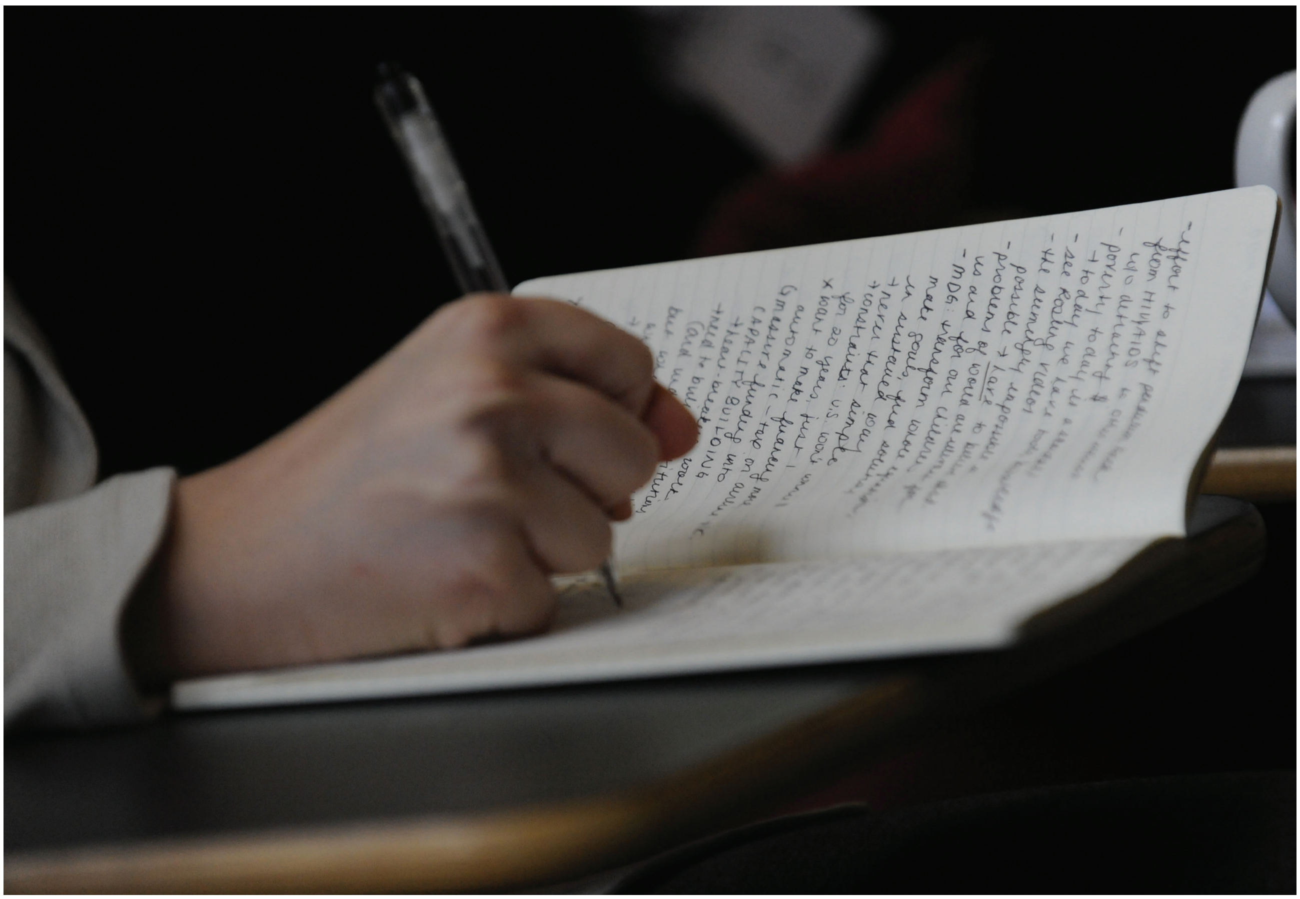
WELLESLEY COLLEGE

# ANNUAL REPORT 2009-2010



WELLESLEY

# WELLESLEY COLLEGE ANNUAL REPORT

FOR THE YEAR ENDED JUNE 30, 2010

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# REPORT OF THE PRESIDENT

OCTOBER 2010

## TO THE BOARD OF TRUSTEES, ALUMNAE, FACULTY, AND FRIENDS OF WELLESLEY COLLEGE

I am pleased to submit the annual financial report of Wellesley College for the 2009-2010 academic—and fiscal—year, during which we dedicated ourselves to building on changes made the prior year as we adjusted to the new financial reality. This last year, it was more evident than ever that the strength of our institution lies in the individuals who make up our community, and despite the financial problems that have had such a serious effect on our economy, I think Wellesley remains strong and stable, and is prepared for future challenges.

In the letters that follow, Andrew Evans, Vice President for Finance and Treasurer, and Deborah Foye Kuenstner '80, Chief Investment Officer, report in depth on the financial status of the College and the strength of our endowment. We made aggressive budgetary and investment adjustments to accommodate the new financial reality, and enacted organizational and financial changes that not only helped us through the immediate crisis, but positioned us well for continued strength and efficiency in the future. Those accommodations will continue to be refined in order to stabilize the College for the long term and to meet any further challenges following from the recession and global financial crisis.

## ORGANIZATIONAL REALIGNMENTS

We began the new academic year with 90 fewer staff positions, resulting from a judicious combination of layoffs, attrition, and retirements. We needed to rethink the way we were organized to support our broader institutional goals.

In consultation with trustees, organizational experts, and others, I made the decision to combine the Division of Administration and Planning with the Division of Finance, eliminating the position of Vice President of Administration and Planning. Andy Evans oversees this newly formed division. Our new structure allows for greater efficiencies, particularly in regard to budgetary planning and implementation, and streamlines the College's financial operations and management.

In addition, I created the position of Dean of Admission and Financial Aid, which has responsibility for integrating the efforts of the College with regard to outreach, enrollment, financial aid and educational financing, and also—importantly—for providing unified and strategic leadership. Jennifer Desjarlais, formerly our Dean of Admission, assumed this new, larger role.

It is critical that Wellesley have a leadership structure that guides academic planning and articulates a vision for the College, while ensuring that resources are mobilized and properly allocated to support college priorities. Therefore, I also established the new position of Provost and Dean of the College, strengthening and expanding the existing Dean of the College role. Andrew Shennan assumed this position, with my full confidence and support, as well as that of the faculty, senior staff, and trustees.

The new Provost post has responsibility for cross-institutional planning, so as a first step in recognizing this, I eliminated the position of Vice President for Information Services and created in its stead the role of Chief Information Officer. The CIO will be responsible for the library and information technology and reports directly to the Provost.

## CONTINUING TO INVEST IN OUR INTELLECTUAL COMMUNITY

Even while making these financial adjustments, we have worked to ensure that Wellesley would be able to build further on its strengths. We did this by articulating our major priorities and instituting planning initiatives for them, via the Academic Planning Committee and a series of dedicated Task Forces.

The College's high academic standing is due almost entirely to the quality of our faculty. Despite financial constraints, we decided to move forward with strategic searches for new faculty, adding twelve remarkable tenure-track members. These new hires are an investment that speaks to our determination to sustain Wellesley's reputation for academic excellence, and reinforce the intellectual depth of our faculty. They also bring us crucial new areas of specialization—all while preserving our impressive student-to-faculty ratio and the close interaction between students and faculty that is such an important part of the Wellesley educational experience.

Moreover, this year the number of federal grants and individual fellowships awarded to our faculty exceeded last year's by a significant margin, with 34 grants awarded to individual faculty members. Wellesley's scholar-teachers focus on integrating their scholarship with their teaching and mentoring—an important element in our ability to create a truly transformative education for our students.

Wellesley students *also* did an exceptional job in this year's competition for fellowships and scholarships, winning four Fulbright Grants, two Barry M. Goldwater Scholarships, a Thomas J. Watson Foundation Fellowship, three Woodrow-Wilson-Rockefeller Brothers Fund Fellowships for Aspiring Teachers of Color, and these are only the highlights. Additionally, nine recent alumnae received National Science Foundation Research Fellowships, and one alumna, Bilin Zhuang, '09, received the prestigious American Physical Society 2009 Leroy Apker Award for outstanding achievement in physics.

The College has continued to pursue its commitment to a vibrant and contemporary liberal arts education. Wellesley launched three groundbreaking initiatives this year—each of which demonstrates the power of Wellesley's liberal arts curriculum: the Madeleine Korbel Albright Institute for Global Affairs; the Three-College Collaboration, an innovative model for academic partnership forged with Olin College and Babson College; and our anchoring role in one of the National Academy of Engineering "Grand Challenges" regional summits. These initiatives have a common theme: solutions to complex modern problems will increasingly require the insight, leadership and ability to integrate diverse streams of knowledge. And there is arguably no better foundation for integrating knowledge across disciplines than a liberal arts education.

Finally, while we have long known the value of the intercultural model embodied in our Office of Religious and Spiritual Life, I was especially delighted when Victor Kazanjian, Dean of Religious and Spiritual Life, was invited to the White House Forum on Interfaith Community Service. This was a much-deserved recognition of the leadership Dean Kazanjian has demonstrated in developing this model on campus, as well as an affirmation of the particular strength of Wellesley's approach.

## THE ONGOING SUPPORT OF OUR COMMUNITY

We have always been fortunate in being able to count on the dedication of our alumnae to Wellesley and its ideals. I am delighted to report that, in the face of the economic downturn, annual giving to the College actually increased. We achieved our $10 million goal for unrestricted funds—a high-water mark reached only once before in the last 25 years; moreover (and importantly), the percentage of alumnae who made a gift increased for the first time in almost a decade. A significant portion of these unrestricted funds will be dedicated to financial aid, and it is these very generous alumnae contributions that continue to make a difference in sustaining Wellesley and securing its future.

Overall, we were able to raise $33 million in cash, well surpassing our target of $29 million. When the value of in-kind gifts of art is included, as well as monies from institutional government grants, total support raised for this last fiscal year came to $36 million.

There is no doubt that we face a new economic reality, one that is already reshaping the landscape of higher education. Wellesley is in an enviable position of strength, and we know that sustaining that strength requires continuing to make informed, judicious choices that align with and promote our institutional priorities. The shared commitment of the entire Wellesley community is essential, and I remain grateful for the many ways in which this commitment has been demonstrated.

Yours truly,

H. Kim Bottomly
*President*

# REPORT OF THE VICE PRESIDENT FOR FINANCE AND TREASURER

OCTOBER 2010

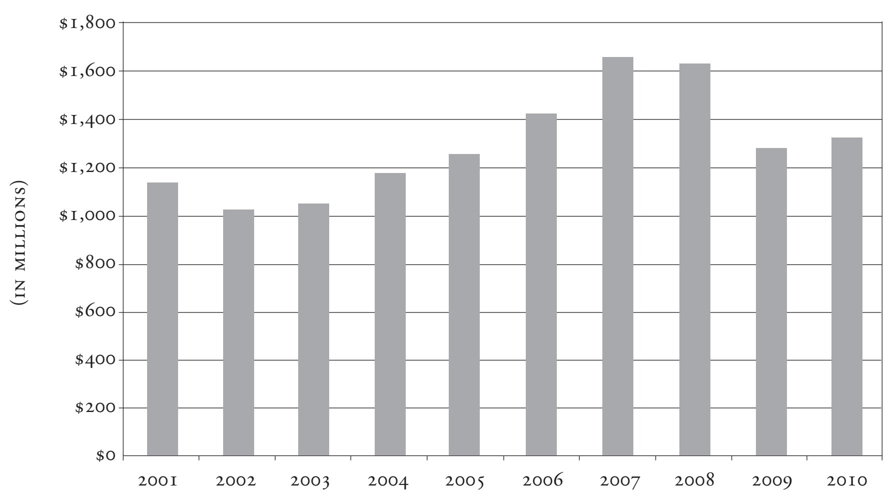
## TO THE BOARD OF TRUSTEES OF WELLESLEY COLLEGE

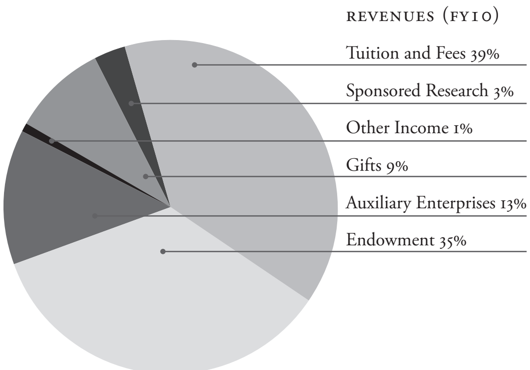
**This Annual Report presents the operating and audited results at Wellesley College for the fiscal year ending June 30, 2010. For fiscal year 2009–2010 the College's net assets increased by $45.7 million. The College's endowment increased by $43.0 million and was valued at $1.33 billion as of June 30, 2010.**

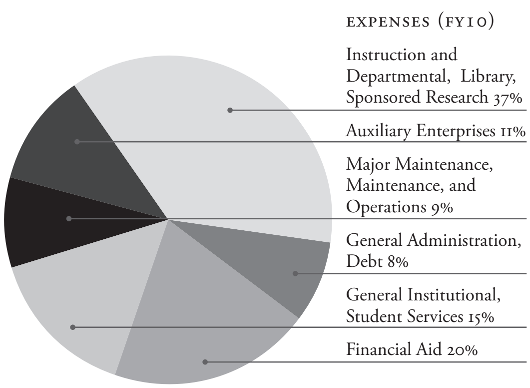
## RESULTS OF FISCAL YEAR 2010

Wellesley College is an institution that is strong academically and remains strong financially despite the negative affects that the economy had on most educational institutions last year**. The gain from a positive investment return of 9.34%** offset by the spending from the endowment needed to support the College's operations resulted in an **increase in endowment value from $1.29 billion to $1.33 billion.** (Further details about our endowment are discussed in the Chief Investment Officer's report.) The funds used during the year to support the operating budget and to fund various capital projects equaled 6.4% and 5.5% of the endowment market value for the one-year and the three-year rolling average, respectively. **During the course of the year, the endowment per student increased by 3.9% from $581,955 to $604,566, and gifts received were $33.1 million.**

GENERAL ENDOWMENT POOL, 2001–2010






**The operating budget (Schedule A) in this fiscal year reflects revenues of $235.2 million and expenses of $228.3 million, resulting in an operating surplus of $6.9 million.** This surplus was added to the College's operating reserves. Increasing reserves is an important part of the College's planning strategy to address any expected revenue shortfall in fiscal years 2010–2011 and beyond. Reserves will be a source of funding for one-time expenses that will yield longer-term expense reductions.

The revenue base for the operating budget was well diversified, with five primary revenue sources: tuition income (39%); endowment (35%); auxiliary enterprises; including room and board (13%); gifts used for operations (9%); and other sources of revenue, including sponsored research (4%). **Total operating revenues in this fiscal year increased by $8.4 million over fiscal year 2009.**

Operating expenses had an incremental increase of 0.7% over fiscal year 2009. As might be expected in a labor-intensive institution, about 50% of the operating budget was used for salaries and benefits.

At the end of each fiscal year, the College's interest rate swap is "marked to market" (which means that the market value of the swap is reflected in the audited financial statements). As of June 30, 2010, the College recorded a liability of $6.8 million (reflecting the mark to market of the swap) owing to extremely low Treasury rates at June 30, 2010. This is an increase from the value of a $4.2 million liability as of June 30, 2009 and results in a $2.6 million reduction to the College's net assets for fiscal year 2010.

## FINANCIAL STRENGTH AND FLEXIBILITY

The College operates under a set of principles for financial strength and flexibility. These principles were established to support Wellesley College's institutional values and strategic priorities by preserving the purchasing power of the endowment, ensuring that the growth rates of income and expenses are in balance, and creating reserves to mitigate unanticipated shocks to the balanced budget.

The College's endowment spending policy addresses the need for a strong, stable, and growing income stream from the endowment to support operations, as well as the long-term objective of maintaining its purchasing power. The methodology for setting annual spending from the endowment is based on a combination of the prior year's spending and the endowment value. In fiscal year 2010, the one-year spending rate was 6.4%. This spending policy is reviewed periodically to ensure that the endowment continues to provide a consistent and healthy income stream to support operations and to maintain its purchasing power. We plan to complete the 2010 review shortly and update the endowment spending policy for fiscal year 2011–2012.

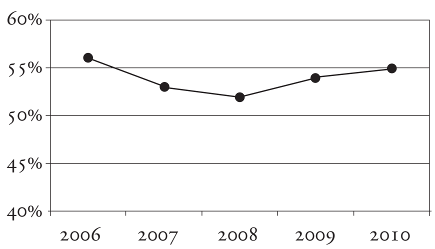
**The budget process for the College is multi-year and built around institutional priorities.** It allows for inclusiveness and institution-wide input, and that uses all sources of funds including restricted income sources. For fiscal year

2010, the College's management structure has had the Provost as chairing a Senior Staff Budget Subgroup and in building the budget for this last year, this subgroup's goal was to ensure that the College's budget aligned resources to the College's academic mission.

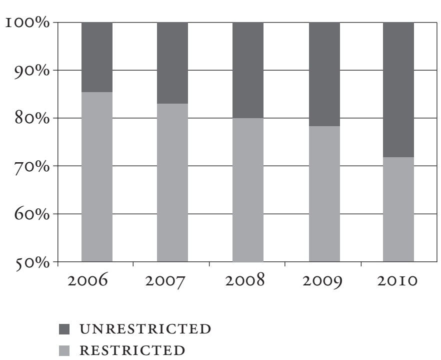
During fiscal year 2009, the College's endowment was negatively affected by the downturn in the economy. The College took immediate steps to soften the negative impact of this endowment loss to the operating budget. These steps included reductions in discretionary spending, reorganizing the College to reduce non-faculty positions and a careful review of planned construction projects. The results of the steps taken for fiscal year 2010 reflect the College's action of reducing approximately 80 non-faculty positions—through attrition, retirement, and layoffs.

During fiscal year 2010, the College continued to take the same approach to investing $20 million of existing operating cash that we do to investing the endowment. As of June 30, 2010, the cumulative excess investment return over typical short-term interest rates on these funds totaled approximately $2.7 million. This excess will be reserved and (with extended time for planning) used to fund extraordinary expenses in the future.

PERCENTAGE OF STUDENTS RECEIVING FINANCIAL AID GRANT ASSISTANCE




FUNDING SOURCE FOR FINANCIAL AID




## INSTITUTIONAL VALUES AND PRIORITIES

**One of the College's longest-held institutional values is our need-blind admission policy. Wellesley believes that students should be considered for admission only on the basis of their talents and personal qualities, not on their ability to pay.**

The College continues to measure the effects of this important policy against other expenses. Over the past five years, there has been an increase in the use of unrestricted resources for financial aid, as shown on the left. While the percentage of students receiving financial aid assistance has remained fairly constant over the past 5 years (52% to 55%), the percentage of student financial aid expenditures supported by restricted revenues has *decreased* from 85% in 2006 to 72% in 2010, resulting in a need to fund more of the expenditure with unrestricted resources in order to continue to support this important value with unrestricted resources.

**The maintenance and enhancement of the College's significant physical plant/infrastructure is an important institutional priority. Therefore, beginning in fiscal year 2010, the College began to build a fund for asset renewal and replacement (ARR).** (In the past, the College's operating budget did not include funding for depreciation or ARR.)

In order to fully fund this new ARR, the College would need to add approximately $10 million to the operating budget. To accomplish this, the College has implemented a phased-in approach to funding ARR, starting with $500,000 in fiscal year 2010. At the same time, the College continues to work on some of the projects identified in the Comprehensive Facilities Plan that was completed during fiscal year 2007. This plan established the facilities-planning principles and factors used in setting facilities priorities and documented the College's use of space—

including future needs. This plan also evaluated the condition of facilities and their ability to meet long-term program demands.

### FUTURE CHALLENGES AND OUTLOOK

The College's principles for financial strength and flexibility continue to guide us as we work on addressing the budget issues resulting from the tumultuous economic events during fiscal 2009, and our multi-year budget process remains invaluable for planning: we are already preparing solutions to address projected deficits in the coming years. So I am happy to report that with our present budget-management structure (under the leadership of President Bottomly), the College is well positioned to meet the financial challenges of the future.

Respectfully submitted,

Andrew B. Evans
*Vice President for Finance and Treasurer*

# REPORT OF THE CHIEF INVESTMENT OFFICER

OCTOBER 2010

## TO THE BOARD OF TRUSTEES OF WELLESLEY COLLEGE

**As of the fiscal year ended June 30, 2010, the Wellesley College endowment had a market value of $1.330 billion, versus $1.287 billion on June 30, 2009, an increase of approximately $43 million. The investment return for the year earned by the endowment portfolio, net of investment management fees, was 9.3%.**

## RECENT DEVELOPMENTS

During the fiscal year ended June 30, 2010, global capital markets enjoyed a partial recovery from the upheaval of the financial crisis. Equity markets continued the rally that began in the spring of 2009, and ran through the end of the year. In the first half of 2010, concerns about the strength of the economic recovery grew, sending equity markets lower. They continued to show considerable volatility, with long-term interest rates ending lower for the fiscal year. In spite of this challenging environment, Wellesley's endowment was able to support current operations *and* earn a return that increased the purchasing power of the endowment.

Investment returns by asset class, and the relative performance versus benchmarks for each asset class, are summarized below.

### TOTAL RETURN BY ASSET CLASS, YEAR ENDED JUNE 30, 2010

| | WELLESLEY COMPARATIVE INDEX | MARKET BENCHMARK/PORTFOLIO RETURN | |
|---|---|---|---|
| **U.S. Equity** | 19.2% | 14.4% | S&P 500 |
| **International Equity** | 14.4 | 10.4 | MSCI AC World Ex-U.S. |
| **Private Equity** | 8.7 | — | Cambridge Associates (1) |
| **Real Assets** | -7.5 | — | Real Assets Benchmark (2) |
| **Semi-marketable (3)** | 11.6 | 8.0 | Cambridge Associates Hedge Fund-of-Funds Index |
| **Fixed Income** | 15.8 | 8.9 | Fixed Income Benchmark (4) |
| **Total Portfolio** | 9.3% | | |

1 Private Equity results are measured against the Cambridge Associates Private Equity, Venture Capital and Distressed Indices, with final returns not yet reported at the time of this writing.

2 Real Assets Benchmark is a weighted average of the NCREIF Property, NCREIF Timber, Goldman Sachs Commodities Index, and the Cambridge Associates Oil & Gas Index. Final returns had not yet been reported at the time of this writing for the Cambridge Associates Oil & Gas Index.

3 Semi-marketable investments include absolute return and hedge funds.

4 Fixed Income Benchmark is a weighted average of the Barclays 5+ Year Treasury Index, Barclays >5 Year TIPS Index and the Citigroup World Government Bond Index.

The majority of Wellesley's investment managers in public equities, fixed income, and semi-marketable strategies delivered strong results in both absolute terms and relative to their benchmarks. The portfolio also benefited from strong results in venture capital and energy. These positives, however, were offset by continued write-downs in our real estate investments.

### LONGER-TERM RESULTS

Compound annual returns over the last five and ten years were 5.2% and 4.4% respectively, net of investment management fees. Although these results are disappointing relative to the College's need for returns that cover both spending and inflation, long-term results remain strong relative to alternative strategies; the College's well-diversified endowment has significantly outperformed U.S. equity investments (represented by the S&P 500, as well as the 65% stock/35% bond portfolio, as shown below). These better-than-average longer-term portfolio results are at least partly attributable to our gradual shift over the past several years from traditional asset classes to alternatives with higher long-term return expectations.

#### TOTAL ANNUALIZED RETURN ON ENDOWMENT, YEAR ENDED JUNE 30, 2010

| | 1 YEAR | 3 YEARS | 5 YEARS | 10 YEARS |
|---|---|---|---|---|
| Wellesley Portfolio | 9.3% | -2.8% | 5.2% | 4.4% |
| S&P 500 Index | 14.4 | -9.8 | -0.8 | -1.6 |
| 65/35 Stock/Bond Portfolio [5] | 12.9 | -3.5 | 1.8 | 1.6 |

[5] A commonly used measure of portfolio performance is a comparison with a passive portfolio consisting of 65% stocks, as measured by the S&P 500 Index, and 35% bonds, as measured by the Citigroup Broad Investment Grade Index.

### POLICY PORTFOLIO AND STRATEGY GOING FORWARD

With the goal of balancing long-term returns and risks, The Wellesley College Investment Committee has established a long-term Policy Portfolio to guide asset allocation. Over time, the endowment has gradually diversified into less-efficient asset classes, such as venture capital, distressed debt, and energy. In addition, the Investment Office focuses on adding value within each asset category through the selection of specific investments and investment managers, with the specific goal of gaining exposure to outstanding investment management teams in each asset class.

The table on the left details the Policy Portfolio and the actual asset allocation as of June 30, 2010. Exposure to total long-term alternative assets was 43% of the portfolio, relative to a long-term target of 50%. Additionally, relative to the long-term Policy Portfolio targets, the endowment portfolio was over-weighted in fixed income and cash at the end of the fiscal year and modestly under-weighted in traditional equities. The portfolio continues to maintain sufficient exposure to liquid investments to maintain the steady level of financial support it provides to the College's operations and to provide for portfolio liquidity needs.

#### ASSET ALLOCATION AS OF JUNE 30, 2010

| ASSET CLASS | POLICY PORTFOLIO | ASSET ALLOCATION |
|---|---|---|
| U.S. Equities | 19% | 19% |
| International Equities | 19 | 18 |
| Total Equities | 38 | 37 |
| Private Equity | 16 | 19 |
| Real Assets | 16 | 15 |
| Semi-marketable | 18 | 9 |
| Total Alternative Assets | 50 | 43 |
| Fixed Income & Cash | 12 | 20 |
| Total Portfolio | 100% | 100% |

Although it will take some time before long-term returns recover from the damage wrought by the financial crisis, the endowment is positioned to benefit from exposure both to traditional and non-traditional assets, all managed by outstanding investment firms. I believe that through actions taken in the last year we are well-positioned to benefit from excellent investment opportunities and to maintain important investment flexibility.

After a period of such economic turmoil, it is appropriate to examine the soundness of the underpinnings of our long-term strategy. We regularly review our assumptions and expectations with the goal of refining the assets held in the Wellesley portfolio in order to provide optimal risk/return characteristics. Consequently, we have taken actions to increase the endowment's exposure to those areas in which disruptions in markets have created some attractive investment opportunities.

It is not clear that the tough times are behind us, however, so we are fortunate that the success of the College's long-term investment strategy is not predicated on our ability to make accurate short-term assessments of market movements. A thoughtful and disciplined approach to asset allocation and manager selection will continue to be the drivers of investment performance over both the intermediate and long term.

What *is* safe to say is that all college and university endowments face ongoing challenges as a result of the credit crisis, and Wellesley is no exception. The College is fortunate, however, to have a thoughtful Investment Committee, and an endowment portfolio invested with outstanding investment managers. Short-term investment results will undoubtedly vary—sometimes significantly, as they did last year—but the portfolio is positioned to benefit from its exposure to traditional and nontraditional investments, all carefully chosen and monitored for their quality, their contribution to the diversification of risk, and their long-term return potential.

Members of the College community with questions, suggestions, or thoughts about the management of the Wellesley College endowment are invited to contact me at any time.

Thank you.

Sincerely,

Deborah F. Kuenstner
*Chief Investment Officer*

# FINANCIAL HIGHLIGHTS
(IN $000S)

| | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|
| **Total College Summary** | | | | | |
| Total Revenues | $331,744 | $491,051 | $182,338 | ($122,136) | $283,897 |
| Total Expenses | 219,273 | 224,722 | 225,903 | 252,458 | 238,174 |
| Net Surplus (Deficit) | $112,471 | $266,329 | ($43,565) | ($374,594) | $45,723 |
| **Current Operations Summary** | | | | | |
| Revenues including Trustee approved use of unrestricted bequests | $195,463 | $213,514 | $221,417 | $226,808 | $235,248 |
| Expenditures including addition to reserves | 195,460 | 213,507 | 221,416 | 226,803 | 235,219 |
| Operating Surplus | $3 | $7 | $1 | $5 | $29 |
| **Resources** | | | | | |
| Unrestricted Gifts | $8,761 | $8,421 | $8,848 | $8,268 | $8,847 |
| Endowment Gifts and Bequests | 23,854 | 19,908 | 10,266 | 18,556 | 18,586 |
| Planned Gifts | 2,411 | 1,389 | 2,943 | 3,389 | 1,219 |
| Facilities Gifts | 10,789 | 22,390 | 14,341 | 6,607 | 3,291 |
| Current-Use Gifts and Grants | 10,097 | 12,071 | 1,367 | 1,422 | 1,174 |
| Total | $55,912 | $64,179 | $37,765 | $38,242 | $33,117 |
| **Endowment** | | | | | |
| Market Value | $1,412,604 | $1,672,473 | $1,629,447 | $1,287,284 | $1,330,045 |
| Total Return (Loss) | $175,886 | $312,636 | $12,487 | ($291,066) | $116,294 |
| Total Return Used for Operations | $69,159 | $74,496 | $76,584 | $81,199 | $86,612 |
| Unit Value (not in $000s) | $595.46 | $691.71 | $668.81 | $523.84 | $535.74 |
| Investment Return—Total | 14.0% | 22.7% | 1.2% | (17.0%) | 9.3% |
| Yield | 5.9% | 8.1% | 7.8% | 2.8% | 4.6% |
| Appreciation | 8.1% | 14.6% | (6.6%) | (19.8%) | 4.7% |
| Average Endowment Operating Support (% of Average Market Value) | | | | | |
| One-Year Average | 5.0% | 4.7% | 4.6% | 5.4% | 6.4% |
| Three-Year Average | 5.1% | 4.9% | 4.7% | 4.9% | 5.5% |
| **Assets** | | | | | |
| Total College Net Assets | $1,639,592 | $1,905,921 | $1,862,356 | $1,488,848 | $1,534,571 |

## SCHEDULE A SUMMARY OF OPERATING REVENUES AND EXPENDITURES
YEARS ENDED JUNE 30, 2010 AND 2009 (IN $000S)

| | 2010 | 2009 | INCREASE (DECREASE) | % |
|---|---|---|---|---|
| **Revenues from Operations** | | | | |
| Tuition and Fees | $90,400 | $86,543 | $3,857 | 4.5% |
| Endowment Income | | | | |
| Education and General Support | 57,276 | 54,863 | 2,413 | 4.4% |
| Total Endowment Support | 57,276 | 54,863 | 2,413 | 4.4% |
| Unrestricted Gifts | 8,825 | 8,299 | 526 | 6.3% |
| Unrestricted Bequests | 2,000 | 2,442 | (442) | (18.1%) |
| Restricted Gifts and Use of Reserves | 3,623 | 3,712 | (89) | (2.4%) |
| Other Income | 3,308 | 4,619 | (1,311) | (28.4%) |
| Student Financial Aid | | | | |
| Endowment Income | 25,920 | 24,292 | 1,628 | 6.7% |
| Federal and State Grants | 2,881 | 2,330 | 551 | 23.6% |
| Restricted Gifts | 2,718 | 3,339 | (621) | (18.6%) |
| Total Student Financial Aid | 31,519 | 29,961 | 1,558 | 5.2% |
| Total Education and General | 196,951 | 190,439 | 6,512 | 3.4% |
| Sponsored Research | 7,015 | 6,237 | 778 | 12.5% |
| Auxiliary Enterprises | 31,282 | 30,132 | 1,150 | 3.8% |
| Total Revenues | 235,248 | 226,808 | 8,440 | 3.7% |
| **Operating Expenditures** | | | | |
| Instruction and Departmental | 68,114 | 64,508 | 3,606 | 5.6% |
| Library | 5,798 | 6,632 | (834) | (12.6%) |
| Student Services | 10,789 | 11,322 | (533) | (4.7%) |
| Student Financial Aid | 46,568 | 41,210 | 5,358 | 13.0% |
| General Administration | 10,975 | 15,518 | (4,543) | (29.3%) |
| General Institutional | 22,986 | 24,441 | (1,455) | (6.0%) |
| Maintenance and Operations | 14,104 | 15,970 | (1,866) | (11.7%) |
| Debt Service | 6,831 | 7,163 | (332) | (4.6%) |
| Major Maintenance, Capital Expenditures, and Reserves | 6,680 | 5,280 | 1,400 | 26.5% |
| Total Educational and General Expenditures | 192,845 | 192,044 | 801 | .4% |
| Sponsored Research | 7,015 | 6,237 | 778 | 12.5% |
| Other Programs | 3,339 | 4,196 | (857) | (20.4%) |
| Auxiliary Enterprises | 25,120 | 24,326 | 794 | 3.3% |
| Total Expenditures | 228,319 | 226,803 | 1,516 | .7% |
| Operating surplus before reserves | 6,929 | 5 | 6,924 | 138480.0% |
| Addition to reserves | 6,900 | — | 6,900 | |
| Operating surplus after reserves | $29 | $5 | $24 | 480.0% |

## SCHEDULE B TEN-YEAR FINANCIAL SUMMARY 2001–2010

| | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|
| **Financial Statement (in $000s)** | | | | | |
| Total Revenues | | | | | |
| Tuition and Fees | $55,197 | $57,491 | $59,828 | $62,928 | $66,989 |
| Investment Return | (87,307) | (51,431) | 35,449 | 152,797 | 131,721 |
| Private Gifts, Grants, Bequests and Contracts | 62,234 | 49,355 | 52,261 | 63,101 | 105,136 |
| Federal Grants and Contracts - Restricted | 5,251 | 6,225 | 7,448 | 5,608 | 4,567 |
| Sales and Services of Auxiliary Enterprises | 24,120 | 24,059 | 24,493 | 24,224 | 25,779 |
| Interest Income | 2,910 | 1,253 | 747 | 713 | 713 |
| Other | 2,352 | 4,155 | 1,823 | 3,434 | 3,461 |
| Total Revenues and Other Additions | $64,757 | $91,107 | $182,049 | $312,805 | $338,366 |
| Total Expenditures | | | | | |
| Instruction and Departmental | $40,074 | $42,104 | 43,650 | 47,746 | 51,035 |
| Library | 5,195 | 5,574 | 5,602 | 5,556 | 5,909 |
| Student Services | 8,516 | 9,876 | 10,056 | 9,917 | 10,396 |
| Maintenance and Operations | 18,291 | 15,635 | 14,312 | 13,452 | 14,896 |
| Provision for Depreciation | 8,745 | 8,718 | 9,429 | 9,894 | 10,497 |
| Interest on Indebtedness | 5,077 | 4,237 | 4,712 | 6,069 | 4,930 |
| General Administration | 7,626 | 8,328 | 9,737 | 9,412 | 9,128 |
| General Institutional | 21,136 | 21,137 | 20,117 | 19,676 | 19,472 |
| Student Financial Aid | 19,189 | 20,878 | 23,479 | 26,511 | 29,649 |
| Sponsored Research and Other Programs | 10,138 | 12,681 | 12,115 | 12,850 | 11,079 |
| Auxiliary Enterprise Expenditures | 23,364 | 22,583 | 22,233 | 21,617 | 22,278 |
| Other | — | — | — | — | — |
| Total Expenditures and Other Deductions | $167,351 | $171,751 | $175,442 | $182,700 | $189,269 |
| Excess of Revenues over Expenditures | ($102,594) | ($80,644) | $6,607 | $130,105 | $149,097 |
| Excess of Revenues over Expenditures as a Percent of Expenditures | -61.3% | -47.0% | 3.8% | 71.2% | 78.8% |
| Endowment Total Return Used to Support Current Operations | $53,520 | $54,931 | $54,333 | $59,639 | $65,219 |
| Endowment End-Of-Year Market Value | $1,136,426 | $1,032,465 | $1,043,937 | $1,180,405 | $1,275,767 |
| Average Endowment Return Used to Support Current Operations as a Percent of: | | | | | |
| One Year—Beginning and Ending Market Value | 4.2% | 5.0% | 5.3% | 5.1% | 5.1% |
| Three Year—Average of Three Years | 4.4% | 4.5% | 4.8% | 5.1% | 5.2% |
| **Other Financial Information** | | | | | |
| Tuition and Fees per Student | | | | | |
| Comprehensive Fee | $31,654 | $33,394 | $34,944 | $36,513 | $38,998 |
| Tuition | $23,718 | $25,022 | $26,138 | $27,314 | $29,176 |
| Enrollment (Average FTE) | 2,212 | 2,195 | 2,191 | 2,176 | 2,169 |
| Educational and General Costs per Student | $60,510 | $62,181 | $64,397 | $68,122 | $71,882 |
| Tuition as a Percent of Educational and General Expenses | 39.2% | 40.2% | 40.6% | 40.1% | 40.6% |
| Endowment per Student | $513,755 | $470,371 | $476,466 | $542,466 | $588,182 |

| 2006 | 2007 | 2008 | 2009 | 2010 | AVERAGE ANNUAL PERCENT CHANGE SINCE JUNE 30, 2001 NOMINAL % | REAL % |
|---|---|---|---|---|---|---|
| $71,431 | $79,298 | $83,447 | $86,543 | $90,400 | 5.4% | 3.0% |
| 175,886 | 312,636 | 12,487 | (291,066) | 116,294 | (257.3%) | (259.7%) |
| 47,336 | 58,547 | 41,631 | 43,396 | 35,783 | (3.5%) | (5.9%) |
| 4,560 | 5,121 | 4,983 | 4,800 | 6,415 | 4.7% | 2.3% |
| 27,428 | 29,382 | 30,100 | 30,132 | 31,282 | 3.1% | .7% |
| 1,598 | 2,402 | 2,207 | 526 | 120 | (10.2%) | (12.6%) |
| 3,505 | 3,665 | 7,483 | 3,533 | 3,603 | 18.1% | 15.7% |
| $331,744 | $491,051 | $182,338 | ($122,136) | $283,897 | (38.4%) | (40.8%) |
| 54,663 | 60,474 | 64,458 | 63,789 | 66,622 | 5.6% | 3.2% |
| 5,818 | 6,239 | 6,473 | 6,576 | 5,798 | 2.0% | (.4%) |
| 10,616 | 10,872 | 11,706 | 11,297 | 10,796 | 3.7% | 1.3% |
| 20,954 | 24,985 | 19,118 | 18,178 | 17,218 | 3.6% | 1.2% |
| 12,374 | 12,419 | 13,527 | 13,611 | 14,304 | 5.4% | 3.0% |
| 5,442 | 5,588 | 4,844 | 3,580 | 2,788 | (4.6%) | (7.0%) |
| 8,247 | 10,521 | 8,121 | 12,315 | 6,625 | 1.2% | (1.2%) |
| 19,942 | 22,236 | 22,807 | 23,099 | 22,390 | 2.1% | (.3%) |
| 31,590 | 34,736 | 36,316 | 41,237 | 45,119 | 9.5% | 7.1% |
| 10,138 | 10,682 | 10,672 | 10,433 | 10,353 | .9% | (1.5%) |
| 23,632 | 25,052 | 26,020 | 24,291 | 25,109 | 1.7% | (.7%) |
| 15,857 | 918 | 1,841 | 24,052 | 11,052 | | |
| $219,273 | $224,722 | $225,903 | $252,458 | $238,174 | 4.4% | 2.0% |
| $112,471 | $266,329 | ($43,565) | ($374,594) | $45,723 | | |
| 51.3% | 118.5% | -19.3% | -148.4% | 19.2% | | |
| $69,159 | $74,496 | $76,584 | $81,199 | $86,612 | 4.9% * | |
| $1,412,604 | $1,672,473 | $1,629,447 | $1,287,284 | $1,330,045 | 1.6% * | |
| 5.0% | 4.7% | 4.6% | 5.4% | 6.4% | | |
| 5.1% | 4.9% | 4.7% | 4.9% | 5.5% | | |
| $41,030 | $43,288 | $45,820 | $47,976 | $49,794 | 5.0% | 2.6% |
| $30,696 | $32,384 | $34,770 | $36,404 | $37,826 | 5.2% | 2.8% |
| 2,193 | 2,196 | 2,234 | 2,212 | 2,200 | (.2%) | |
| $77,358 | $85,642 | $83,872 | $87,560 | $87,118 | 4.7% | 2.3% |
| 39.7% | 37.8% | 41.5% | 41.6% | 43.4% | .6% | (1.8%) |
| $644,142 | $761,600 | $729,385 | $581,955 | $604,566 | 1.4% | (1.0%) |

* compound growth

# SCHEDULE C KEY STATISTICS

| | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|
| **Faculty / Student FTE Headcount** | | | | | |
| Student Enrollment (Average FTE) | 2,193 | 2,196 | 2,234 | 2,212 | 2,200 |
| Faculty Teaching Strength (FTE) | 231 | 236 | 241 | 248 | 246 |
| Student/Faculty Ratio | 9.49 | 9.31 | 9.27 | 8.92 | 8.94 |
| **Enrollment** | | | | | |
| Number of First-Year Student Applications | 4,347 | 3,974 | 4,017 | 4,001 | 4,156 |
| First-Year Students Admitted as a % of Applicants | 33.7% | 36.1% | 35.7% | 36.0% | 35.2% |
| First-Year Students Enrolled as a % of Applicants | 13.9% | 14.7% | 14.7% | 14.9% | 14.2% |
| First-Year Students Enrolled as a % of Students Admitted | 41.4% | 40.9% | 41.1% | 41.3% | 40.3% |
| **Financial Aid** | | | | | |
| Percent of Students Receiving Financial Aid Grant Assistance | 56.0% | 53.0% | 52.0% | 54.0% | 55.0% |
| Average Financial Aid Grant as % of Comprehensive Fee | 59.6% | 61.4% | 61.9% | 65.7% | 67.3% |
| Student Aid Expense as % of Educational and General Expense | 18.6% | 18.5% | 19.4% | 19.4% | 23.5% |
| Educational and General Cost per Student | $77,358 | $85,642 | $83,872 | $87,560 | $87,118 |
| Tuition as % of Educational and General Expense | 39.7% | 37.8% | 41.5% | 41.6% | 43.4% |
| **Development ($000s)** | | | | | |
| Total Development Fund-Raising | $55,912 | $64,179 | $37,765 | $38,242 | $33,117 |
| Total Alumnae Giving Including Bequests | $40,752 | $46,812 | $28,884 | $29,714 | $25,581 |
| Number of Alumnae Donors | 15,113 | 15,160 | 14,561 | 13,527 | 14,177 |
| Percent of Alumnae Contributing | 49.7% | 49.6% | 47.4% | 43.6% | 45.0% |
| Total Unrestricted Gifts | $8,761 | $8,421 | $8,848 | $8,268 | $8,847 |
| Total Planned Gifts | $2,411 | $1,389 | $2,943 | $3,389 | $1,219 |
| Total Bequests | $14,305 | $13,017 | $4,210 | $6,349 | $7,555 |
| Unrestricted Gifts and Bequests as % of Educational and General Expense | 5.2% | 4.5% | 4.4% | 5.6% | 5.6% |
| **Endowment** | | | | | |
| Endowment Market Value ($000s) | $1,412,604 | $1,672,473 | $1,629,447 | $1,287,284 | $1,330,045 |
| Endowment per Student | $644,142 | $761,600 | $729,385 | $581,955 | $604,566 |
| Endowment Income as % of Educational and General Expense | 40.8% | 39.6% | 40.9% | 41.9% | 45.2% |
| **Other** | | | | | |
| Gross Square Feet of Buildings | 2,643,000 | 2,600,000 | 2,598,000 | 2,594,031 | 2,587,761 |
| Library Collections in Volumes | 1,594,395 | 1,604,787 | 1,600,258 | 1,458,179 | 1,702,321 |

## SCHEDULE D TOTAL SOURCES OF STUDENT FINANCIAL AID GRANT AND WORK ASSISTANCE (IN $000S)

| | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|
| **Unrestricted Revenue** | | | | | |
| General College Revenues | $4,822 | $5,890 | $7,826 | $9,249 | $13,049 |
| Total Unrestricted Revenue | 4,822 | 5,890 | 7,826 | 9,249 | 13,049 |
| **Restricted Revenue** | | | | | |
| Restricted Endowment | | | | | |
| Income | 20,178 | 21,922 | 22,823 | 24,292 | 25,920 |
| Income—Special Supplement | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 |
| Federal Government | | | | | |
| Pell Grants | 945 | 1,110 | 1,203 | 1,402 | 2,018 |
| Supplemental Educational Opportunity Grants | 388 | 358 | 339 | 348 | 337 |
| College Work Study Program—Federal Government Share | 331 | 322 | 333 | 342 | 383 |
| Total Government Grants | 1,664 | 1,790 | 1,875 | 2,092 | 2,738 |
| Commonwealth of Massachusetts | 239 | 268 | 268 | 238 | 143 |
| Restricted Gifts | 2,625 | 3,678 | 3,478 | 3,339 | 2,718 |
| Total Restricted Revenue | 26,706 | 29,658 | 30,444 | 31,961 | 33,519 |
| Total Unrestricted and Restricted Revenues | $31,528 | $35,548 | $38,270 | $41,210 | $46,568 |

## SCHEDULE E

INVESTMENT OF ENDOWMENT AND SIMILAR FUNDS AND PLANNED GIVING FUNDS AS OF JUNE 30, 2010 (IN $000S)

| | MARKET VALUE | % OF TOTAL |
|---|---|---|
| **Investments Pooled** | | |
| Liquid Funds (Net of Payables and Receivables) | $58,452 | 4.47% |
| Fixed Income | | |
| U.S. Bonds | 168,057 | 12.86% |
| Non-U.S. Bonds | 23,056 | 1.77% |
| Total Fixed Income | 191,113 | 14.63% |
| Common Stocks | | |
| U.S. Stocks | 247,211 | 18.92% |
| Non-U.S. Stocks | 240,743 | 18.42% |
| Total Common Stocks | 487,954 | 37.34% |
| Alternative Assets | | |
| Venture Capital | 127,705 | 9.77% |
| Buyout Funds | 68,048 | 5.21% |
| Distressed securities | 57,080 | 4.37% |
| Real Estate | 87,831 | 6.72% |
| Oil and Gas | 73,988 | 5.66% |
| Timberland | 40,027 | 3.06% |
| Semi Marketable | 113,710 | 8.70% |
| Miscellaneous Other | 888 | 0.07% |
| Total Alternative Assets | 569,277 | 43.56% |
| Total General Pooled Investments | 1,306,796 | 100.00% |
| Faculty Mortgages | 23,249 | |
| Total General Pooled Investments and Faculty Mortgages | 1,330,045 | |
| **Investments Not Pooled** | 199 | |
| Total Endowment and Similar Funds | 1,330,244 | |
| **Planned Giving** | | |
| Separate Pooled Funds | 13,981 | |
| Unitrusts and Funds Not Pooled | 50,690 | |
| Total Planned Giving Funds | 64,671 | |
| Grand Total | $1,394,915 | |

## SCHEDULE F GENERAL ENDOWMENT POOL ANNUAL TOTAL RETURN SINCE INCEPTION

| YEAR ENDED | MARKET VALUE (IN $000S) | ENDING UNIT VALUE | DISTRIBUTION | TOTAL RETURN YIELD % | APPRECIATION % | TOTAL % |
|---|---|---|---|---|---|---|
| | | $100.00 | | | | |
| 1970 | $92,600 | 107.13 | $5.50 | 5.13 | 7.13 | 12.26 |
| 1971 | 121,050 | 138.68 | 5.70 | 4.11 | 29.46 | 33.57 |
| 1972 | 136,273 | 154.80 | 5.90 | 3.81 | 11.63 | 15.44 |
| 1973 | 126,928 | 139.30 | 6.00 | 4.31 | (10.01) | (5.70) |
| 1974 | 109,672 | 116.43 | 7.30 | 6.27 | (16.42) | (10.15) |
| 1975 | 111,340 | 116.82 | 7.05 | 6.03 | 0.33 | 6.36 |
| 1976 | 115,922 | 119.77 | 7.00 | 5.84 | 2.52 | 8.36 |
| 1977 | 119,152 | 122.86 | 7.30 | 5.94 | 2.58 | 8.52 |
| 1978 | 111,852 | 116.54 | 7.68 | 6.59 | (6.15) | 0.44 |
| 1979 | 119,151 | 119.70 | 8.05 | 6.73 | 2.72 | 9.45 |
| 1980 | 133,168 | 119.32 | 9.30 | 7.79 | (0.03) | 7.76 |
| 1981 | 134,871 | 121.64 | 9.11 | 7.49 | 2.71 | 10.20 |
| 1982 | 127,842 | 110.90 | 10.72 | 9.67 | (8.77) | 0.90 |
| 1983 | 167,556 | 135.78 | 10.40 | 7.66 | 21.94 | 29.60 |
| 1984 | 156,258 | 123.60 | 9.00 | 7.28 | (9.69) | (2.41) |
| 1985 | 201,793 | 149.44 | 9.09 | 6.36 | 21.62 | 27.98 |
| 1986 | 260,481 | 188.93 | 8.41 | 5.50 | 26.90 | 32.40 |
| 1987 | 294,574 | 207.66 | 8.90 | 4.34 | 10.38 | 14.72 |
| 1988 | 290,270 | 198.53 | 10.25 | 5.20 | (4.30) | 0.90 |
| 1989 | 319,235 | 211.06 | 11.10 | 5.50 | 7.28 | 12.78 |
| 1990 | 352,537 | 222.70 | 11.30 | 5.20 | 6.00 | 11.20 |
| 1991 | 371,464 | 231.81 | 11.30 | 5.15 | 4.08 | 9.23 |
| 1992 | 409,082 | 252.95 | 11.02 | 4.50 | 10.00 | 14.50 |
| 1993 | 475,797 | 281.83 | 11.37 | 4.00 | 11.50 | 15.50 |
| 1994 | 475,961 | 278.97 | 14.00 | 3.50 | 0.50 | 4.00 |
| 1995 | 520,108 | 305.01 | 16.15 | 3.20 | 12.00 | 15.20 |
| 1996 | 595,950 | 336.88 | 17.02 | 3.21 | 15.03 | 18.24 |
| 1997 | 677,932 | 371.67 | 19.60 | 2.89 | 14.28 | 17.17 |
| 1998 | 780,203 | 410.41 | 21.00 | 3.24 | 11.98 | 15.22 |
| 1999 | 887,036 | 446.73 | 22.00 | 3.91 | 11.05 | 14.96 |
| 2000 | 1,253,008 | 610.15 | 23.50 | 4.41 | 38.44 | 42.85 |
| 2001 | 1,135,925 | 543.88 | 24.75 | 3.72 | (10.34) | (6.62) |
| 2002 | 1,031,991 | 484.59 | 26.04 | 3.81 | (9.00) | (5.19) |
| 2003 | 1,043,476 | 479.33 | 26.88 | 4.12 | 0.73 | 4.85 |
| 2004 | 1,179,988 | 521.95 | 26.16 | 5.74 | 9.44 | 15.18 |
| 2005 | 1,275,529 | 550.55 | 27.88 | 5.52 | 5.94 | 11.46 |
| 2006 | 1,412,410 | 595.46 | 28.96 | 5.84 | 8.13 | 13.97 |
| 2007* | 1,656,565 | 691.71 | 30.74 | 8.12 | 14.58 | 22.70 |
| 2008 | 1,611,318 | 668.81 | 31.55 | 7.85 | (6.63) | 1.22 |
| 2009 | 1,266,437 | 523.84 | 33.18 | 2.81 | (19.78) | (16.97) |
| 2010 | 1,306,796 | 535.74 | 35.08 | 4.62 | 4.72 | 9.34 |

* For reporting purposes, beginning in 2007, market value and all return figures are reported based on the general investment pool excluding faculty mortgages.

## REPORT OF INDEPENDENT AUDITORS

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
125 High Street
Boston MA 02110-2611
Telephone (617) 530 5000
Facsimile (617) 530 5001

To the Board of Trustees of Wellesley College:

In our opinion, the accompanying statements of financial position and the related statements of activities and cash flows present fairly, in all material respects, the financial position of Wellesley College (the "College") at June 30, 2010 and 2009, and the changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

October 30, 2010

# STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2010 AND 2009 (IN $000S)

| | 2010 | 2009 |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | $29,425 | $23,929 |
| Cash and cash equivalents, restricted | 19,811 | 26,817 |
| Accounts receivable, net | 1,512 | 372 |
| Loans receivable, net | 9,113 | 9,280 |
| Contributions receivable, net | 45,677 | 47,724 |
| Grants receivable | 1,338 | 1,226 |
| Prepaid, inventory and other assets | 2,708 | 4,930 |
| Investments | 1,330,244 | 1,287,284 |
| Planned giving investments | 64,671 | 63,085 |
| Collateral received for securities lending | 3,743 | 54,233 |
| Land, buildings and equipment, net | 302,449 | 292,180 |
| Total assets | $1,810,691 | $1,811,060 |
| **Liabilities** | | |
| Accounts payable and accrued expenses | $37,482 | $35,097 |
| Student deposits and deferred revenues | 3,519 | 2,678 |
| Advances under grants and contracts | 1,792 | 2,390 |
| Annuities and unitrusts payable | 37,585 | 37,556 |
| Asset retirement obligations | 18,529 | 17,474 |
| Accrued pension liability | 19,368 | 15,866 |
| Liability under securities lending transactions | 3,743 | 54,233 |
| Bonds and notes payable | 149,533 | 152,349 |
| Government loan advances | 4,569 | 4,569 |
| Total liabilities | 276,120 | 322,212 |
| **Net Assets** | | |
| Unrestricted | 517,193 | 506,452 |
| Temporarily restricted | 600,601 | 573,376 |
| Permanently restricted | 416,777 | 409,020 |
| Total net assets | 1,534,571 | 1,488,848 |
| Total liabilities and net assets | $1,810,691 | $1,811,060 |

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

# STATEMENT OF ACTIVITIES

## FOR THE YEAR ENDED JUNE 30, 2010 (IN $000S)

| | UNRESTRICTED | TEMPORARILY RESTRICTED | PERMANENTLY RESTRICTED | 2010 TOTAL |
|---|---|---|---|---|
| **Operating Revenues** | | | | |
| Tuition and Fees | $90,400 | $— | $— | $90,400 |
| Less financial aid | | | | |
| Donor sponsored | (28,940) | — | — | (28,940) |
| Institutionally sponsored | (13,729) | — | — | (13,729) |
| Net tuition and fees | 47,731 | — | — | 47,731 |
| Auxiliary operations | 31,282 | — | — | 31,282 |
| Government grants | 4,838 | — | — | 4,838 |
| Private gifts and grants | 17,182 | 3,623 | — | 20,805 |
| Investment return designated for operations | 41,855 | 44,757 | — | 86,612 |
| Other | 3,725 | — | — | 3,725 |
| Net assets released from restrictions | 45,460 | (45,460) | — | — |
| Total operating revenues | 192,073 | 2,920 | — | 194,993 |
| **Operating Expenses** | | | | |
| Instruction and departmental research | 81,435 | — | — | 81,435 |
| Sponsored research and other programs | 10,353 | — | — | 10,353 |
| Library | 9,191 | — | — | 9,191 |
| Student services | 13,534 | — | — | 13,534 |
| General administration | 12,078 | — | — | 12,078 |
| General institutional | 24,009 | — | — | 24,009 |
| Auxiliary operations | 35,408 | — | — | 35,408 |
| Total operating expenses | 186,008 | — | — | 186,008 |
| **Nonoperating Activities** | | | | |
| Investment return, net of spending allocation | 1,680 | 28,749 | 710 | 31,139 |
| Matured planned giving agreements | 1,401 | (3,040) | 1,639 | — |
| Gifts and pledges | 3,531 | 4,559 | 5,408 | 13,498 |
| Pension related changes other than net periodic pension cost | (3,501) | — | — | (3,501) |
| Net realized/unrealized loss on interest swap | (4,398) | — | — | (4,398) |
| Net assets released from restrictions | 5,963 | (5,963) | — | — |
| Total nonoperating revenues | 4,676 | 24,305 | 7,757 | 36,738 |
| Net change in net assets | 10,741 | 27,225 | 7,757 | 45,723 |
| Net assets at beginning of year | 506,452 | 573,376 | 409,020 | 1,488,848 |
| Net assets at end of year | $517,193 | $600,601 | $416,777 | $1,534,571 |

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

## STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2009 (IN $000S)

| | UNRESTRICTED | TEMPORARILY RESTRICTED | PERMANENTLY RESTRICTED | 2009 TOTAL |
|---|---|---|---|---|
| **Operating Revenues** | | | | |
| Tuition and Fees | $86,543 | $— | $— | $86,543 |
| Less financial aid | | | | |
| Donor sponsored | (28,854) | — | — | (28,854) |
| Institutionally sponsored | (10,959) | — | — | (10,959) |
| Net tuition and fees | 46,730 | — | — | 46,730 |
| Auxiliary operations | 30,132 | — | — | 30,132 |
| Government grants | 3,657 | — | — | 3,657 |
| Private gifts and grants | 18,588 | 3,712 | — | 22,300 |
| Investment return designated for operations | 39,088 | 42,111 | — | 81,199 |
| Other | 4,060 | — | — | 4,060 |
| Net assets released from restrictions | 44,871 | (44,871) | — | — |
| Total operating revenues | 187,126 | 952 | — | 188,078 |
| **Operating Expenses** | | | | |
| Instruction and departmental research | 79,149 | — | — | 79,149 |
| Sponsored research and other programs | 10,433 | — | — | 10,433 |
| Library | 10,089 | — | — | 10,089 |
| Student services | 14,131 | — | — | 14,131 |
| General administration | 20,313 | — | — | 20,313 |
| General institutional | 24,776 | — | — | 24,776 |
| Auxiliary operations | 34,954 | — | — | 34,954 |
| Total operating expenses | 193,845 | — | — | 193,845 |
| **Nonoperating Activities** | | | | |
| Investment return, net of spending allocation | (127,591) | (244,087) | 800 | (370,878) |
| Matured planned giving agreements | 1,830 | (2,567) | 737 | — |
| Gifts and pledges | 2,991 | 11,254 | 6,441 | 20,686 |
| Pension related changes other than net periodic pension cost | (12,028) | — | — | (12,028) |
| Net realized/unrealized loss on interest swap | (5,521) | — | — | (5,521) |
| Net assets released from restrictions | 4,411 | (4,411) | — | — |
| Total nonoperating revenues | (135,908) | (239,811) | 7,978 | (367,741) |
| Net change in net assets | (142,627) | (238,859) | 7,978 | (373,508) |
| Net assets at beginning of year | 649,079 | 812,235 | 401,042 | 1,862,356 |
| Net assets at end of year | $506,452 | $573,376 | $409,020 | $1,488,848 |

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

# STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2010 AND 2009 (IN $000S)

| | 2010 | 2009 |
|---|---|---|
| **Cash Flows from Operating Activities** | | |
| Change in net assets | $45,723 | $(373,508) |
| Adjustment to reconcile change in net assets to net cash used by operating activities: | | |
| Depreciation and amortization | 14,304 | 13,587 |
| Contributions restricted for investments | (9,716) | (13,992) |
| Receipt of contributed securities | (2,043) | (1,442) |
| Realized and unrealized (gains) losses on investments | (120,524) | 291,054 |
| Change in discount and allowance for doubtful accounts | (1,727) | (1,392) |
| Pension related changes other than net periodic pension cost | 3,501 | 12,028 |
| Unrealized loss on interest swap | 2,640 | 4,213 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable, net | (1,140) | 315 |
| Contributions receivable, net | 3,807 | 703 |
| Grants receivable | (112) | (50) |
| Prepaid, inventory and other assets | 2,222 | 988 |
| Accounts payable and accrued expenses | 3,783 | 7,517 |
| Student deposits and deferred revenue | 841 | (986) |
| Advances under grants and contracts | (598) | 224 |
| Annuities and unitrusts payable | 29 | (1,024) |
| Net cash used in operating activities | (59,010) | (61,765) |
| **Cash Flows from Investing Activities** | | |
| Purchase of plant and equipment | (27,579) | (20,931) |
| Proceeds from student loans collections | 1,199 | 976 |
| Student loans issued | (1,065) | (1,480) |
| Decrease in restricted cash for construction funds | 7,014 | 1,599 |
| (Increase)/decrease in restricted cash for plant and equipment | (8) | 11,567 |
| Purchases of investments | (278,426) | (565,665) |
| Proceeds from sales and maturities of investments | 356,447 | 631,663 |
| Net cash provided by investing activities | 57,582 | 57,729 |
| **Cash Flows from Financing Activities** | | |
| Proceeds from contributions for: | | |
| Investment in endowment | 8,090 | 7,207 |
| Investment in planned giving | 891 | 2,406 |
| Plant and equipment | 735 | 4,379 |
| Bond and notes payable proceeds received, net | — | — |
| Payments on bonds and notes payable | (2,792) | (4,565) |
| Net cash provided by financing activities | 6,924 | 9,427 |
| **Net increase in cash and cash equivalents** | 5,496 | 5,391 |
| Cash and cash equivalents, beginning of year | 23,929 | 18,538 |
| **Cash and cash equivalents, end of year** | $29,425 | $23,929 |
| Contributed securities | $2,043 | $1,442 |
| Cash paid for interest | $4,541 | $4,899 |
| Capital additions included in accounts payable and accrued expenses | $1,145 | $3,662 |
| Net change in securities lending | $(50,490) | $(49,013) |

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

# WELLESLEY COLLEGE
# NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

## 1. Summary of Significant Accounting Policies

### (a) Basis of Presentation

The financial statements of Wellesley College (the "College") have been prepared in accordance with accounting principles generally accepted in the United States of America using the accrual basis of accounting.

Resources are reported for accounting purposes in separate classes of net assets based on the existence or absence of donor-imposed restrictions. In the accompanying financial statements, net assets that have similar characteristics have been combined into similar categories as follows:

*Unrestricted*—Net assets that are not subject to donor-imposed stipulations. These include all revenues, expenses, gains and losses that are not changes in permanently or temporarily restricted net assets. This category includes realized and unrealized gains on unrestricted endowment. 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. Unrestricted net assets generally result from revenues derived from providing services, receiving unrestricted contributions, unrealized and realized gains and losses on unrestricted endowment, and receiving dividends and interest from investing in income producing assets, less expenses incurred in providing services, raising contributions, and performing administrative functions.

*Temporarily restricted*—Net assets that 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. This category includes realized and unrealized gains and losses on permanent endowment. Temporarily restricted net assets generally result from contributions and other inflows of assets whose use by the organization is limited by donor-imposed stipulations or by law that either expire by passage of time or can be fulfilled and removed by actions of the College pursuant to those stipulations.

*Permanently restricted*—Net assets that are subject to donor-imposed stipulations that they be maintained permanently by the College. Generally, the donors of these assets permit the College to use all or part of the investment return on these assets. Such assets primarily include the College's permanent endowment funds. Permanently restricted net assets generally represent the historical cost (market value at date of gift) of contributions and other inflows of assets whose use by the College is limited by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by the College.

Expenses are reported as decreases in unrestricted net assets. Expirations of donor-imposed stipulations that simultaneously increase one class of net assets and decrease another are reported as reclassifications between the applicable classes of 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 placed in service dates if the asset is constructed.

Nonoperating activities reflect transactions of a long-term investment or capital nature including contributions to be invested by the College to generate a return that will support future operations, contributions to be received in the future, contributions to be used for facilities and equipment, and investment return beyond what the College has appropriated for current operational support in accordance with the College's investment return spending guidelines. Nonoperating activities also include net realized and unrealized gains and losses on the interest rate swap and pension related changes other than net periodic pension costs.

**(b) Cash and Cash Equivalents**
Cash and cash equivalents include short-term, highly liquid investments with a maturity of three months or less at the time of purchase. Cash and cash equivalents representing endowment assets and planned giving assets are included in endowment investments and planned giving investments, respectively. Restricted cash represents amounts for construction held by trustees in association with the Massachusetts Health and Education Facilities Authority Series I bond issue and amounts restricted by a donor for the Science Center and Power Plant.

**(c) Investments**
Investments in marketable securities are carried at fair market value as established by the major securities markets. Purchases and sales of investments are recorded on the trade date of the transaction. Realized gains and losses arising from the sales of investments are recorded based upon the average cost of investments sold. Investment income is recorded on the accrual basis. The investment in faculty mortgages is stated at unpaid principal balances.

Venture capital and buyout limited partnerships include investments in both publicly and privately owned securities. The fair values of private investments are determined by the College and based on estimates and assumptions of the general partners or partnership valuation committees in the absence of readily determinable public market values. These values are audited annually by other auditors, most typically based on calendar year end information. The limited partnership valuations consider variables such as the financial performance of the investments, recent sales prices of similar investments and other pertinent information. The estimated values as determined by the general partners and investment managers may differ significantly from the values that would have been used had a ready market for the investments existed and the differences could be materially higher or lower.

Derivative investments in the College's portfolio may include currency forward contracts, currency and interest rate swaps, call and put options, debt futures contracts and other vehicles that may be appropriate in certain circumstances as permitted within the managers' investment guidelines. The College's external managers use investments in derivative securities predominantly to reduce interest rate risk and risk in the foreign fixed income market.

The College's split-interest agreements with donors consist of irrevocable charitable gift annuities, pooled life income funds and charitable remainder unitrusts and annuities. Unitrusts, in which the College has a remainder interest, but that are held in trust and administered by outside agents, have been recorded as gifts that are temporarily restricted. Unitrusts, in which the College has a remainder interest, and which are managed by the College, periodically pay income earned on the assets to designated beneficiaries. The College adjusts unitrusts for both the estimated return on the invested assets and the contractual payment obligations during the expected term of the agreement. For planned giving contracts, the contributed assets are included at fair value within planned giving investments on the Statement of Financial Position. Contribution revenues are recognized as of the date the donated assets are transferred to the College and liabilities are recorded for the present value of the estimated future payments to the donors or other beneficiaries. The liabilities are adjusted during the term of the planned giving contracts consistent with changes in the value of the assets and actuarial assumptions.

Net gains on permanently restricted gifts are classified as temporarily restricted until appropriated for spending by the College in accordance with the Massachusetts Management of Institutional Funds Act, as updated in 2009. Future utilization of gains is dependent on market performance.

Deficiencies of $5,281,000 and $6,587,000 for donor-restricted endowment funds, resulting from declines in market value, have been offset by an allocation from unrestricted net assets to temporarily restricted net assets for the years ended June 30, 2010 and 2009, respectively. As the market value of the portfolio increases, the deficiency will reverse.

**(d) Endowment Investment Return Spending Policy**
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 purchasing power of endowment assets. The College's investment strategy is based on a long-term Policy Portfolio that serves as a guide for asset allocation. The Policy Portfolio was established with the goal of balancing long-term returns and risks by increasing portfolio diversification through the allocation of assets to less efficient asset classes. The return objective for the endowment assets, measured over a full market cycle, is to maximize the return against a blended index, based on the endowment's target allocation applied to the appropriate individual benchmarks. The College uses a "total return" approach to managing endowment assets in which investment returns are achieved through both capital appreciation (realized and unrealized gains) and current yield (interest and dividends). Funds are invested to maximize total return consistent with prudent risk without regard to the mix of current investment income and realized and unrealized gains or losses.

The College's endowment distribution policy determines a payout rate that is based on a methodology that uses a combination of prior year's spending and endowment value with a general rule that the total amount spent needs to be within a 4.5% to 6% range of the prior year market value of the endowment, based on a 3 year average. The sources of the payout are endowment earned income (interest and dividends), both current and previously reinvested income and a portion of realized gains. Any income earned in excess of the spending limit is reinvested. Funds may be withdrawn from investment return earned in prior years if income is less than the spending limit. The spending policy is designed to insulate investment policy from budgetary pressures, and to insulate program spending from fluctuations in capital markets.

**(e) Inventories**
Inventories are stated at the lower of cost (first-in, first-out method) or market and are included in prepaid, inventory and other assets on the Statement of Financial Position.

**(f) Accounts Receivable and Student Loans Receivable**
Accounts receivable include amounts due from students, student organizations and other miscellaneous receivables. Loans to students are carried at net realizable value. Accounts receivable for 2010 and 2009, are reported net of allowances for doubtful accounts of $434,000 for both years. Loans receivable for 2010 and 2009, are reported net of allowances for doubtful loans of $752,000 and $719,000, respectively. The provisions are intended to provide for student accounts and loans that may not be collected.

**(g) Grant Revenue**
Government grants normally provide for the recovery of direct and indirect costs, subject to audit. The College recognizes revenue associated with the direct costs as the related costs are incurred or expended. Recovery of related indirect costs is generally recorded at predetermined fixed rates negotiated with the government or at other predetermined rates determined by the grant provider.

**(h) Pledges**
The College recognizes the present value of unconditional promises to give as revenues in the period in which the pledges are made by donors.

**(i) Loans Receivable**
Determination of the fair value of student loan receivables is not practicable as such loans are primarily federally sponsored student loans with U.S. government mandated interest rates and repayment terms subject to significant restrictions as to their transfer and disposition.

**(j) Land, Buildings, and Equipment**
Land, buildings, and equipment are recorded at cost, or if donated, at fair market value at the date of donation. Additions to plant assets are capitalized while scheduled maintenance and minor renovations are charged to operations. Library books

are expensed when purchased. Museum collections are not capitalized. Plant assets are presented net of accumulated depreciation. When assets are retired or disposed of, the cost and accumulated depreciation are removed from the accounts and gains and losses from disposal are included in the Statement of Activities. Depreciation is computed on a straight-line basis over the estimated useful lives of the related assets as follows:

| | YEARS |
|---|---|
| Land improvements | 20-40 |
| Buildings and building improvements | 20-40 |
| Equipment | 4-12 |

**(k) Financial Aid**
The Statement of Activities reflects financial aid as an offset to tuition revenues. The College's financial aid is primarily funded through private gifts, grants and endowment income with the remainder, if needed, representing unrestricted institutional resources for grants.

**(l) Auxiliary Operations**
Auxiliary operations includes residence and dining halls, the Nehoiden Golf Club, the Wellesley College Club, which operates a private dining and conference center, and use of the campus during the summer by internal and external groups. Related expenses include direct expenses of running these operations as well as an allocation for depreciation, debt service and physical plant maintenance and operation.

**(m) Internal Revenue Code Status**
The College has been granted tax-exempt status as a non-profit organization under Section 501(c)(3) of the Internal Revenue Code.

**(n) Conditional Asset Retirement Obligations**
The College recognizes the fair value of a liability for legal obligations associated with asset retirements in the period in which the obligation is incurred. When the liability is initially recorded, the cost of the asset retirement obligation is capitalized by increasing the carrying amount of the related long-lived asset. The liability is accreted to its present value each period, and the capitalized cost associated with the retirement obligation is depreciated over the useful life of the related asset. Upon settlement of the obligation, any difference between the cost to settle the asset retirement obligation and the liability recorded is recognized as a gain or loss in the Statement of Activities.

**(o) Interest Rate Swap**
The College has entered into an interest rate swap agreement on the Massachusetts Health and Education Facilities Authority, Variable Rate Revenue Bonds, Series I in order to convert the variable rate debt to fixed rate, thereby economically hedging against changes in the cash flow requirements of the College's variable rate debt obligations.

Net payments or receipts (difference between variable and fixed rate) under the swap agreement along with the change in fair value of the swap are recorded in nonoperating activities as net realized/unrealized loss on interest swap.

**(p) Use of Estimates**
The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**(q) New Accounting Pronouncements**
The College adopted accounting guidance on subsequent events as of June 30, 2010. This establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued and requires disclosure of the date through which an entity has evaluated subsequent events. Subsequent events have been evaluated through October 30, 2010, which is the date financial statements were issued.

The College adopted additional Financial Accounting Standards Board (FASB) guidance related to investments as of June 30, 2010. This establishes enhanced reporting and disclosure on the level of the assets included in investments. Further, the guidance requires disclosure by investment type related to investments. Such disclosure includes the nature of any restrictions on the investor's ability to redeem the investment at the valuation date as well as any unfunded commitments. The College adopted additional FASB guidance on enhanced disclosure on certain investments as of June 30, 2010. This provides enhanced disclosure on investments for which fair value is estimated through the use of net asset value, or its equivalent, as a practical expedient.

The College adopted FASB guidance on enhanced disclosure of pension assets as of June 30, 2010. The guidance calls for disclosure of how investment allocation decisions are made, the valuation techniques used to measure the fair value of the investments as well as any significant concentration of risk within the assets. This disclosure is required for each major category of plan asset.

The College adopted FASB guidance related to derivative instruments. The College has one such instrument. The guidance requires disclosure of the objective for using the instrument be disclosed including underlying risk and accounting designation. Further disclosure is required of the risk that the College is intending to manage as well as the fair value of the instrument.

**2. Contributions Receivable**

Contributions receivable, net, is summarized as follows at June 30 (in $000s):

| UNCONDITIONAL PROMISES EXPECTED TO BE COLLECTED IN: | 2010 | 2009 |
|---|---|---|
| Less than one year | $6,681 | $7,732 |
| One year to five years | 43,427 | 47,160 |
| Over five years | 1,377 | 400 |
| Total | 51,485 | 55,292 |
| Less discounts and allowance for uncollectible accounts | 5,808 | 7,568 |
| Net contributions receivable | $45,677 | $47,724 |

Contributions receivable expected to be collected within one year are recorded at their net realizable value. Those expected to be collected in future years are recorded at the present value of estimated future cash flows. The present value of estimated future cash flows has been measured at the time of the contribution using rates indicative of the market and credit risk associated with the contribution. Discount rates used to calculate the present value of contributions receivable ranged from 2.50% to 5.10%, and 1.50% to 4.95% at June 30, 2010 and 2009, respectively.

**3. Land, Buildings and Equipment**

Investment in land, buildings and equipment consists of the following at June 30 (in $000s):

| | 2010 | 2009 |
|---|---|---|
| Land improvements | $46,560 | $46,224 |
| Buildings and building improvements | 394,229 | 379,807 |
| Equipment | 12,440 | 12,385 |
| Construction in progress | 26,040 | 16,992 |
| | 479,269 | 455,408 |
| Less accumulated depreciation | 176,820 | 163,228 |
| | $302,449 | $292,180 |

Depreciation expense was $14,319,000 and $13,611,000 for the years ended June 30, 2010 and 2009, respectively.

The College recognized $783,000 and $640,000 of operating expenses relating to the accretion of liabilities recorded for the years ended June 30, 2010 and 2009, respectively. Conditional asset retirement obligations of $18,529,000 and $17,474,000 at June 30, 2010 and 2009, respectively, are included in the College's asset retirement obligation.

## 4. Investments

The book and market values of investments at June 30, 2010 and 2009 are shown in Table 4 on page 33.

"Other assets" include long-term and semi-marketable alternative investments. Long-term alternative assets include private equity funds such as venture capital and buyout funds, as well as more traditional investments in oil and gas and real estate properties.

The semi-marketable alternative asset investments include equity hedge funds, risk arbitrage, distressed securities and commodity hedge funds. The College's investments in these strategies use minimal, if any, leverage as part of their strategies.

Included in bonds and equities are alternative investment vehicles including hedge funds with a market value of $238,950,000 and $198,118,000 and commingled funds with a market value of $199,564,000 and $174,532,000 at June 30, 2010 and 2009, respectively, whose holdings are bonds and equities.

The College's investment return from endowment and planned giving for the years ended June 30, 2010 and 2009 appear in Table 5 on page 34.

The total return consisting of realized and unrealized gains and losses and dividends and interest net of investment management and custodial fees was 9.34% and -16.97% for the fiscal years ended June 30, 2010 and 2009, respectively.

At June 30, 2010 and 2009 investment securities having a fair value of $3,639,000 and $53,046,000, respectively, were loaned to various brokerage firms through a securities lending agent. The loaned securities are returnable on demand and are collateralized by cash deposits. The College has recorded the fair value of the collateral received of $3,743,000 and $54,233,000 and an offsetting liability for the return of the collateral on the Statement of Financial Position at June 30, 2010 and 2009, respectively.

## 5. Fair Value Disclosures

The College has established a framework for measuring fair value under generally accepted accounting principles ("GAAP"). Fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering assumptions, the College follows a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- Level 1—Observable inputs such as quoted prices in active markets;
- Level 2—Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and
- Level 3—Unobservable inputs in which there is little or no market data.

Table 6 on page 34 presents information about the College's assets and liabilities measured at fair value on a recurring basis based upon the lowest level of significant input to the valuations at June 30, 2010 and 2009.

Table 7 on page 35 presents the assets and liability carried at fair value as of June 30, 2010 and 2009 that are classified within level 3 of the fair value hierarchy. The table reflects gains and losses for the year, including gains and losses on assets and liabilities that were transferred to level 3 during the year, for all assets and liabilities categorized as level 3. Additionally, both observable and unobservable inputs may be used to determine the fair value of positions that the College has classified within the level 3 category. As a result, the unrealized gains and losses for assets and liabilities within level 3 may include changes in fair value that were attributable to both observable and unobservable inputs.

## TABLE 4: BOOK AND MARKET VALUES OF INVESTMENTS

JUNE 30, 2010 AND 2009 (IN $000S)

| | 2010 BOOK VALUE | 2010 MARKET VALUE | 2009 BOOK VALUE | 2009 MARKET VALUE |
|---|---|---|---|---|
| Endowment Investments | | | | |
| Investments pooled | | | | |
| Cash and cash equivalents | $58,452 | $58,452 | $77,438 | $77,438 |
| Bonds | 130,841 | 191,113 | 130,106 | 167,098 |
| Equities | 420,122 | 487,954 | 433,202 | 420,246 |
| Other assets | 573,303 | 569,277 | 598,160 | 601,655 |
| Total pooled investments | 1,182,718 | 1,306,796 | 1,238,906 | 1,266,437 |
| Faculty mortgages | 23,249 | 23,249 | 20,645 | 20,645 |
| Total pooled investments and faculty mortgages | 1,205,967 | 1,330,045 | 1,259,551 | 1,287,082 |
| Investments not pooled | | | | |
| Cash and cash equivalents | 199 | 199 | 202 | 202 |
| Total investments not pooled | 199 | 199 | 202 | 202 |
| Total endowment investments | $1,206,166 | $1,330,244 | $1,259,753 | $1,287,284 |
| Planned Giving Investments | | | | |
| Separate pooled funds | | | | |
| Cash and cash equivalents | $168 | $168 | $143 | $143 |
| Bonds | 4,583 | 4,781 | 4,054 | 4,069 |
| Equities | 7,739 | 9,032 | 8,977 | 9,314 |
| Total pooled funds | 12,490 | 13,981 | 13,174 | 13,526 |
| Unitrusts | | | | |
| Cash and cash equivalents | 848 | 848 | 514 | 514 |
| Bonds | 14,025 | 14,007 | 15,380 | 14,900 |
| Equities | 30,654 | 28,365 | 30,984 | 25,639 |
| Other assets | 887 | 887 | 889 | 889 |
| Assets held by Trustees | 6,583 | 6,583 | 7,617 | 7,617 |
| Total funds not pooled | 52,997 | 50,690 | 55,384 | 49,559 |
| Total Planned Giving investments | $65,487 | $64,671 | $68,558 | $63,085 |

# TABLE 5: INVESTMENT RETURNS FROM ENDOWMENT AND PLANNED GIVING

FOR YEARS ENDED JUNE 30, 2010 AND 2009 (IN $000S)

| 2010 | UNRESTRICTED | TEMPORARILY RESTRICTED | PERMANENTLY RESTRICTED | TOTAL |
|---|---|---|---|---|
| Dividends and interest (net of expenses of $9,930) | $(180) | $(3,303) | $710 | $(2,773) |
| Net realized and unrealized gains/losses | 43,715 | 76,809 | — | 120,524 |
| Total return on endowment and planned giving investments | 43,535 | 73,506 | 710 | 117,751 |
| Investment return designated for current operations | (41,855) | (44,757) | — | (86,612) |
| | $1,680 | $28,749 | $710 | $31,139 |
| **2009** | | | | |
| Dividends and interest (net of expenses of $8,221) | $856 | $(281) | $800 | $1,375 |
| Net realized and unrealized gains/losses | (89,359) | (201,695) | — | (291,054) |
| Total return on endowment and planned giving investments | (88,503) | (201,976) | 800 | (289,679) |
| Investment return designated for current operations | (39,088) | (42,111) | — | (81,199) |
| | $(127,591) | $(244,087) | $800 | $(370,878) |

# TABLE 6: ASSETS AND LIABILITIES

MEASURED AT FAIR VALUE (IN $000S)

| 2010 | LEVEL 1 | LEVEL 2 | LEVEL 3 | TOTAL |
|---|---|---|---|---|
| Investments | | | | |
| Equities | $153,409 | $314,498 | $20,047 | $487,954 |
| Bonds | 64,389 | 126,724 | — | 191,113 |
| Private Equity | — | — | 252,834 | 252,834 |
| Real Assets | — | — | 201,847 | 201,847 |
| Semi–marketable | — | 31,318 | 82,390 | 113,708 |
| Cash and Other Assets | 58,651 | — | 24,137 | 82,788 |
| Planned giving investments | — | — | 64,671 | 64,671 |
| Total assets at fair value | $276,449 | $472,540 | $645,926 | $1,394,915 |
| Interest rate swap | $— | $— | $6,816 | $6,816 |
| Total liabilities at fair value | $— | $— | $6,816 | $6,816 |

| 2009 | LEVEL 1 | LEVEL 2 | LEVEL 3 | TOTAL |
|---|---|---|---|---|
| Investments | | | | |
| Equities | $135,061 | $261,040 | $24,145 | $420,246 |
| Bonds | 60,341 | 106,757 | — | 167,098 |
| Private Equity | — | — | 275,231 | 275,231 |
| Real Assets | — | — | 197,478 | 197,478 |
| Semi–marketable | — | — | 128,058 | 128,058 |
| Cash and Other Assets | 77,640 | — | 21,533 | 99,173 |
| Planned giving investments | — | — | 63,085 | 63,085 |
| Total assets at fair value | $273,042 | $367,797 | $709,530 | $1,350,369 |
| Interest rate swap | $— | $— | $4,176 | $4,176 |
| Total liabilities at fair value | $— | $— | $4,176 | $4,176 |

## TABLE 7: ASSETS AND LIABILITY

### CARRIED AT FAIR VALUE AS OF JUNE 30, 2010 AND 2009 (IN $000S)

| 2010 | BALANCE JULY 1, 2009 | REALIZED AND UNREALIZED GAINS/LOSSES | PURCHASES AND SALES | TRANSFER IN (OUT) OF LEVEL 3 | BALANCE JUNE 30, 2010 |
|---|---|---|---|---|---|
| Equities | $24,145 | $4,719 | $— | $(8,817) | $20,047 |
| Private Equity | 275,231 | 24,435 | (46,832) | — | 252,834 |
| Real Assets | 197,478 | (13,806) | 18,175 | — | 201,847 |
| Semi–marketable | 128,058 | 13,969 | (28,319) | (31,318) | 82,390 |
| Cash and Other Assets | 21,533 | 1,023 | 1,581 | — | 24,137 |
| Planned giving investments | 63,085 | (1,158) | 2,744 | — | 64,671 |
| Interest Rate Swap—Asset/Liability | (4,176) | (2,640) | — | — | (6,816) |
| Balance, June 30, 2010 | $705,354 | $26,542 | $(52,651) | $(40,135) | $639,110 |

| 2009 | BALANCE JULY 1, 2008 | REALIZED AND UNREALIZED GAINS/LOSSES | PURCHASES AND SALES | TRANSFER IN (OUT) OF LEVEL 3 | BALANCE JUNE 30, 2009 |
|---|---|---|---|---|---|
| Equities | $38,570 | $(9,171) | $(5,254) | — | $24,145 |
| Private Equity | 297,857 | (39,566) | 16,940 | — | 275,231 |
| Real Assets | 245,355 | (78,857) | 30,980 | — | 197,478 |
| Semi-marketable | 230,255 | (36,181) | (66,016) | — | 128,058 |
| Cash and Other Assets | 20,214 | 954 | 365 | — | 21,533 |
| Planned giving investments | 76,530 | (19,324) | 5,879 | — | 63,085 |
| Interest Rate Swap—Asset/Liability | 37 | (4,213) | — | — | (4,176) |
| Balance, June 30, 2009 | $908,818 | $(186,358) | $(17,106) | — | $705,354 |

## TABLE 8: INVESTMENTS MEASURED AT NAV

### AS OF JUNE 30, 2010 (IN $000S)

| INVESTMENT | NAV IN FUNDS | UNFUNDED COMMITMENTS | REDEMPTION TERMS/RESTRICTIONS |
|---|---|---|---|
| Private Equity | $252,834 | $95,895 | Funds are private equity, no ability to redeem. |
| Real Assets | 201,847 | 86,724 | Funds are private equity, no ability to redeem. |
| Equities | 334,545 | — | 86% of NAV redeemable within 90 days. 4% of NAV redeemable within one year. Remaining 10% has multi year redemption. |
| Bonds | 126,724 | — | 45% of NAV is redeemable within 90 days. Remaining 55% has a multi-year redemption. |
| Semi-marketable | 113,708 | — | 28% of NAV is redeemable within 90 days. 60% is redeemable within one year. 12% of NAV has been redeemed subsequent to year end and prior to October 31, 2010 |
| Total | $1,029,658 | $182,619 | |

## TABLE 9: POOLED FUNDS

AS OF JUNE 30, 2010 AND 2009

| | 2010 | 2009 |
|---|---|---|
| Investments in pooled funds and faculty mortgages, market value (in $000s) | $1,330,045 | $1,287,082 |
| Total number of units | 2,482,647 | 2,457,016 |
| Market value per unit | $535.74 | $523.84 |
| Distribution per unit | $35.08 | $33.18 |

## TABLE 10: COMPONENTS OF POOLED AND NONPOOLED ENDOWMENT FUNDS AT MARKET VALUE

AS OF JUNE 30, 2010 AND 2009 (IN $000S)

| | UNITS | POOLED ENDOWMENT | NONPOOLED ENDOWMENT | TOTAL ENDOWMENT |
|---|---|---|---|---|
| 2010 Endowment and similar funds | | | | |
| Endowment funds | 1,568,080 | $840,078 | $— | $840,078 |
| Term funds | 75,959 | 40,694 | 199 | 40,893 |
| Quasi-endowment | 838,608 | 449,273 | — | 449,273 |
| Total | 2,482,647 | $1,330,045 | $199 | $1,330,244 |
| 2009 Endowment and similar funds | | | | |
| Endowment funds | 1,553,215 | $813,635 | $— | $813,635 |
| Term funds | 83,296 | 43,634 | 202 | 43,836 |
| Quasi-endowment | 820,505 | 429,813 | — | 429,813 |
| Total | 2,457,016 | $1,287,082 | $202 | $1,287,284 |

As a result of adopting the new guidance for estimating fair value of investments, certain investments have been reclassified as level 2 assets based on the year end recorded amounts.

The College uses Net Asset Value (NAV) or its equivalent to determine the fair value of certain investments, which may not have a readily determined fair value. These investments also have various redemption restrictions and redemption terms. The investments are measured at NAV as of June 30, 2010. (See Table 8 on page 35.)

Beneficial interests in perpetual trusts and outside trusts held by third parties are valued at the present value of distributions expected to be received over the term of the agreement. Inputs used to value the College's interest in these trust are considered unobservable and are categorized as Level 3.

Interest rate swaps are valued at the present value of the series of net cash flows resulting from the exchange of fixed-rate payments for floating rate payments over the remaining life of the contract from balance sheet date. Each floating rate payment is calculated based on forward market rates at valuation date for each respective payment date. Inputs to determine discount factors and forward rates include market prices for reference securities, yield curves, credit curves, measures of volatility, prepayment rates, assumptions for nonperformance risk, and correlations of such inputs. Certain inputs are unobservable; therefore the fair value is categorized as level 3.

### 6. Pooled Funds

Endowment and similar fund assets are pooled on a unit market value basis whenever possible. Funds are added to or withdrawn from the pool at the unit market value at the beginning of the fiscal quarter in which the transaction takes place. (See Table 9 above.)

The components of the pooled and nonpooled endowment funds at market value at June 30, 2010 and 2009 are shown in Table 10 on the previous page.

**7. Related Parties**

The College acts as fiscal agent and investment advisor for the Wellesley College Alumnae Association and a retired president of the College. Endowment investments held on their behalf are included in the College's general pool of investments and are reflected either as part of the College's net assets or a pension liability. The market value of the assets totaled $12,615,000 and $12,056,000 at June 30, 2010 and 2009, respectively.

Mortgages due from faculty of $23,249,000 and $20,645,000 at June 30, 2010 and 2009, respectively, are included within investments on the Statement of Financial Position.

**8. Notes and Bonds Payable**

Indebtedness at June 30, 2010 and 2009 includes various bonds issued through the Massachusetts Health and Education Facilities Authority (MHEFA). Interest payments on debt totaled $2,787,000 and $3,580,000 during fiscal years 2010 and 2009, respectively.

During January 2008, the College issued $57,385,000 in Series I tax-exempt variable rate demand bonds. The proceeds will be used for major asset preservation and modernization projects and were used to retire the Series F bonds, with $30.0 million outstanding, on July 1, 2009, the earliest possible call date. The refunding allows the College to realize the present value savings through a restructuring of the College's debt. At June 30, 2010 and 2009, restricted cash includes $13,006,000 and $20,021,000, respectively of construction funds held by trustees that will be drawn down to fund various construction projects.

The Series I bonds, which mature in 2039, currently bear variable interest rates payable monthly. Interest on the bonds is calculated on the basis of twelve thirty-day months for a 360-day year. Pending the redemption of the Series F bonds, proceeds of the Series I bonds were deposited into a refunding account established under the indenture and held by the Trustee and were invested in authorized investments as directed by the College. At June 30, 2009, the trust fund of $31,069,000 was available to service principal and interest obligations, which was fully repaid on July 1, 2009. Since the refunded bonds are no longer deemed to be outstanding for financial reporting purposes, neither the debt nor the irrevocable trust assets are included in the Statement of Financial Position.

The College has a line of credit with a bank. The College may borrow up to $40 million with various terms and interest rates at LIBOR plus 1/5 of 1%. There is no amount outstanding on the line of credit as of June 30, 2010.

Balances of outstanding bonds and notes payable at June 30 consisted of the following (in $000s):

| | 2010 | 2009 |
|---|---|---|
| MHEFA, Series I, Variable Rate Demand Bonds, bearing interest at a daily rate, maturing July 2039. The rate at June 30, 2010 was 0.08%. | $57,385 | $57,385 |
| MHEFA, Series H, Revenue Bonds issued at an interest rate of 4.0% to 5.0% maturing July 2033. | 52,650 | 53,400 |
| MHEFA, Series G, Variable Rate Demand Bonds, bearing interest at a daily rate, maturing July 2039. The rate at June 30, 2010 was 0.08%. | 20,000 | 20,000 |
| MHEFA Capital Asset Program, Series B & C, Variable Rate Demand Bonds, monthly amortization of principal with final payment due June 2010. Interest rate reset semi-annually. | — | 722 |
| MHEFA, Series E, Variable Rate Demand Bonds, bearing interest at a daily rate, maturing July 2022. The rate at June 30, 2010 was 0.18%. | 11,900 | 12,600 |
| Notes Payable Promissory Note, principal maturing July 2010.The rate at June 30, 2010 was 1.80%. | 7,483 | 8,103 |
| Total debt | 149,418 | 152,210 |
| Less unamortized bond issue costs | (838) | (879) |
| Add unamortized original issue premium | 953 | 1,018 |
| | $149,533 | $152,349 |

The total of the College's bonds and notes payable described above matures as follows (in $000s):

| | |
|---|---|
| 2011 | $8,963 |
| 2012 | 1,705 |
| 2013 | 1,725 |
| 2014 | 1,940 |
| 2015 | 2,260 |
| Thereafter | 132,825 |
| Total bonds and notes payable | $149,418 |

In order to reduce exposure to floating interest rates on variable rate debt, in January 2008, the College entered into an interest rate swap agreement, with a term through 2039. This swap effectively locks in a fixed rate of 3.239% per annum. The agreement has a notional amount of $57,385,000. At June 30, 2010 and 2009, the market value of the swap agreement amounted to a liability of $6,816,000 and $4,176,000, respectively. The fair value of the swaps is the estimated amount that the College would receive or pay to terminate the agreement at the reporting date, taking into account current interest rates and the current credit worthiness of the swap counterparties. The value of the interest rate swap is reflected within accounts payable and accrued expenses on the Statement of Financial Position. The change in fair value resulted in a loss of $2,640,000 in 2010 and a loss of $4,213,000 in 2009 reflected in nonoperating activities on the Statement of Activities. Additionally, the College paid net interest expense in association with the swap agreement of $1,758,000 and $1,308,000 which is reflected as part of the net realized/unrealized loss on interest swap for the years ended June 30, 2010 and 2009, respectively. This financial instrument necessarily involves counterparty credit exposure and the College's own nonperformance risk. The counterparty for this swap agreement is a major financial institution that meets the College's criteria for financial stability and credit-worthiness.

The College has outstanding at June 30, 2010 fixed rate debt of $52,650,000 and variable rate debt of $96,768,000. Included in variable rate debt is $57,385,000 of synthetic fixed debt which is debt that has an underlying variable rate but has an interest rate swap agreement that effectively locks in a fixed rate.

The fair market value of the College's fixed rate debt at June 30, 2010 approximates $57,297,000. The College's variable rate debt approximates fair value. Fair value for fixed and variable rate debt is based on estimates using current interest rates available for debt with equivalent maturities.

In the event that the College receives notice of any optional tender on its variable-rate bonds, or if the bonds become subject to mandatory tender, the purchase price of the bonds will be paid from the remarketing of such bonds. However, if the remarketing proceeds are insufficient, the College will be obligated to purchase the bonds tendered with internal liquidity.

**9. Annuities and Unitrusts Payable**

The College has split-interest agreements consisting primarily of annuities, pooled life income funds, and charitable remainder unitrusts for which the College may or may not serve as trustee. All split-interest agreements are included in planned giving investments. Contributions are recognized at the date the trusts are established net of a liability for the present value of the estimated future cash outflows to beneficiaries. The present value of payments is discounted at a rate of return that ranges from 4% to 6%. The liability of $37,585,000 and $37,556,000 at June 30, 2010 and 2009, respectively, is adjusted during the term of the agreement for changes in actuarial assumptions. Payments of income to beneficiaries are principally funded by the investment income of the related gift annuity and unitrust investments.

**10. Pension Plans**

The College has a defined contribution, noncontributory annuity pension plan for faculty and administrative personnel administered by the Teachers Insurance and Annuity Association and College Retirement Equities Fund ("TIAA/CREF"). Under this Plan, the College contributed $7,121,000 and $7,786,000 respectively, for the years ended June 30, 2010 and 2009.

The College also has a defined benefit pension plan for classified office and service employees.

The Plan provides retirement and death benefits based on the highest of the last four years of consecutive earnings. Contributions to the plan are made in amounts sufficient to meet the minimum funding requirements set forth in the Employee Retirement Income Security Act of 1974.

The measurement date of determining the benefit obligations and net periodic benefit cost was June 30, 2010 and 2009 (in $000s).

| | 2010 | 2009 |
|---|---|---|
| Assumptions used to determine benefit obligations: | | |
| Discount rate | 5.375% | 6.250% |
| Rate of compensation increase | 4.000% | 4.000% |
| Assumptions used to determine net periodic benefit cost: | | |
| Discount rate | 6.250% | 6.875% |
| Expected return on plan assets | 7.800% | 7.800% |
| Rate of compensation increase | 4.000% | 4.000% |
| Change in projected benefit obligation | | |
| Benefit obligation at end of prior year | $39,107 | $32,821 |
| Service cost (including expense load) | 1,306 | 1,162 |
| Interest cost | 2,393 | 2,212 |
| Actuarial loss | 5,649 | 3,469 |
| Benefits paid | (1,827) | (1,241) |
| Administrative expenses paid | (7) | (10) |
| Curtailments | — | 112 |
| Termination benefits | — | 582 |
| Benefit obligation at end of year | $46,621 | $39,107 |
| Accumulated benefit obligation | $37,324 | $31,470 |
| Change in plan assets | | |
| Fair value of plan assets at end of prior year | $23,241 | $30,765 |
| Actual return on plan assets | 2,673 | (6,273) |
| Employer contributions | 3,173 | — |
| Benefits paid | (1,827) | (1,241) |
| Administrative expenses paid | (7) | (10) |
| Fair value of plan assets at end of year | $27,253 | $23,241 |

| | 2010 | 2009 |
|---|---|---|
| Funded status | | |
| Funded status | $(19,368) | $(15,866) |
| Components of net periodic benefit cost | | |
| Service cost | $1,306 | $1,162 |
| Interest cost | 2,393 | 2,212 |
| Expected return on plan assets | (1,767) | (2,358) |
| Amortization of prior service cost | 64 | 67 |
| Cost of prior events/net loss on amortization | 590 | 699 |
| Net periodic benefit cost | $2,586 | $1,782 |
| Other changes in plan assets and benefit recognized obligations in unrestricted net assets | | |
| New net actuarial loss | $4,744 | $12,099 |
| Net loss on benefit costs | (1,179) | |
| Amortization of prior service cost | (64) | (71) |
| Total | $3,501 | $12,028 |
| Amounts recognized in the Statement of Financial Position consist of a liability | $(19,368) | $(15,866) |
| Amounts recognized in unrestricted net assets | | |
| Net prior service cost | $410 | $474 |
| Net actuarial loss | 3,091 | 11,554 |
| Total unrestricted net asset | $3,501 | $12,028 |

The amount expected to be recognized as amortization of prior net service cost and a component of net periodic cost in the upcoming year is $64,000.

Expected benefit payments, net of participant contributions, are as follows (in $000s):

| | |
|---|---|
| 2011 | $1,507 |
| 2012 | 1,556 |
| 2013 | 1,650 |
| 2014 | 1,770 |
| 2015 | 1,952 |
| 2016–2020 | 13,395 |

The College expects to make employer contributions into the plan of $3,000,000 in the 2011 fiscal year.

In selecting the long-term rate of return on assets, the College considered the average rate of earnings expected on the funds invested or to be invested to provide for the benefit of the Plan. This included considering asset allocation and the expected returns likely to be earned over the life of the Plan as well as assessing current valuation measures, income, economic growth and inflation forecasts, and historical risk premiums. This basis is consistent with prior years.

The investment objective and strategy of the Plan is to achieve returns above the balanced composite benchmark and maintain a level of volatility which approximates that of the composite benchmark using the following asset allocation:

| ASSET CATEGORY | TARGET ALLOCATION |
|---|---|
| Equity securities | 60% |
| Real estate investment trust | 5% |
| Commodities | 5% |
| Fixed income | 27% |
| Cash and equivalents | 3% |
| Total | 100% |

The following lists the Plan's asset allocation at June 30, 2010 and 2009 (in $000s):

| ASSET CATEGORY | VALUE AT JUNE 30, 2010 | 2010 | 2009 |
|---|---|---|---|
| Equity securities | $17,169 | 63% | 63% |
| Real estate investment trust | 818 | 3% | 4% |
| Commodities | 1,363 | 5% | 5% |
| Fixed income | 7,358 | 27% | 24% |
| Cash and equivalents | 545 | 2% | 4% |
| Total | $27,253 | 100% | 100% |

All pension plan assets are level 2 assets and all plan assets are in commingled funds.

The investment strategy for the pension assets is consistent with the approach to all other investment assets. The policies and strategies governing all investments for the College are designed to achieve targeted investment objectives while managing risk prudently. Risk management strategies include maintaining a diversified portfolio based on asset class, investment approach and security holdings. For the pension plan assets, an additional strategy is to maintain sufficient liquidity to meet benefit obligations as they become current.

## 11. Net Assets

Net assets consist of the following at June 30, 2010 and 2009 (in $000s):

| | 2010 | 2009 |
|---|---|---|
| Unrestricted | | |
| Designated for specific purposes and plant | $116,242 | $111,150 |
| Quasi-endowment | 406,232 | 401,889 |
| Deficiencies in donor-restricted endowments | (5,281) | (6,587) |
| | 517,193 | 506,452 |
| Temporarily restricted | | |
| Endowment and similar funds including pledges | 503,990 | 482,453 |
| Annuity, life income and unitrusts including pledges | 26,613 | 24,681 |
| Deficiencies in donor-restricted endowments | 5,281 | 6,587 |
| Other restricted | 64,717 | 59,655 |
| | 600,601 | 573,376 |
| Permanently restricted | | |
| Endowment including pledges | 416,777 | 409,020 |
| | 416,777 | 409,020 |
| | $1,534,571 | $1,488,848 |

## 12. Endowment

In August 2008, guidance was issued on endowments of not-for-profit organizations related to net asset classification of funds subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act, and additional guidance was issued on enhanced disclosures for all endowment funds, which, among other things, provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) and additional disclosures about an organization's endowment funds.

The College's endowment consists of approximately 3,000 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designed by

## TABLE 19: ENDOWMENT NET ASSET COMPOSITION BY TYPE OF FUND

AS OF JUNE 30, 2010 (IN $000S)

| | UNRESTRICTED | TEMPORARILY RESTRICTED | PERMANENTLY RESTRICTED | TOTAL |
|---|---|---|---|---|
| Donor-restricted funds | $— | $482,983 | $397,988 | $880,971 |
| Board-designated and other unrestricted funds | 449,273 | — | — | 449,273 |
| | $449,273 | $482,983 | $397,988 | $1,330,244 |

## TABLE 20: ENDOWMENT NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2010 (IN $000S)

| | UNRESTRICTED | TEMPORARILY RESTRICTED | PERMANENTLY RESTRICTED | TOTAL |
|---|---|---|---|---|
| Endowment net assets, beginning of year | $429,813 | $467,002 | $390,469 | $1,287,284 |
| Investment income, net of expenses | (180) | (268) | — | (448) |
| Net appreciation (realized and unrealized) | 44,251 | 72,606 | — | 116,857 |
| Subtotal | 473,884 | 539,340 | 390,469 | 1,403,693 |
| Contributions and transfers to endowment | 4,645 | 999 | 7,519 | 13,163 |
| Appropriation of endowment assets for expenditure | (29,256) | (57,356) | — | (86,612) |
| Endowment net assets, end of year | $449,273 | $482,983 | $397,988 | $1,330,244 |

## TABLE 21: ENDOWMENT NET ASSET COMPOSITION BY TYPE OF FUND

AS OF JUNE 30, 2009 (IN $000S)

| | UNRESTRICTED | TEMPORARILY RESTRICTED | PERMANENTLY RESTRICTED | TOTAL |
|---|---|---|---|---|
| Donor-restricted funds | $— | $467,002 | $390,469 | $857,471 |
| Board-designated and other unrestricted funds | 429,813 | — | — | 429,813 |
| | $429,813 | $467,002 | $390,469 | $1,287,284 |

## TABLE 22: ENDOWMENT NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2009 (IN $000S)

| | UNRESTRICTED | TEMPORARILY RESTRICTED | PERMANENTLY RESTRICTED | TOTAL |
|---|---|---|---|---|
| Endowment net assets, beginning of year | $542,302 | $702,183 | $384,962 | $1,629,447 |
| Investment income, net of expenses | 856 | 1,665 | — | 2,521 |
| Net depreciation (realized and unrealized) | (91,411) | (183,600) | — | (275,011) |
| Subtotal | 451,747 | 520,248 | 384,962 | 1,356,957 |
| Contributions and transfers to endowment | 5,186 | 833 | 5,507 | 11,526 |
| Appropriation of endowment assets for expenditure | (27,120) | (54,079) | — | (81,199) |
| Endowment net assets, end of year | $429,813 | $467,002 | $390,469 | $1,287,284 |

the Board of Trustees to function as endowments. 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.

See Table 19 on page 41 for the endowment net asset composition by type of fund at June 30, 2010.

See Table 20 on page 41 for changes in endowment net assets for the year ended June 30, 2010.

See Table 21 on page 41 for the endowment net asset composition by type of fund at June 30, 2009.

See Table 22 on page 41 for changes in endowment net assets for the year ended June 30, 2009.

**13. Commitments and Contingencies**

In 1975 the College identified the presence of soil tainted with various hazardous materials on the site of an abandoned 19th century paint factory acquired by the College in 1932. In 1991, the College arranged for the excavation of contaminated soils from two waste piles and a wastewater settling basin formerly associated with the paint factory.

After the contaminated material was removed, the area was capped and seeded. These actions were undertaken in accordance with plans approved by the Department of Environmental Protection (DEP) on July 5, 1991. The College has continued to work with the DEP and has completed the process of remediating and restoring approximately 30 acres of land referred to as the Upland site. The College began in April 2001 excavating and consolidating contaminated soils from the upland, wetland, and pond ("Upland/Wetland/Pond") portions of the site. The soils have been treated and consolidated on site under a permanent engineered barrier. The capped area has been developed into three playing fields, an eight lane all weather track, and a softball field and was completed in October 2002. The cost of this project was $32.8 million; $10 million has been funded from a HEFA bond issuance and the remainder from unrestricted endowment. Costs associated with the campus improvement project are capitalized as land improvements. Costs incurred to remediate this property are charged to expense when they can be estimated. Ongoing expenses associated with the monitoring and maintenance of the engineered barrier are charged to operations. Total expenses for this project were $112,000 and $200,000, respectively for the years ended June 30, 2010 and 2009. The College has purchased an insurance policy to cover cost overruns associated with the Upland/Wetland/Pond project as well as the assessment, monitoring, and, if necessary, remediation of contaminated groundwater located under the Uplands/Wetlands/Pond area. In September 2004, the College submitted a report to DEP recommending that no remedial action be taken in respect of the groundwater portion of the site beyond periodic monitoring of hexavalent chromium concentrations. DEP has not yet responded to this report.

In 2001, the Commonwealth of Massachusetts and the College entered an agreement pursuant to which the Commonwealth agreed to share in the cost of dredging the Northern Shoreline and Western Cove portion of Lake Waban, with the Commonwealth's share capped at $1.4 million. The dredging project was completed in 2002 at a total cost of approximately $1.2 million. Additional reimbursable costs of approximately $100,000 were incurred after the completion of dredging. In three payments made in 2005 and 2006, the Commonwealth reimbursed the College a total of approximately $1.06 million, fully satisfying the Commonwealth's reimbursement obligations under the 2001 cost-sharing agreement. In a report filed with DEP in May 2005, the College recommended that no remedial action be taken in portions of Lake Waban beyond the Northern Shoreline and Western Cove, apart from periodic monitoring of water quality and fish-growth patterns. DEP responded favorably to this report in a letter dated October 2005. The periodic monitoring program was initiated in 2008. The cost of this program is insignificant. The Lower Waban Brook remedial project was originally anticipated to be undertaken in 2009 and was estimated to cost $3,600,000. Early project designs based upon risk assessments and feasibility studies performed prior to 2000 were not embraced by all constituents as satisfactory. Additional hydrological data gathering has been undertaken in keeping with proposals still under review with DEP, with the intent to develop an updated feasibility study and remedy selection process. It is desirable but not yet clear whether a new process will result in material increases to previous project cost estimates. For the years ending June 30, 2010 and 2009, total expenses to the Lower Waban Brook remedial project were $100,000 and $339,000, respectively. A liability of $2,825,000 and $2,914,000 has been recorded as of June 30, 2010 and 2009, respectively and is included in the Statement of Financial Position within accounts payable and accrued expenses.

Outstanding commitments amounted to approximately $191,549,000 and $257,244,000 as of June 30, 2010 and 2009, respectively for the following:

| | 2010 | 2009 |
|---|---|---|
| Alternative investments | $182,619,000 | $242,706,000 |
| Construction contracts | 8,930,000 | 14,538,000 |
| | $191,549,000 | $257,244,000 |

Under the terms of certain limited partnership agreements, the College is obliged to periodically advance additional funding for private equity investments. Such commitments generally have fixed expiration dates or other termination clauses. The College maintains sufficient liquidity in its investment portfolio to cover such calls.

The College built a gas-fired cogeneration plant capable of producing 7.5 megawatts of electricity. The plant supplies electricity for the entire campus. The College pays the Town $111,000 annually as a guarantee for back-up power, at cost, to the College. This contract is in force until May 2013.

The College has several legal cases pending that have arisen in the normal course of its operations. The College believes that the outcome of these cases will have no material adverse effect on the financial position of the College.

# BOARD OF TRUSTEES 2009–2010

106 Central Street, Wellesley, Massachusetts 02481