

Williams College
Consolidated Financial Statements
June 30, 2017 and 2016

Williams College
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June 30, 2017 and 2016

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Report of Independent Auditors

To the Board of Trustees of Williams College

We have audited the accompanying consolidated financial statements of Williams College (the “College”), which comprise the consolidated statements of financial position as of June 30, 2017 and 2016, and the related consolidated statements of activities and of cash flows for the years then ended.

Management’s Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors’ Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the College’s preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Williams College as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

Hartford, CT
October 17, 2017

Williams College
Consolidated Statements of Financial Position
June 30, 2017 and 2016

	2017	2016
Assets		
Cash and cash equivalents	\$ 26,855,507	\$ 18,563,534
Accounts receivable, net of allowance of \$126,216 (\$135,002 in 2016)	1,777,907	1,176,191
Contributions receivable, net of allowance of \$5,014,569 in 2017 (\$4,405,212 in 2016) (Note 2)	161,608,891	140,841,594
Notes receivable - student loans, net of allowance of \$262,838 in 2017 (\$147,641 in 2016) (Note 3)	3,049,571	3,875,189
Notes receivable - other (Note 4)	12,528,091	12,237,367
Bonds proceeds held by trustee	96,818,483	-
Other assets	10,686,708	9,926,921
Investments at fair value (Note 5)	2,568,064,122	2,313,700,815
Investments held on behalf of supporting organization (Note 6)	90,000,000	-
Land, buildings and equipment, net (Note 7)	550,625,317	495,680,604
Total assets	<u>\$ 3,522,014,597</u>	<u>\$ 2,996,002,215</u>
Liabilities		
Accounts payable and accrued liabilities	\$ 37,165,146	\$ 29,653,643
Accrued salaries and benefits (Note 8)	38,789,157	42,516,664
Investments held on behalf of supporting organization (Note 6)	90,000,000	-
Deferred revenue and deposits	1,959,720	1,848,731
U. S. Government advances for student loans	3,255,327	3,269,830
Present value of beneficiary payments	58,605,909	58,458,322
Bonds payable (Note 10)	456,006,990	327,710,857
Total liabilities	<u>685,782,249</u>	<u>463,458,047</u>
Net Assets		
Unrestricted	360,336,240	326,063,381
Temporarily restricted (Note 13)	1,808,263,436	1,577,534,394
Permanently restricted (Note 13)	667,570,111	628,946,393
Total College net assets	2,836,169,787	2,532,544,168
Noncontrolling interests	62,561	-
Total net assets	<u>2,836,232,348</u>	<u>2,532,544,168</u>
Total liabilities and net assets	<u>\$ 3,522,014,597</u>	<u>\$ 2,996,002,215</u>

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

Williams College
Consolidated Statement of Activities
Year Ended June 30, 2017 with Summarized Comparative Totals for 2016

	2017			2016	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Operating revenue, gains and other					
Student revenues					
Tuition and fees	\$ 109,986,872	\$ -	\$ -	\$ 109,986,872	\$ 107,478,632
Room and board	25,560,536	-	-	25,560,536	25,171,835
Less: Financial aid	(51,256,067)	-	-	(51,256,067)	(48,410,658)
Net student revenues	84,291,341	-	-	84,291,341	84,239,809
Auxiliary enterprises - other	8,578,029	-	-	8,578,029	8,116,466
Special purpose grants expended	2,123,024	-	-	2,123,024	2,042,135
Gifts and grants, net	20,725,116	64,965,365	-	85,690,481	36,218,355
Investment income	565,252	-	-	565,252	399,996
Realized gains utilized	10,258,967	94,983,146	-	105,242,113	99,936,255
Other	1,396,076	-	-	1,396,076	906,091
Net assets released from restrictions	105,897,201	(105,897,201)	-	-	-
Total operating revenue, gains, and other	233,835,006	54,051,310	-	287,886,316	231,859,107
Operating expenses and other					
Instructional and research	100,645,876	-	-	100,645,876	96,492,852
Academic support	25,950,523	-	-	25,950,523	26,081,302
Student services	34,850,821	-	-	34,850,821	31,875,149
Institutional support	36,358,618	-	-	36,358,618	45,444,827
Auxiliary enterprises	38,913,027	-	-	38,913,027	34,031,677
Other	37,766	-	-	37,766	2,158,723
Total operating expenses and other	236,756,631	-	-	236,756,631	236,084,530
Change in net assets from operating activities	(2,921,625)	54,051,310	-	51,129,685	(4,225,423)
Nonoperating activities					
Realized and change in unrealized gains (losses) on investments	40,271,426	274,454,338	8,046,130	322,771,894	(43,134,133)
Realized gains utilized for current operations	(10,258,967)	(94,983,146)	-	(105,242,113)	(99,936,255)
Investment income on split interest agreements	-	1,202,356	435,016	1,637,372	1,844,406
Payments of annuities	-	(2,575,407)	(2,667,608)	(5,243,015)	(5,151,347)
Change in actuarial valuation of split interest agreements	-	634,900	838,216	1,473,116	169,191
Life income and endowment gifts, net	-	3,804,440	27,696,818	31,501,258	30,508,993
Unrealized gain (loss) and net settlement on interest rate swaps	3,788,514	-	-	3,788,514	(2,496,673)
Gain (loss) on the retirement of long term debt	1,808,908	-	-	1,808,908	-
Fund retirements	1,358,983	(1,358,983)	-	-	-
Funds further designated	225,620	(3,745,498)	3,519,878	-	-
Income to principal	-	(755,268)	755,268	-	-
Change in net assets from nonoperating activities	37,194,484	176,677,732	38,623,718	252,495,934	(118,195,818)
Total change in College net assets	34,272,859	230,729,042	38,623,718	303,625,619	(122,421,241)
Change in noncontrolling interests	62,561	-	-	62,561	-
Total change in net assets	34,335,420	230,729,042	38,623,718	303,688,180	(122,421,241)
Beginning net assets	326,063,381	1,577,534,394	628,946,393	2,532,544,168	2,654,965,409
Ending net assets	\$ 360,398,801	\$ 1,808,263,436	\$ 667,570,111	\$ 2,836,232,348	\$ 2,532,544,168

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

Williams College
Consolidated Statement of Activities
Year Ended June 30, 2016

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Operating revenue, gains and other				
Student revenues				
Tuition and fees	\$ 107,478,632	\$ -	\$ -	\$ 107,478,632
Room and board	25,171,835	-	-	25,171,835
Less: Financial aid	(48,410,658)	-	-	(48,410,658)
Net student revenues	84,239,809	-	-	84,239,809
Auxiliary enterprises - other	8,116,466	-	-	8,116,466
Special purpose grants expended	2,042,135	-	-	2,042,135
Gifts and grants, net	20,162,459	16,055,896	-	36,218,355
Investment income	392,860	7,136	-	399,996
Realized gains utilized	9,508,275	90,427,980	-	99,936,255
Other	906,091	-	-	906,091
Net assets released from restrictions	103,356,572	(103,356,572)	-	-
Total operating revenue, gains, and other	228,724,667	3,134,440	-	231,859,107
Operating expenses and other				
Instructional and research	96,492,852	-	-	96,492,852
Academic support	26,081,302	-	-	26,081,302
Student services	31,875,149	-	-	31,875,149
Institutional support	45,444,827	-	-	45,444,827
Auxiliary enterprises	34,031,677	-	-	34,031,677
Other	2,158,723	-	-	2,158,723
Total operating expenses and other	236,084,530	-	-	236,084,530
Change in net assets from operating activities	(7,359,863)	3,134,440	-	(4,225,423)
Nonoperating activities				
Realized and change in unrealized gains (losses) on investments	(4,026,800)	(37,029,374)	(2,077,959)	(43,134,133)
Realized gains utilized for current operations	(9,508,316)	(90,427,939)	-	(99,936,255)
Investment income on split interest agreements	-	1,347,240	497,166	1,844,406
Payments of annuities	-	(2,637,743)	(2,513,604)	(5,151,347)
Change in actuarial valuation of split interest agreements	-	4,084	165,107	169,191
Life income and endowment gifts, net	-	8,965,558	21,543,435	30,508,993
Gain (loss) and net settlement on interest rate swaps	(2,496,673)	-	-	(2,496,673)
Fund retirements	2,425,544	(2,425,544)	-	-
Funds further designated	1,832,905	(5,566,071)	3,733,166	-
Income to principal	-	(914,102)	914,102	-
Change in net assets from nonoperating activities	(11,773,340)	(128,683,891)	22,261,413	(118,195,818)
Total change in net assets	(19,133,203)	(125,549,451)	22,261,413	(122,421,241)
Beginning net assets	345,196,584	1,703,083,845	606,684,980	2,654,965,409
Ending net assets	\$ 326,063,381	\$ 1,577,534,394	\$ 628,946,393	\$ 2,532,544,168

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

Williams College
Consolidated Statements of Cash Flows
Years Ended June 30, 2017 and 2016

	2017	2016
Cash flow from operating activities		
Total change in net assets	\$ 303,688,180	\$ (122,421,241)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation, amortization and accretion, net	27,304,511	25,937,253
Provision for doubtful accounts receivable and student loans	6,615	(39,779)
Net change in realized and unrealized gains on investments	(324,409,266)	41,289,727
Change in noncontrolling interests	62,561	-
Gain (loss) on real property held for sale	142,227	(15,983)
Loss on disposal of plant assets	304,980	284,409
Gain or (loss) on the retirement of long term debt	(1,808,909)	-
Gifts restricted for long-term investment	(43,536,946)	(41,496,897)
Donated securities	(18,310,741)	(7,517,043)
Proceeds from sale of donated securities	8,086,847	2,509,716
Gifts in kind	(305,300)	(1,165,527)
Changes in operating assets and liabilities		
Accounts receivable	(601,716)	(317,965)
Contributions receivable	(20,767,297)	6,378,746
Other assets	(290,724)	(372,479)
Accounts payable and accrued liabilities	(1,524,152)	6,872,545
Present value of beneficiary payments	5,390,602	7,369,880
Accrued salaries and benefits	(3,727,506)	5,752,548
Deferred revenue and deposits	110,989	(791,013)
Net cash (used in) operating activities	<u>(70,185,045)</u>	<u>(77,743,103)</u>
Cash flow from investing activities		
Proceeds from sale of investments	264,170,470	709,197,519
Purchase of investments	(284,124,511)	(609,202,058)
Additions to land, buildings and equipment	(76,418,707)	(56,940,659)
Bond proceeds held by trustee	(96,818,483)	6,622,174
Proceeds from the sale of real estate	1,315,421	420,241
Additional student loans granted	(147,747)	(514,214)
Student loans repaid	851,553	732,312
Net cash (used in) provided by investing activities	<u>(191,172,004)</u>	<u>50,315,315</u>
Cash flow from financing activities		
Gifts restricted for endowments	43,536,946	41,496,897
Proceeds from sale of donated securities restricted for endowments	10,223,894	5,007,327
Payments to beneficiaries	(5,243,015)	(5,127,946)
Proceeds from supporting organization	90,000,000	-
Deposits made for bond payments	(187,000)	(371,530)
Issuance of new debt	238,329,700	-
Repayment of debt	(106,997,000)	(8,610,000)
U.S. Government (payments) advances for student loans	(14,503)	(35,211)
Net cash provided by financing activities	<u>269,649,022</u>	<u>32,359,537</u>
Net increase (decrease) in cash	8,291,973	4,931,749
Cash		
Beginning of year	<u>18,563,534</u>	<u>13,631,785</u>
End of year	<u>\$ 26,855,507</u>	<u>\$ 18,563,534</u>
Supplemental disclosures		
Cash paid during the year for interest	\$ 12,951,271	\$ 10,984,684
Noncash transactions		
Donated securities (unrestricted)	8,086,847	2,509,716
Donated securities (restricted)	10,223,894	5,007,327
Liabilities held on behalf of a non-controlling interest	90,000,000	-
Exchange of land for notes receivable	296,400	112,000
Amounts included in accounts payable related to construction in progress	13,682,455	5,215,303

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

Williams College

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

1. Summary of Significant Accounting Policies

Basis of Presentation

The consolidated 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 ("GAAP").

The consolidated financial statements include the accounts of Williams College, the Williams Inn, LLC, Williams Renewables, LLC and Williams College Foundation (UK) Limited. Collectively, all of these entities are referred to as the "College". All significant inter-entity transactions and balances have been eliminated upon consolidation.

The College is the sole shareholder of Williams Renewables, LLC. Williams Renewables, LLC was established to facilitate Williams' investments in renewable energy projects. During 2017, Williams Renewables, LLC entered into an agreement with Simonds Road Solar, LLC. As a result of the agreement, Williams Renewables, LLC has a controlling interest in Simonds Road Solar, LLC. As of June 30, 2017, assets of Simonds Road Solar, LLC total \$5.6 million, liabilities total \$0.3 million, and net operating losses totaled \$0.3 million. The College has reflected a noncontrolling interest related to a third party's interest in Simonds Road Solar of \$62,000.

Net assets are classified as unrestricted, temporarily restricted or permanently restricted based on the existence or absence of donor-imposed restrictions. In the accompanying consolidated financial statements, net assets that have similar characteristics have been combined as follows:

Permanently Restricted

The College considers permanently restricted net assets to be net assets which are subject to donor-imposed stipulations that they be maintained permanently by the College. Generally, the donors of these assets permits 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

The College considers temporarily restricted net assets to be net assets which are 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 changes in 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

The College considers unrestricted net assets to be net assets which 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 reclassifications between the applicable classes of net assets.

Cash and Cash Equivalents

Cash included in the College's investment pool is reported as part of investments. Cash represents highly liquid investments with a maturity of three months or less at the date of purchase.

Williams College

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

Contributions

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Contributions and investment returns 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 include transactions of a capital nature including realized and changes in unrealized gains and losses 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 as revenue 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 measured at fair value using a discount rate commensurate with the terms of the contribution. Discount rates range from 1.34% to 6.00% based on the year the pledge was recorded. 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 \$(2,332,623) and \$(632,248) for the years ended June 30, 2017 and 2016, 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 value.

Investments

The College reports its investments at fair value in accordance with GAAP. Fair value is defined as the amount that would be received as a result of selling an asset or, the amount that would be paid to transfer a liability (i.e. the exit price) in an orderly transaction between market participants at the measurement date.

Williams College
Notes to Consolidated Financial Statements
June 30, 2017 and 2016

The fair values of investments are determined as follows:

Investments	Value as Recorded
Cash and cash equivalents, including cash at banks and short-term, highly liquid investments with an original maturity of three months or less at the time of purchase	At cost which approximates fair value
Stocks, bonds, mutual funds, and other publicly traded securities	At quoted market value, representing fair value
Privately held investment vehicles including investments in funds with managers managing global long/short equities, absolute return strategies, venture capital, buyouts, real estate, real assets and other strategies	Estimated fair value determined by the manager of the privately held partnership

Certain investment vehicles do not have quoted market prices. These include 1) hedge fund investments with managers of global long/short equities and absolute return strategies; 2) investments in venture capital, buyout, real asset and real estate partnerships; and 3) certain other commingled funds. In the absence of quoted market prices of these investment vehicles, the fair value is determined by the College based on information provided by external managers. Most of these external managers calculate the College's capital account or Net Asset Value (NAV) in accordance with, or in a manner consistent with, GAAP. GAAP permits the College to estimate the fair value of these investments by using the reported NAV provided by the external managers as a practical expedient. The College has performed due diligence procedures related to these investments to support recognition at fair value as of June 30, 2017 and 2016. Due to the inherent uncertainties of valuation, these estimated fair values may differ significantly from the values that would have been reported had a readily available market for these investments existed, and these differences could be material.

Beneficial and perpetual trusts are held at fair value by third parties are recorded at the present value of the future distributions expected to be received over the term of the agreement. These methods may result in a fair value measurement that may not be indicative of net realizable value or reflective of future fair values.

While the College believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Land, Buildings and Equipment

Capital expenditures for and gifts of land, buildings and equipment are recorded at cost at the date of acquisition or fair value at the date of donation. Depreciation is 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).

Interest is capitalized on capital projects in process until the project is substantially complete.

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 the cost of library books and periodicals.

Williams College
Notes to Consolidated Financial Statements
June 30, 2017 and 2016

Conditional Asset Retirement Obligation

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 ASC 410, Asset Retirement and Environmental Obligations. The liability is reflected in accounts payable and accrued liabilities. 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 consolidated statements of activities.

	2017	2016
Change in asset retirement obligation		
Asset retirement obligation at beginning of year	\$ 5,872,447	\$ 5,371,129
Settlement of obligation	(102,250)	(120,596)
Additional obligations	-	524,255
Accretion expense	<u>150,602</u>	<u>97,659</u>
Asset retirement obligation at end of year	<u>\$ 5,920,799</u>	<u>\$ 5,872,447</u>

Employee Benefits

Retirement benefits for substantially all full-time employees are individually funded and vested under a defined contribution retirement program with the Teachers Insurance and Annuity Association and the College Retirement Equities Fund ("TIAA" and "CREF", respectively). Under this agreement, the College and plan participants make periodic contributions to TIAA and CREF. The College's expense under defined contribution retirement plans amounted to approximately \$8,341,413 and \$7,963,661 for 2017 and 2016, respectively.

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 postemployment benefits which may include, 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.

Williams College

Notes to Consolidated Financial Statements

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Split Interest Agreements and Outside 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. 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 of \$58,605,909 and \$58,458,322 as of June 30, 2017 and 2016, respectively, recorded in present value of beneficiary payments on the consolidated statements 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.

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.

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

Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that may affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The College's significant estimates include the fair valuation of its investments, its valuation of contributions receivable, recognition of its conditional fair 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.

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 consolidated financial statements.

Williams College

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

Recently Adopted Accounting Standards

ASU 2016-01: “Financial Instruments-Overall: Recognition and Measurement of Financial Assets and Financial Liabilities”

In January 2016, the FASB issued ASU 2016-01. This guidance removes the requirement to disclose the fair value of financial instruments carried at amortized cost. The College adopted ASU 2016-01 in 2016 and has removed the fair value disclosure of its debt from Note 10, Bonds Payable.

ASU 2015-03: “Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs”

In April 2015, the FASB issued ASU No. 2015-03, which requires that debt issuance costs be presented in the consolidated statement of financial position as a direct deduction from the carrying amount of the related liability. Such treatment is now consistent with the presentation of debt discounts or premiums. As it stood prior to amendment, debt issuance costs were reported in the consolidated statements of financial position as an asset, whereas debt discounts and premiums were, and remain, reported as deductions from or additions to the debt itself. Recognition and measurement guidance for debt issuance costs is not affected by this standard update. The standard was implemented as of June 30, 2016.

Recent Accounting Pronouncements

ASU 2014-09 “Revenue from Contracts with Customers”

In May 2014, the FASB issued ASU No. 2014-09, a principles-based standard to recognize revenue from customer contracts. The guidance applies to all contracts, but specifically excludes contribution income. ASU No. 2014-09 will be effective for the College’s fiscal year beginning 2019. The College does not believe ASU 2014-09 will have a material impact on its consolidated financial statements.

ASU 2016-02: “Leases (Topic 842)”

In February 2016, the FASB issued ASU 2016-02. The objective of this standard update is to provide a representation of an entity’s leasing activities. This standard update requires that lease assets and lease liabilities be recognized on the balance sheet and all key information about leasing arrangements be disclosed. The standard update is effective for fiscal years beginning after December 15, 2018. Early adoption is permitted. The College is currently assessing the potential impact of this standard update on its consolidated financial statements.

ASU 2016-14: “Presentation of Financial Statements for Not-for-Profit Entities”

In August 2016, the Financial Accounting Standards Board (FASB) issued ASU No. 2016-14. Under the new guidance, the existing three-category classification of net assets will be reported in two categories: with donor restrictions and without donor restrictions. Endowments that have a current fair value that is less than the original gift amount (underwater) will be classified in net assets with donor restrictions and expanded disclosures will be required. Additional requirements include disclosure of board-designated net assets, expanded reporting to present expenses by function and natural classification and eliminating the disclosure of investment expenses that are netted against investment returns. ASU No. 2016-14 is effective for the fiscal year ended June 30, 2019; the College is currently evaluating the impact its adoption will have on its consolidated financial statements.

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2. Contributions Receivable

Contributions receivable are as follows at June 30:

	2017	2016
Expected collection period		
Less than one year	\$ 40,071,396	\$ 31,133,410
One year to five years	88,159,416	78,039,633
Over five years	7,524,898	1,999,832
Less: Discount to present value	(8,555,445)	(6,922,709)
Allowance for uncollectible contributions	<u>(5,014,569)</u>	<u>(4,405,212)</u>
Net contributions receivable	122,185,696	99,844,954
Charitable remainder trusts held by others	<u>39,423,195</u>	<u>40,996,640</u>
Contributions receivable, net	<u>\$ 161,608,891</u>	<u>\$ 140,841,594</u>

At June 30, 2017 and 2016, the College had also received conditional promises to give of approximately \$103,016,459 and \$94,105,066, respectively. These conditional promises to give are not recognized as assets until the removal or lapse of the condition.

Funds held in trust by others totaled \$39,423,195 and \$40,996,640 at June 30, 2017 and 2016, respectively, are valued using Level 3 inputs (see Note 5 for discussion on classification of fair value measurements). Following is a reconciliation of funds held in trust by others in which significant unobservable inputs (Level 3) were used in determining value:

	2017	2016
Beginning of year balances	\$ 40,996,640	\$ 38,396,774
Change in unrealized gain	(1,559,195)	3,504,368
Net additions (retirements)	<u>(14,250)</u>	<u>(904,502)</u>
End of year balances	<u>\$ 39,423,195</u>	<u>\$ 40,996,640</u>

3. Notes Receivable – Student Loans

The College holds net notes receivable from student loans totaling \$3,049,571 and \$3,875,189 as of June 30, 2017 and 2016 respectively. The College is required to disclose the fair value of student loans receivable. 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. Notes Receivable – Other

The College holds mortgages on residences of eligible faculty and staff members that amounted to \$8,447,305 and \$8,687,310 as of June 30, 2017 and 2016, respectively. The average stated interest rate paid on the mortgages as of June 30, 2017 and 2016 was 2.80% and 2.93%, respectively. The College holds other notes receivable totaling \$4,080,786 and \$3,550,057 as of June 30, 2017 and 2016, respectively.

5. Investments

Investments held by the College are comprised of:

	2017	2016
Investment pool	\$ 2,508,773,232	\$ 2,256,160,166
Split interest agreements	48,936,486	46,457,800
Other investments	10,354,404	11,082,849
	<u>\$ 2,568,064,122</u>	<u>\$ 2,313,700,815</u>

Investment Pool Governance

The Investment Committee, a standing committee of the Board of Trustees, is responsible for setting asset allocation, investment policy and the strategic direction of the Williams College Investment Pool. Committee members approve the operating budget and annual goals for the investment office and monitor investment results to ensure policy objectives are met. In addition, three Advisory Committees (Marketable Assets, NonMarketable Assets and Real Assets) serve as sub-committees of the Investment Committee and provide focused asset class advice. Reporting to the College President, the Chief Investment Officer (“CIO”) oversees and manages the College’s Investment Office, including the selection of investments, investment managers and consultants, subject to the approval of the Investment Committee and in accordance with the Committee’s policies and procedures.

Investment Pool Mission, Objectives and Strategy

The mission of the Investment Pool is to contribute financial support to both the present and future needs of the College as well as to provide sufficient liquidity to meet such needs on a timely basis.

The College’s overall investment objective is to achieve the highest level of investment performance that is compatible with its risk tolerance and prudent investment practices. The College’s risk tolerance is informed by the degree to which it relies on the Investment Pool to support its operations.

The College’s investment strategy is designed to meet its investment objective and has the following characteristics: an equity bias to help achieve the College’s long-term return objective; diversification to dampen volatility; an emphasis on alternative investments; and a sufficient liquidity position.

The College has various sources of internal liquidity at its disposal, including cash, marketable equity and debt securities, commingled funds and hedge funds. At June 30, 2017, management estimates approximately \$846 million or 33.7% of the Investment Pool could be liquidated within the next 90 days (unaudited).

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Investment Pool Asset Allocation

The asset allocation, asset class benchmarks and allowable ranges for each asset class for the Williams College Investment Pool is approved by the Investment Committee upon the recommendation of the CIO and reviewed every year. The target asset allocation for 2017 and 2016 is summarized below.

Asset Class	Target Policy Portfolio at June 30,	
	2017	2016
Global equity	23 %	25 %
Global long/short equity	19	17
Absolute return	19	19
Venture capital	6	6
Buyouts	9	9
Real assets	5	5
Real estate	6	6
Investment grade fixed income	2	2
Noninvestment grade fixed income	10	10
Cash	1	1
	100 %	100 %

In addition to the asset class diversification targets presented above, the College diversifies its investments among various investment strategies. The investments are managed by a select group of external investment management firms and held in custody by a major commercial bank, except for assets structured as partnerships, LLCs and comingled funds, which have separate arrangements appropriate to their legal structure.

ASC 820 Disclosure - Fair Value Hierarchy

US GAAP contains an established framework to measure fair value, with required disclosures about fair value measurements. *FASB Accounting Standards Codification ASC 820 on Fair Value Measurements*, previously known as SFAS 157, favors the use of market-based information over entity-specific information. The standard prescribes a three-level hierarchy for fair value measurements based on the observability of inputs used in the valuation of an investment as of the measurement date. Investments measured and reported at fair value are classified and disclosed in one of the following categories:

- Level 1 Quoted prices are available in active markets for identical investments as of the reporting date, without adjustment. The type of investments in Level 1 include listed equity securities held in the name of the College in separately managed accounts and exchange traded mutual fund investments.

- Level 2 Pricing inputs, including broker quotes, other than exchange traded quoted prices in active markets. The inputs are either directly or indirectly observable as of the reporting date.

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Level 3 Pricing inputs that are unobservable and includes situations where there is little, if any, market activity for the investment. Fair value for Level 3 assets and liabilities is determined using various valuation methodologies that consider a range of factors, including but not limited to the price at which the investment was acquired, the nature of the investment, local market conditions, trading values on public exchanges for comparable securities, and current and projected operating performance. The inputs generally require significant management judgment. Investments which are generally included in this category are the split interest agreements.

In accordance with Subtopic 820-10, certain investments that are measured at fair value using the practical expedient have not been classified in the fair value hierarchy. As such, the fair value of investments presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated statements of financial position. The College performs additional procedures including due diligence reviews on its investments in investment companies and other procedures with respect to the capital account or NAV provided to ensure conformity with GAAP.

The following table presents the College's consolidated financial instruments carried at fair value as of June 30, 2017 and 2016, by caption on the consolidated statements of financial position and by the ASC 820 fair value valuation hierarchy defined above.

	June 30, 2017				Total Fair Value
	NAV Practical Expedient	Quoted Prices in Active Markets Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Investment pool					
Global long equity funds	\$ 628,561,564	\$ -	\$ -	\$ -	\$ 628,561,564
Global long/short equity funds	459,980,582	-	-	-	459,980,582
Absolute return funds	451,847,841	-	-	-	451,847,841
Venture capital funds	325,666,069	-	-	-	325,666,069
Buyout funds	144,448,764	-	-	-	144,448,764
Real asset funds	105,450,338	-	-	-	105,450,338
Real estate funds	95,558,846	-	-	-	95,558,846
Investment grade fixed income funds	-	53,908,642	-	-	53,908,642
Non-investment grade fixed income funds	219,935,911	-	-	-	219,935,911
Cash and cash equivalents	-	23,511,333	-	-	23,511,333
	<u>2,431,449,915</u>	<u>77,419,975</u>	<u>-</u>	<u>-</u>	<u>2,508,869,890</u>
Investment pool - other					
Advanced contribution to underlying fund	-	-	-	-	-
Redemption receivable from underlying fund	37,137	-	-	-	37,137
Other assets and liabilities	-	(133,795)	-	-	(133,795)
	<u>37,137</u>	<u>(133,795)</u>	<u>-</u>	<u>-</u>	<u>(96,658)</u>
Total investment pool	<u>2,431,487,052</u>	<u>77,286,180</u>	<u>-</u>	<u>-</u>	<u>2,508,773,232</u>
Split interest agreements					
Cash and cash equivalents	-	988,697	-	-	988,697
Common and preferred stocks	-	17,249,947	-	-	17,249,947
Fixed income securities	-	15,619,846	-	-	15,619,846
Real estate mutual funds	-	1,297,293	-	-	1,297,293
Perpetual trusts held by others	-	-	-	13,780,703	13,780,703
Total split interest agreements	-	35,155,783	-	13,780,703	48,936,486
Other investments	-	735,618	-	9,618,786	10,354,404
	<u>\$2,431,487,052</u>	<u>\$ 113,177,581</u>	<u>\$ -</u>	<u>\$ 23,399,489</u>	<u>2,568,064,122</u>

Williams College
Notes to Consolidated Financial Statements
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	June 30, 2016				Total Fair Value
	NAV Practical Expedient	Quoted Prices in Active Markets Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Investment pool					
Global long equity funds	\$ 524,860,497	\$ -	\$ -	\$ -	\$ 524,860,497
Global long/short equity funds	393,603,346	-	-	-	393,603,346
Absolute return funds	380,391,276	-	-	-	380,391,276
Venture capital funds	304,152,853	-	-	-	304,152,853
Buyout funds	156,905,383	-	-	-	156,905,383
Real asset funds	86,068,299	-	-	-	86,068,299
Real estate funds	99,087,802	-	-	-	99,087,802
Investment grade fixed income funds	-	52,217,568	-	-	52,217,568
Noninvestment grade fixed income funds	193,075,138	-	-	-	193,075,138
Cash and cash equivalents	-	33,351,006	-	-	33,351,006
	<u>2,138,144,594</u>	<u>85,568,574</u>	<u>-</u>	<u>-</u>	<u>2,223,713,168</u>
Investment pool - other					
Advanced contribution to underlying fund	-	-	-	-	-
Redemption receivable from underlying fund	32,577,116	-	-	-	32,577,116
Other assets and liabilities	-	(130,118)	-	-	(130,118)
	<u>32,577,116</u>	<u>(130,118)</u>	<u>-</u>	<u>-</u>	<u>32,446,998</u>
Total investment pool	<u>2,170,721,710</u>	<u>85,438,456</u>	<u>-</u>	<u>-</u>	<u>2,256,160,166</u>
Split interest agreements					
Cash and cash equivalents	-	2,220,640	-	-	2,220,640
Common and preferred stocks	-	14,582,396	-	-	14,582,396
Fixed income securities	-	15,682,466	-	-	15,682,466
Real estate mutual funds	-	1,078,272	-	-	1,078,272
Perpetual trusts held by others	-	-	-	12,894,026	12,894,026
Total split interest agreements	-	33,563,774	-	12,894,026	46,457,800
Other investments	-	1,405,738	-	9,677,111	11,082,849
	<u>\$2,170,721,710</u>	<u>\$ 120,407,968</u>	<u>\$ -</u>	<u>\$ 22,571,137</u>	<u>2,313,700,815</u>

Level 3 Rollforward

The following table is a rollforward of the amounts presented on the consolidated statements of financial position for financial instruments classified by the College within Level 3 of the fair value hierarchy defined above:

2016 to 2017

Split Interest Agreements

	Beginning	Realized Gains (Losses)	Change in Unrealized Gains (Losses)	Additions (Retirements)	Ending
Perpetual trusts	\$ 12,894,026	\$ -	\$ 886,677	\$ -	\$ 13,780,703

Other Investments

	Beginning	Realized Gains (Losses)	Change in Unrealized Gains (Losses)	Gifts and Purchases	Redemptions	Ending
Other investments	\$ 9,677,111	\$ 221,396	\$ 873,623	\$ -	\$ (1,153,345)	\$ 9,618,785

There were no transfers into (out of) Level 3 investments during the year ended June 30, 2017.

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2015 to 2016

Split Interest Agreements

	Beginning	Realized Gains (Losses)	Change in Unrealized Gains (Losses)	Additions (Retirements)	Ending
Perpetual trusts	\$ 13,881,040	\$ -	\$ (987,014)	\$ -	\$ 12,894,026

Other Investments

	Beginning	Realized Gains (Losses)	Change in Unrealized Gains (Losses)	Gifts and Purchases	Redemptions	Ending
Other investments	\$ 8,231,412	\$ -	\$ (54,602)	\$ 1,500,301	\$ -	\$ 9,677,111

There were no transfers into (out of) Level 3 investments during the year ended June 30, 2016.

Accumulated unrealized gains (losses) for assets classified within Level 3 as of June 30, 2017 and 2016 are \$7,230,452 and \$5,402,100, respectively.

Additional Fair Value Disclosure

The College uses NAV to determine the fair value of all the underlying investments which (a) do not have a readily determinable fair value (e.g. private equity partnerships) and (b) prepare their financial statements consistent with the measurement principals of an investment company or have the attributes of an investment company. In accordance with US GAAP, the following required disclosure lists specified investment types by major category.

Investment Pool/ Strategy	Remaining Life	2017		Redemption Terms
		Amount of Unfunded Commitments		
Absolute return funds	1 to 34 Years/ Some funds have an undefined life.	\$ 23,150,820		Ranges from quarterly to annual redemptions with 30 to 180 days notice required for redemption. One fund is subject to a 3 year rolling lock-up and two funds are commitment based with no ability to be redeemed. One fund allows partial redemption over a 3 year period.
Buyout funds	1 to 10 Years	163,783,473		N/A*
Global long equity funds	1 to 25 Years Some funds have an undefined life.	-		Ranges from 5-day to annual redemptions with 1 day to 120 days notice required for redemption. One fund is subject to a 3 year rolling lock-up. One fund is subject to a 3 year lock-up with slowpay provisions after the first year of lock-up.
Global long/short equity funds	1 to 4 Years All funds have an undefined life.	50,808,494		Ranges from monthly to quarterly redemptions with 10 to 90 days notice required for redemption. One fund is subject to a 3 year rolling lock-up and two funds are subject to a 5 year rolling lock-up. One fund is subject to a 2 year lock-up with slow-pay provisions after the end of the lock-up. One fund is subject to a 3 year lock-up with slow-pay provisions after the end of the first year of the lock-up. One fund is illiquid.
Noninvestment grade fixed income funds	1 to 27 Years/ Some funds has an undefined life.	68,819,358		Ranges from quarterly to annual redemptions with 30 to 120 days notice required for redemption. Some funds are commitment based with no ability to redeem.
Real asset funds	1 to 9 Years/ Some funds have an undefined life.	53,598,305		Ranges from 5-day to quarterly redemptions with 1 day to 65 days notice required for redemption. Some funds are commitment based with no ability to redeem.
Real estate funds	1 to 14 Years	112,885,293		N/A*
Venture capital funds	1 to 11 Years	77,999,134		N/A*
Total investment pool		\$ 551,044,877		

N/A*: These funds are in private equity structure, with no ability to be redeemed.

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Notes to Consolidated Financial Statements

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Other Investment-Related Disclosures

The College is obligated, under certain limited partnership agreements, to make additional capital contributions up to contractual levels. The timing and amounts of the contributions are determined by the general partners. The College has unfunded commitments of \$551,044,877 and \$468,272,669 as of June 30, 2017 and 2016, respectively.

Realized net gains were \$21,972,531 and \$133,197,738 for the years ended June 30, 2017 and 2016, respectively. Changes in unrealized appreciation (depreciation) for the years ended June 30, 2017 and 2016 was \$305,350,975 and \$(173,646,226), respectively. Net investment income, other than reinvested amounts, was \$565,252 and \$399,996 for the years ended June 30, 2017 and 2016, respectively. Reinvested income was \$1,759,251 and \$2,242,196, respectively. Of this amount, \$1,637,372 and \$1,844,406, respectively, was net investment income earned on split interest agreements. Investment income on split interest agreements and reinvested income is reflected as part of realized and change in unrealized gains (losses) on investments, investment income on split interest agreements, and reinvested income in the nonoperating section of the consolidated statements of activities.

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 direct overall investment strategy.

As of June 30, 2017 and 2016, included in investments are redemptions receivable from underlying funds of \$37,137 and \$32,577,116, respectively.

As of June 30, 2017 and 2016, there were no receivables and payables related to the unsettled sales and purchases of securities.

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 fair values of investments will occur in the near term and that such changes could materially affect the amounts reported in the consolidated statements of financial position and consolidated statements of activities.

6. Investments Held for Supporting Organization

In February of 2017, the College and a supporting organization ("Organization") entered into a participation agreement ("Agreement") wherein the organization will transfer substantially all of its endowment over a three year period to the College to invest in the College's investment pool. The College will manage the investments on the organization's behalf. The funds are invested in accordance with the College's investment policies and objectives. As of June 30, 2017, the College received \$90,000,000 pursuant to this agreement, which is reflected as Investments held for supporting organization with an offsetting liability on the consolidated statement of financial position. The interim allocation of the initial \$90 million transfer was as follows:

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	2017	2016
Advanced subscriptions to underlying funds	\$ 44,000,000	\$ -
Cash and cash equivalents	46,000,000	-
Investments held for supporting organization	<u>\$ 90,000,000</u>	<u>\$ -</u>

7. Land, Buildings and Equipment

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

	2017	2016
Land and land improvements	\$ 66,886,306	\$ 56,340,262
Buildings	623,374,096	604,148,252
Equipment	97,234,169	86,053,670
	<u>787,494,571</u>	<u>746,542,184</u>
Less: Accumulated depreciation	<u>(359,649,948)</u>	<u>(333,062,487)</u>
	427,844,623	413,479,697
Construction in progress	74,823,132	34,943,358
Art collections	47,957,562	47,257,549
	<u>\$ 550,625,317</u>	<u>\$ 495,680,604</u>

Depreciation expense was \$28,483,818 and \$26,353,777 for the years ended June 30, 2017 and 2016, respectively. During fiscal year 2017, the College disposed of certain assets with an original cost of \$3,658,985 and accumulated depreciation of \$1,896,357.

Interest costs of \$597,267 and \$719,533 were capitalized in 2017 and 2016, respectively.

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8. Postretirement Benefits Other than Pensions

The College accounts for the funded status of its other postretirement plan and recognizes its benefit liability for the plan in accrued salaries and benefits with an offsetting adjustment to unrestricted net assets in the consolidated statement of financial position.

	2017	2016
Change in accumulated postretirement benefit obligation		
Postretirement benefit obligation at beginning of year		
Actives not fully eligible to retire	\$ 14,389,941	\$ 11,216,746
Actives fully eligible to retire	7,407,550	6,640,470
Retirees	<u>7,973,555</u>	<u>8,012,309</u>
	29,771,046	25,869,525
Service cost	1,000,717	841,835
Interest cost	967,851	1,067,204
Plan participants' contributions	106,471	95,690
Actuarial loss (gain)	(1,853,416)	2,913,607
Benefits paid	<u>(1,055,345)</u>	<u>(1,016,815)</u>
Postretirement benefit obligation at end of year	\$ 28,937,324	\$ 29,771,046
Actives not fully eligible to retire	\$ 13,497,325	14,389,941
Actives fully eligible to retire	7,250,253	7,407,550
Retirees	<u>8,189,746</u>	<u>7,973,555</u>
	28,937,324	29,771,046
Change in plan assets		
Fair value of plan assets at beginning of year		
	-	-
Employer contribution, net of retiree contributions	848,159	787,809
Implicit subsidy from active benefit payments	100,715	133,316
Plan participants' contributions	106,471	95,690
Benefits paid	<u>(1,055,345)</u>	<u>(1,016,815)</u>
Fair value of plan assets at end of year	-	-
Reconciliation of funded status		
Funded status - postretirement benefit liability	<u>\$ 28,937,324</u>	<u>\$ 29,771,046</u>

The components of the liability include:

	2017	2016
Current liability	\$ 1,158,183	\$ 1,047,345
Noncurrent liability	<u>27,779,141</u>	<u>28,723,701</u>
Total liability	\$ 28,937,324	\$ 29,771,046

	2017	2016
Components of the net periodic postretirement benefit cost		
Service cost	\$ 1,000,717	\$ 841,835
Interest cost	967,851	1,067,204
Amortization of prior service cost	387,065	387,065
Amortization of actuarial loss	<u>343,493</u>	<u>227,888</u>
	\$ 2,699,126	\$ 2,523,992

Williams College
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Amounts unrecognized and amortization amounts in following year	2017	2016
Amounts unrecognized in net periodic postretirement cost benefit		
Prior service cost	\$ 725,083	\$ 1,112,148
Net actuarial loss	<u>6,353,534</u>	<u>8,550,443</u>
	<u>\$ 7,078,617</u>	<u>\$ 9,662,591</u>
Amortization amounts in following year		
Prior service cost	\$ 387,065	\$ 387,065
Net actuarial (gain) loss	<u>(12,061)</u>	<u>385,110</u>
	<u>\$ 375,004</u>	<u>\$ 772,175</u>

Assumptions and Effects

	2017	2016
Actuarial assumptions		
Medical/dental trend rate next year	8.0%/5.0%	7.5%/5.0%
Ultimate trend rate	5.0%/5.0%	5.0%/5.0%
Year ultimate trend rate is achieved	2023	2021
Discount rate used to value end of year accumulated postretirement benefit obligations	3.67%	3.35%
Discount rate used to value net periodic postretirement benefit cost	3.35%	4.20%
Effect of a 1% increase in health care cost trend rate on		
Interest cost plus service cost	\$ 120,510	\$ 104,425
Accumulated postretirement benefit obligation	971,417	963,288
Effect of a 1% decrease in health care cost trend rate on		
Interest cost plus service cost	\$ (101,673)	\$ (89,122)
Accumulated postretirement benefit obligation	(851,651)	(844,884)
Measurement date	June 30, 2017	June 30, 2016

Expected Future Benefit Payments

Fiscal Year	Retiree Contribution	Employer Benefit Payment
2018	\$ 153,734	\$ 1,158,183
2019	189,755	1,304,262
2020	223,903	1,440,047
2021	259,073	1,594,150
2022	257,694	1,636,359
2023 and beyond	1,493,593	9,063,739

Expected Employer Contribution for Next Fiscal Year

For nonfunded plans, employer contributions equal benefit payments (above) for the next fiscal year.

2018	\$ 1,158,183
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Notes to Consolidated Financial Statements
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9. Commitments and Contingencies

At June 30, 2017, the College has outstanding construction and purchase contracts totaling approximately \$100,000,000. Completion of these projects is estimated to extend through August 2020.

The College has entered into long-term noncancelable operating leases with lease terms extending through the year 2021. 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, 2017.

2018	\$	975,696
2019		1,000,736
2020		990,994
2021		631,662
2022		355,149
Thereafter		1,843,205
	<u>\$</u>	<u>5,797,442</u>

Total rental expense on operating leases was approximately \$510,282 and \$234,545 in 2017 and 2016, respectively.

10. Bonds Payable

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

	2017	2016
Massachusetts Health and Educational Facilities Authority Bonds (Williams College)		
Series I, variable rate, due through 2033	\$ 21,050,000	\$ 21,988,000
Series J, variable rate, due through 2026	27,092,000	29,281,000
Series K, 3.50% to 5.00%, due through 2033	-	20,150,000
Series L, 4.00% to 5.00%, due through 2036	-	30,520,000
Series N, 3 yrs. at SIFMA plus 0.28% variable thereafter, due through 2042	50,470,000	50,470,000
Series O, 2.50% to 5.00%, due through 2036	29,290,000	30,215,000
Series P, 2.00% to 5.00% due through 2043	120,910,000	122,715,000
Series Q, 2.50% to 5.00% due through 2046	64,645,000	-
Series R, taxable variable rate through 2046	10,500,000	-
Series R, variable rate, due through 2046	40,000,000	-
Series S, 4.00% to 5.00% due through 2047	52,770,000	-
Unamortized Premium	42,059,311	24,278,904
Unamortized Bond Costs	(2,779,321)	(1,907,047)
Total net bonds payable	<u>\$ 456,006,990</u>	<u>\$ 327,710,857</u>

The Series I bonds are variable rate demand revenue bonds. The annualized interest rate ranged from 0.39% to 0.92% during fiscal year 2017 with an average rate of 0.67% for the year. The bonds bear interest at a variable rate based on the prevailing market rate for equivalent bonds.

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The College may convert the bonds to a fixed rate at its option. Annual principal payments are currently \$968,000 and increase to \$1,552,000 over the repayment period of the bonds.

The Series J bonds are variable rate demand revenue bonds. The annualized interest rate ranged from 0.39% to 0.91% with an average rate of 0.66% 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 \$2,271,000 and increase to \$3,185,000 over the repayment period of the bonds.

The Series N bonds were converted to a 4 year term rate mode on June 6, 2017 at a rate of 1.45%. Annual principal payments will range from \$9,940,000 to \$10,250,000 beginning July 1, 2037. The bonds are callable beginning on January 1, 2017 at 100% of par.

The Series O bonds are fixed rate revenue bonds issued on March 24, 2011, with an original principal value of \$38,740,000 and a premium of \$2,867,256. Annual principal payments are currently \$950,000 to \$2,095,000. The bonds are callable beginning on January 1, 2021 at 100% of par.

The Series P bonds are a fixed rate revenue bond issued on May 30, 2013 with an original principal value of \$126,140,000 and a premium of \$22,215,419. Annual principal payments are currently \$1,890,000 to \$15,310,000 over the repayment period of the bonds. The bonds are callable beginning July 1, 2023 at 100% of par.

The Series Q bonds are a fixed rate revenue bond issued on July 13, 2016 with an original principal value of \$64,645,000 and a premium of \$13,516,121. Annual principal payments are currently \$3,095,000 to \$24,200,000 over the repayment period of the bonds. The bonds are callable beginning July 1, 2026 at 100% of par.

The Series R bonds are a \$50,500,000 variable rate private placement loan issued on July 14, 2016. The tax-exempt portion of this loan amounted to \$40,000,000. Annual principal payments will range from \$400,000 to \$10,950,000 beginning on July 1, 2030. The taxable portion of this loan amounted to \$10,500,000. Annual principal payments will begin July 1, 2019 and will range from \$282,000 to \$485,000.

The Series S bonds are a fixed rate revenue bond issued on July 6, 2016 with an original principal value of \$52,770,000 and a premium of \$7,725,031. Annual principal payments are currently \$1,400,000 to \$6,745,000 over the repayment period of the bonds. The bonds are callable beginning July 1, 2027 at 100% of par.

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

Bond issuance costs of \$2,779,321 are amortized to other expense over the life of the respective bonds. Bond premiums of \$42,059,311 at June 30, 2017, are amortized to other income over the life of the respective bonds. Combined debt principal payment requirements for the years 2018 through 2022 approximate \$9,174,000, \$8,633,345, \$8,902,502, \$9,218,900 and \$9,598,859, respectively.

The Series 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.

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The combined debt principal payment requirements above reflect the repayment of such bonds according to their scheduled maturity dates. If bonds were fully tendered as of June 30, 2018, the debt principal payment requirements for the years 2018 through 2022 would approximate \$54,077,000, \$5,277,345, \$5,432,502, \$5,608,900, and \$56,329,859, respectively.

Interest expense for the years ended June 30, 2017 and 2016 was \$12,951,271 and \$10,984,684, respectively.

Forward Interest Rate Swaps

In 2005, the College entered into a forward interest rate swap agreement related to the previously outstanding Series J Bonds. The agreement has a current notional amount of \$27,092,000. Under the terms of the agreement, the College pays a fixed rate of 3.457% to a third party who in turn pays a variable rate, estimated as 68% of LIBOR, on the respective notional principal amount to the bondholders.

In 2016, the College entered into an interest rate swap agreement related to the issuance of the Series R bonds. The agreement has a notional amount of \$40,000,000. Under the terms of the agreement, the College pays a fixed rate of 1.2530% to a third party who in turn pays a variable rate, estimated as 67% of LIBOR, on the respective notional principal amount to the bondholders.

The interest rate swap agreements were 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, 2017 and 2016, the fair value of the two swaps was a net liability of approximately \$316,472 and \$5,236,087, respectively. The interest rate swaps expire on July 1, 2026 and July 1, 2046 respectively.

11. Lines of Credit

At June 30, 2017, the College has the following lines of credit:

Expiration Date	Amount
April 20, 2018	\$ 15,000,000
April 20, 2018	20,000,000
May 1, 2018	30,000,000
July 31, 2017	<u>26,000,000</u>
Total lines of credit	<u>\$ 91,000,000</u>

If drawn upon these lines would be assessed a spread to LIBOR fee depending on the duration of the loan. The unused annual fees range from 0.00% to 0.50% basis points. There were no outstanding amounts on the lines of credit at June 30, 2017 or 2016.

On July 1, 2017 the \$26,000,000 line of credit expired and a new \$15,000,000 line of credit was established which expires July 31, 2019.

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12. Endowments

The College's endowment consists of donor restricted endowment funds and board-designated endowment funds for a variety of purposes. Split interest agreements that have been designated for endowment are not considered as part of the endowment until funds are received. The net assets associated with endowment funds including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor imposed restrictions.

The College pools the majority of its investments in a unitized account similar to an open-ended mutual fund. Funds added or withdrawn from the pool are recorded at their share of the then current fair 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 approach emphasizes total return, which consists of current yield (interest and dividends) as well as the net appreciation (realized and change in unrealized gains) in the fair value of pooled investments.

Under the "total return" approach, the College spent accumulated gains of \$105,242,113 and \$99,936,255 for the years ended June 30, 2017 and 2016, respectively. Total return in excess of, or less than, the spending rate is reported as nonoperating revenue or loss.

The College establishes a spending rate expressed as a percentage of the trailing twelve quarter fair value of the investment pool. 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 Board of Trustees has interpreted the Massachusetts "Uniform Prudent Management of Institutional Funds Act" statute, which was effective June 2009 ("UPMIFA"), as requiring the preservation of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the College classifies as permanently restricted net assets, (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA. The College considers the following factors in making a determination to appropriate or accumulate endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the College and the donor restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments

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(6) Other resources of the College

(7) The investment policies of the College.

Endowment net asset composition and activities by type for the year ended June 30:

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 1,606,838,173	\$ 594,080,091	\$ 2,200,918,264
Adjustment for funds underwater	-	-	-	-
Board-designated endowment funds	236,650,301	-	-	236,650,301
Total endowment funds	\$ 236,650,301	\$ 1,606,838,173	\$ 594,080,091	\$ 2,437,568,565

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 1,436,509,018	\$ 560,857,121	\$ 1,997,366,139
Adjustment for funds underwater	-	-	-	-
Board-designated endowment funds	209,241,011	-	-	209,241,011
Total endowment funds	\$ 209,241,011	\$ 1,436,509,018	\$ 560,857,121	\$ 2,206,607,150

Changes in endowment net assets for the year ended June 30:

	2017			
	Board Designated	Donor Designated		Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Net endowment assets, June 30, 2016	\$ 209,241,011	\$ 1,436,509,018	\$ 560,857,121	\$ 2,206,607,150
Gifts and transfers				
Gifts received and pledge activity	-	3,647,666	28,312,428	31,960,094
Transfers and gifts further designated	8,651,252	(6,725,963)	4,155,274	6,080,563
Investment return				
Net gains (losses)	29,011,947	267,849,325	-	296,861,272
Accumulated gains spent for operations	(10,258,967)	(94,983,146)	-	(105,242,113)
Income earned returned to principal	5,058	541,273	755,268	1,301,599
Underwater endowment				
Current year appropriation/recovery of funds to cover permanent endowments where value is less than historic cost	-	-	-	-
Net endowment assets, June 30, 2017	\$ 236,650,301	\$ 1,606,838,173	\$ 594,080,091	\$ 2,437,568,565

	2016			
	Board Designated	Donor Designated		Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Net endowment assets, June 30, 2016	\$ 214,261,608	\$ 1,592,931,103	\$ 536,323,566	\$ 2,343,516,277
Gifts and transfers				
Gifts received and pledge activity	-	7,961,865	17,952,621	25,914,486
Transfers and gifts further designated	8,310,849	(38,180,280)	5,666,832	(24,202,599)
Investment return				
Net gains (losses)	(3,827,797)	(36,320,219)	-	(40,148,016)
Accumulated gains spent for operations	(9,508,316)	(90,427,939)	-	(99,936,255)
Income earned returned to principal	4,667	544,488	914,102	1,463,257
Underwater endowment				
Current year appropriation/recovery of funds to cover permanent endowments where value is less than historic cost	-	-	-	-
Net endowment assets, June 30, 2017	\$ 209,241,011	\$ 1,436,509,018	\$ 560,857,121	\$ 2,206,607,150

Endowment Funds with Deficits (Underwater Endowment)

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the value of the initial and subsequent donor gift amounts (deficit). When donor endowment deficits exist, they are classified as a reduction of unrestricted net assets. There are no underwater endowment funds at June 30, 2017 or 2016.

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Return Objectives and Risk Parameters

The College has adopted endowment investment and spending policies that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the permanent nature of endowment funds. Under this policy, the return objective for the endowment assets, measured over a full market cycle, shall be to maximize the return against a blended index, based on the endowment's target allocation applied to the appropriate individual benchmarks. The College expects its endowment funds over time, to provide an average rate of return of approximately 5.0% real, that is after adjusting for inflation, annually. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Investment Objectives

To achieve its long-term rate of return objectives, the College relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized gains) and current yield (interest and dividends). The College targets a diversified asset allocation to achieve its long-term objectives within prudent risk constraints.

Endowment Spending Allocation and Relationship of Spending Policy to Investment Objectives

Spending from the endowment to support operations, referred to as asset use at Williams, is expected to be 5.0% of the twelve quarter trailing average of the end of year investment pool over the long run. This policy is based on the expectation that the endowment will grow by 5.0% real that is after adjusting for inflation, annually and operating expenditures will increase by 4-5% each year, allowing part of the annual growth to support operations, and part for reinvestment to sustain the permanent nature of the endowment.

The Trustees' Budget and Financial Planning Committee approves the asset use rate each year. The asset use rate the last two fiscal years has been 4.6% and 4.5%, respectively.

13. Net Assets

Following is the composition of the College's temporarily restricted and permanently restricted net assets at June 30, 2017 and 2016:

	2017	2016
Unrestricted net assets		
College unrestricted	\$ 360,336,240	\$326,063,381
Non-controlling interest	62,561	-
	<u>\$ 360,398,801</u>	<u>\$ 326,063,381</u>
Temporarily restricted net assets		
Gifts for restricted purposes	\$ 117,122,009	\$ 89,216,318
Contributions to be paid in the future	103,003,686	76,596,862
Split-interest agreements, including outside managed trusts	46,291,401	42,625,766
Endowment funds - unspent appreciation	1,541,846,340	1,369,095,448
	<u>\$ 1,808,263,436</u>	<u>\$ 1,577,534,394</u>
Permanently restricted net assets		
Student loan funds	\$ 114,608	\$ 127,040
Contributions to be paid in the future	19,182,011	23,248,089
Split-interest agreements and perpetual trusts, including outside managed trusts	73,375,385	67,962,232
Endowment funds - original principal	574,898,107	537,609,032
	<u>\$ 667,570,111</u>	<u>\$ 628,946,393</u>

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14. Credit Loss Disclosures

Management regularly assesses the adequacy of the allowance for credit losses by performing ongoing evaluations of the student loan portfolio, including such factors as the differing economic risks associated with each loan category, the financial condition of specific borrowers and the value of collateral. The College's Perkins receivable represents the amounts due from current and former students under the Federal Perkins Loan Program. Loans disbursed under the Federal Perkins Loan program are able to be assigned to the Federal Government in certain nonrepayment situations. In these situations the Federal portion of the loan balance is guaranteed.

The College prepares an analysis of all outstanding receivables which includes a detailed review of the aging of the student loan receivable detail and a review of the default rate by loan category in comparison to prior years.

A reserve is established for all delinquent student loans. Delinquent loans over 360 days are fully reserved while loans under 360 days delinquent are reserved at 50%. The College's policy is to write off a student loan when the loan is more than 360 days delinquent and all efforts to collect the loan have been exhausted.

Changes in the allowance for credit losses for the years ended June 30, 2017 and 2016 were as follows:

	<u>June 30, 2017</u>		<u>June 30, 2016</u>	
	Receivable Balance	Related Allowance	Receivable Balance	Related Allowance
Perkins loans	\$ 2,569,156	\$ -	\$ 3,257,103	\$ -
Other student loans	743,253	(262,838)	765,727	(147,641)
Faculty and staff mortgages	8,447,305	-	8,687,310	-
Pine Cobble land notes	2,326,400	-	2,030,000	-
Other notes receivable	1,766,386	(12,000)	1,532,057	(12,000)
	<u>\$ 15,852,500</u>	<u>\$ (274,838)</u>	<u>\$ 16,272,197</u>	<u>\$ (159,641)</u>

15. Subsequent Events

The College has performed an evaluation of subsequent events through the date the consolidated financial statements were available to be issued, and determined that there have been no subsequent events that would require recognition in the consolidated financial statements or disclosed in the consolidated notes of the financial statements.