

Williams College

Financial Statements
June 30, 2008 and 2007

Williams College
Index
June 30, 2008 and 2007

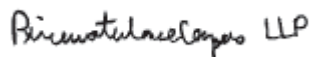
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Report of Independent Auditors

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, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 7 to the financial statements, the College, in 2007, adopted the provisions of Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106 and 132(R)*.



September 17, 2008

Williams College
Statements of Financial Position
June 30, 2008 and 2007

	2008	2007
Assets		
Cash	\$ 3,127,058	\$ 3,005,666
Accounts receivable, net of allowance of \$35,584 in 2008 (\$50,171 in 2007)	554,520	1,048,439
Contributions receivable, net of allowance and discount of \$13,947,612 in 2008 (\$15,565,857 in 2007) (Note 2)	83,912,496	88,401,942
Notes receivable - student loans, net of allowance of \$93,505 in 2008 (\$93,505 in 2007) (Note 3)	5,801,925	5,903,700
Notes receivable - other	3,011,500	3,299,000
Deposits with bond trustee	15,576,135	50,344,154
Collateral on securities loaned (Note 4)	10,833,023	81,120,104
Other assets	4,664,610	4,993,191
Investments (Note 4)	1,895,401,740	1,968,664,737
Land, buildings and equipment, net (Note 5)	384,650,983	353,437,469
Total assets	<u>\$ 2,407,533,990</u>	<u>\$ 2,560,218,402</u>
Liabilities		
Accounts payable and accrued liabilities	\$ 15,754,235	\$ 14,515,623
Accrued salaries and benefits (Notes 6 and 7)	20,922,498	17,119,031
Securities lending liability (Note 4)	10,833,023	81,120,104
Deferred revenue and deposits	3,212,590	3,439,341
U. S. Government advances for student loans	3,519,794	3,485,292
Present value of beneficiary payments	34,337,761	32,868,302
Bonds payable (Note 9)	262,003,384	267,108,317
Total liabilities	<u>\$ 350,583,285</u>	<u>\$ 419,656,010</u>
Net Assets		
Unrestricted	338,244,969	381,181,873
Temporarily restricted	1,262,735,169	1,320,745,177
Permanently restricted	455,970,567	438,635,342
Total net assets	<u>2,056,950,705</u>	<u>2,140,562,392</u>
Total liabilities and net assets	<u>\$ 2,407,533,990</u>	<u>\$ 2,560,218,402</u>

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

Williams College
Statement of Activities
Year Ended June 30, 2008 (with summarized financial information
For the Year Ended June 30, 2007)

	2008			Total	2007 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Operating revenue, gains and other					
Student revenues					
Tuition and fees	\$ 72,753,191	\$ -	\$ -	\$ 72,753,191	\$ 68,774,511
Room and board	17,032,961	-	-	17,032,961	16,191,906
Less: Financial aid	<u>(29,284,650)</u>	<u>-</u>	<u>-</u>	<u>(29,284,650)</u>	<u>(25,635,770)</u>
Net student revenues	60,501,502	-	-	60,501,502	59,330,647
Auxiliary enterprises - other	5,569,828	-	-	5,569,828	5,276,651
Special purpose grants expended	1,694,402	-	-	1,694,402	1,711,501
Gifts and grants, net	13,720,948	5,921,719	-	19,642,667	27,551,900
Investment income	6,087,783	2,600,732	-	8,688,515	19,351,576
Realized gains utilized	9,412,962	55,697,848	-	65,110,810	48,316,516
Other	1,315,493	-	-	1,315,493	1,243,028
Net assets released from restrictions	<u>62,934,345</u>	<u>(62,934,345)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total operating revenue, gains, and other	161,237,263	1,285,954	-	162,523,217	162,781,819
Operating expenses and other					
Instructional and research	75,463,806	-	-	75,463,806	72,182,064
Academic support	15,848,862	-	-	15,848,862	14,346,349
Student services	22,590,747	-	-	22,590,747	21,361,740
Institutional support	32,987,834	-	-	32,987,834	28,451,949
Auxiliary enterprises	29,455,306	-	-	29,455,306	27,107,307
Other	<u>177,195</u>	<u>-</u>	<u>-</u>	<u>177,195</u>	<u>184,560</u>
Total operating expenses and other	<u>176,523,750</u>	<u>-</u>	<u>-</u>	<u>176,523,750</u>	<u>163,633,969</u>
Change in net assets from operating activities	(15,286,487)	1,285,954	-	(14,000,533)	(852,150)
Nonoperating activities					
Realized and unrealized gains on investments, investment income on split interest agreements, and reinvested investment income	(9,608,617)	(17,206,817)	(1,661,343)	(28,476,777)	360,067,251
Realized gains utilized for current operations	(9,412,962)	(55,697,848)	-	(65,110,810)	(48,316,516)
Adjustment for endowment funds with market value below book value	(748,721)	748,721	-	-	-
Actuarial changes and payments of annuities	(4,525,758)	1,133,050	1,260,362	(2,132,346)	(2,164,443)
Life income and endowment gifts, net	-	2,243,865	26,401,404	28,645,269	48,639,919
Fund retirements and gifts further designated	(817,869)	2,153,089	(1,335,220)	-	-
Loss on retirement of debt	(263,633)	-	-	(263,633)	(98,720)
Loss on disposition of fixed assets	(164,865)	-	-	(164,865)	(208,791)
Gain (loss) on financial contracts	(2,107,992)	-	-	(2,107,992)	(70,653)
Transfers between net asset categories	<u>-</u>	<u>7,329,978</u>	<u>(7,329,978)</u>	<u>-</u>	<u>-</u>
Change in net assets from nonoperating activities	(27,650,417)	(59,295,962)	17,335,225	(69,611,154)	357,848,047
Change in net assets before cumulative effect of change in accounting principle and adoption of new accounting principle	(42,936,904)	(58,010,008)	17,335,225	(83,611,687)	356,995,897
Adoption of new accounting principle (Note 7)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(4,039,511)</u>
Total change in net assets after cumulative effect of change in accounting principle and adoption of new accounting principle	(42,936,904)	(58,010,008)	17,335,225	(83,611,687)	352,956,386
Beginning net assets	<u>381,181,873</u>	<u>1,320,745,177</u>	<u>438,635,342</u>	<u>2,140,562,392</u>	<u>1,787,606,006</u>
Ending net assets	<u>\$ 338,244,969</u>	<u>\$ 1,262,735,169</u>	<u>\$ 455,970,567</u>	<u>\$ 2,056,950,705</u>	<u>\$ 2,140,562,392</u>

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

Williams College
Statement of Activities
Year Ended June 30, 2007

	2007			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Operating revenue, gains and other				
Student revenues				
Tuition and fees	\$ 68,774,511	\$ -	\$ -	\$ 68,774,511
Room and board	16,191,906	-	-	16,191,906
Less: Financial aid	<u>(25,635,770)</u>	<u>-</u>	<u>-</u>	<u>(25,635,770)</u>
Net student revenues	59,330,647	-	-	59,330,647
Auxiliary enterprises - other	5,276,651	-	-	5,276,651
Special purpose grants expended	1,711,501	-	-	1,711,501
Gifts and grants, net	13,523,614	14,028,286	-	27,551,900
Investment income	15,908,892	3,442,684	-	19,351,576
Realized gains utilized	5,908,643	42,407,873	-	48,316,516
Other	1,243,028	-	-	1,243,028
Net assets released from restrictions	<u>50,357,339</u>	<u>(50,357,339)</u>	<u>-</u>	<u>-</u>
Total operating revenue, gains, and other	153,260,315	9,521,504	-	162,781,819
Operating expenses and other				
Instructional and research	72,182,064	-	-	72,182,064
Academic support	14,346,349	-	-	14,346,349
Student services	21,361,740	-	-	21,361,740
Institutional support	28,451,949	-	-	28,451,949
Auxiliary enterprises	27,107,307	-	-	27,107,307
Other	<u>184,560</u>	<u>-</u>	<u>-</u>	<u>184,560</u>
Total operating expenses and other	<u>163,633,969</u>	<u>-</u>	<u>-</u>	<u>163,633,969</u>
Change in net assets from operating activities	(10,373,654)	9,521,504	-	(852,150)
Nonoperating activities				
Realized and unrealized gains on investments, investment income on split interest agreements, and reinvested investment income	48,861,729	303,018,430	8,187,092	360,067,251
Realized gains utilized for current operations	(5,908,643)	(42,407,873)	-	(48,316,516)
Actuarial changes and payments of annuities	(4,544,960)	1,155,627	1,224,890	(2,164,443)
Life income and endowment gifts, net	-	4,471,047	44,168,872	48,639,919
Fund retirements and gifts further designated	2,260,183	(3,216,587)	956,404	-
Loss on retirement of debt	(98,720)	-	-	(98,720)
Loss on disposition of fixed assets	(208,791)	-	-	(208,791)
Gain (loss) on financial contracts	<u>(70,653)</u>	<u>-</u>	<u>-</u>	<u>(70,653)</u>
Change in net assets from nonoperating activities	40,290,145	263,020,644	54,537,258	357,848,047
Change in net assets before cumulative effect of change in accounting principle and adoption of new accounting principle	29,916,491	272,542,148	54,537,258	356,995,897
Adoption of new accounting principle (Note 7)	<u>(4,039,511)</u>	<u>-</u>	<u>-</u>	<u>(4,039,511)</u>
Total change in net assets after cumulative effect of change in accounting principle and adoption of new accounting principle	25,876,980	272,542,148	54,537,258	352,956,386
Beginning net assets	<u>355,304,893</u>	<u>1,048,203,029</u>	<u>384,098,084</u>	<u>1,787,606,006</u>
Ending net assets	<u>\$ 381,181,873</u>	<u>\$ 1,320,745,177</u>	<u>\$ 438,635,342</u>	<u>\$ 2,140,562,392</u>

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

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

	2008	2007
Cash flow from operating activities		
Total change in net assets	\$ (83,611,687)	\$ 352,956,386
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Adoption of new accounting principle	-	4,039,511
Depreciation, amortization and accretion	17,997,466	16,931,287
Provision for doubtful accounts receivable	(14,586)	(8,800)
Net unrealized and realized (gains) losses on investments and reinvested income	31,211,739	(357,244,686)
Loss on disposal of plant assets	164,865	208,793
Receipt of contributed securities	(21,351,638)	(17,080,346)
Gifts restricted for long-term investment	(9,724,659)	(18,192,708)
Gifts in kind	(1,070,675)	(165,275)
Changes in operating assets and liabilities		
Accounts receivable	508,505	(211,772)
Contributions receivable	4,489,446	(27,194,862)
Accrued investment income	-	645,271
Other assets	216,081	(914,547)
Accounts payable and accrued liabilities	(2,486,979)	(2,873,380)
Present value of beneficiary payments	5,995,217	5,828,653
Accrued salaries and benefits	3,803,467	1,690,773
Deferred revenue and deposits	(208,625)	438,174
Net cash used in operating activities	<u>(54,082,063)</u>	<u>(41,147,528)</u>
Cash flow from investing activities		
Proceeds from sale of investments	2,464,363,911	982,171,440
Purchase of investments	(2,397,683,006)	(946,448,452)
Additions to land, buildings and equipment	(48,133,521)	(43,475,595)
Notes receivable - other	381,874	(15,000)
Deposits with bond trustee	34,768,019	51,706,841
Additional student loans granted	(753,695)	(1,046,785)
Student loans repaid	855,470	1,106,710
Net cash provided by investing activities	<u>53,799,052</u>	<u>43,999,160</u>
Cash flow from financing activities		
Gifts restricted for endowments	9,724,659	18,192,708
Payments to beneficiaries	(4,525,758)	(4,544,960)
Cash overdraft	-	(1,313,695)
Deposits with bond trustee	(36,000,000)	(102,050,995)
Issuance of new debt	36,000,000	112,536,465
Repayment of debt	(4,829,000)	(13,998,000)
Proceeds from line of credit borrowing	-	-
Repayments on line of credit borrowing	-	(11,000,000)
U.S. Government advances for student loans	34,502	(64,933)
Net cash provided by financing activities	<u>404,403</u>	<u>(2,243,410)</u>
Net increase (decrease) in cash	121,392	608,222
Cash at beginning of the year	3,005,666	2,397,444
Cash at end of the year	<u>\$ 3,127,058</u>	<u>\$ 3,005,666</u>
Supplemental disclosures		
Cash paid during the year for interest	\$ 10,377,843	\$ 9,367,454
Noncash transactions		
Exchange of land for notes receivable	(112,500)	124,000
Gain deferred on sale of land	(18,126)	49,000
Amounts included in accounts payable related to construction in progress	5,472,830	5,145,998
Receipt of contributed securities	21,351,638	29,364,997

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

Williams College

Notes to Financial Statements

June 30, 2008 and 2007

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 accounting principles generally accepted in 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 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. Permanently restricted net assets are primarily composed of 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 expenditure 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 or when the asset is placed into service. Gifts-in-kind are reported as unrestricted revenue unless use of the asset is restricted by the donor.

Nonoperating activities represent transactions of a capital nature including realized and unrealized gains on investments to be reinvested 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.

Williams College
Notes to Financial Statements
June 30, 2008 and 2007

Contributions to be received after one year are discounted at a risk free discount rate commensurate with the terms of the contribution. 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 \$1,766,000 and \$2,132,000 for the years ended June 30, 2008 and 2007, respectively.

Other Assets

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

Cash

Cash represents highly liquid investments with a maturity of three months or less when purchased.

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 fair value which approximates cost
Stocks, bonds, mutual funds, and other publicly traded securities	At quoted market value
Privately held partnerships, including alternative investments, such as private equity, real estate and 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

Investments, in general, are exposed to various risks, such as interest rate, credit and overall market volatility. As such, it is reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position and statement of activities.

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; such securities are carried at estimated fair value provided by the management of the partnerships or funds as of June 30, 2008 and 2007. Certain of these investments are not readily marketable; as such, 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.

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Notes to Financial Statements
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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 determined 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 (interest and dividends) as well as the net appreciation (realized and unrealized gains) in the fair value of pooled investments.

The College establishes a spending rate expressed as a percentage of the beginning of the year fair 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 utilized in operating revenue.

The total return in excess of the spending rate is reported in nonoperating gains or losses.

Deposits with Bond Trustee

In conjunction with the issuance of Series L and M debt, the College was required to deposit the proceeds of the issuance into a restricted escrow account.

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 value. The aggregate fair value of the assets under these agreements is \$62,546,155 and \$66,670,020 as of June 30, 2008 and 2007, 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 nonoperating change in the valuation of contributions receivable of either temporarily or permanently restricted net assets.

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The College is also the beneficiary of certain perpetual trusts held and administered by others. The fair value of these trusts, which is reported by the outside trustee, is included in investments. 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 nonoperating gains or losses in temporarily and permanently restricted net assets. The College has a remainder interest in other outside trusts; the present values of the estimated future cash receipts from these 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.

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. The College does not capitalize library books and periodicals.

Conditional Asset Retirement Obligations

The College recognizes the fair value of a liability for legal obligations associated with asset retirements in the period in which the obligation is incurred, in accordance with statement of Financial Accounting Standards (SFAS) No. 143, *Accounting for Asset Retirement Obligations*, and Financial Accounting Standards Interpretation (FIN) No. 47, *Accounting for Conditional Asset Retirement Obligations (an interpretation of FASB Statement No. 143)*. When the liability is initially recorded, the cost of the asset retirement obligation is capitalized by increasing the carrying amount of the related long-lived asset. The liability is accreted to its present value each period, and the capitalized cost associated with the retirement obligation is depreciated over the useful life of the related asset. Upon settlement of the obligation, any difference between the cost to settle the asset retirement obligation and the liability recorded is recognized as a gain or loss in the statement of activities.

	2008	2007
Change in asset retirement obligation		
Asset retirement obligation at beginning of year	\$ 3,336,364	\$ 3,284,579
Asset retirement	(96,277)	(64,492)
Accretion expense	113,727	116,277
Asset retirement obligation, net	\$ 3,353,814	\$ 3,336,364

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.

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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 recorded as a liability.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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. The College's significant estimates include the valuation of its investments, its valuation of contributions receivable, recognition of its conditional asset retirement obligations, its postretirement health benefits and other accruals for expenses incurred which will be settled in the future. 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

Income Taxes/Tax-Exempt Status

The College is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and accordingly no provision for income taxes has been recorded in the accompanying financial statements.

Effective July 1, 2007, the College adopted Financial Accounting Standards Board ("FASB") Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109*. The adoption did not have a material effect on the College's financial statements.

Reclassifications

Certain reclassifications within balance sheet categories in the statement of financial position have been made to 2007 amounts to conform to the 2008 presentation.

Williams College
Notes to Financial Statements
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During fiscal year 2008, the College reviewed certain activity related to contributed securities and determined that \$17,080,346 of such securities should have been treated as non-cash activity within the statement of cash flows at June 30, 2007. The impact of the revision was a reduction of \$5,908,057 in cash flows from operating activities, a reduction of \$17,080,346 in cash flows used in investing activities, and a reduction of \$11,172,289 in cash flows from financing activities. The statement of financial position and the statement of activities for fiscal 2007 were not impacted as a result of this adjustment. The College has reflected these transactions in their financial statements as of June 30, 2007 within the financial statements issued for June 30, 2008 for comparative purposes.

2. Contributions Receivable

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

	2008	2007
Expected Collection Period		
Less than one year	\$ 28,007,637	\$ 25,046,140
One year to five years	38,382,758	42,195,170
Over five years	1,432,611	3,677,738
Less: Discount	(9,792,259)	(11,147,113)
Allowance	<u>(4,155,353)</u>	<u>(4,418,744)</u>
Net contributions receivable less discount and allowance	53,875,394	55,353,191
Charitable remainder trusts held by others	<u>30,037,102</u>	<u>33,048,751</u>
Contributions receivable, net	<u>\$ 83,912,496</u>	<u>\$ 88,401,942</u>

At June 30, 2008 and 2007, the College had also received conditional promises to give of approximately \$47,900,000 and \$36,500,000, respectively. These conditional promises to give are not recognized as assets until the removal or lapse of the condition.

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.

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4. Investments

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

	2008		2007	
	Fair Value	Cost	Fair Value	Cost
Temporary investments	\$ 69,791,307	\$ 69,791,306	\$ 76,696,778	\$ 76,696,779
Stocks - common and preferred	145,918,727	130,662,357	508,977,172	378,078,957
Bonds/asset-backed securities	19,264,556	18,968,127	90,284,199	90,891,152
Real estate, mortgages and other	28,159,511	33,398,541	33,124,999	35,777,560
Privately held partnerships	989,442,864	870,173,734	959,740,245	775,177,256
Mutual/commingled funds	642,951,935	590,558,094	294,310,012	189,838,025
Net unsettled sales and purchases	(127,160)	(127,160)	5,531,332	5,531,332
	<u>\$ 1,895,401,740</u>	<u>\$ 1,713,424,999</u>	<u>\$ 1,968,664,737</u>	<u>\$ 1,551,991,061</u>
Comprised of				
Endowment and similar funds	1,877,114,299	1,697,052,303	1,950,895,269	1,535,771,838
Other funds	18,287,441	16,372,696	17,769,468	16,219,223
	<u>\$ 1,895,401,740</u>	<u>\$ 1,713,424,999</u>	<u>\$ 1,968,664,737</u>	<u>\$ 1,551,991,061</u>

As of June 30, 2008, accounts receivable and payable related to the unsettled sales and purchases of securities were \$823,960 and \$951,120, respectively. As of June 30, 2007, accounts receivable and payable related to the unsettled sales and purchases of securities were \$9,138,512 and \$3,607,180, respectively.

As of June 30, 2008 and 2007, temporary investments includes accrued investment income of \$144,376 and \$1,256,722, respectively.

The College participates 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 2008, the College received \$127,732,759 in cash and U.S. government debt as collateral for certain securities loaned to brokers and dealers; the College returned \$180,397,765 prior to June 30, 2008. At June 30, 2008 and 2007, the College held \$10,833,023 and \$81,120,104, respectively, of collateral which is presented as an asset and related liability on the statement of financial position. All rights to this collateral as 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 value as of June 30, 2008 and 2007 of \$10,482,382 and \$79,238,382, respectively.

The College holds mortgages on residences of eligible faculty and staff members that amounted to \$10,743,149 and \$11,041,065 as of June 30, 2008 and 2007, respectively. The average interest rate on the mortgages for the year ended June 30, 2008 was 3.84%.

Realized net gains were \$204,319,024 and \$114,212,363 for the years ended June 30, 2008 and 2007, respectively. Unrealized appreciation for the years ended June 30, 2008 and 2007 were (\$234,696,935) and \$245,868,668, respectively. Investment income, other than reinvested amounts, was \$11,423,477 and \$22,174,142 for the years ended June 30, 2008 and 2007, respectively. Of this amount, \$2,838,916 and \$2,822,566, respectively, was investment income on split interest agreements. Reinvested income was \$8,314,048 and \$6,653,689, 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 in the nonoperating section of the statement of activities.

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All investment management fees paid by the College are netted against investment gains reducing reported nonoperating 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, 2008 and June 30, 2007, the aggregate realized gains (losses) on derivative transactions for direct investment accounts of the College was \$(266,612) and \$(40,657), respectively. At June 30, 2008 and 2007, there were no open positions in derivative financial transactions.

Under the "total return" approach, the College spent accumulated gains of \$65,110,810 and \$48,316,516 for the years ended June 30, 2008 and 2007, respectively. Total return in excess of the spending rate is reported as nonoperating revenue or loss.

5. Land, Buildings and Equipment

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

	2008	2007
Land and land improvements	\$ 41,525,394	\$ 36,719,159
Buildings	403,334,136	389,361,261
Equipment	61,485,579	57,828,702
Art collections	34,043,784	33,158,284
	<u>540,388,893</u>	<u>517,067,406</u>
Less accumulated depreciation	<u>(201,652,322)</u>	<u>(183,692,917)</u>
	338,736,571	333,374,489
Construction in progress	45,914,412	20,062,980
	<u>\$ 384,650,983</u>	<u>\$ 353,437,469</u>

Approximately \$5,296,771 and \$33,295,304 was transferred from construction in progress to land, buildings and equipment in 2008 and 2007, respectively.

Depreciation expense was \$18,152,650 and \$17,152,192 for the years ended June 30, 2008 and 2007, respectively. During fiscal year 2008, the College disposed of certain assets with an original cost of \$358,110 and accumulated depreciation of \$193,245.

Interest costs of \$939,592 and \$554,166 were capitalized in 2008 and 2007, respectively.

Included in land and land improvements are costs incurred of approximately \$1,959,940 at June 30, 2008 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.

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6. Retirement Benefits

The College's expense under defined contribution retirement plans amounted to \$6,114,000 and \$5,884,000 for 2008 and 2007, respectively.

7. Postretirement Benefits Other than Pensions

In September 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106 and 132(R)* (SFAS 158). SFAS 158 focuses primarily on balance sheet reporting for the funded status of benefit plans and requires recognition of benefit liabilities for underfunded plans and benefit assets for overfunded plans, with an offsetting adjustment to unrestricted net assets. The impact of adoption as of June 30, 2007 resulted in a net decrease of \$4,039,511 in unrestricted net assets, which has been recorded as an adoption of new accounting principle.

Change in accumulated postretirement benefit obligation	2008	2007
Postretirement benefit obligation at beginning of year		
Actives not fully eligible to retire	\$ 7,604,310	\$ 6,680,727
Actives fully eligible to retire	2,299,031	2,236,182
Retirees	<u>2,789,804</u>	<u>3,044,763</u>
	\$ 12,693,145	11,961,672
Service cost	584,348	516,796
Interest cost	850,539	731,894
Plan participants' contributions	50,864	36,338
Amendments	2,499,325	
Actuarial (gain)	(221,214)	(35,071)
Benefits paid	<u>(686,213)</u>	<u>(518,484)</u>
Postretirement benefit obligation at end of year		
Actives not fully eligible to retire	\$ 6,598,159	7,604,310
Actives fully eligible to retire	3,623,903	2,299,031
Retirees	<u>5,548,732</u>	<u>2,789,804</u>
	<u>\$ 15,770,794</u>	<u>\$ 12,693,145</u>
Change in plan assets		
Fair value of plan assets at beginning of year	\$ -	\$ -
Actual return on plan assets	-	-
Employer contribution, net of retiree contributions	635,349	482,146
Plan participants' contributions	50,864	36,338
Actual benefits paid	<u>(686,213)</u>	<u>(518,484)</u>
Fair value of plan assets at end of year	<u>\$ -</u>	<u>\$ -</u>
Reconciliation of funded status		
Funded status	\$ 15,770,794	\$ 12,693,145
Unrecognized prior service cost	-	2,113,643
Unrecognized net actuarial (gain) loss	-	1,925,868
Transitional adjustment to unrestricted assets (SFAS 158)	-	<u>(4,039,511)</u>
Postretirement benefit liability	<u>\$ 15,770,794</u>	<u>\$ 12,693,145</u>

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The components of the liability include:

Current liability	\$ 907,132	\$ 601,028
Noncurrent liability	14,863,662	12,092,117
Total liability	<u>\$15,770,794</u>	<u>\$ 12,693,145</u>

Components of the net periodic postretirement benefit cost

	2008	2007
Service cost	\$ 584,348	\$ 516,796
Interest cost	850,539	731,894
Amortization of prior service cost	392,396	284,387
Amortization of actuarial loss	57,925	72,184
	<u>\$ 1,885,208</u>	<u>\$ 1,605,261</u>

Amounts unrecognized and amortization amounts in following year

Amounts unrecognized in net periodic postretirement cost benefit		
Prior service cost	\$ 4,220,572	\$ 2,113,643
Net actuarial (gain) loss	1,646,729	1,925,868
	<u>\$ 5,867,301</u>	<u>\$ 4,039,511</u>
Amortization amounts in following year		
Prior service cost	\$ 392,396	\$ 284,387
Net actuarial (gain) loss	27,622	63,104
	<u>\$ 420,018</u>	<u>\$ 347,491</u>
Transitional adjustment to unrestricted assets	\$ -	\$ (4,039,511)

Assumptions and effects

	2008	2007
Actuarial assumptions		
Medical/drug trend rate next year	9.0%-9.0%	6.5%-8.0%
Ultimate trend rate	5.0%-5.0%	5.0%-5.0%
Year ultimate trend rate is achieved	2011	2011
Dental trend rate every year	5.00%	5.50%
Discount rate used to value end of year accumulated postretirement benefit obligations	6.78%	6.26%
Discount rate used to value net periodic postretirement benefit cost	6.26%	6.25%
Effect of a 1% increase in health care cost trend rate on		
Interest cost plus service cost	\$ 97,960	\$ 84,675
Accumulated postretirement benefit obligation	\$ 474,239	\$ 663,334
Effect of a 1% decrease in health care cost trend rate on		
Interest cost plus service cost	\$ (84,231)	\$ (74,258)
Accumulated postretirement benefit obligation	\$ (421,391)	\$ (603,266)
Measurement date	6/30/08	6/30/07

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On December 7, 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 actuarially equivalent benefits to their retirees beginning in 2006. All measures of the accumulated postretirement benefit obligation and the net periodic postretirement benefit cost included in this footnote do not reflect the effects of the above named Act on the plan. 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

Fiscal Year	
2008	\$ 907,000
2009	957,000
2010	1,030,000
2011	1,085,000
2012	1,187,000
2013 through 2017	6,418,000

8. Commitments and Contingencies

The College is committed as of June 30, 2008 to invest approximately \$267,900,000 in certain limited partnerships.

At June 30, 2008, the College has outstanding construction and purchase contracts totaling approximately \$12,379,000. Completion of these projects is estimated to extend through December 2011.

The College has entered into long-term noncancelable operating leases with lease terms extending through the year 2017. The following is a schedule by year of future minimum rental payments required under all operating leases that have initial or remaining noncancelable lease terms of one year or more as of June 30, 2008.

2009	224,000
2010	232,000
2011	229,000
2012	197,000
2013	187,000
Thereafter	740,000
	<u>\$ 1,809,000</u>

Total rental expense on all leases was \$340,000 and \$162,000 in 2008 and 2007, respectively.

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9. Bonds Payable

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

	2008	2007
Massachusetts Health and Educational Facilities Authority Bonds (Williams College)		
Series E, variable rate, due through 2014	\$ 12,100,000	\$ 13,800,000
Series H, 2.00% to 5.00%, due through 2033	38,694,800	40,158,125
Series I, variable rate, due through 2033	27,841,000	28,581,000
Series J, variable rate, due through 2026	32,471,000	32,630,000
Series K, 3.50% to 5.00%, due through 2033	38,628,942	39,492,334
Series L, 4.00% to 5.00%, due through 2036	76,267,642	76,446,858
Series M, 1-year put at 3.77% through April 10, 2009, variable thereafter, due through 2037	<u>36,000,000</u>	<u>36,000,000</u>
Total net bonds payable	<u>\$ 262,003,384</u>	<u>\$ 267,108,317</u>

The Series E bonds are variable rate demand revenue bonds. The annualized interest rate ranged from 1.15% to 3.97% during fiscal year 2008 with an average rate of 2.79% for the year. The bonds bear interest at a variable 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 \$1,700,000 and increase to \$1,750,000.

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% par. Annual principal payments are currently \$1,420,000 and increase to \$2,030,000.

The Series I bonds are variable rate demand revenue bonds. The annualized interest rate ranged from 1.00% to 3.90% during fiscal year 2008 with an average rate of 2.75% for the year. The bonds bear interest at a variable 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 \$765,000 and increase to \$1,552,000.

The Series J bonds are variable rate demand revenue bonds. The annualized interest rate ranged from 1.00% to 3.90% with an average rate of 2.76% for the year. The bonds bear interest at a variable 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 \$164,000 and increase to \$3,185,000.

The Series K 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% of par. Annual principal payments are currently \$870,000 and increase to \$2,480,000.

The Series L bonds are fixed rate revenue bonds issued on January 4, 2007, in the principal amount of \$71,160,000 and a premium of \$5,376,465. On June 30, 2012, the College will make its first principal payment of \$1,325,000. Remaining annual principal payments range from \$1,380,000 to \$4,235,000. The bonds are callable beginning on July 1, 2016 at 100% of par. At June 30, 2008, \$11,230,293 of bond proceeds from the Series L bonds was on deposit with the bond trustee.

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On April 4, 2008, the Series M bonds variable rate demand revenue bonds, issued on January 4, 2007 in a weekly Auction rate mode with an original principal value of 36,000,000, were reissued with a one year put at an annualized interest rate of 1.55%. On June 30, 2012, the College will make its first principal payment of \$875,000. Remaining annual principal payments range from \$900,000 to \$2,200,000. The bonds are non callable in the first 5 years. At June 30, 2008, \$4,345,842 of bond proceeds from the Series M bond was on deposit with the bond trustee.

Based on current borrowing rates for bonds with similar terms and maturities, the fair value of the College's long-term debt as of June 30, 2008 was approximately \$261,494,000.

The bonds are general obligations of the College with no collateral requirements.

The Series E, I, and J bonds are subject to tender by bondholders. To the extent that tendered bonds cannot be remarketed, the College is required to repurchase the bonds.

Bond issuance costs of \$1,533,274 are being amortized to other expense over the life of the respective bonds and are recorded within other assets at June 30, 2008. Bond premiums at June 30, 2008 equal \$7,501,384, have been recorded within bonds payable, and are being amortized to other income over the life of the respective bonds. Combined debt principal payment requirements for the years 2008 through 2012 approximate \$4,919,000, \$5,032,000, \$5,171,000, \$7,555,000 and \$7,780,000 respectively.

Interest expense for the years ended June 30, 2008 and 2007 was \$10,377,842 and \$8,813,288, respectively.

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 agreement has a notional amount of \$33,234,000. 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.

As of June 30, 2008 and 2007, the fair value of the swap was a liability of \$785,302 and an asset of \$1,127,696, respectively. The value of the swap is recorded in other assets and nonoperating gain. The fair value of the swap instrument represents the estimated proceeds to the College if the agreement were terminated 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

At June 30, 2008, the College maintained two lines of credit which total \$111,000,000. Both lines are dedicated to supporting the College's variable rate debt. These lines of credit bear interest at either the bank's prime rate or at a LIBOR rate plus 20-50 basis points, at the College's option. Additionally, the College pays a commitment fee equal to 10-15 basis points per year for any unused borrowing capacity. There were no amounts drawn on the lines of credit at June 30, 2008 and June 30, 2007. In July 2008, the College entered into an additional \$49 million line of credit for working capital purposes.

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11. Future Accounting Standards

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements (SFAS 157)*, which defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 does not require any new fair value measurements, but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information. This statement is effective for the College beginning July 1, 2008. The College's management is currently assessing the potential impact of the adoption of SFAS No. 157 on the consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities - Including an amendment of SFAS No. 115 (SFAS 159)*. SFAS 159 provides the irrevocable option to carry many financial assets and liabilities at fair value, with changes in fair value recognized in earnings. SFAS No. 159 is effective for the College beginning July 1, 2008. The College's management is currently assessing the potential impact, if any, the adoption of SFAS 159 will have on the consolidated financial statements should the fair value option be elected.

In August 2008, the FASB issued FASB Staff Position (FSP) 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosure for all endowment funds*. The standard is expected to improve the disclosures about an organization's endowment (both donor-restricted and board-designated funds). The standard is effective for fiscal years ending after December 15, 2008.

12. Temporarily Restricted and Permanently Restricted Net Assets

The following is the composition of the College's temporarily restricted and permanently restricted net assets at June 30, 2008 and 2007:

	2008	2007
Temporarily restricted net assets		
Gifts for restricted purposes	\$ 65,851,671	\$ 54,058,535
Contributions to be paid in the future	20,897,384	16,073,541
Split-interest agreements, including outside managed trusts	45,232,965	47,791,594
Endowment funds - unspent appreciation	<u>1,130,753,149</u>	<u>1,202,821,507</u>
	1,262,735,169	1,320,745,177
Permanently restricted net assets		
Student Loan Funds	477,000	479,364
Split-interest agreements and perpetual trusts, including outside managed trusts	66,644,084	70,611,105
Contributions to be paid in the future	37,034,560	39,279,650
Endowment funds - Original Principal	<u>351,814,923</u>	<u>328,265,223</u>
	<u>\$ 455,970,567</u>	<u>\$ 438,635,342</u>

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As a result of market declines, the fair market value of certain donor-restricted endowments is less than the historical cost value of such funds by \$748,721 at June 30, 2008 , and \$0 at June 30, 2007. These unrealized losses have been recorded as reductions in unrestricted net assets. Future market gains will be used to restore this deficiency in unrestricted net assets before any net appreciation above the historical cost value of such funds increases temporarily restricted net assets.