

**Williams College**  
**Consolidated Financial Statements**  
**June 30, 2018 and 2017**

**Williams College**  
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**June 30, 2018 and 2017**

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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, 2018 and 2017, 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, 2018 and 2017, 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, Connecticut  
October 15, 2018

**Williams College**  
**Consolidated Statements of Financial Position**  
**June 30, 2018 and 2017**

	2018	2017
<b>Assets</b>		
Cash and cash equivalents	\$ 41,162,770	\$ 26,855,507
Accounts receivable, net of allowance of \$117,319 in 2018 (\$126,216 in 2017)	846,728	1,777,907
Contributions receivable, net of allowance of \$5,684,224 in 2018 (\$5,014,569 in 2017) (Note 2)	145,467,214	161,608,891
Notes receivable - student loans, net of allowance of \$193,095 in 2018 (\$262,838 in 2017) (Note 3)	2,456,729	3,049,571
Notes receivable - other (Note 4)	13,172,073	12,528,091
Bonds proceeds held by trustee	26,733,016	96,818,483
Other assets	9,779,651	10,686,708
Investments		
Investments held on behalf of Williams College (Note 5)	\$ 2,807,370,636	\$ 2,568,064,122
Investments held on behalf of supporting organization (Note 6)	<u>201,909,499</u>	<u>90,000,000</u>
Total Investments, at fair value (Note 6)	3,009,280,135	2,658,064,122
Land, buildings and equipment, net	<u>621,979,509</u>	<u>550,625,317</u>
Total assets	<u>\$ 3,870,877,825</u>	<u>\$ 3,522,014,597</u>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	\$ 34,512,037	\$ 37,165,146
Accrued salaries and benefits (Note 8)	37,467,309	38,789,157
Investments held on behalf of supporting organization (Note 6)	201,909,499	90,000,000
Deferred revenue and deposits	1,817,396	1,959,720
U. S. Government advances for student loans	2,256,622	3,255,327
Present value of beneficiary payments	57,686,368	58,605,909
Bonds payable (Note 10)	<u>445,364,331</u>	<u>456,006,990</u>
Total liabilities	<u>781,013,562</u>	<u>685,782,249</u>
<b>Net assets</b>		
Unrestricted	386,272,881	360,336,240
Temporarily restricted (Note 13)	1,992,745,876	1,808,263,436
Permanently restricted (Note 13)	<u>709,423,808</u>	<u>667,570,111</u>
Total College net assets	3,088,442,565	2,836,169,787
Unrestricted noncontrolling interests	<u>1,421,698</u>	<u>62,561</u>
Total net assets	<u>3,089,864,263</u>	<u>2,836,232,348</u>
Total liabilities and net assets	<u>\$ 3,870,877,825</u>	<u>\$ 3,522,014,597</u>

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

**Williams College**  
**Consolidated Statement of Activities**  
**Year Ended June 30, 2018 with Summarized Comparative Totals for 2017**

	2018			2017	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
<b>Operating revenue, gains and other</b>					
Student revenues					
Tuition and fees	\$ 113,389,756	\$ -	\$ -	\$ 113,389,756	\$ 109,986,872
Room and board	26,511,611	-	-	26,511,611	25,560,536
Less: Financial aid	(54,982,447)	-	-	(54,982,447)	(51,256,067)
Net student revenues	84,918,920	-	-	84,918,920	84,291,341
Auxiliary enterprises - other	8,864,814	-	-	8,864,814	8,578,029
Gifts and grants, net	22,078,600	22,346,137	-	44,424,737	87,813,505
Investment income	1,251,752	-	-	1,251,752	565,252
Realized gains utilized	10,964,436	99,441,206	-	110,405,642	105,242,113
Other income	1,458,977	-	-	1,458,977	1,396,076
Funds further designated	-	4,649,985	-	4,649,985	-
Net assets released from restrictions	110,097,847	(110,097,847)	-	-	-
Total operating revenue, gains, and other	239,635,346	16,339,481	-	255,974,827	287,886,316
<b>Operating expenses and other</b>					
Instructional and research	102,843,922	-	-	102,843,922	100,645,876
Academic support	27,739,673	-	-	27,739,673	25,950,523
Student services	37,858,790	-	-	37,858,790	34,850,821
Institutional support	36,881,814	-	-	36,881,814	36,358,618
Auxiliary enterprises	40,986,063	-	-	40,986,063	38,913,027
Other	2,696,332	-	-	2,696,332	37,766
Total operating expenses and other	249,006,594	-	-	249,006,594	236,756,631
Change in net assets from operating activities	(9,371,248)	16,339,481	-	6,968,233	51,129,685
<b>Nonoperating activities</b>					
Realized and change in unrealized gains (losses) on investments	43,283,232	280,459,664	8,048,713	331,791,609	322,771,894
Realized gains utilized for current operations	(10,964,436)	(99,441,206)	-	(110,405,642)	(105,242,113)
Investment income on split interest agreements	-	1,287,001	444,167	1,731,168	1,637,372
Payments of annuities	-	(2,612,570)	(2,825,841)	(5,438,411)	(5,243,015)
Change in actuarial valuation of split interest agreements	-	(988,657)	5,055,978	4,067,321	1,473,116
Change in value of split interest agreements	-	-	-	-	-
Life income and endowment gifts, net	-	5,020,064	21,088,153	26,108,217	31,501,258
Unrealized gain (loss) and net settlement on interest rate swaps	2,100,268	-	-	2,100,268	3,788,514
Gain (loss) on the retirement of long term debt	-	-	-	-	1,808,908
Fund retirements	1,370,328	(2,777,599)	1,407,271	-	-
Funds further designated	(481,503)	(11,906,798)	7,738,316	(4,649,985)	-
Income to principal	-	(896,940)	896,940	-	-
Change in net assets from nonoperating activities	35,307,889	168,142,959	41,853,697	245,304,545	252,495,934
Total change in College net assets	25,936,641	184,482,440	41,853,697	252,272,778	303,625,619
Change in unrestricted noncontrolling interests	1,359,137	-	-	1,359,137	62,561
Total change in net assets	27,295,778	184,482,440	41,853,697	253,631,915	303,688,180
Beginning net assets	360,398,801	1,808,263,436	667,570,111	2,836,232,348	2,532,544,168
Ending net assets	\$ 387,694,579	\$ 1,992,745,876	\$ 709,423,808	\$ 3,089,864,263	\$ 2,836,232,348

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

**Williams College**  
**Consolidated Statement of Activities**  
**Year Ended June 30, 2017**

	2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>Operating revenue, gains and other</b>				
Student revenues				
Tuition and fees	\$ 109,986,872	\$ -	\$ -	\$ 109,986,872
Room and board	25,560,536	-	-	25,560,536
Less: Financial aid	(51,256,067)	-	-	(51,256,067)
Net student revenues	84,291,341	-	-	84,291,341
Auxiliary enterprises - other	8,578,029	-	-	8,578,029
Special purpose grants expended	2,123,024	-	-	2,123,024
Gifts and grants, net	20,725,116	64,965,365	-	85,690,481
Investment income	565,252	-	-	565,252
Realized gains utilized	10,258,967	94,983,146	-	105,242,113
Other income	1,396,076	-	-	1,396,076
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
<b>Operating expenses and other</b>				
Instructional and research	100,645,876	-	-	100,645,876
Academic support	25,950,523	-	-	25,950,523
Student services	34,850,821	-	-	34,850,821
Institutional support	36,358,618	-	-	36,358,618
Auxiliary enterprises	38,913,027	-	-	38,913,027
Other	37,766	-	-	37,766
Total operating expenses and other	236,756,631	-	-	236,756,631
Change in net assets from operating activities	(2,921,625)	54,051,310	-	51,129,685
<b>Nonoperating activities</b>				
Realized and change in unrealized gains (losses) on investments	40,271,426	274,454,338	8,046,130	322,771,894
Realized gains utilized for current operations	(10,258,967)	(94,983,146)	-	(105,242,113)
Investment income on split interest agreements	-	1,202,356	435,016	1,637,372
Payments of annuities	-	(2,575,407)	(2,667,608)	(5,243,015)
Change in actuarial valuation of split interest agreements	-	634,900	838,216	1,473,116
Life income and endowment gifts, net	-	3,804,440	27,696,818	31,501,258
Unrealized gain (loss) and net settlement on interest rate swaps	3,788,514	-	-	3,788,514
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
Total change in College net assets	34,272,859	230,729,042	38,623,718	303,625,619
Change in unrestricted noncontrolling interests	62,561	-	-	62,561
Total change in net assets	34,335,420	230,729,042	38,623,718	303,688,180
Beginning net assets	326,063,381	1,577,534,394	628,946,393	2,532,544,168
Ending net assets	\$ 360,398,801	\$ 1,808,263,436	\$ 667,570,111	\$ 2,836,232,348

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

**Williams College**  
**Consolidated Statements of Cash Flows**  
**Years Ended June 30, 2018 and 2017**

	2018	2017
<b>Cash flow from operating activities</b>		
Total change in net assets	\$ 253,631,915	\$ 303,688,180
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation, amortization and accretion, net	28,265,049	27,304,511
Provision for doubtful accounts receivable and student loans	(58,888)	6,615
Realized gains and change in unrealized gains on investments and income	(333,522,776)	(324,409,266)
Change in unrestricted noncontrolling interests	1,359,137	62,561
Gain (loss) on disposal of plant assets	2,811,173	447,207
Gain or (loss) on the retirement of long term debt	-	(1,808,909)
Gifts restricted for long-term investment	(40,401,095)	(43,536,946)
Donated securities	(15,444,004)	(18,310,741)
Proceeds from sale of donated securities	1,602,489	8,086,847
Gifts in kind	(897,726)	(305,300)
Changes in operating assets and liabilities		
Accounts receivable	940,076	(601,716)
Contributions receivable	16,141,677	(20,767,297)
Other assets	(643,982)	(290,724)
Accounts payable and accrued liabilities	(495,925)	(1,524,152)
Present value of beneficiary payments	4,518,870	5,390,602
Accrued salaries and benefits	(1,321,848)	(3,727,506)
Deferred revenue and deposits	(142,324)	110,989
Net cash (used in) operating activities	<u>(83,658,182)</u>	<u>(70,185,045)</u>
<b>Cash flow from investing activities</b>		
Proceeds from sale of investments	278,842,775	264,170,470
Purchase of investments	(286,536,012)	(284,124,511)
Additions to land, buildings and equipment	(104,834,979)	(76,418,707)
Bond proceeds held by trustee	70,085,467	(96,818,483)
Proceeds from the sale of real estate	310,866	1,315,421
Student loans granted	(116,060)	(147,747)
Student loans repaid	758,893	851,553
Net cash (used in) provided by investing activities	<u>(41,489,050)</u>	<u>(191,172,004)</u>
<b>Cash flow from financing activities</b>		
Gifts restricted for long-term use	40,401,095	43,536,946
Proceeds from sale of donated securities restricted for endowments	13,841,516	10,223,894
Payments to beneficiaries	(5,438,411)	(5,243,015)
Proceeds from supporting organization	100,000,000	90,000,000
Deposits made for bond payments	823,000	(187,000)
Issuance of new debt	-	238,329,700
Repayment of debt	(9,174,000)	(106,997,000)
U.S. Government (payments) advances for student loans	(998,705)	(14,503)
Net cash provided by financing activities	<u>139,454,495</u>	<u>269,649,022</u>
Net increase in cash	14,307,263	8,291,973
<b>Cash</b>		
Beginning of year	<u>26,855,507</u>	<u>18,563,534</u>
End of year	<u>\$ 41,162,770</u>	<u>\$ 26,855,507</u>
<b>Supplemental disclosures</b>		
Cash paid during the year for interest	\$ 15,150,739	\$ 12,951,271
Noncash transactions		
Donated securities (unrestricted)	1,602,489	8,086,847
Exchange of land for notes receivable	100,800	296,400
Amounts included in accounts payable related to construction in progress	12,913,803	13,682,455

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



# Williams College

## Notes to Consolidated Financial Statements

### June 30, 2018 and 2017

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#### 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, 2018, assets of Simonds Road Solar, LLC total \$5.2 million, liabilities total \$0, and net operating gain totaled \$0.44 million. The College has reflected an unrestricted noncontrolling interest related to a third party's interest in Simonds Road Solar of \$1.4 million.

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.

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

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**Notes to Consolidated Financial Statements**  
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that will support operations, additions to or changes in the value of split-interest arrangements, and life income and endowment gifts

**Cash and Cash Equivalents**

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

**Contributions**

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Contributions with donor-imposed restrictions (together with the associated investment return on such contributions) are reported as temporarily restricted revenues. When an expenditure is incurred that satisfies the donor-imposed restriction, the contribution is reclassified to unrestricted net assets. 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.

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 \$(525,742) and \$(2,332,623) for the years ended June 30, 2018 and 2017, 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.

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The fair values of investments are determined as follows:

<b>Investments</b>	<b>Value as Recorded</b>
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, 2018 and 2017. 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 (40-60 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.

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**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.

	<b>2018</b>	<b>2017</b>
<b>Change in asset retirement obligation</b>		
Asset retirement obligation at beginning of year	\$ 5,920,799	\$ 5,872,447
Settlement of obligation	(900,212)	(102,250)
Additional obligations	-	-
Accretion expense	<u>146,099</u>	<u>150,602</u>
Asset retirement obligation at end of year	<u>\$ 5,166,686</u>	<u>\$ 5,920,799</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 \$8,733,995 and \$8,341,413 for 2018 and 2017, 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

### June 30, 2018 and 2017

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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 \$57,686,368 and \$58,605,909 as of June 30, 2018 and 2017, 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 value of its investments, its valuation of contributions receivable, recognition of its 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, 2018 and 2017

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**Tax Cuts and Jobs Act (the “Act”)** was enacted on December 22, 2017. The Act impacts the College in several ways, including new excise taxes on executive compensation and net investment income, increases to unrelated business taxable income (UBTI) by the amount of certain fringe benefits for which a deduction is not allowed, changes to the net operating loss rules, repeal of the alternative minimum tax (AMT), and the computation of UBTI separately for each unrelated trade or business. Further, the Act reduces the US federal corporate tax rate and federal corporate unrelated business income tax rate from 35% to 21%. The overall impact of the Act remains uncertain and the full impact of the Act will not be known until further regulatory guidance is provided to assist the College with calculating income and excise tax liabilities. The College continues to evaluate the impact of tax reform on the organization.

#### **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.

##### ***ASU 2018-08: “Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made”***

In June 2018 the FASB issued ASU 2018-08, that aims to assist entities in (1) evaluating whether transactions should be accounted for as contributions or exchange transactions and (2) determining whether a contribution is conditional. The guidance is applicable for the College’s fiscal 2019 and will be implemented simultaneously with ASC 606. The College will apply the new standard on a modified prospective basis. The College is currently assessing the impact on its consolidated financial statements.

**Williams College**  
**Notes to Consolidated Financial Statements**  
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**Reclassifications**

Certain prior year balances were reclassified to conform to the current year presentation.

**2. Contributions Receivable**

Contributions receivable are as follows at June 30:

	<b>2018</b>	<b>2017</b>
<b>Expected collection period</b>		
Less than one year	\$ 48,701,056	\$ 40,071,396
One year to five years	70,741,297	88,159,416
Over five years	6,850,080	7,524,898
Less: Discount to present value	(8,093,689)	(8,555,445)
Allowance for uncollectible contributions	<u>(5,684,224)</u>	<u>(5,014,569)</u>
Net contributions receivable	112,514,520	122,185,696
Charitable remainder trusts held by others	<u>32,952,694</u>	<u>39,423,195</u>
Contributions receivable, net	<u>\$ 145,467,214</u>	<u>\$ 161,608,891</u>

At June 30, 2018 and 2017, the College had also received conditional promises to give of approximately \$98,095,535 and \$103,016,459, 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 \$32,952,694 and \$39,423,195 at June 30, 2018 and 2017, 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:

	<b>2018</b>	<b>2017</b>
<b>Beginning of year balances</b>	\$ 39,423,195	\$ 40,996,640
Change in unrealized losses	(6,459,024)	(1,559,195)
Net additions (retirements)	<u>(11,477)</u>	<u>(14,250)</u>
<b>End of year balances</b>	<u>\$ 32,952,694</u>	<u>\$ 39,423,195</u>

**3. Notes Receivable – Student Loans**

The College holds net notes receivable from student loans totaling \$2,456,729 and \$3,049,571 as of June 30, 2018 and 2017, 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.

**Williams College**  
**Notes to Consolidated Financial Statements**  
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**4. Notes Receivable – Other**

The College holds mortgages on residences of eligible faculty and staff members that amounted to \$9,239,641 and \$8,447,305 as of June 30, 2018 and 2017, respectively. The average stated interest rate paid on the mortgages as of June 30, 2018 and 2017 was 2.65% and 2.80% respectively. The College holds other notes receivable totaling \$3,932,432 and \$4,080,786 as of June 30, 2018 and 2017, respectively.

**5. Investments**

Investments held by the College are comprised of:

	<b>2018</b>	<b>2017</b>
<b>Williams College</b>		
Investment Pool	\$ 2,851,562,926	\$ 2,508,773,232
Investment Pool interests held for supporting organization	(101,909,499)	-
Investment Pool - Williams College	<u>2,749,653,427</u>	<u>2,508,773,232</u>
Split interest agreements	46,565,333	48,936,486
Other investments	<u>11,151,876</u>	<u>10,354,404</u>
Total - Williams College	<u>\$ 2,807,370,636</u>	<u>\$ 2,568,064,122</u>
<b>Investments held on behalf of supporting organization</b>		
Investment Pool interests held for supporting organization	\$ 101,909,499	\$ -
Advanced subscription to the Investment Pool	<u>100,000,000</u>	<u>90,000,000</u>
Total - supporting organization	<u>201,909,499</u>	<u>90,000,000</u>
<b>Total Investments</b>	<u>\$ 3,009,280,135</u>	<u>\$ 2,658,064,122</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, Non-Marketable Assets and Real Assets) serve as sub-committees of the Investment Committee and provide focused asset class advice. The Chief Investment Officer (“CIO”) reports to the College President and 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.



**Williams College**  
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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.

**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 2018 and 2017 is summarized below.

Asset Class	Target Policy Portfolio at June 30,	
	2018	2017
Global equity	23 %	23 %
Global long/short equity	19	19
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
	<u>100 %</u>	<u>100 %</u>

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 commingled 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.

**Williams College**  
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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.

**Williams College**  
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The following table presents the College's consolidated financial instruments carried at fair value as of June 30, 2018 and 2017, by caption on the consolidated statements of financial position and by the ASC 820 fair value valuation hierarchy defined above. The College has no Level 2 investments.

June 30, 2018						
	Investment Assets Valued Using NAV As a Practical Expedient	Investment Assets Quoted Prices in Active Markets (Level 1)	Investment Assets Valued With Significant Unobservable Inputs (Level 3)	Total Investment Assets Subject to Fair Value Leveling	Investment Assets Not Subject to Fair Value Leveling	Total Investments
<b>Investment Pool</b>						
Global long equity funds	\$ 621,687,932	\$ -	\$ -	\$ 621,687,932	\$ -	\$ 621,687,932
Global long/short equity funds	552,375,884	-	-	552,375,884	-	552,375,884
Absolute return funds	528,849,871	-	-	528,849,871	-	528,849,871
Venture capital funds	440,138,570	-	-	440,138,570	-	440,138,570
Buyout funds	148,390,740	-	-	148,390,740	-	148,390,740
Real asset funds	153,365,250	-	-	153,365,250	-	153,365,250
Real estate funds	89,364,827	-	-	89,364,827	-	89,364,827
Non-investment grade fixed income funds	268,525,927	-	-	268,525,927	-	268,525,927
Cash and cash equivalents	-	41,125,042	-	41,125,042	-	41,125,042
Subtotal	2,802,699,001	41,125,042	-	2,843,824,043	-	2,843,824,043
Advanced subscription to underlying funds	-	-	-	-	50,000,000	50,000,000
Redemption receivable from underlying funds	-	-	-	-	57,855,925	57,855,925
Other assets and liabilities	-	-	-	-	(117,042)	(117,042)
Subtotal	-	-	-	-	107,738,883	107,738,883
Subtotal	2,802,699,001	41,125,042	-	2,843,824,043	107,738,883	2,951,562,926
Advanced subscription to Investment Pool	-	-	-	-	(100,000,000)	(100,000,000)
Total Investment Pool	2,802,699,001	41,125,042	-	2,843,824,043	7,738,883	2,851,562,926
Supporting Organization Portion	-	-	-	-	(101,909,499)	(101,909,499)
<b>Total Investment Pool - Williams College</b>	<b>2,802,699,001</b>	<b>41,125,042</b>	<b>-</b>	<b>2,843,824,043</b>	<b>(94,170,616)</b>	<b>2,749,653,427</b>
<b>Split interest agreements</b>						
Cash and cash equivalents	-	783,044	-	783,044	-	783,044
Common and preferred stocks	-	15,626,119	-	15,626,119	-	15,626,119
Fixed income securities	-	14,703,741	-	14,703,741	-	14,703,741
Real estate mutual funds	-	1,189,401	-	1,189,401	-	1,189,401
Perpetual trusts held by others	-	-	14,263,028	14,263,028	-	14,263,028
<b>Total Split Interest Agreements</b>	<b>-</b>	<b>32,302,305</b>	<b>14,263,028</b>	<b>46,565,333</b>	<b>-</b>	<b>46,565,333</b>
<b>Other investments</b>	<b>-</b>	<b>1,207,108</b>	<b>9,944,768</b>	<b>11,151,876</b>	<b>-</b>	<b>11,151,876</b>
<b>Investments Total - Williams College</b>	<b>2,802,699,001</b>	<b>74,634,455</b>	<b>24,207,796</b>	<b>2,901,541,252</b>	<b>(94,170,616)</b>	<b>2,807,370,636</b>
<b>Investments held for supporting organization</b>						
Investments held in the Investment Pool	-	-	-	-	101,909,499	101,909,499
Advanced subscription to Investment Pool	-	-	-	-	100,000,000	100,000,000
<b>Total Investments at fair value</b>	<b>\$ 2,802,699,001</b>	<b>\$ 74,634,455</b>	<b>\$ 24,207,796</b>	<b>\$ 2,901,541,252</b>	<b>\$ 107,738,883</b>	<b>\$ 3,009,280,135</b>

**Williams College**  
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June 30, 2017						
	Investment Assets Valued Using NAV As a Practical Expedient	Investment Assets Quoted Prices in Active Markets (Level 1)	Investment Assets Valued With Significant Unobservable Inputs (Level 3)	Total Investment Assets Subject to Fair Value Leveling	Investment Assets Not Subject to Fair Value Leveling	Total Investments
<b>Investment Pool</b>						
Global long equity funds	\$ 628,561,564	\$ -	\$ -	\$ 628,561,564	\$ -	\$ 628,561,564
Global long/short equity funds	459,980,582	-	-	459,980,582	-	459,980,582
Absolute return funds	451,847,841	-	-	451,847,841	-	451,847,841
Venture capital funds	325,666,069	-	-	325,666,069	-	325,666,069
Buyout funds	144,448,764	-	-	144,448,764	-	144,448,764
Real asset funds	105,450,338	-	-	105,450,338	-	105,450,338
Real estate funds	95,558,846	-	-	95,558,846	-	95,558,846
Investment grade fixed income funds	-	53,908,642	-	53,908,642	-	53,908,642
Non-investment grade fixed income funds	219,935,911	-	-	219,935,911	-	219,935,911
Cash and cash equivalents	-	69,511,333	-	69,511,333	-	69,511,333
Subtotal	2,431,449,915	123,419,975	-	2,554,869,890	-	2,554,869,890
Advanced subscription to underlying funds	-	-	-	-	44,000,000	44,000,000
Redemption receivable from underlying funds	-	-	-	-	37,137	37,137
Other assets and liabilities	-	-	-	-	(133,795)	(133,795)
Subtotal	-	-	-	-	43,903,342	43,903,342
Subtotal	2,431,449,915	123,419,975	-	2,554,869,890	43,903,342	2,598,773,232
Advanced subscription to Investment pool	-	-	-	-	(90,000,000)	(90,000,000)
<b>Total Investment Pool</b>	<b>2,431,449,915</b>	<b>123,419,975</b>	<b>-</b>	<b>2,554,869,890</b>	<b>(46,096,658)</b>	<b>2,508,773,232</b>
<b>Split interest agreements</b>						
Cash and cash equivalents	-	988,697	-	988,697	-	988,697
Common and preferred stocks	-	17,249,947	-	17,249,947	-	17,249,947
Fixed income securities	-	15,619,846	-	15,619,846	-	15,619,846
Real estate mutual funds	-	1,297,293	-	1,297,293	-	1,297,293
Perpetual trusts held by others	-	-	13,780,703	13,780,703	-	13,780,703
<b>Total Split Interest Agreements</b>	<b>-</b>	<b>35,155,783</b>	<b>13,780,703</b>	<b>48,936,486</b>	<b>-</b>	<b>48,936,486</b>
<b>Other investments</b>	<b>-</b>	<b>735,618</b>	<b>9,618,786</b>	<b>10,354,404</b>	<b>-</b>	<b>10,354,404</b>
<b>Investments Total - Williams College</b>	<b>2,431,449,915</b>	<b>159,311,376</b>	<b>23,399,489</b>	<b>2,614,160,780</b>	<b>(46,096,658)</b>	<b>2,568,064,122</b>
<b>Investments held for supporting organization</b>						
Advanced subscription to Investment Pool	-	-	-	-	90,000,000	90,000,000
<b>Total Investments at fair value</b>	<b>\$ 2,431,449,915</b>	<b>\$ 159,311,376</b>	<b>\$ 23,399,489</b>	<b>\$ 2,614,160,780</b>	<b>\$ 43,903,342</b>	<b>\$ 2,658,064,122</b>

**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:

2017 to 2018					
	Beginning	Realized Gains (Losses)	Change in Unrealized Gains (Losses)	Additions (Retirements)	Ending
Perpetual trusts	\$ 13,780,703	\$ 482,325	\$ -	\$ -	\$ 14,263,028

**Williams College**  
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**Other Investments**

	<b>Beginning</b>	<b>Realized Gains (Losses)</b>	<b>Change in Unrealized Gains (Losses)</b>	<b>Gifts and Purchases</b>	<b>Redemptions</b>	<b>Ending</b>
Other investments	\$ 9,618,786	\$ -	\$ (27,940)	\$ 356,922	\$ (3,000)	\$ 9,944,768

There were no transfers into (out of) Level 3 investments during the year ended June 30, 2018.

**2016 to 2017**

**Split Interest Agreements**

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

**Other Investments**

	<b>Beginning</b>	<b>Realized Gains (Losses)</b>	<b>Change in Unrealized Gains (Losses)</b>	<b>Gifts and Purchases</b>	<b>Redemptions</b>	<b>Ending</b>
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.

**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.

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Investment Pool/ Strategy	Expected Remaining Life	2018		Redemption Terms
		Amount of Unfunded Commitments		
Absolute return funds	1 to 33 Years/ Some funds have an undefined life.	\$	18,676,355	Ranges from quarterly to annual redemptions with 60 to 120 days notice required for redemption. Certain funds have lock-ups and slow-pay provisions. Two funds are commitment based with no ability to redeem. Four funds have illiquid remaining balances. Some funds are subject to investor-level gates.
Buyout funds	1 to 14 Years		218,991,946	N/A <sup>1</sup>
Global long equity funds	1 to 24 Years Some funds have an undefined life.		-	Ranges from 5-day to quarterly redemptions with 1 day to 60 days notice required for redemption. Certain funds have lock-ups and slow-pay provisions. One fund is subject to an investor-level gate.
Global long/short equity funds	1 to 3 Years Some funds have an undefined life.		14,757,576	Ranges from monthly to annual redemptions with 10 days to 90 days notice required for redemptions. Certain funds have lock-ups and slow-pay provisions. Some funds are subject to investor-level gates.
Noninvestment grade fixed income funds	1 to 26 Years/ Some funds has an undefined life.		51,570,177	Ranges from quarterly to annual redemptions with 60 to 120 days notice required for redemption. Some funds are commitment based with no ability to redeem.
Real asset funds	1 to 10 Years/ Some funds have an undefined life.		83,869,828	N/A <sup>1</sup>
Real estate funds	1 to 15 Years		97,008,110	N/A <sup>1</sup>
Venture capital funds	1 to 12 Years		76,996,001	N/A <sup>1</sup>
Total investment pool		\$	<u>561,869,993</u>	

<sup>1</sup> N/A: These funds are in private equity structures, with no ability to be redeemed.

**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 \$561,869,993 and \$551,044,877 as of June 30, 2018 and 2017, respectively.

The following table reflects the total return for the year:

	2018	2017
Realized and change in unrealized gain, net of investment management fees and costs	\$ 341,426,242	\$ 321,012,643
Reinvested endowment income	2,274,865	1,759,251
Net investment income (other than reinvested amounts)	1,251,752	565,252
Net investment income from trusts	1,731,168	1,637,372
Earnings related to supporting organization	(11,909,499)	-
Total	<u>\$ 334,774,528</u>	<u>\$ 324,974,518</u>

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

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advisors. Derivative financial instruments are not an integral part of the College's direct overall investment strategy.

As of June 30, 2018 and 2017, included in investments are redemptions receivable from underlying funds of \$57,855,925 and \$37,137, respectively.

As of June 30, 2018 and 2017, 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, 2018, the College has received \$190,000,000 pursuant to this agreement, which is reflected as Investments held on behalf of supporting organization with an offsetting liability on the consolidated statement of financial position.

	<b>2018</b>	<b>2017</b>
Held in the investment pool	\$ 101,909,499	\$ -
Advanced subscriptions to investment pool	<u>100,000,000</u>	<u>90,000,000</u>
Investments held for supporting organization	<u><u>\$ 201,909,499</u></u>	<u><u>\$ 90,000,000</u></u>

**7. Land, Buildings and Equipment**

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

	<b>2018</b>	<b>2017</b>
Land and land improvements	\$ 79,169,890	\$ 66,886,306
Buildings	733,815,639	623,374,096
Equipment	<u>106,391,032</u>	<u>97,234,169</u>
	919,376,561	787,494,571
Less: Accumulated depreciation	<u>(381,359,219)</u>	<u>(359,649,948)</u>
	538,017,342	427,844,623
Construction in progress	34,616,529	74,823,132
Art collections	<u>49,345,638</u>	<u>47,957,562</u>
	<u><u>\$ 621,979,509</u></u>	<u><u>\$ 550,625,317</u></u>

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Depreciation expense was \$30,487,822 and \$28,483,818 for the years ended June 30, 2018 and 2017, respectively. During fiscal year 2018, the College disposed of certain assets with an original cost of \$11,900,590 and accumulated depreciation of \$8,778,552.

Interest costs of \$1,851,082 and \$597,267 were capitalized in 2018 and 2017, respectively.

**8. Postretirement Benefits Other than Pensions**

The College accounts for the funded status of its 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.

	<b>2018</b>	<b>2017</b>
<b>Change in accumulated postretirement benefit obligation</b>		
<b>Postretirement benefit obligation at beginning of year</b>		
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
Service cost	951,667	1,000,717
Interest cost	1,042,910	967,851
Plan participants' contributions	133,140	106,471
Actuarial loss (gain)	(1,979,456)	(1,853,416)
Benefits paid	<u>(1,191,521)</u>	<u>(1,055,345)</u>
<b>Postretirement benefit obligation at end of year</b>	<b><u>\$ 27,894,064</u></b>	<b><u>\$ 28,937,324</u></b>
Actives not fully eligible to retire	\$ 12,092,143	\$ 13,497,325
Actives fully eligible to retire	7,399,799	7,250,253
Retirees	<u>8,402,122</u>	<u>8,189,746</u>
	<u>\$ 27,894,064</u>	<u>\$ 28,937,324</u>
<b>Change in plan assets</b>		
<b>Fair value of plan assets at beginning of year</b>		
	\$ -	\$ -
Employer contribution, net of retiree contributions	938,863	848,159
Implicit subsidy from active benefit payments	119,518	100,715
Plan participants' contributions	133,140	106,471
Benefits paid	<u>(1,191,521)</u>	<u>(1,055,345)</u>
<b>Fair value of plan assets at end of year</b>	<b>-</b>	<b>-</b>
<b>Reconciliation of funded status</b>		
Funded status - postretirement benefit liability	<u>\$ 27,894,064</u>	<u>\$ 28,937,324</u>



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The components of the liability include:

	<b>2018</b>	<b>2017</b>
Current liability	\$ 1,215,256	\$ 1,158,183
Noncurrent liability	<u>26,678,808</u>	<u>27,779,141</u>
Total liability	<u>\$ 27,894,064</u>	<u>\$ 28,937,324</u>

	<b>2018</b>	<b>2017</b>
<b>Components of the net periodic postretirement benefit cost</b>		
Service cost	\$ 951,667	\$ 1,000,717
Interest cost	1,042,910	967,851
Amortization of prior service cost	387,065	387,065
Amortization of actuarial loss	<u>228,340</u>	<u>343,493</u>
	<u>\$ 2,609,982</u>	<u>\$ 2,699,126</u>

	<b>2018</b>	<b>2017</b>
<b>Amounts unrecognized and amortization amounts in following year</b>		
Amounts unrecognized in net periodic postretirement cost		
Prior service cost	\$ 338,018	\$ 725,083
Net actuarial loss	<u>4,145,738</u>	<u>6,353,534</u>
	<u>\$ 4,483,756</u>	<u>\$ 7,078,617</u>
Amortization amounts in following year		
Prior service cost	\$ 338,018	\$ 387,065
Net actuarial (gain) loss	<u>125,868</u>	<u>(12,061)</u>
	<u>\$ 463,886</u>	<u>\$ 375,004</u>

**Assumptions and Effects**

	<b>2018</b>	<b>2017</b>
Actuarial assumptions		
Medical/dental trend rate next year	8.0%/5.0%	8.0%/5.0%
Ultimate trend rate	5.0%/5.0%	5.0%/5.0%
Year ultimate trend rate is achieved	2024	2023
Discount rate used to value end of year accumulated postretirement benefit obligations	4.03%	3.67%
Discount rate used to value net periodic postretirement benefit cost	3.67%	3.35%
Effect of a 1% increase in health care cost trend rate on		
Interest cost plus service cost	\$ 121,570	\$ 120,510
Accumulated postretirement benefit obligation	887,055	971,417
Effect of a 1% decrease in health care cost trend rate on		
Interest cost plus service cost	\$ (102,249)	\$ (101,673)
Accumulated postretirement benefit obligation	(777,305)	(851,651)
Measurement date	June 30, 2018	June 30, 2017

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**Expected Future Benefit Payments**

<b>Fiscal Year</b>	<b>Retiree Contribution</b>	<b>Employer Benefit Payment</b>
2019	\$ 153,566	\$ 1,215,256
2020	187,273	1,350,478
2021	225,242	1,521,543
2022	230,563	1,576,354
2023	246,565	1,671,373
2024 and beyond	1,239,630	8,854,856

**Expected Employer Contribution for Next Fiscal Year**

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

2019	\$ 1,215,256
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**9. Commitments and Contingencies**

At June 30, 2018, the College has outstanding construction and purchase contracts totaling approximately \$80,400,000. Completion of these projects is estimated to extend through June 2022.

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, 2018.

2019	\$ 1,064,934
2020	1,021,763
2021	641,149
2022	355,149
2023	361,839
Thereafter	1,481,366
	<u>\$ 4,926,200</u>

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**10. Bonds Payable**

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

	2018	2017
<b>Massachusetts Health and Educational Facilities Authority Bonds (Williams College)</b>		
Series I, variable rate, due through 2033	\$ 20,082,000	\$ 21,050,000
Series J, variable rate, due through 2026	24,821,000	27,092,000
Series N, 4 year term bond at 1.45% variable thereafter, due through 2042	50,470,000	50,470,000
Series O, 2.50% to 5.00%, due through 2036	28,340,000	29,290,000
Series P, 2.00% to 5.00% due through 2043	119,020,000	120,910,000
Series Q, 2.50% to 5.00% due through 2046	61,550,000	64,645,000
Series R, taxable variable rate through 2046	10,500,000	10,500,000
Series R, variable rate, due through 2046	40,000,000	40,000,000
Series S, 4.00% to 5.00% due through 2047	52,770,000	52,770,000
Unamortized Premium	40,467,073	42,059,311
Unamortized Bond Costs	<u>(2,655,742)</u>	<u>(2,779,321)</u>
Total net bonds payable	<u>\$ 445,364,331</u>	<u>\$ 456,006,990</u>

The Series I bonds are variable-rate demand revenue bonds. The annualized interest rate ranged from 0.72% to 1.79% during fiscal year 2018 with an average rate of 1.10% 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 \$996,000 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 0.70% to 1.77% with an average rate of 1.08% 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 \$2,360,000 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 \$1,000,000 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 \$785,000 to \$15,310,000 over the repayment period of the bonds. The bonds are callable beginning July 1, 2023 at 100% of par.

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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 \$3,210,000 to \$11,135,000 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. The annualized interest rate ranged from 1.32% to 2.16% with an average rate of 1.66% for the year. 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. The annualized interest rate ranged from 1.88% to 2.63% with an average rate of 2.16% for the year. 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 \$2,655,742 are amortized over the life of the respective bonds. Bond premiums of \$40,467,073 at June 30, 2018, are amortized over the life of the respective bonds. Combined debt principal payment requirements for the years 2019 through 2023 approximate \$8,351,000, \$8,897,345, \$9,212,502, \$9,592,900 and \$9,962,859 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.

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 2019 through 2023 would approximate \$49,898,000, \$5,427,345, \$5,602,502, \$56,323,900, and \$6,094,859 respectively.

Interest expense for the years ended June 30, 2018 and 2017 was \$15,150,739 and \$12,951,271, 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 \$24,821,000. 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 amount.

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 amount.

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.

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As of June 30, 2018 and 2017, the fair value of the two swaps was a net asset of approximately \$2,435,076 and net liability of (\$316,472), respectively. The interest rate swaps expire on July 1, 2026 and July 1, 2046 respectively.

**11. Lines of Credit**

At June 30, 2018, the College has the following lines of credit:

<b>Expiration Date</b>	<b>Amount</b>
April 19, 2019	\$ 30,000,000
April 19, 2019	40,000,000
July 31, 2019	15,000,000
May 1, 2020	<u>30,000,000</u>
Total lines of credit	<u>\$ 115,000,000</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 0.05% to 0.625% basis points. There were no outstanding amounts on the lines of credit at June 30, 2018 or 2017.

**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 appropriated for operations accumulated gains of \$110,405,642 and \$105,242,113 for the years ended June 30, 2018 and 2017, respectively. Total return in excess of, or less than, the amount appropriated is reported as nonoperating gains or losses.

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

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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
- (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:**

	<b>2018</b>			<b>Total</b>
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	
Donor-restricted endowment funds	\$ -	\$ 1,775,836,304	\$ 634,636,777	\$ 2,410,473,081
Board-designated endowment funds	260,011,651	-	-	260,011,651
Total endowment funds	<u>\$ 260,011,651</u>	<u>\$ 1,775,836,304</u>	<u>\$ 634,636,777</u>	<u>\$ 2,670,484,732</u>

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

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

	2018			
	Board Designated	Donor Designated		Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>Net endowment assets, June 30, 2017</b>	\$ 236,650,301	\$ 1,606,838,173	\$ 594,080,091	\$ 2,437,568,565
Gifts and transfers				
Gifts received and pledge activity	-	5,729,091	22,520,469	28,249,560
Transfers and gifts further designated	3,709,998	(11,912,142)	17,139,277	8,937,133
Investment return				
Net gains (losses)	30,321,058	274,116,308	-	304,437,366
Accumulated gains spent for operations	(10,964,436)	(99,441,206)	-	(110,405,642)
Income earned returned to principal	294,730	506,080	896,940	1,697,750
Underwater endowment				
Current year appropriation/recovery of funds to cover permanent endowments where value is less than historic cost	-	-	-	-
<b>Net endowment assets, June 30, 2018</b>	<b>\$ 260,011,651</b>	<b>\$ 1,775,836,304</b>	<b>\$ 634,636,777</b>	<b>\$ 2,670,484,732</b>

	2017			
	Board Designated	Donor Designated		Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>Net endowment assets, June 30, 2016</b>	\$ 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	-	-	-	-
<b>Net endowment assets, June 30, 2017</b>	<b>\$ 236,650,301</b>	<b>\$ 1,606,838,173</b>	<b>\$ 594,080,091</b>	<b>\$ 2,437,568,565</b>

**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, 2018 or 2017.

**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.

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**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, and operating expenditures will increase by 4-5% annually, 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.

**13. Net Assets**

Following is the composition of the College's temporarily restricted and permanently restricted net assets at June 30, 2018 and 2017:

	<b>2018</b>	<b>2017</b>
<b>Unrestricted net assets</b>		
College unrestricted	\$ 386,272,881	\$ 360,336,240
Non-controlling interest	1,421,698	62,561
	<u>\$ 387,694,579</u>	<u>\$ 360,398,801</u>
<b>Temporarily restricted net assets</b>		
Gifts for restricted purposes	\$ 148,131,604	\$ 117,122,009
Contributions receivable	83,413,005	103,003,686
Split-interest agreements, including outside managed trusts	44,665,286	46,291,401
Endowment funds - unspent appreciation and term	1,716,535,981	1,541,846,340
	<u>\$ 1,992,745,876</u>	<u>\$ 1,808,263,436</u>
<b>Permanently restricted net assets</b>		
Student loan funds	\$ 108,622	\$ 114,608
Contributions receivable	29,101,515	19,182,011
Split-interest agreements and perpetual trusts, including outside managed trusts	74,678,409	73,375,385
Endowment funds - original principal	605,535,262	574,898,107
	<u>\$ 709,423,808</u>	<u>\$ 667,570,111</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, 2018 and 2017 were as follows:

	June 30, 2018		June 30, 2017	
	Receivable Balance	Related Allowance	Receivable Balance	Related Allowance
Perkins loans	\$ 1,943,043	\$ -	\$ 2,569,156	\$ -
Other student loans	706,780	(193,095)	743,253	(262,838)
Faculty and staff mortgages	9,239,641	-	8,447,305	-
Pine Cobble land notes	2,346,200	-	2,326,400	-
Other notes receivable	1,598,232	(12,000)	1,766,386	(12,000)
	\$ 15,833,896	\$ (205,095)	\$ 15,852,500	\$ (274,838)

**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.