# Williams College

**Financial Statements**
**June 30, 2004 and 2003**

PRICEWATERHOUSECOOPERS

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## Report of Independent Auditors

To the Board of Trustees of
Williams College

In our opinion, the accompanying statement of financial position and the related statements of activities and cash flows present fairly, in all material respects, the financial position of Williams College (the "College") at June 30, 2004 and 2003, 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

August 3, 2004

**Williams College**
**Statements of Financial Position**
**June 30, 2004 and 2003**

| | 2004 | 2003 |
|---|---|---|
| **Assets** | | |
| Cash | $ 4,039,849 | $ 2,181,460 |
| Accounts receivable, net of allowance of $72,643 in 2004 ($110,827 in 2003) | 947,240 | 781,922 |
| Contributions receivable, net of allowance and discount of $17,732,288 in 2004 ($17,398,190 in 2003) (Note 2) | 66,615,043 | 56,871,526 |
| Notes receivable-student loans, net of allowance of $157,076 in 2004 ($193,625 in 2003) (Note 3) | 6,232,007 | 5,987,329 |
| Notes receivable-other | 2,805,000 | 2,112,000 |
| On deposit with bond trustee (Note 9) | 31,748,677 | 78,833,233 |
| Accrued investment income | 2,968,221 | 3,078,386 |
| Other assets | 3,364,555 | 3,423,945 |
| Investments (Note 4) | 1,389,266,399 | 1,203,944,036 |
| Land, buildings and equipment, net (Note 5) | 267,062,935 | 235,213,300 |
| Total assets | $ 1,775,049,926 | $ 1,592,427,137 |
| | | |
| **Liabilities** | | |
| Accounts payable and accrued liabilities | $ 10,168,320 | $ 11,786,412 |
| Accrued salaries and benefits (Notes 6 and 7) | 10,683,260 | 8,714,093 |
| Deferred revenue and deposits | 4,256,703 | 4,533,153 |
| U. S. government advances for student loans | 3,466,160 | 3,380,770 |
| Present value of beneficiary payments | 35,244,299 | 28,025,560 |
| Bonds payable (Note 9) | 170,595,000 | 171,795,000 |
| Total liabilities | $ 234,413,742 | $ 228,234,988 |
| **Net Assets** | | |
| Unrestricted | $ 341,708,545 | $ 299,042,309 |
| Temporarily restricted | 859,751,972 | 760,125,155 |
| Permanently restricted | 339,175,667 | 305,024,685 |
| Total net assets | $ 1,540,636,184 | $ 1,364,192,149 |
| | | |
| Total liabilities and net assets | $ 1,775,049,926 | $ 1,592,427,137 |

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

**Williams College**
**Statement of Activities**
**For the year ended June 30, 2004 with summarized financial information for the year ended June 30, 2003**

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total | June 30, 2003 Total |
|---|---|---|---|---|---|
| **Operating revenue, gains and other:** | | | | | |
| Student revenues: | | | | | |
| Tuition and fees | $ 57,394,512 | | | $ 57,394,512 | $ 53,131,400 |
| Room and board | 13,954,488 | | | 13,954,488 | 12,829,599 |
| Less: financial aid | (18,543,227) | | | (18,543,227) | (17,086,972) |
| Net tuition and fees | 52,805,773 | | | 52,805,773 | 48,874,027 |
| Auxiliary enterprises - other | 4,296,991 | | | 4,296,991 | 4,761,739 |
| Special purpose grants expended | 1,254,171 | | | 1,254,171 | 1,443,208 |
| Gifts and grants | 13,297,874 | $ 7,019,208 | | 20,317,082 | 22,921,095 |
| Investment income | 16,551,595 | 3,344,730 | | 19,896,325 | 22,257,045 |
| Realized gains spent | 5,683,888 | 33,547,121 | | 39,231,009 | 34,085,381 |
| Other | 1,690,299 | | | 1,690,299 | 1,698,426 |
| Net assets released from restrictions | 60,751,043 | (60,751,043) | | | |
| **Total operating revenue, gains, and other** | **156,331,634** | **(16,839,984)** | | **139,491,650** | **136,040,921** |
| **Operating expenses and other:** | | | | | |
| Instructional and research | 54,663,591 | | | 54,663,591 | 51,195,176 |
| Academic support | 11,945,965 | | | 11,945,965 | 11,453,780 |
| Student services | 18,417,614 | | | 18,417,614 | 17,675,899 |
| Institutional support | 24,199,140 | | | 24,199,140 | 21,029,961 |
| Auxiliary enterprises | 23,073,241 | | | 23,073,241 | 22,438,001 |
| Life income payments | 3,856,693 | | | 3,856,693 | 3,881,372 |
| Other | 1,195,730 | | | 1,195,730 | 1,925,391 |
| **Total operating expenses and other** | **137,351,974** | | | **137,351,974** | **129,599,580** |
| **Change in net assets from operating activities** | **18,979,660** | **(16,839,984)** | | **2,139,676** | **6,441,341** |
| **Non-operating activities:** | | | | | |
| Realized and unrealized gains on investments and reinvested investment income after realized gains spent | 18,468,976 | 120,154,629 | $ 3,393,259 | 142,016,864 | 5,161,066 |
| Change in present value of future life income fund payments | | 1,064,746 | 1,230,639 | 2,295,385 | 2,939,736 |
| Life income and endowment gifts | | 1,991,887 | 28,000,223 | 29,992,110 | 28,450,742 |
| Fund retirements and gifts further designated | 5,217,600 | (6,744,461) | 1,526,861 | | |
| Loss on debt retirement | | | | | (806,743) |
| Change in net assets from non-operating activities | 23,686,576 | 116,466,801 | 34,150,982 | 174,304,359 | 35,744,801 |
| Total change in net assets | 42,666,236 | 99,626,817 | 34,150,982 | 176,444,035 | 42,186,142 |
| **Beginning net assets** | **299,042,309** | **760,125,155** | **305,024,685** | **1,364,192,149** | **1,322,006,007** |
| **Ending net assets** | **$ 341,708,545** | **$ 859,751,972** | **$ 339,175,667** | **$ 1,540,636,184** | **$ 1,364,192,149** |

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

**Williams College**
**Statement of Activities**
**For the year ended June 30, 2003**

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| **Operating revenue, gains and other:** | | | | |
| Student revenues: | | | | |
| Tuition and fees | $ 53,131,400 | | | $ 53,131,400 |
| Room and board | 12,829,599 | | | 12,829,599 |
| Less: financial aid | (17,086,972) | | | (17,086,972) |
| Net tuition and fees | 48,874,027 | | | 48,874,027 |
| Auxiliary enterprises - other | 4,761,739 | | | 4,761,739 |
| Special purpose grants expended | 1,443,208 | | | 1,443,208 |
| Gifts and grants | 11,885,899 | $ 11,035,196 | | 22,921,095 |
| Investment income | 18,297,286 | 3,959,759 | | 22,257,045 |
| Realized gains spent | 5,197,908 | 28,887,473 | | 34,085,381 |
| Other | 1,698,426 | | | 1,698,426 |
| Net assets released from restrictions | 42,675,672 | (42,675,672) | | |
| **Total operating revenue, gains, and other** | **134,834,165** | **1,206,756** | | **136,040,921** |
| **Operating expenses and other:** | | | | |
| Instructional and research | 51,195,176 | | | 51,195,176 |
| Academic support | 11,453,780 | | | 11,453,780 |
| Student services | 17,675,899 | | | 17,675,899 |
| Institutional support | 21,029,961 | | | 21,029,961 |
| Auxiliary enterprises | 22,438,001 | | | 22,438,001 |
| Life income payments | 3,881,372 | | | 3,881,372 |
| Other | 1,925,391 | | | 1,925,391 |
| **Total operating expenses and other** | **129,599,580** | | | **129,599,580** |
| **Change in net assets from operating activities** | **5,234,585** | **1,206,756** | | **6,441,341** |
| **Non-operating:** | | | | |
| Realized and unrealized gains (losses) on investments and reinvested investment income | (3,731,145) | 9,689,247 | $ (797,036) | 5,161,066 |
| Change in present value of future life income fund payments | | 1,715,536 | 1,224,200 | 2,939,736 |
| Life income and endowment gifts | | 2,833,739 | 25,617,003 | 28,450,742 |
| Fund retirements and gifts further designated | 685,932 | (293,976) | (391,956) | |
| Loss on debt retirement | (806,743) | | | (806,743) |
| Change in net assets from non-operating activities | (3,851,956) | 13,944,546 | 25,652,211 | 35,744,801 |
| Total change in net assets | 1,382,629 | 15,151,302 | 25,652,211 | 42,186,142 |
| **Beginning net assets** | **297,659,680** | **744,973,853** | **279,372,474** | **1,322,006,007** |
| **Ending net assets** | **$ 299,042,309** | **$ 760,125,155** | **$ 305,024,685** | **$ 1,364,192,149** |

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

**Williams College**
**Statements of Cash Flows**
**For the years ended June 30, 2004 and 2003**

| | 2004 | 2003 |
|---|---|---|
| **Cash flow from operating activities** | | |
| Total change in net assets | $ 176,444,035 | $ 42,186,142 |
| Adjustments to reconcile change in net assets to net cash provided (used) by operating activities: | | |
| Depreciation | 12,289,602 | 11,124,717 |
| Provision for doubtful accounts receivable | (38,184) | (194,378) |
| Net unrealized and realized gains on investments and reinvested income | (181,247,873) | (39,246,447) |
| Gain on disposal of plant assets | (290,000) | (154,000) |
| Gifts restricted for long term investment | (18,489,115) | (8,769,478) |
| Gifts in kind | (3,280,900) | (1,001,793) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (127,134) | 615,342 |
| Contributions receivable | (9,743,517) | (25,455,639) |
| Accrued investment income | 110,165 | 861,860 |
| Other assets | 59,390 | 667,732 |
| A/P, Accrued Liabilities and Other | 9,457,340 | 4,276,475 |
| Accrued salaries and benefits | 1,969,167 | 1,389,857 |
| Deferred revenue and deposits | (276,450) | (140,210) |
| Net cash used by operating activities | (13,163,474) | (13,839,820) |
| **Cash flow from investing activities** | | |
| Proceeds from sale of investments | 1,380,514,482 | 1,147,947,031 |
| Purchase of investments | (1,384,588,972) | (1,126,493,565) |
| Additions to land, buildings & equipment | (41,261,337) | (34,287,103) |
| Additional student loans granted | (1,328,809) | (722,782) |
| Student loans repaid | 1,084,131 | 728,185 |
| Net cash used in investing activities | (45,580,505) | (12,828,234) |
| **Cash flow from financing activities** | | |
| Gifts restricted for endowments | 18,489,115 | 8,769,478 |
| Payments to beneficiaries | (3,856,693) | (3,881,372) |
| On deposit with bond trustee | 47,084,556 | (78,833,233) |
| Issuance of new debt | 0 | 114,404,873 |
| Repayment of debt | (1,200,000) | (14,430,000) |
| Government loan funds, net | 85,390 | (6,400) |
| Net cash provided by financing activities | 60,602,368 | 26,023,346 |
| **Net increase (decrease) in cash** | 1,858,389 | (644,708) |
| Cash at beginning of the year | 2,181,460 | 2,826,168 |
| Cash at end of the year | $ 4,039,849 | $ 2,181,460 |
| **Supplemental disclosures:** | | |
| Interest paid | $ 5,432,357 | $ 3,823,697 |
| Exchange of land for notes receivable | $ 693,000 | $ 664,000 |
| Amounts included in accounts payable related to construction in progress | $ 4,964,333 | $ 3,966,117 |

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

## 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. 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 principally 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. Allowance is made for uncollectible contributions based upon management's judgment, past collection experience and other relevant factors.

***Other Assets***

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

***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 funds 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 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, 2004 and 2003. 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 when securities are sold on a first-in, first-out basis.

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 gain or loss.

***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 as investments. Assets under these agreements are recorded at fair market value. The aggregate fair market value of the assets under these agreements is $75,783,855 and $73,782,883 as of June 30, 2004 and 2003, 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 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 net assets 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.

The College accrues for post employment 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 2003 amounts to conform to the 2004 presentation.

## 2. Contributions

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

| **Expected Collection Period** | **2004** | **2003** |
|---|---|---|
| Less than one year | $17,671,331 | $19,289,039 |
| One year to five years | 34,755,439 | 21,385,753 |
| Over five years | 10,396,183 | 11,184,409 |
| Outside trusts | 21,524,378 | 22,410,515 |
| **Total** | $84,347,331 | $74,269,716 |
| | | |
| Less: Discount | 10,511,410 | 9,469,672 |
| Allowance for uncollectible accounts | 7,220,878 | 7,928,518 |
| **Net contributions receivable** | $66,615,043 | $56,871,526 |

At June 30, 2004 and 2003, the College had also received conditional promises to give of approximately $17,700,000 and $2,200,000, 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.

## 4. Investments

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

| | 2004 | |
|---|---|---|
| | **MARKET** | **COST** |
| Temporary | $186,088,308 | $185,911,010 |
| Stocks | 510,691,291 | 373,670,284 |
| Bonds | 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 | 21,073,250 | 21,073,250 |
| **Total** | $1,389,266,399 | $1,260,838,287 |
| Comprised of: | | |
| Endowment and similar funds | $1,342,915,719 | 1,214,597,461 |
| Other funds | 46,350,680 | 46,240,826 |
| **Total** | $1,389,266,399 | $1,260,838,287 |

| | 2003 | |
|---|---|---|
| | **MARKET** | **COST** |
| Temporary | $107,748,323 | $107,649,559 |
| Stocks | 395,095,794 | 330,837,026 |
| Bonds | 213,704,921 | 193,078,334 |
| Real estate, mortgages, and other | 42,022,472 | 48,921,813 |
| Privately held partnerships | 332,446,886 | 370,769,351 |
| Mutual funds | 72,434,689 | 77,985,836 |
| Net accounts receivable | 40,490,951 | 40,490,951 |
| **Total** | $1,203,944,036 | $1,169,732,870 |
| Comprised of: | | |
| Endowment and similar funds | $1,163,778,917 | $1,129,752,668 |
| Other funds | 40,165,119 | 39,980,202 |
| **Total** | $1,203,944,036 | $1,169,732,870 |

As of June 30, 2004, accounts receivable and payable related to the unsettled sales and purchase of securities were $27,840,585 and $6,767,335, respectively. As of June 30, 2003, accounts receivable and payable related to the unsettled sales and purchases of securities were $55,792,531 and $15,301,580, respectively.

The College holds mortgages on residences of eligible faculty and staff members that amounted to $9,941,965 and $9,107,794 as of June 30, 2004 and 2003, respectively. The average interest rate on the mortgages for the year ended June 30, 2004 was 3.89%.

Realized net gains were $88,017,725 and $19,574,518 for the years ended June 30, 2004 and 2003, respectively. The change in unrealized appreciation for the years ended June 30, 2004 and 2003 was $94,216,946 and $23,241,327, respectively. Investment income, other than reinvested amounts, was $18,157,376 and $22,245,624 for the years ended June 30, 2004 and 2003, respectively. Reinvested investment income was $1,432,973 and $954,422 for the years ended June 30, 2004 and 2003, respectively.

All investment management fees paid by the College are netted against investment gains reducing reported non-operating gains (increasing non-operating losses) 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, 2004 and June 30, 2003, the aggregate realized loss on derivative transactions for direct investment accounts of the College was ($278,871) and ($241,239), respectively. At June 30, 2004 and 2003, there were no open positions in derivative financial transactions.

Under the "total return" approach the College spent accumulated gains of $39,231,009 and $34,085,381 for the years ended June 30, 2004 and 2003, respectively. Total return in excess of the spending rate is reported as non-operating revenue or loss.

Unrealized losses of approximately $88,000 and $500,000 related to permanently restricted endowment funds (the "underwater" endowed funds) have been classified as a temporary reduction of unrestricted net assets in 2004 and 2003, respectively.

## 5. Land, Buildings and Equipment

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

| | **2004** | **2003** |
|---|---|---|
| Land and land improvements | $ 30,781,300 | $30,554,141 |
| Buildings | 264,921,602 | 249,032,116 |
| Equipment | 51,454,275 | 41,240,478 |
| Art collections | 30,168,202 | 26,946,101 |
| Construction in progress | 44,351,114 | 29,920,235 |
| | $421,676,493 | $377,693,071 |
| Less accumulated depreciation | (154,613,558) | (142,479,771) |
| **Total** | $267,062,935 | $235,213,300 |

Approximately $12,992,000 was transferred from Construction in Progress to the appropriate categories within land, buildings and equipment in 2004.

Included in land and land improvements are costs incurred of approximately $2,249,000 at June 30, 2004 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 $5,039,417 and $4,731,157 for 2004 and 2003, respectively.

## 7. Postretirement Benefits Other Than Pensions

The College has two unfunded postretirement plans. The actuarially determined accrued postretirement benefit cost for 2004 and 2003 and the major assumptions used to determine these amounts are shown in the following tables:

| | 2004 | 2003 |
|---|---|---|
| *Change in accumulated postretirement benefit obligation:* | | |
| Balance as of the beginning of the year | $10,101,362 | $7,793,656 |
| Service cost | 405,296 | 313,098 |
| Interest cost | 549,470 | 552,364 |
| Actuarial (gain) loss | (896,202) | 1,887,309 |
| Actual benefits paid | (414,250) | (445,065) |
| Balance as of the end of the year | $9,745,676 | $10,101,362 |

| | 2004 | 2003 |
|---|---|---|
| *Components of accrued benefit cost:* | | |
| Funded status | $(9,745,676) | $(10,101,362) |
| Unrecognized prior service cost | 2,966,804 | 3,251,191 |
| Unrecognized actuarial net (gain)/loss | 1,381,406 | 2,357,432 |
| Balance as of the end of the year | $(5,397,466) | $(4,492,739) |
| *Weighted average assumption as of June 30:* | | |
| Discount Rate | 6.25% | 5.60% |

For measurement 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%, and 8.5% and 12.0%, respectively for fiscal years 2003 and 2004 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% and 5.5% respectively for fiscal years 2003 and 2004 and thereafter.

| | 2004 | 2003 |
|---|---|---|
| *Components of net periodic benefit costs:* | | |
| Service Cost | $405,296 | $313,098 |
| Interest Cost | 549,470 | 552,364 |
| Amortization of gains and losses | 79,824 | 42,286 |
| Amortization of unrecognized prior service cost | 284,387 | 284,387 |
| Net periodic postretirement benefit costs | $1,318,977 | $1,192,135 |

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 the health care cost trend rates would have the following effect:

| | 1-Percentage Point Increase | 1-Percentage Point Decrease |
|---|---|---|
| Effect on total of service and cost components | $52,330 | $(46,583) |
| Effect on postretirement benefit obligation | $375,253 | $(338,594) |

## 8. Commitments and Contingencies

The College is committed as of June 30, 2004 to invest approximately $139,511,882 in certain limited partnerships.

At June 30, 2004, the College has outstanding construction contracts totaling approximately $49,000,000. Completion of these projects is estimated to extend through August 2006.

## 9. Bonds Payable

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

| | 2004 | 2003 |
|---|---|---|
| Massachusetts Health and Educational Facilities Authority Bonds (Williams College) | | |
| Series E, variable rate, due through 2014 | $17,700,000 | $18,200,000 |
| 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 | 41,640,000 | 42,340,000 |
| Series I, variable rate due through 2033 | 70,000,000 | 70,000,000 |
| **Total Bonds Payable** | $170,595,000 | $171,795,000 |

The Series E Bonds are variable rate demand revenue bonds. The annualized interest rate ranged from 0.63% to 1.12% during fiscal year 2004 with an average rate of .93% 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 $500,000.

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. On June 30, 2003, the College made a first principal payment of $510,000. Remaining annual principal payments range from $510,000 to $2,030,000. The Subject to 30 days notice the bonds may be called by the College on July 13, 2013 at 100.0% of par. At June 30, 2004, $4,341,711 of bond proceeds from Series H was on deposit with the bond trustee.

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 is 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. If converted to a floating rate, the College expects the bonds will 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, 2004, $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, 2004 was approximately $172,700,000.

Combined deferred issuance costs and net bond discounts equal approximately $58,000 and are being amortized over the life of the respective bonds. These amounts are recorded in deferred revenue and deposits. Combined debt principal payment requirements for the years 2005 through 2009 approximate $1,215,000, $4,626,000, $4,739,000, $4,817,000 and $4,817,000 respectively.

## 10. Line of Credit

The College maintained a $20,000,000 line of credit with its main operating bank throughout fiscal year 2004 and that remains effective through November of 2004. The line of credit bears interest at either the bank's prime rate or at a LIBOR rate plus 40 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. The College did not utilize this line of credit during fiscal year 2004. At June 30, 2004, no borrowings existed under this line of credit.

## 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.

| | **2004** | **2003** |
|---|---|---|
| Instruction | $44,070,315 | $41,667,907 |
| Academic support | 9,820,982 | 9,354,447 |
| Student services | 13,725,791 | 13,130,895 |
| Institutional support | 20,814,810 | 18,087,949 |
| Auxiliaries | 16,467,043 | 16,672,549 |
| Operation & maintenance plant | 9,733,305 | 10,036,628 |
| Interest | 5,377,703 | 3,717,725 |
| Depreciation | 12,289,602 | 11,124,717 |
| Life income payments | 3,856,693 | 3,881,372 |
| Other | 1,195,730 | 1,925,391 |
| **Total** | $137,351,974 | $129,599,580 |