 1, 2008, and annually thereafter.

The Series G Bonds are fixed rate revenue bonds. A single principal payment of \$9,255,000 is payable on the maturity date of the bond, July 1, 2014. Subject to 30 days notice, the bonds may be called by the College at 101% of par beginning on July 1, 2009; the call price then drops to 100.5% of par on July 1, 2010, and then to 100% of par beginning on July 30, 2011, and thereafter.

The Series H Bonds are fixed rate revenue bonds. Subject to 30 days notice, the bonds may be called by the College on July 13, 2013 at 100.0% of par. Annual principal payments are currently \$715,000 and increase to \$2,030,000. At June 30, 2004, \$4,341,711 of bond proceeds from Series H was on deposit with the bond trustee. There were no unspent bond proceeds from Series H on deposit with the bond trustee at June 30, 2005.

The Series I Bonds are variable rate demand revenue bonds. The bonds were issued as Put Bonds in two tranches: the first is a \$40,000,000 one year put bond at an annualized interest rate of 1.22%; the second was a \$30,000,000 three year put bond at an annualized rate of 1.93%. The College has the option at the maturity of the Put Bonds to resell them as put bonds with maturities ranging from one to five years or convert them to a floating rate of interest under a remarketing agreement with a remarketing agent. In April 2005, the College converted the \$30,000,000 three year put bond to a floating weekly rate. The annualized interest rate ranged from 2.00% to 2.95% during fiscal year 2005 with an average rate of 2.59% for the year. The bonds bear interest at a variable rate based on the prevailing market rate for equivalent bonds. The College also may convert the bonds to a fixed rate at its option. At June 30, 2005 and 2004, respectively, \$11,246,900 and \$27,406,966 of bond proceeds from Series I was on deposit with the bond trustee.

Based on the borrowing rates currently available in the market for bonds with similar terms and maturities and issued by institutions with similar credit ratings, the fair market value of the College's long-term debt as of June 30, 2005 was approximately \$173,800,000.

Combined deferred issuance costs and net bond premium equal approximately \$52,000 and are being amortized to interest expense over the life of the respective bonds. These amounts are recorded in deferred revenue and deposits. Combined debt principal payment requirements for the years 2006 through 2010 approximate \$4,626,000, \$4,739,000, \$4,817,000, \$4,905,000 and \$5,010,000 respectively.

#### **Hedging Activities**

In conjunction with the interest rate swap (Note 4) the College adopted Statement of Financial Accounting Standards (FAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended.

#### **Forward Interest Rate Swap**

On January 19, 2005, the College entered into a forward interest rate swap agreement related to the anticipated remarketing of the Series F Bonds. The debt, which will be issued in April 2006, has an anticipated notional amount of \$33,273,000. Under the terms of the agreement, the College will pay a fixed rate of 3.457% to a third party who in turn will pay a variable rate, estimated as 68% of LIBOR, on the respective notional principal amount to the bondholders. The interest rate swap agreement was not entered into for trading or speculative purposes. Because market risks arise from movements in interest rates, the College entered into the interest rate swap to reduce interest rate volatility on the outstanding debt.

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As of June 30, 2005, the fair value of the swap was \$(1,349,110) and was recorded in Accounts Payable and Accrued Liabilities and as a nonoperating loss. The fair value of the swap instrument represents the estimated cost to the College to cancel the agreement on the date of the Statement of Financial Position, taking into account the creditworthiness of the underlying counterparties. The interest rate swap expires on July 1, 2026.

**10. Line of Credit**

The College maintained a \$20,000,000 line of credit with its main operating bank throughout fiscal year 2005. The line of credit remains effective through November of 2005. The line of credit bears interest at either the bank's prime rate or at a LIBOR rate plus 30 basis points, at the College's option. Additionally, the College pays a commitment fee equal to 7 basis points per year for any unused borrowing capacity. At June 30, 2005, the amount outstanding on the line of credit was \$20,000,000. On July 8, 2005 the line of credit was increased to \$36,000,000 and extended to November of 2006.

**11. Expenses Prior to Allocations**

The following are functional expenses before the allocation of interest, depreciation and operation and maintenance of plant for the years ended June 30. Capital purchases and capitalized interest have been removed from these amounts. In 2005, Other includes \$1,639,000 of costs to remove contaminated soil at the site of the new student center.

	<b>2005</b>	<b>2004</b>
Instruction	\$46,689,886	\$44,070,315
Academic support	10,175,192	9,820,982
Student services	14,300,958	13,725,791
Institutional support	19,701,487	20,814,810
Auxiliaries	16,071,055	16,467,043
Operation & maintenance plant	10,411,245	9,733,305
Interest	5,586,636	5,377,703
Depreciation	13,894,855	12,289,602
Other	<u>2,884,434</u>	<u>792,730</u>
<b>Total</b>	<b><u>\$139,715,748</u></b>	<b><u>\$133,092,281</u></b>