Williams College

Financial Statements
June 30, 2006 and 2005

Williams College
Index
June 30, 2006 and 2005

PRICEWATERHOUSECOOPERS

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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, 2006 and 2005, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 12 to the financial statements, the College adopted the provisions of Financial Accounting Standards Board Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations (an interpretation of FASB Statement No. 143)* as of June 30, 2006.

PricewaterhouseCoopers LLP

October 16, 2006

Williams College
Statements of Financial Position
June 30, 2006 and 2005

	2006	2005
Assets		
Cash	$ 2,397,444	$ 3,245,019
Accounts receivable, net of allowance of $58,971 ($63,477 in 2005)	827,867	957,696
Contributions receivable, net of allowance and discount of $14,571,088 ($14,778,199 in 2005) (Note 2)	61,207,080	68,726,608
Notes receivable-student loans, net of allowance of $119,500 ($157,076 in 2005) (Note 3)	5,963,625	6,460,411
Notes receivable-other	3,175,000	3,066,000
On deposit with bond trustee	-	11,246,900
Accrued investment income	1,897,821	1,971,718
Collateral on securities loaned (Note 4)	63,145,677	61,222,614
Other assets	4,078,644	3,451,284
Investments (Note 4)	1,632,088,151	1,514,248,065
Land, buildings and equipment, net (Note 5)	326,695,886	304,344,266
Total assets	$ 2,101,477,195	$ 1,978,940,581
Liabilities		
Accounts payable and accrued liabilities	$ 29,774,815	$ 34,478,290
Accrued salaries and benefits (Notes 6 & 7)	11,388,747	12,432,820
Securities lending liability (Note 4)	63,145,677	61,222,614
Deferred revenue and deposits	5,690,730	4,764,760
U. S. government advances for student loans	3,550,225	3,597,057
Present value of beneficiary payments	34,151,995	35,148,683
Bonds payable (Note 9)	166,169,000	169,380,000
Total liabilities	$ 313,871,189	$ 321,024,224
Net Assets		
Unrestricted	$ 355,304,893	$ 352,829,348
Temporarily restricted	1,048,203,029	943,941,050
Permanently restricted	384,098,084	361,145,959
Total net assets	$ 1,787,606,006	$ 1,657,916,357
Total liabilities and net assets	$ 2,101,477,195	$ 1,978,940,581

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

Williams College
Statement of Activities
For the year ended June 30, 2006 (with summarized financial information for the year ended June 30, 2005)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2006 Total	2005 Total
Operating revenue, gains and other:					
Student revenues:					
Tuition and fees	$ 64,714,561			$ 64,714,561	$ 60,568,661
Room and board	15,355,718			15,355,718	14,630,222
Less: financial aid	(23,610,698)			(23,610,698)	(20,098,549)
Net student revenues	56,459,581			56,459,581	55,100,334
Auxiliary enterprises - other	4,849,242			4,849,242	4,704,001
Special purpose grants expended	2,055,630			2,055,630	1,608,852
Gifts and grants	14,083,000	$ 9,192,715		23,275,715	19,861,959
Investment income	12,858,499	3,031,470		15,889,969	18,205,726
Realized gains spent	6,553,425	39,802,498		46,355,923	39,880,058
Other	895,107			895,107	1,337,824
Net assets released from restrictions	48,340,420	(48,340,420)		-	-
Total operating revenue, gains, and other	**146,094,904**	**3,686,263**		**149,781,167**	**140,698,754**
Operating expenses and other:					
Instructional and research	67,026,516			67,026,516	60,004,166
Academic support	13,631,151			13,631,151	12,451,764
Student services	20,785,988			20,785,988	20,256,740
Institutional support	28,065,206			28,065,206	23,684,589
Auxiliary enterprises	24,324,973			24,324,973	23,085,194
Other	306,508			306,508	233,295
Total operating expenses and other	**154,140,342**			**154,140,342**	**139,715,748**
Change in net assets from operating activities	**(8,045,438)**	**3,686,263**		**(4,359,175)**	**983,006**
Non-operating activities:					
Realized and unrealized gains on investments, investment income on split interest agreements, and reinvested investment income after realized gains	15,664,511	99,819,726	$ 2,848,381	118,332,618	101,654,646
Actuarial changes and payments of annuities	(4,426,657)	1,874,284	594,971	(1,957,402)	(1,994,479)
Life income and endowment gifts, net		2,786,499	17,200,997	19,987,496	19,260,320
Fund retirements and gifts further designated	1,597,017	(3,904,793)	2,307,776	-	-
Loss on retirement of debt	(1,638,265)			(1,638,265)	-
Loss on disposition of fixed assets	(46,947)			(46,947)	(1,250,830)
Gain (loss) on financial contracts	2,645,106			2,645,106	(1,372,490)
Change in net assets from non-operating activities	**13,794,765**	**100,575,716**	**22,952,125**	**137,322,606**	**116,297,167**
Change in net assets before cumulative effect of change in accounting principle	**5,749,327**	**104,261,979**	**22,952,125**	**132,963,431**	**117,280,173**
Cummulative effect of change in accounting principle (Note 12)	**(3,273,782)**			**(3,273,782)**	-
Total change in net assets after cumulative effect of change in accounting principle	**2,475,545**	**104,261,979**	**22,952,125**	**129,689,649**	**117,280,173**
Beginning net assets	**352,829,348**	**943,941,050**	**361,145,959**	**1,657,916,357**	**1,540,636,184**
Ending net assets	**$ 355,304,893**	**$ 1,048,203,029**	**$ 384,098,084**	**$ 1,787,606,006**	**$ 1,657,916,357**

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

Williams College
Statement of Activities
For the year ended June 30, 2005

	Unrestricted	Temporarily Restricted	Permanently Restricted	2005 Total
Operating revenue, gains and other:				
Student revenues:				
Tuition and fees	$ 60,568,661			$ 60,568,661
Room and board	14,630,222			14,630,222
Less: financial aid	(20,098,549)			(20,098,549)
Net student revenues	55,100,334			55,100,334
Auxiliary enterprises - other	4,704,001			4,704,001
Special purpose grants expended	1,608,852			1,608,852
Gifts and grants	12,760,556	$ 7,101,403		19,861,959
Investment income	14,734,463	3,471,263		18,205,726
Realized gains spent	5,373,559	34,506,499		39,880,058
Other	1,337,824			1,337,824
Net assets released from restrictions	47,859,356	(47,859,356)		-
Total operating revenue, gains, and other	**143,478,945**	**(2,780,191)**		**140,698,754**
Operating expenses and other:				
Instructional and research	60,004,166			60,004,166
Academic support	12,451,764			12,451,764
Student services	20,256,740			20,256,740
Institutional support	23,684,589			23,684,589
Auxiliary enterprises	23,085,194			23,085,194
Other	233,295			233,295
Total operating expenses and other	**139,715,748**			**139,715,748**
Change in net assets from operating activities	**3,763,197**	**(2,780,191)**		**983,006**
Non-operating activities:				
Realized and unrealized gains on investments, investment income on split interest agreements, and reinvested investment income after realized gains	12,835,840	86,573,088	$ 2,245,718	101,654,646
Actuarial changes and payments of annuities	(4,366,447)	1,038,285	1,333,683	(1,994,479)
Life income and endowment gifts, net		1,777,347	17,482,973	19,260,320
Fund retirements and gifts further designated	1,511,533	(2,419,451)	907,918	-
Loss on disposition of fixed assets	(1,250,830)			(1,250,830)
Loss on financial contracts	(1,372,490)			(1,372,490)
Change in net assets from non-operating activitie:	**7,357,606**	**86,969,269**	**21,970,292**	**116,297,167**
Total change in net assets	**11,120,803**	**84,189,078**	**21,970,292**	**117,280,173**
Beginning net assets	**341,708,545**	**859,751,972**	**339,175,667**	**1,540,636,184**
Ending net assets	**$ 352,829,348**	**$ 943,941,050**	**$ 361,145,959**	**$ 1,657,916,357**

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

Williams College
Statements of Cash Flows
For the years ended June 30, 2006 and 2005

	2006	2005
Cash flow from operating activities		
Total change in net assets	$ 129,689,649	$ 117,280,173
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	16,117,179	13,894,855
Provision for doubtful accounts receivable	(4,506)	(9,166)
Net unrealized and realized gains on investments and reinvested income	(161,795,595)	(138,305,978)
Loss on disposal of plant assets	46,947	1,250,833
Cumulative effect of change in accounting principal	3,273,782	-
Gifts restricted for long term investment	(30,833,515)	(18,573,291)
Gifts in kind	(315,127)	(2,261,578)
Changes in operating assets and liabilities:		
Accounts receivable	134,336	(1,290)
Contributions receivable	7,519,528	(2,111,565)
Accrued investment income	73,897	996,503
Other assets	(627,360)	(86,729)
Accounts payable, accrued liabilities and other	2,560,699	9,630,541
Accrued salaries and benefits	(1,044,073)	1,749,560
Deferred revenue and deposits	879,970	508,057
Net cash used in operating activities	(34,324,189)	(16,039,075)
Cash flow from investing activities		
Proceeds from sale of investments	1,444,824,028	1,537,117,101
Purchase of investments	(1,400,868,519)	(1,523,792,789)
Additions to land, buildings & equipment	(37,685,302)	(51,579,181)
Net proceeds from sale of plant assets	-	103,000
Additional student loans granted	(766,756)	(1,282,175)
Student loans repaid	1,216,710	1,053,771
Net cash provided by (used in) investing activities	6,720,161	(38,380,273)
Cash flow from financing activities		
Gifts restricted for endowments	30,833,515	18,573,291
Payments to beneficiaries	(4,426,657)	(4,366,447)
Cash Overdraft	1,313,695	-
Use of deposits with bond trustee	11,246,900	20,501,777
Issuance of new debt	72,765,000	18,000,000
Repayment of debt	(75,976,000)	(19,215,000)
Proceeds from line of credit borrowing	11,000,000	20,000,000
Repayments from line of credit borrowing	(20,000,000)	-
U.S. Government advances for student loans	-	130,897
Net cash provided by financing activities	26,756,453	53,624,518
Net increase (decrease) in cash	(847,575)	(794,830)
Cash at beginning of the year	3,245,019	4,039,849
Cash at end of the year	$ 2,397,444	$ 3,245,019
Supplemental disclosures:		
Interest paid	$ 6,748,559	$ 5,689,686
Exchange of land for notes receivable	109,000	321,000
Amounts included in accounts payable related to construction in progress	4,558,913	3,991,394
Asset retirement costs, net recognized related to asset retirement obligation	10,797	-
Asset retirement obligation recognized	3,284,579	-
Non-cash conversion of Series I debt	-	12,000,000

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 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 $1,900,000 and $4,500,000 for the years ended June 30, 2006 and 2005, 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.

Cash

Cash represents highly liquid investments purchased with an original maturity of three months or less.

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
Privately held partnerships include alternative investments such as 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, 2006 and 2005. 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.

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.

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.

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 $62,927,707 and $63,719,390 as of June 30, 2006 and 2005, 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.

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

Tax-Exempt Status

The College is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code.

Reclassifications

Certain reclassifications within operating expenses in the statement of activities have been made to 2005 amounts to conform to the 2006 presentation.

2. Contributions Receivable

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

Expected Collection Period	**2006**	**2005**
Less than one year	$18,449,262	$22,979,533
One year to five years	28,266,112	29,941,396
Over five years	4,288,988	7,525,481
Less: Discount	(8,748,362)	(9,553,953)
Allowance	(5,822,726)	(5,224,246)
Net contributions receivable less discount and reserve	$36,433,274	45,668,211
Charitable remainder trusts held by others	24,773,806	23,058,397
Contributions receivable, net	$61,207,080	$68,726,608

At June 30, 2006 and 2005, the College had also received conditional promises to give of approximately $30,800,000 and $20,700,000 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:

	2006	
	Market	**Cost**
Temporary Investments	$132,832,992	$132,832,484
Stocks – Common and Preferred	434,068,176	339,666,937
Bonds/Asset Backed Securities	114,652,271	114,336,482
Real estate, mortgages, and other	32,832,976	36,872,679
Privately held partnerships	685,383,944	668,232,297
Mutual Funds	232,490,253	169,514,723
Net accounts receivable	(172,461)	(172,461)
Total	$1,632,088,151	$1,461,283,141
Comprised of:		
Endowment and Similar Funds	$1,611,753,006	$1,442,047,091
Other Funds	20,335,145	19,236,050
Total	$1,632,088,151	$1,461,283,141

	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	2,524,851	2,524,851
Total	$1,514,248,065	$1,349,130,785
Comprised of:		
Endowment and Similar Funds	$1,499,398,232	$1,335,015,339
Other Funds	14,849,833	14,115,446
Total	$1,514,248,065	$1,349,130,785

As of June 30, 2006, accounts receivable and payable related to the unsettled sales and purchase of securities were $2,743,949, and $2,916,410 respectively. As of June 30, 2005, accounts receivable and payable related to the unsettled sales and purchases of securities were $3,568,223 and $1,043,372 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 2006, the College received advancements of cash and U.S. government debt as collateral on deposit for certain securities loaned to brokers and dealers totaling $413,138,584, of which the College repaid $411,215,521 prior to June 30, 2006. At June 30, 2006 and 2005, the College held $63,145,677 and $61,222,614 respectively, 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, 2006 and 2005 of $61,682,815 and $59,716,966, respectively.

The College holds mortgages on residences of eligible faculty and staff members that amounted to $10,768,382 and $10,833,551 as of June 30, 2006 and 2005, respectively. The average interest rate on the mortgages for the year ended June 30, 2006 was 3.59%.

Realized net gains were $160,859,720 and $109,632,695 for the years ended June 30, 2006 and 2005, respectively. Unrealized appreciation for the years ended June 30, 2006 and 2005 were $5,290,611 and 36,689,168, respectively. Investment income, other than reinvested amounts, was $18,782,917 and $21,434,452 for the years ended June 30, 2006 and 2005, respectively. Of this amount, $2,892,946 and $3,228,726 respectively, was investment income on split interest agreements. Reinvested income was $4,109,892 and $1,371,379, 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, 2006 and June 30, 2005, the aggregate realized gains (losses) on derivative transactions for direct investment accounts of the College was $(372,872) and $875,960 respectively. At June 30, 2006 and 2005, there were no open positions in derivative financial transactions.

Under the "total return" approach the College spent accumulated gains of $46,355,923 and $39,880,058 for the years ended June 30, 2006 and 2005, respectively. Total return in excess of the spending rate is reported as non-operating revenue or loss.

5. Land, Buildings and Equipment

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

	2006	**2005**
Land and land improvements	$34,577,911	$34,319,607
Buildings	335,271,233	324,014,794
Equipment	49,568,743	58,962,745
Art collections	32,830,075	32,581,859
Construction in progress	41,204,187	18,064,065
	$493,452,149	$467,943,070
Less accumulated depreciation	(166,756,263)	(163,598,804)
Total	$326,695,886	$304,344,266

Approximately $2,645,046 and $38,314,570 was transferred from Construction in Progress to the appropriate categories within land, buildings and equipment in 2006 and 2005, respectively.

During fiscal year 2006, the College disposed of certain assets with an original cost of $13,006,667 and accumulated depreciation of $12,959,720.

Interest costs of $984,386 and $103,050 were capitalized in 2006 and 2005, respectively.

Included in land and land improvements are costs incurred of approximately $2,019,940 at June 30, 2006 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 $5,532,814 and $5,172,185 for 2006 and 2005, respectively.

7. Postretirement Benefits Other than Pensions

Change in accumulated postretirement benefit obligation	**2006**	**2005**
Postretirement benefit obligation at beginning of year		
Actives not fully eligible to retire	$5,927,245	$4,716,683
Actives fully eligible to retire	900,277	796,154
Retirees	4,679,382	4,232,838
Total	$11,506,904	$9,745,675
Service Cost	593,919	386,094
Interest cost	651,542	590,516
Plan participants' contributions	36,679	34,890
Actuarial (gain)/loss	(342,320)	1,211,117
Benefits paid	(485,052)	(461,388)
Postretirement benefit obligation at end of year		
Actives not fully eligible to retire	$6,680,727	$5,927,245
Actives fully eligible to retire	2,236,182	900,277
Retirees	3,044,763	4,679,382
Total	$11,961,672	$11,506,904

Change in Plan Assets	**2006**	**2005**
Fair value of plan assets at beginning of year	$0	$0
Actual return on plan assets	0	0
Employer contribution net of retiree contributions	448,373	426,498
Plan participants' contributions	36,679	34,890
Actual benefits paid	(485,052)	(461,388)
Fair value of plan assets at end of year	$0	$0

Reconciliation of funded status	**2006**	**2005**
Funded status	$11,961,672	$11,506,905
Unrecognized prior service cost	2,398,030	2,682,417
Unrecognized net actuarial (gain)/loss	2,033,123	2,555,544
Accrued postretirement benefit cost	$7,530,519	$6,268,944

Components of the net periodic postretirement benefit cost	**2006**	**2005**
Service cost	$593,919	$386,094
Interest cost	651,541	590,516
Amortization of prior service cost	284,387	284,387
Amortization of actuarial (gain) / loss	180,101	36,979
Total	$1,709,948	$1,297,976

Assumptions and effects	**2006**	**2005**
Actuarial assumptions		
Medical/Drug trend rate next year	7.0% / 9.0%	7.5% / 10.0%
Ultimate trend rate	5.0% / 5.0%	5.0% / 5.0%
Year ultimate trend rate is achieved	2011	2011
Dental trend rate every year	5.50%	5.50%
Discount rate used to value end of year accumulated postretirement benefit obligations	6.25%	5.10%
Discount rate used to value net periodic postretirement benefit cost	5.10%	6.25%
Effect of a 1% increase in health care cost trend rate on :		
Interest cost plus service cost	$85,767	$51,113
Accumulated postretirement benefit obligation	$579,485	$389,231
Effect of a 1% decrease in health care cost trend rate on :		
Interest cost plus service cost	($74,543)	($45,803)
Accumulated postretirement benefit obligation	($529,720)	($351,896)

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 actuarial equipment 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	
2007	$502,712
2008	$601,028
2009	$653,387
2010	$693,215
2011	$780,048
2012 through 2016	$5,147,528

8. Commitments and Contingencies

The College is committed as of June 30, 2006 to invest approximately $263,960,894 in certain limited partnerships.

At June 30, 2006, the College has outstanding construction contracts totaling approximately $21,820,000. Completion of these projects is estimated to extend through August 2007.

9. Bonds Payable

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

	2006	**2005**
Massachusetts Health and Educational Facilities Authority Bonds (Williams College):		
Series E, variable rate, due through 2014	$15,500,000	$17,200,000
Series F, 5.50% to 5.75%, due through 2026	-	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	39,630,000	40,925,000
Series I, variable rate due through 2033	29,301,000	70,000,000
Series J, variable rate due through 2026	32,783,000	-
Series K, 3.50% to 5.00% due through 2033	39,700,000	-
Total Bonds Payable	$166,169,000	$169,380,000

The Series E Bonds are variable rate demand revenue bonds. The annualized interest rate ranged from 1.990% to 3.950% during fiscal year 2006 with an average rate of 2.977% 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 F bonds were subject to early redemption with 30 days notice, beginning on July 1, 2006. The College, in conjunction with the issuance of Series J bonds on April 2, 2006, refunded the Series F bonds in their entirety. Proceeds of approximately $32,840,269 of Series J bonds were placed into a refunding trust escrow account for the benefit of Series F bondholders to satisfy all remaining interest and principal obligations. As a result of the creation and funding of this escrow account, the Series F bonds were defeased on April 2, 2006, and they were no longer the obligation of the College on June 30, 2006. The College recognized a loss of $1,448,750, for the year ended June 30, 2006 related to unamortized discount and bond issuance costs for the series F bonds. On July 1, 2006, the Trustee of the refunding trust escrow account called the bonds in their entirety and made the final principal and interest payments to the bondholders.

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 $1,360,000 and increase to $2,030,000.

The Series I Bonds are variable rate demand revenue bonds. The bonds were originally issued as Put Bonds in two tranches: the first was a $30,000,000 one year put bond at an annualized interest rate of 1.22%; the second was a $40,000,000 three year put bond at an annualized rate of 1.93%. In April 2006, the College converted $40,000,000 three year put bonds to reissue fixed rate revenue bonds, Series K. The College recognized a loss of $189,515, for the year ended June 30, 2006 related to unamortized bond issuance costs for the series I bonds. In April 2005, the College converted the $30,000,000 one year put bond to a floating weekly rate. The annualized interest rate ranged from 1.72% to 3.92% during fiscal year 2006 with an average rate of 2.93% 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. At June 30, 2005, $11,246,900 of bond proceeds from Series I was on deposit with the bond trustee. There were no funds on deposit with the bond trustee as of June 30, 2006.

The Series J bonds are variable rate demand revenue bonds issued on April 3, 2006 with an original principal value of $33,065,000. On June 30, 2006 the initial principal payment was $282,000, remaining annual payments range from $153,000 to $3,185,000 with a maturity date of July 1, 2026. The annualized interest rate ranged from 3.43% to 3.65% with an average rate of 3.53% for the three month period these bonds were outstanding in 2006. The College may convert the bonds to a fixed rate at its option.

The Series K Bonds are fixed rate revenue bonds issued on April 3, 2006 with an original principal value of $39,700,000 and a premium of $631,573. On June 30, 2007, the College will make its first principal payment of $810,000. Remaining annual principal payments range from $840,000 to $2,480,000. Subject to 30 days notice, the bonds may be called by the College on July 13, 2013 at 100.0% of par.

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, 2006 was approximately $168,106,076.

Combined deferred issuance costs and net bond premium equal approximately $1,687,932 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 2007 through 2011 approximate $4,743,000, $4,829,000, $4,919,000, $5,032,000 and $5,171,000, 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 debt, which was issued in April 2006, 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, 2006 and 2005, the fair value of the swap was $1,266,977 and ($1,349,110), respectively. The value of the swap is recorded in Accounts Receivable (Payable) and non-operating gain (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 $36,000,000 line of credit with its main operating bank throughout fiscal year 2006. The line of credit remains effective through November of 2006. 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, 2006, the amount outstanding on the line of credit was $11,000,000.

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.

	2006	**2005**
Instruction	$51,895,183	$46,689,886
Academic support	11,113,360	10,175,192
Student services	15,345,230	14,300,958
Institutional support	23,665,813	19,701,487
Auxiliaries	16,376,178	16,071,055
Operation & maintenance plant	11,719,832	10,411,245
Depreciation	16,117,179	13,894,855
Interest	5,764,173	5,586,636
Non-capitalized minor plant expenditures	1,836,886	1,638,785
Other	306,508	1,245,649
Total	$154,140,342	$139,715,748

12. Change of Accounting Principle

In 2005, the FASB issued FASB Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations" (FIN 47), which is effective for the College as of and for the year ended June 30, 2006. FIN 47 was issued to provide clarity surrounding the recognition of conditional asset retirement obligations, as referred to in FASB Statement No. 143, "Accounting for Asset Retirement Obligations". FIN 47 defines a conditional asset retirement obligation as a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. Uncertainty with respect to the timing and/or method of settlement of the asset retirement obligation, does not defer recognition of a liability. The obligation to perform the asset retirement activity is unconditional, and accordingly, a liability should be recognized. FIN 47 also provides guidance with respect to the criteria to be used to determine whether sufficient information exists to reasonably estimate the fair value of an asset retirement obligation. Based the guidance in FIN 47, the College determined that sufficient information was available to reasonably estimate the fair value of known asset retirement obligations.

FIN 47 requires the initial application of the interpretation to be recognized as a cumulative effect of a change in accounting principle. Specifically, FIN 47 requires the recognition, as a cumulative effect, the cumulative accretion and accumulated depreciation for the time period from the date the liability would have been recognized had the provisions of the interpretation been in effect when the liability was incurred to the date of adoption of this Interpretation. The liability incurred date is presumed to be the date upon which the legal requirement to perform the asset retirement activity was enacted. The primary condition that led to the obligation is the remediation of asbestos.

Upon initial application of FIN 47 at June 30, 2006, the College recognized $3,273,782 as the cumulative effect of a change in accounting principle in the Statement of Activities. As of June 30, 2006, $3,284,579 of conditional asset retirement obligation liability is included in accounts payable and accrued liabilities within the Statement of Financial Position. Had FIN 47 been adopted as of June 30, 2005, the corresponding amounts would have been $3,172,949 and $3,184,274, respectively.