2011

Wellesley College Annual Report 2011–2012

WELLESLEY

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2012

On the cover: *Mozart*, by Kenneth Snelson, 1982. This extraordinary 2012 gift from Robert and Lynn Johnston '64 has graced Wellesley's campus since 2008.

2011

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Wellesley College Annual Report

For the year ended June 30, 2012

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October 2012

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 2011–2012 academic year (Fiscal Year 2012). This past year was marked by strong financial management, innovation in the liberal arts, and student successes, as well as by our having moved forward with a number of important institutional initiatives—initiatives that will shape Wellesley's course for years to come.

The reports that follow—from Andrew Evans, vice president for finance and treasurer, and Deborah Foye Kuenstner '80, chief investment officer—represent an in-depth look at the financial status of the College and the performance of our endowment. They tell an important story about the financial strength of the College and—despite a challenging economic climate—Wellesley's ongoing commitment to investing in our institutional priorities.

Following are just some of the highlights of the ways in which we are advancing institutional priorities and supporting our mission of educating women who will make a difference in the world:

A Thriving Intellectual Community

Wellesley's intellectual community continues to be fundamental to the vibrancy of our campus; compelling speakers, programs, and events invite us to think critically, explore our beliefs, challenge our assumptions, and broaden our perspectives. This past year two notable examples were the 2011–12 Wilson Lecture, which was delivered by Amy Smith, an inventor, humanitarian engineer, and the founder of MIT's D-Lab, or Development Lab; and, in January, a discussion hosted by Wellesley's Albright Institute for Global Affairs on the need to refocus world institutions on the global challenges of the 21st century, with former Secretary of State Madeleine Albright '59; James Wolfensohn, former World Bank President; and Suzanne Nossel, executive director of Amnesty International. (We were additionally fortunate to have James and Elaine Wolfensohn '58 serve as the 2012 Mary Jane Durnford Lewis '59 Distinguished Visiting Professors for this Institute.)

But our sense of "intellectual community" is not just about the speakers and guests we host on such occasions; it is much more consistently defined by the students, faculty, and staff who live and work here every day. This past year, we were strengthened in this respect by the following:

- We hired 14 new tenure-track faculty;
- We awarded tenure to eight Wellesley faculty members;
- Our faculty received a wealth of impressive grants supporting their research, including three that total $2.6 million; and
- Forty-one students and alumnae won national fellowships and scholarships, including the Fulbright Fellowship, the Thomas J. Watson Fellowship, the Mellon Mays Undergraduate Fellowship, and those from the National Science Foundation.

A Focus on Innovation

Throughout its history, Wellesley has been a leader in pedagogical innovation in the liberal arts. This was true for the first classes of women who attended Henry Durant's Wellesley in the 1870s, and it remains true today. Just a few examples from this past year: the continued success of the First-Year Seminars, which immerse students in our rich intellectual tradition; redoubled efforts to support interdisciplinary teaching and courses; a new certificate program in sustainability, offered through our collaboration with Babson and Olin Colleges; and a symposium led by Library and Technology Services on Liberal Arts Learning in the Digital Age.

Additionally, a number of Wellesley faculty, staff, and students have been recipients of grants from the Mellon Presidential Innovation Project Fund (offered through the Three-College Collaboration). Their projects included the establishment of an international visiting artist series, the development of a global student-leader consortium, and the improvement of teaching and learning through pedagogical research and training.

Finally, Wellesley was honored for our innovative work in faculty retirement. One of only 15 institutions in the nation to receive such recognition, the College was awarded a $100,000 grant from the American Council on Education and the Alfred P. Sloan Foundation to continue this effort. Faculty emeriti are an important part of our community, and I was delighted that Wellesley was recognized for this commitment.

Advancing Women in the World

Together with our sister schools and the U.S. State Department, Wellesley recently founded the Women in Public Service Project (WPSP)—aimed at educating and training emerging leaders around the world—and hosted a successful inaugural institute this past summer. Fifty delegates from around the world came to our campus in June to participate in an intensive two-week experience, with opening ceremonies attended by both Secretary of State Hillary Clinton ’69 and former Secretary of State Madeleine Albright ’59.

For more than 135 years, Wellesley has invested in women and in their leadership potential, so it was both exciting and gratifying to be a founding partner of such an important initiative. Going forward, the WPSP will rotate future institutes among the campuses of the founding institutions and continue to mount programs and global conversations with the goal of advancing women in public service, further perpetuating what Wellesley and its Project partners already do so well—preparing women for leadership.

Wellesley 2025

Over the last year, we launched a major multiyear initiative to rethink, reinvent, and repurpose our campus and its buildings, bringing new life to these essential elements of the Wellesley experience and upgrading our facilities to respond to the challenges of the 21st century. This precious infrastructure demands ongoing care and is the focus of the most ambitious campus renovation in more than a century. Wellesley 2025: A Plan for Campus Renewal will let us attend to significant and pressing needs not only in the residence halls, but also in our classrooms, labs, and studio spaces, both to better address the ways in which students live and learn today and to plan for future flexibility in these living and learning spaces. Wellesley 2025 is a wonderful opportunity to invest in our campus, focusing on those areas in critical need of attention as well as re-envisioning the spaces within our historic and iconic buildings to better fit with our academic priorities and goals.

Wellesley has been able to move forward with these and other initiatives thanks to the dedication and generosity of our College community—including our faculty, staff, alumnae, parents, and friends. Even as we continue to navigate a difficult economic environment, we are advantaged by strong financial management, a profound commitment to institutional priorities, and a dedicated community that cares deeply about the future of the College.

Thank you for making Wellesley the special place that it is.

Respectfully submitted,

H. Kim Bottomly
President

Report of the Vice President for Finance and Treasurer

October 2012

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, 2012, during which the College's net assets decreased by $89.4 million. The endowment decreased as well—by $55 million—and was valued at $1.445 billion as of June 30, 2012.

Results of Fiscal Year 2012

During Fiscal Year 2012 Wellesley, always a remarkable institution, remained academically and financially strong. **There was a gain from a positive investment return (0.7 percent) on the endowment**, but this gain was offset by spending needed to support College operations. The endowment per student decreased by 2 percent—from $666,135 to $652,604—against gifts of $39.4 million. Finally, funds used during the year to support the operating budget and various capital projects were 5.3 percent of the endowment market value for the one-year—and 5.8 percent of the three-year—rolling average. (A detailed discussion about our endowment appears in the Chief Investment Officer's report.)

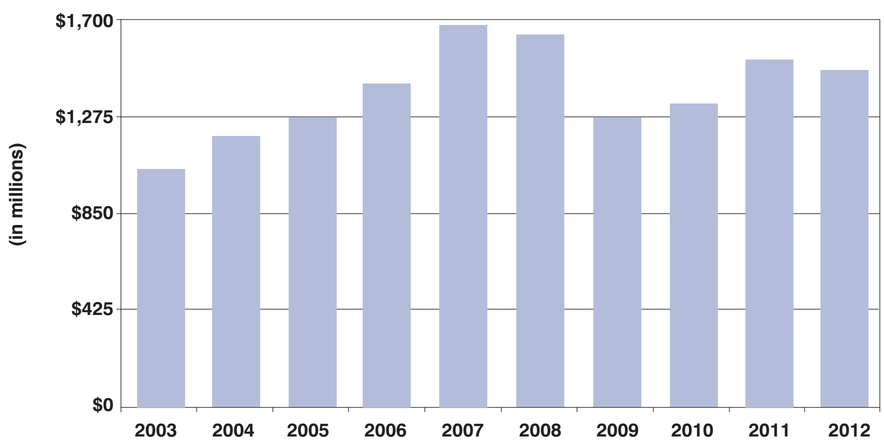
The operating budget (Schedule A on page 13) in this fiscal year reflects revenues of $236.3 million and expenses of $235.9 million, resulting in an operating surplus of $452,000 before addition to reserves.

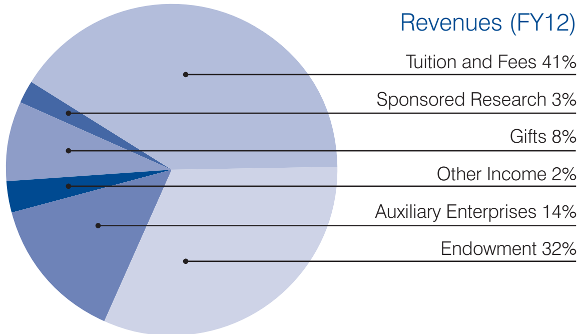
The revenue base for the operating budget was well diversified, with five primary revenue sources: tuition income (41 percent); **endowment** (32 percent); **auxiliary enterprises**, including room and board (14 percent); **gifts** used for operations (8 percent); and **other sources** of revenue, including sponsored research (5 percent). Total operating revenues in this fiscal year essentially remained the same as for the previous year—even with a decrease in endowment income of $3.3 million (4 percent).

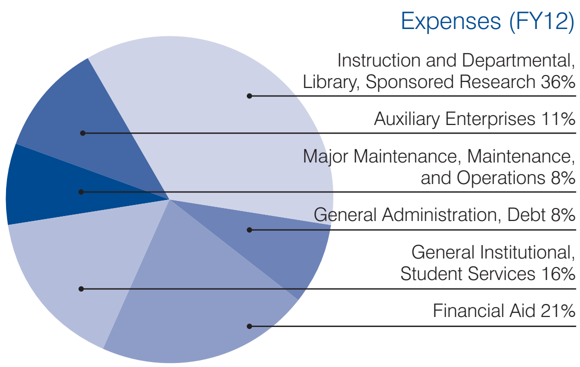
Operating expenses had an incremental increase of 1.5 percent over Fiscal Year 2011. As would be expected in a labor-intensive institution, about 50 percent of the operating budget was used for salaries and benefits.

At the end of each fiscal year, the College's interest-rate swap on the Series I variable-rate revenue bonds is "marked to market" (which means that the market value of the swap is reflected in the audited financial statements). As of June 30, 2012, the College recorded a liability of $16.3 million (reflecting the mark-to-market of the swap) due to low U.S. Treasury rates on that date. This represents an increase from the value of a $4.9 million liability as of June 30, 2011 and results in a $11.4 million decrease to the College's net assets for Fiscal Year 2012.

General Endowment Pool, 2003–2012







Bond Issuance

In late March, the College finalized the issuance of $150 million in bonds, with $100 million of the total to be used primarily for Wellesley 2025: A Plan for Campus Renewal (W2025) projects, and $50 million to be applied to refinancing the existing Series H bonds to achieve savings. In advance of bond issuance, two rating agencies, Moody's and Standard and Poor's (S&P), rated the College at Aa1 and AA+, respectively. The replacement combination of tax-exempt (Series J) and taxable (Series K) bonds was issued at historically low interest rates, with the all-in interest rate at 4.37 percent for our tax-exempt bonds and 4.03 percent for the taxable bonds.

A portion of the taxable bonds ($45 million) was issued at this time even though the College does not plan to spend the proceeds for the next three years in order to take advantage of the historically low interest rates. These monies have been invested in a fund recommended by the Investment Office and approved by the Board of Trustees Investment Committee.

Financial Strength and Flexibility

The College operates under a set of principles focused on 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 a balanced budget.

The College's endowment-spending policy attempts to address the need for a strong, stable, and growing income stream from the endowment to support operations and to address 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 endowment value. As a general rule, the total amount spent needs to be within a 4.0 percent to 5.5 percent range of the prior-year market value of the endowment; in addition, the spending policy sets a ceiling for the maximum amount to be spent each year at 5.5 percent of the trailing three-year endowment value average. In Fiscal Year 2012, owing to the change in spending policy, the College reduced its spending by $2 million to honor this ceiling. However, even with this reduced spending from the endowment for operations, the College achieved an operating surplus for the Fiscal Year 2012.

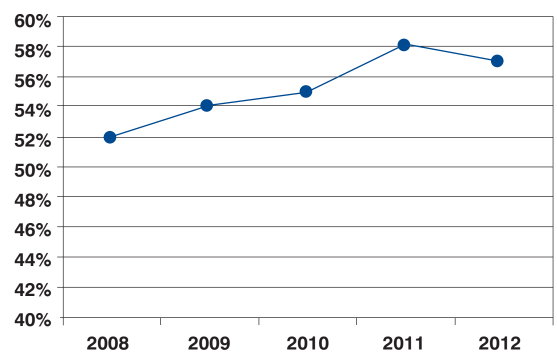
The budget process for the College is a multiyear one. It is built around institutional priorities, allowing for inclusiveness and institution-wide input, and using all sources of funds, including restricted-income sources. In building the budget for each fiscal year, the Provost Budget Committee (which the Provost chairs) ensures that the College's budget aligns resources to serve its academic mission.

Institutional Values and Priorities

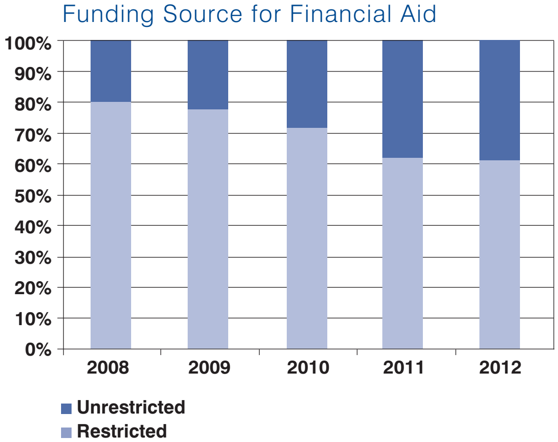
One of the College's longest-held institutional values has been our need-blind admission policy. Wellesley believes that students should be considered for admission solely on the basis of their talents and personal qualities, rather than their ability to pay. At the same time, the College continues to 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 (shown below). **While the percentage of students receiving financial-aid assistance has remained fairly constant over the past five years (52 percent to 58 percent), the percentage of student financial aid expenditures supported by restricted revenues has decreased from 80 percent in 2008 to 62 percent in 2012**, resulting in a growing need to use our unrestricted resources to fund this important College value.

The maintenance and enhancement of the College's significant physical assets is also an important institutional priority. Fiscal Year 2012 represents the third year of our plan to build a fund for asset renewal and replacement (ARR)—prior to Fiscal Year 2010, the College's operating budget did not include funding for depreciation or ARR. In order to fully fund ARR, the College will need to add approximately $10 million to the operating budget. To that end, the College is implementing a phased-in approach to this funding need, with a funding increase each fiscal year. As of June 30, 2012, the College has accumulated a balance of $3.5 million in the ARR fund.

Percentage of Students Receiving Financial Aid Grant Assistance



Funding Source for Financial Aid



President Bottomly formed a steering committee, Wellesley 2025: A Plan for Campus Renewal, at the end of last year, co-chaired by the provost and the vice president for finance. The group was charged with helping to develop a long-term plan establishing a prioritized schedule of capital improvements over the next 10 to 15 years, based on both facilities needs and institutional goals and priorities, and requiring a thoughtful planning process that will establish the guiding principles and priorities that are so critical to positioning Wellesley for the future. Despite considerable investment in renovation and construction over the past 10 years, 82 percent of our buildings have not had a major renovation in more than 25 years and 62 percent have not had a major renovation in more than 50 years; in some parts of the campus, the College's infrastructure systems are more than 75 years old. In short, our facilities needs are significant, and we are developing an orderly, long-term plan to address them.

Future Challenges and Outlook

The College's set of principles for financial strength and flexibility continues to guide planning as we confront budget issues resulting from the fallout of the tumultuous economic events of Fiscal Year 2009. At the same time, we must strive to improve Wellesley's buildings and preserve infrastructure, develop programs, and stay competitive in recruiting students. The development of an integrated long-term financial plan to support the new comprehensive facilities goals is key to ensuring that Wellesley will continue to achieve its high academic standards and uphold its institutional values.

Respectfully submitted,

Andrew B. Evans

Andrew B. Evans
Vice President for Finance and Treasurer

Report of the Chief Investment Officer

October 2012

To the Board of Trustees of Wellesley College

On June 30, 2012, the Wellesley College endowment had a market value of $1.445 billion, vs. $1.500 billion on June 30, 2011—a decrease of $55 million. The investment return for the fiscal year earned by the endowment portfolio was 0.7 percent (net of investment management fees).

Fiscal 2012 Developments

Fiscal Year 2012 was a roller-coaster year in financial markets. Global equity markets were down sharply in the first half of Fiscal Year 2012, but rebounded in the second half, with nearly all of the price return of the S&P 500 in the last several weeks of June. Against this backdrop, the investment return of the endowment was 0.7 percent. Although the endowment enjoyed good returns from private equity and fixed income, results were hurt by exposure to non-U.S. equities and real assets. Investment returns by asset class—and the relative performance vs. benchmarks for each asset class—are summarized below.

Longer-Term Results

Compound annual returns over the last five and 10 years were 2.2 percent and 7.7 percent respectively (net of investment management fees). These results are lower than the College's need for returns that cover both spending and inflation, but 10-year results improved as compared with the prior year. Long-term performance also remains strong relative to alternative strategies; the College's well-diversified endowment has significantly outperformed U.S. equity investments (represented by the S&P500), as has the 65 percent stock/35 percent bond portfolio, as shown below. Continued exposure to alternative asset-classes with higher long-term return expectations has been important to improving longer-term portfolio results.

Total Return by Asset Class Year Ended June 30, 2012

	Wellesley Return	Market Benchmark/Comparative Index	
U.S. Equity	5.3%	5.4%	S&P 500
International Equity	(13.6)	(14.6)	MSCI AC World Ex-U.S.
Private Equity	6.9	—	Cambridge Associates (1)
Real Assets	(3.4)	—	Real Assets Benchmark (2)
Semi-marketable (3)	2.3	(1.9)	Cambridge Associates Hedge Fund-of-Funds Index
Fixed Income	14.3	14.6	Fixed Income Benchmark (4)
Total Portfolio	**0.7%**		

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

2 Real Assets Benchmark is a weighted average of the NCREIF Timber, Cambridge Associates Real Estate and the Cambridge Associates Natural Resources Index (x-Timber). Final returns have not yet been reported at the time of this writing.

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.

Total Annualized Return on Endowment, Year Ended June 30, 2012

	3 years	5 years	7 years	10 years
Wellesley Portfolio	9.9%	2.2%	6.6%	7.7%
S&P 500 Index	16.4	0.2	4.1	5.3
65/35 Stock/Bond Portfolio (5)	6.6	13.3	3.0	5.8

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

The Policy Portfolio established by the Wellesley College Investment Committee guides asset allocation with the goal of balancing long-term returns and risks. Over the last decade, the endowment has diversified into less-efficient asset classes, such as venture capital, distressed debt, and energy. The Investment Committee, together with the Investment Office team, regularly reviews the assumptions and expectations upon which the Policy Portfolio is based; the goal is to refine the assets held in the Wellesley portfolio in order to provide optimal risk/return characteristics over the long run. In executing this investment strategy, the Investment Office team works to add value within asset classes through the selection of outstanding investment managers.

The table below details the Policy Portfolio and the actual asset allocation as of June 30, 2012.

Asset Allocation as of June 30, 2012

Asset Class	Policy Portfolio	Asset Allocation
U.S. Equities	19%	19%
International Equities	19	16
Total Equities	38	35
Private Equity	16	20
Real Assets	16	17
Semi-marketable	20	18
Total Alternative Assets	52	55
Fixed Income & Cash	10	10
Total Portfolio	100%	100%

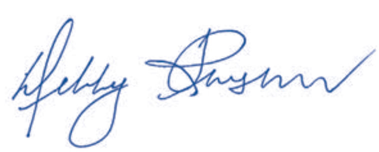
Exposure to total long-term alternative assets comprised 55 percent of the portfolio, relative to a long-term target of 52 percent. Relative to the long-term Policy Portfolio targets, our endowment portfolio was underweight in international equities. The portfolio has sufficient exposure to liquid investments to maintain the endowment's financial support to the College's operations and to provide for portfolio liquidity needs.

As developed economies continue to deal with challenging economic conditions that were years in the making, financial markets are likely to remain volatile. The Investment Office and the Investment Committee remain focused on long-term growth to ensure that the endowment continues to support the College's mission. I believe that the College will be well served by its strategy of broad diversification across asset classes, geographies, and strategies, as well as by the excellent investment managers whom we employ.

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)

	2008	2009	2010	2011	2012
Total College Summary					
Total Revenues	$182,338	($122,136)	$283,897	$445,748	$187,788
Total Expenses	225,903	252,458	238,174	231,443	277,219
Net Surplus (Deficit)	($43,565)	($374,594)	$45,723	$214,305	($89,431)
Current Operations Summary					
Revenues including Trustee approved use of unrestricted bequests	$221,417	$226,808	$235,248	$236,384	236,302
Expenditures including addition to reserves	221,416	226,803	235,219	236,327	236,300
Operating Surplus	$1	$5	$29	$57	$2
Resources					
Unrestricted Gifts	$8,848	$8,268	$8,847	$8,690	$9,177
Endowment Gifts and Bequests	10,266	18,556	18,586	24,276	19,403
Planned Gifts	2,943	3,389	1,219	1,409	6,990
Facilities Gifts	14,341	6,607	3,291	2,315	2,442
Current-Use Gifts and Grants	1,367	1,422	1,174	1,411	1,401
Total	$37,765	$38,242	$33,117	$38,101	$39,413
Endowment					
Market Value	$1,629,447	$1,287,284	$1,330,045	$1,523,452	$1,468,370
Total Return (Loss)	$12,487	($291,066)	$116,294	$266,207	$5,644
Total Return Used for Operations	$76,584	$81,199	$86,612	$79,107	$78,392
Unit Value	$668.81	$523.84	$535.74	$608.09	$579.48
Investment Return - Total	1.2%	(17.0%)	9.3%	20.4%	.8%
Yield	7.8%	2.8%	4.6%	5.5%	5.2%
Appreciation	(6.6%)	(19.8%)	4.7%	14.8%	(4.5%)
Average Endowment Operating Support (% of Average Market Value)					
One-Year Average	4.6%	5.4%	6.4%	5.8%	5.3%
Three-Year Average	4.7%	4.9%	5.5%	5.9%	5.8%
Assets					
Total College Net Assets	$1,862,356	$1,488,848	$1,534,571	$1,748,876	$1,659,445

2011

Schedules

2012

Schedule A

Summary of Operating Revenues and Expenditures Years ended June 30, 2012 and 2011 (in $000s)

	2012	2011	Increase (Decrease)	%
Revenues from Operations				
Tuition and Fees	$96,702	$96,402	$300	.3%
Endowment Income				
Education and General Support	51,235	54,513	(3,278)	(6.0%)
Total Endowment Support	51,235	54,513	(3,278)	(6.0%)
Unrestricted Gifts	9,282	9,274	8	.1%
Unrestricted Bequests	3,000	2,000	1,000	50.0%
Restricted Gifts	2,808	3,071	(263)	(8.6%)
Other Income	4,414	4,040	374	9.3%
Student Financial Aid				
Endowment Income	23,772	23,791	(19)	(.1%)
Federal and State Grants	2,859	3,303	(444)	(13.4%)
Restricted Gifts	1,474	1,502	(28)	(1.9%)
Total Student Financial Aid	28,105	28,596	(491)	(1.7%)
Total Education and General	195,546	197,896	(2,350)	(1.2%)
Sponsored Research	6,881	5,490	1,391	25.3%
Auxiliary Enterprises	33,875	32,998	877	2.7%
Total Revenues	236,302	236,384	(82)	(.0%)
Operating Expenditures				
Instruction and Departmental	69,005	66,988	2,017	3.0%
Library	5,739	5,638	101	1.8%
Student Services	11,854	11,613	241	2.1%
Student Financial Aid	49,117	49,455	(338)	(.7%)
General Administration	11,139	11,576	(437)	(3.8%)
General Institutional	26,263	25,644	619	2.4%
Maintenance and Operations	13,099	14,409	(1,310)	(9.1%)
Debt Service	6,547	6,098	449	7.4%
Major Maintenance and Capital Expenditures	6,113	5,841	272	4.7%
Total Educational and General Expenditures	198,876	197,262	1,614	.8%
Sponsored Research	6,881	5,490	1,391	25.3%
Other Programs	3,611	4,079	(468)	(11.5%)
Auxiliary Enterprises	26,482	25,496	986	3.9%
Total Expenditures	235,850	232,327	3,523	1.5%
Operating surplus before reserves	452	4,057	(3,605)	(88.9%)
Addition to reserves	450	4,000	(3,550)	(88.8%)
Operating surplus after reserves	$2	$57	$(55)	(96.5%)

Schedule B

Ten-Year Financial Summary 2003–2012

	2003	2004	2005	2006	2007
Financial Statement (in $000s)					
Total Revenues					
Tuition and Fees	$59,828	$62,928	$66,989	$71,431	$79,298
Investment Return	35,449	152,797	131,721	175,886	312,636
Private Gifts, Grants, Bequests and Contracts	52,261	63,101	105,136	47,336	58,547
Federal Grants and Contracts - Restricted	7,448	5,608	4,567	4,560	5,121
Sales and Services of Auxiliary Enterprises	24,493	24,224	25,779	27,428	29,382
Interest Income	747	713	713	1,598	2,402
Other	1,823	3,434	3,461	3,505	3,665
Total Revenues and Other Additions	$182,049	$312,805	$338,366	$331,744	$491,051
Total Expenditures					
Instruction and Departmental	$43,650	47,746	51,035	54,663	60,474
Library	5,602	5,556	5,909	5,818	6,239
Student Services	10,056	9,917	10,396	10,616	10,872
Maintenance and Operations	14,312	13,452	14,896	20,954	24,985
Provision for Depreciation	9,429	9,894	10,497	12,374	12,419
Interest on Indebtedness	4,712	6,069	4,930	5,442	5,588
General Administration	9,737	9,412	9,128	8,247	10,521
General Institutional	20,117	19,676	19,472	19,942	22,236
Student Financial Aid	23,479	26,511	29,649	31,590	34,736
Sponsored Research and Other Programs	12,115	12,850	11,079	10,138	10,682
Auxiliary Enterprise Expenditures	22,233	21,617	22,278	23,632	25,052
Other	—	—	—	15,857	918
Total Expenditures and Other Deductions	$175,442	$182,700	$189,269	$219,273	$224,722
Excess of Revenues over Expenditures	$6,607	$130,105	$149,097	$112,471	$266,329
Excess of Revenues over Expenditures as a Percent of Expenditures	3.8%	71.2%	78.8%	51.3%	118.5%
Endowment Total Return Used to Support Current Operations	$54,333	$59,639	$65,219	$69,159	$74,496
Endowment End-Of-Year Market Value	$1,043,937	$1,180,405	$1,275,767	$1,412,604	$1,672,473
Average Endowment Return Used to Support Current Operations as a Percent of:					
One Year - Beginning and Ending Market Value	5.3%	5.1%	5.1%	5.0%	4.7%
Three Year - Average of Three Years	4.8%	5.1%	5.2%	5.1%	4.9%
Other Financial Information					
Tuition and Fees per Student					
Comprehensive Fee	$34,944	$36,513	$38,998	$41,030	$43,288
Tuition	$26,138	$27,314	$29,176	$30,696	$32,384
Enrollment (Average FTE)	2,191	2,176	2,169	2,193	2,196
Educational and General Costs per Student	$64,397	$68,122	$71,882	$77,358	$85,642
Tuition as a Percent of Educational and General Expenses	40.6%	40.1%	40.6%	39.7%	37.8%
Endowment per Student	$476,466	$542,466	$588,182	$644,142	$761,600

2008	2009	2010	2011	2012	Average Annual Percent Change Since June 30, 2003 Nominal %	Real %
$83,447	$86,543	$90,400	$96,402	$96,702	5.4%	3.0%
12,487	(291,066)	116,294	266,207	5,644	(237.6%)	(240.0%)
41,631	43,396	35,783	41,408	41,640	3.6%	1.2%
4,983	4,800	6,415	5,615	5,590	.3%	(2.1%)
30,100	30,132	31,282	32,998	33,876	3.5%	1.1%
2,207	526	120	99	11	(13.8%)	(16.2%)
7,483	3,533	3,603	3,019	4,325	11.9%	9.5%
$182,338	($122,136)	$283,897	$445,748	$187,788	(33.7%)	(36.1%)
64,458	63,789	66,622	66,461	69,020	5.1%	2.7%
6,473	6,576	5,798	5,740	5,739	.4%	(2.0%)
11,706	11,297	10,796	11,657	11,859	1.9%	(.5%)
19,118	18,178	17,218	15,215	18,281	3.1%	.7%
13,527	13,611	14,304	15,419	15,959	6.3%	3.9%
4,844	3,580	2,788	2,748	3,573	.1%	(2.3%)
8,121	12,315	6,625	11,985	10,520	8.0%	5.6%
22,807	23,099	22,390	25,073	25,850	2.2%	(.2%)
36,316	41,237	45,119	50,021	49,672	9.1%	6.7%
10,672	10,433	10,353	9,570	10,493	(1.6%)	(4.0%)
26,020	24,291	25,109	25,434	26,416	1.7%	(.7%)
1,841	24,052	11,052	(7,880)	29,837		
$225,903	$252,458	$238,174	$231,443	277,219	5.2%	2.8%
($43,565)	($374,594)	$45,723	$214,305	($89,431)		
-19.3%	-148.4%	19.2%	92.6%	-32.3%		
$76,584	$81,199	$86,612	$79,107	$78,392	3.7% *	
$1,629,447	$1,287,284	$1,330,045	$1,523,451	$1,468,370	3.5% *	
4.6%	5.4%	6.4%	5.8%	5.3%		
4.7%	4.9%	5.5%	5.9%	5.8%		
$45,820	$47,976	$49,794	$51,950	$53,250	4.8%	2.4%
$34,770	$36,404	$37,826	$39,420	$40,410	5.0%	2.6%
2,234	2,212	2,200	2,287	2,250	.2%	
$83,872	$87,560	$87,118	$89,339	$93,544	4.1%	1.7%
41.5%	41.6%	43.4%	44.1%	43.2%	1.0%	(1.4%)
$729,385	$581,955	$604,566	$666,135	$652,609	2.8%	.4%

* compound growth

Schedule C

Key Statistics

	2008	2009	2010	2011	2012
Faculty / Student FTE Headcount					
Student Enrollment (Average FTE)	2,234	2,212	2,200	2,287	2,250
Faculty Teaching Strength (FTE)	241	248	246	253	260
Student/Faculty Ratio	9.27	8.92	8.94	9.04	8.65
Enrollment					
Number of First-Year Student Applications	4,017	4,001	4,156	4,267	4,400
First-Year Students Admitted as a % of Applicants	35.7%	36.0%	35.2%	33.7%	31.0%
First-Year Students Enrolled as a % of Applicants	14.7%	14.9%	14.2%	14.8%	13.0%
First-Year Students Enrolled as a % of Students Admitted	41.1%	41.3%	40.3%	44.0%	42.0%
Financial Aid					
Percent of Students Receiving Financial Aid Grant Assistance	52.0%	54.0%	55.0%	58.0%	57.0%
Average Financial Aid Grant as % of Comprehensive Fee	61.9%	65.7%	67.3%	68.9%	68.8%
Student Aid Expense as % of Educational and General Expense	19.4%	21.3%	23.5%	24.5%	23.6%
Educational and General Cost per Student	$83,872	$87,560	$87,118	$89,339	$93,544
Tuition as % of Educational and General Expense	41.5%	41.6%	43.4%	44.1%	43.2%
Development ($000s)					
Total Development Fund-Raising	$37,765	$33,117	$33,117	$38,101	$39,413
Total Alumnae Giving Including Bequests	$28,884	$29,714	$25,581	$27,592	$26,562
Number of Alumnae Donors	14,561	13,527	14,177	14,562	13,388
Percent of Alumnae Contributing	47.4%	43.6%	45.0%	46.6%	44.5%
Total Unrestricted Gifts	$8,848	$8,847	$8,847	$8,690	$9,177
Total Planned Gifts	$2,943	$1,219	$1,219	$1,409	$6,990
Total Bequests	$4,210	$6,349	$7,555	$8,666	$5,242
Unrestricted Gifts and Bequests as % of Educational and General Expense	4.4%	5.6%	5.7%	5.7%	6.2%
Endowment					
Endowment Market Value ($000s)	$1,629,447	$1,287,284	$1,330,045	$1,523,451	$1,468,370
Endowment per Student	$729,385	$581,955	$604,566	$666,135	$652,609
Endowment Income as % of Educational and General Expense	40.9%	41.9%	45.2%	38.7%	37.2%
Other					
Gross Square Feet of Buildings	2,598,000	2,594,031	2,587,761	2,592,757	2,592,797
Library Collections in Volumes	1,600,258	1,458,179	1,702,321	1,683,644	1,892,255

Schedule D

Total Sources of Student Financial Aid Grant and Work Assistance (in $000s)

	2008	2009	2010	2011	2012
Unrestricted Revenue					
General College Revenues	$7,826	$9,249	$13,049	$18,675	$19,013
Total Unrestricted Revenue	$7,826	$9,249	$13,049	$18,675	$19,013
Restricted Revenue					
Restricted Endowment					
Income	$22,823	$24,292	$25,920	$23,791	23,772
Income - Special Supplement	2,000	2,000	2,000	2,000	2,000
Federal Government					
Pell Grants	1,203	1,402	2,018	2,467	2,058
Supplemental Educational Opportunity Grants	339	348	337	330	307
College Work Study Program - Federal Government Share	333	342	383	322	322
Total Government Grants	1,875	2,092	2,738	3,119	2,687
Commonwealth of Massachusetts	268	238	143	184	171
Restricted Gifts	3,478	3,339	2,718	1,686	1,474
Total Restricted Revenue	30,444	31,961	33,519	30,780	30,104
Total Unrestricted and Restricted Revenues	$38,270	$41,210	$46,568	$49,455	$49,117

Schedule E

Investment of Endowment and Similar Funds and Planned Giving Funds as of June 30, 2012 (in $000s)

	Market Value	% of Total
Investments Pooled		
Liquid Funds (Net of Payables and Receivables)	$36,856	2.55%
Fixed Income		
U.S. Bonds	66,977	4.64%
Non - U.S. Bonds	43,724	3.05%
Total Fixed Income	110,701	7.69%
Common Stocks		
U.S. Stocks	274,519	19.00%
Non - U.S. Stocks	231,125	15.99%
Total Common Stocks	505,644	34.99%
Alternative Assets		
Venture Capital	202,743	14.03%
Buyout Funds	52,588	3.64%
Distressed securities	35,752	2.47%
Real Estate	110,368	7.64%
Natural Resources	97,297	6.74%
Timberland	34,163	2.36%
Semi Marketable	257,645	17.83%
Miscellaneous Other	852	0.06%
Total Alternative Assets	791,408	54.77%
Total General Pooled Investments	1,444,609	100.00%
Faculty Mortgages	23,761	
Total General Pooled Investments and Faculty Mortgages	1,468,370	
Investments Not Pooled	212	
Total Endowment and Similar Funds	1,468,582	
Operating Investments		
Restricted Construction Funds	45,566	
Planned Giving		
Separate Pooled Funds	44,327	
Unitrusts and Funds Not Pooled	26,015	
Total Planned Giving Funds	70,342	
Grand Total	$1,584,490	

Schedule F

General Endowment Pool Annual Total Return Since Inception

Year Ended	Market Value (in $000s)	Ending Unit Value	Distribution	Total Return Yield %	Total Return Appreciation %	Total Return 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
2011	1,499,872	608.09	31.68	5.52	14.84	20.36
2012	1,444,609	579.48	31.11	5.23	(4.48)	0.75

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

2011

Audited Financial Statements

2012

Report of Independent Auditors

pwc

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, 2012 and 2011, 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 24, 2012

PricewaterhouseCoopers LLP, 125 High Street, Boston, MA 02110
T: (617) 530 5000, F: (617) 530 5001, www.pwc.com/us

Statements of Financial Position

June 30, 2012 and 2011 (in $000s)

	2012	2011
Assets		
Cash and cash equivalents	$40,541	$38,663
Cash and cash equivalents, restricted	57,591	4,231
Accounts receivable, net	876	774
Loans receivable, net	8,615	8,749
Contributions receivable, net	48,484	47,780
Grants receivable	1,827	1,220
Prepaid, inventory and other assets	3,169	4,368
Operating investments	45,566	—
Investments	1,468,582	1,523,683
Planned giving investments	70,342	72,850
Collateral received for securities lending	963	1,217
Land, buildings and equipment, net	299,704	307,560
Total assets	$2,046,260	$2,011,095
Liabilities		
Accounts payable and accrued expenses	$41,882	$31,334
Student deposits and deferred revenues	3,761	4,474
Advances under grants and contracts	5,233	3,666
Annuities and unitrusts payable	36,134	38,677
Asset retirement obligations	19,781	18,951
Accrued pension liability	25,472	11,610
Liability under securities lending transactions	963	1,217
Bonds and notes payable	249,020	147,721
Government loan advances	4,569	4,569
Total liabilities	386,815	262,219
Net Assets		
Unrestricted	547,240	604,702
Temporarily restricted	668,932	710,207
Permanently restricted	443,273	433,967
Total net assets	1,659,445	1,748,876
Total liabilities and net assets	$2,046,260	$2,011,095

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

Statement of Activities

For the year ended June 30, 2012 (in $000s)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2012 Total
Operating Revenues				
Tuition and fees	$96,702	$—	$—	$96,702
Less financial aid				
Donor sponsored	(25,693)	—	—	(25,693)
Institutionally sponsored	(22,196)	—	—	(22,196)
Net tuition and fees	48,813	—	—	48,813
Auxiliary operations	33,876	—	—	33,876
Government grants	4,148	—	—	4,148
Private gifts and grants	17,289	4,848	—	22,137
Investment return designated for operations	38,003	40,389	—	78,392
Other	4,336	—	—	4,336
Net assets released from restrictions	40,426	(40,426)	—	—
Total operating revenues	186,891	4,811	—	191,702
Operating Expenses				
Instruction and departmental research	85,225	—	—	85,225
Sponsored research and other programs	10,493	—	—	10,493
Library	9,479	—	—	9,479
Student services	14,876	—	—	14,876
General administration	11,419	—	—	11,419
General institutional	28,175	—	—	28,175
Auxiliary operations	37,767	—	—	37,767
Total operating expenses	197,434	—	—	197,434
Nonoperating Activities				
Investment return, net of spending allocation	(25,182)	(46,745)	130	(71,797)
Matured planned giving agreements	2,520	(6,510)	3,990	—
Gifts and pledges	1,613	10,677	5,186	17,476
Pension related changes other than net periodic pension cost	(13,863)	—	—	(13,863)
Net realized/unrealized gain on interest swap	(13,085)	—	—	(13,085)
Loss on early extinguishment of debt	(2,430)	—	—	(2,430)
Net assets released from restrictions	3,508	(3,508)	—	—
Total nonoperating revenues	(46,919)	(46,086)	9,306	(83,699)
Net change in net assets	(57,462)	(41,275)	9,306	(89,431)
Net assets at beginning of year	604,702	710,207	433,967	1,748,876
Net assets at end of year	$547,240	$668,932	$443,273	$1,659,445

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

Statement of Activities

For the year ended June 30, 2011 (in $000s)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2011 Total
Operating Revenues				
Tuition and fees	$96,402	$—	$—	$96,402
Less financial aid				
Donor sponsored	(25,972)	—	—	(25,972)
Institutionally sponsored	(21,878)	—	—	(21,878)
Net tuition and fees	48,552	—	—	48,552
Auxiliary operations	32,998	—	—	32,998
Government grants	3,635	—	—	3,635
Private gifts and grants	15,667	3,071	—	18,738
Investment return designated for operations	38,312	40,795	—	79,107
Other	3,118	—	—	3,118
Net assets released from restrictions	44,677	(44,677)	—	—
Total operating revenues	186,959	(811)	—	186,148
Operating Expenses				
Instruction and departmental research	80,896	—	—	80,896
Sponsored research and other programs	9,570	—	—	9,570
Library	9,041	—	—	9,041
Student services	14,321	—	—	14,321
General administration	13,074	—	—	13,074
General institutional	26,649	—	—	26,649
Auxiliary operations	35,455	—	—	35,455
Total operating expenses	189,006	—	—	189,006
Nonoperating Activities				
Investment return, net of spending allocation	60,611	126,676	225	187,512
Matured planned giving agreements	1,758	(2,833)	1,075	—
Gifts and pledges	223	5,658	15,890	21,771
Pension related changes other than net periodic pension cost	7,758	—	—	7,758
Net realized/unrealized gain on interest swap	122	—	—	122
Net assets released from restrictions	19,084	(19,084)	—	—
Total nonoperating revenues	89,556	110,417	17,190	217,163
Net change in net assets	87,509	109,606	17,190	214,305
Net assets at beginning of year	517,193	600,601	416,777	1,534,571
Net assets at end of year	$604,702	$710,207	$433,967	$1,748,876

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

Statements of Cash Flows

For the years ended June 30, 2012 and 2011 (in $000s)

	2012	2011
Cash Flows from Operating Activities		
Change in net assets	$(89,431)	$214,305
Adjustment to reconcile change in net assets to net cash used by operating activities:		
Depreciation and amortization	15,891	15,395
Contributions restricted for investments	(17,543)	(14,368)
Receipt of contributed securities	(1,636)	(2,379)
Realized and unrealized losses (gains) on investments	8,711	(268,936)
Change in discount and allowance for doubtful accounts	1,131	(650)
Unrealized loss (gain) on interest swap	11,320	(1,883)
Debt extinguishment charge	(533)	—
Bond premium	5,697	—
Changes in operating assets and liabilities:		
Accounts receivable, net	(141)	861
Contributions receivable, net	(1,734)	(1,572)
Grants receivable	(607)	118
Prepaid, inventory and other assets	1,199	(1,660)
Accounts payable and accrued expenses	(796)	(18,201)
Student deposits and deferred revenue	(713)	955
Advances under grants and contracts	1,567	1,874
Annuities and unitrusts payable	(2,543)	1,092
Accrued pension liability	13,863	7,758
Net cash used in operating activities	(56,298)	(67,291)
Cash Flows from Investing Activities		
Purchase of plant and equipment	(7,249)	(21,932)
Proceeds from student loans collections	704	829
Student loans issued	(632)	(469)
(Increase)/decrease in restricted cash for construction funds	(53,356)	11,200
(Increase)/decrease in restricted cash for plant and equipment	(4)	4,380
Purchases of investments	(347,993)	(547,812)
Proceeds from sales and maturities of investments	352,961	617,754
Net cash (used in)/provided by investing activities	(55,569)	63,950
Cash Flows from Financing Activities		
Proceeds from contributions for:		
Investment in endowment	8,863	12,679
Investment in planned giving	5,689	450
Plant and equipment	2,991	1,239
Proceeds from bonds	149,010	—
Payments on bonds and notes payable	(52,808)	(1,789)
Net cash provided by financing activities	113,745	12,579
Net increase in cash and cash equivalents	1,878	9,238
Cash and cash equivalents, beginning of year	38,663	29,425
Cash and cash equivalents, end of year	$40,541	$38,663
Contributed securities	$1,636	$2,379
Cash paid for interest	$5,339	$4,517
Capital additions included in accounts payable and accrued expenses	$845	$97
Net change in securities lending	$(254)	$(2,526)

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

Wellesley College
Notes to the Financial Statements

June 30, 2012 and 2011

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 and losses 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 the 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 cost.

(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 investments and planned giving investments, respectively. Restricted cash represents amounts for construction held by trustees in association with the Massachusetts Development Finance Agency Series J 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, exchange-traded futures contracts, debt futures contracts and other vehicles that may be appropriate in certain circumstances as permitted within the managers' investment guidelines. The College's external investment 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, charitable remainder unitrusts and annuities and perpetual trusts. 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 $1,535,000 and $472,000 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, 2012 and 2011, respectively. As the market value of the portfolio increases, the deficiency will decrease.

(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.

In October 2010, the Board of Trustees approved a revised Endowment Spending Policy effective for the year ended June 30, 2012. Wellesley's revised Endowment Spending Policy is based on a combination of the prior year's spending and prior year's endowment value with a weighting of 80% and 20%, respectively. The amount of allowable spending will be capped at 5.5% or no less than 4.0% of the average of the last three endowment values adjusted for inflation, with a target of approximately 4.5% of the prior year endowment market value. 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 2012 and 2011, are reported net of allowances for doubtful accounts of $272,000 and $311,000, respectively. Loans receivable for 2012 and 2011, are reported net of allowances for doubtful loans of $694,000 and $756,000, respectively. The provisions are intended to provide for student accounts and loans that may not be collected.

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.

(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) 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

(j) Financial Aid
The Statement of Activities reflects financial aid as an offset to tuition and fee 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.

(k) Auxiliary Operations
Auxiliary operations include 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.

(l) 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.

(m) 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 conditional 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.

(n) Interest Rate Swap
The College has entered into an interest rate swap agreement on the Massachusetts Development Finance Agency, 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.

(o) 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.

(p) New Accounting Pronouncements
On July 1, 2010, the College adopted new guidance enhancing the *Fair Value Measurement* standard. This standard requires further disclosure of significant transfers in and out of Level 1 and Level 2 fair value measurements, including the reasons for the transfers, and requires discussions of their fair value measurement disclosures on a disaggregated basis. On July 1, 2011, the College adopted the remaining enhancement of this standard. This standard required disclosure on the activity in the Level 3 rollforward to be reported gross, rather than net, basis.

On July 1, 2010, the College adopted the accounting standard, *Credit Quality.* This standard requires the disclosure about the credit quality of financing receivables and the related allowance for credit losses. See section (f) of this note for additional information.

(q) Reclassifications
Certain amounts from the 2011 financial statements have been reclassified to conform to the 2012 presentation.

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

Unconditional promises expected to be collected in:	2012	2011
Less than one year	$3,943	$3,086
One year to five years	47,668	46,513
Over five years	1,120	3,458
Total	52,731	53,057
Less discounts and allowance for uncollectible accounts	4,247	5,277
Net contributions receivable	$48,484	$47,780

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 2.6% to 5.10%, and 2.10% to 5.10% at June 30, 2012 and 2011, respectively.

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

	2012	2011
Land and land improvements	$50,226	$50,226
Buildings and building improvements	439,023	427,289
Equipment	8,395	8,641
Construction in progress	5,635	9,520
	503,279	495,676
Less: accumulated depreciation	203,575	188,116
	$299,704	$307,560

Depreciation expense was $15,959,000 and $15,644,000 for the years ended June 30, 2012 and 2011, respectively.

The College recognized $830,000 and $815,000 of operating expenses relating to the accretion of liabilities recorded for the years ended June 30, 2012 and 2011, respectively. Conditional asset retirement obligations of $19,781,000 and $18,951,000 at June 30, 2012 and 2011, respectively, are the College's asset retirement obligation presented in the Statement of Financial Position.

4. Investments

The book and market values of investments at June 30, 2012 and 2011 are shown in Table 4 on page 32.

The absolute return 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 $258,593,000 and $295,521,000 and commingled funds with a market value of $189,961,000 and $244,671,000 at June 30, 2012 and 2011, respectively, whose holdings are bonds and equities.

The College is currently invested in exchange-traded futures contracts. The College uses these instruments to maintain target exposures to certain equity markets. At June 30, 2012, the College had long futures exposures with a net ending fair value of $9,698,000. The net loss from these derivative instruments at June 30, 2012 was $7,659,000, and is included in the investment return on the Statement of Activities.

The College's investment return from endowment and planned giving investments for the years ended June 30, 2012 and 2011 ($000s) appears in Table 5 on page 33.

The total return consisting of realized and unrealized gains and losses and dividends and interest net of investment management and custodial fees was 0.75% and 20.36% for the fiscal years ended June 30, 2012 and 2011, respectively.

At June 30, 2012 and 2011 investment securities having a fair value of $937,000 and $1,188,000 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 $963,000 and $1,217,000 and an offsetting liability for the return of the collateral on the Statement of Financial Position at June 30, 2012 and 2011, 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 33 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, 2012 and 2011.

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.

Table 7 on page 34 presents the assets and liability carried at fair value as of June 30, 2012 and 2011 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.

As a result of the reissued FASB accounting standards related to estimating fair value of investments, $13,831,000 and $8,814,000, has been reclassified from level 3 to level 2, for the years ended June 30, 2012 and June 30, 2011, respectively. The College reclassified $47,335,000 and $13,128,000 from level 3 to level 1 for the years ended June 30, 2012 and June 30, 2011, respectively. The College had no transfers from level 2 to level 1 in the current year.

The amount of total gains or losses for the year included in Investment Return in the Statement of Activities attributed to the change in unrealized gains or losses relating to assets still held at June 30, 2012 and 2011 are $(83,710,000) and $199,897,000, respectively.

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. Table 8 on page 35 presents investments measured at NAV as of June 30, 2012 and 2011.

Beneficial interests in 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.

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.

Pooled funds at June 30, 2012 and 2011 are shown in Table 9 shown on page 35.

The components of the pooled and nonpooled endowment funds at market value at June 30, 2012 and 2011 ($000s) are shown in Table 10 on page 36.

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 $13,854,000 and $14,139,000 at June 30, 2012 and 2011, respectively.

Mortgages due from faculty of $23,761,000 and $23,580,000 at June 30, 2012 and 2011, respectively, are included within investments on the Statement of Financial Position.

Table 4: Book and Market Values of Investments

June 30, 2012 and 2011 (in $000s)

	2012 Book Value	2012 Market Value	2011 Book Value	2011 Market Value
Endowment Investments				
Investments pooled				
Cash and cash equivalents	$36,856	$36,856	$32,587	$32,587
Bonds	65,613	110,701	97,402	152,839
Equities	361,071	505,644	415,718	605,496
Private equity	249,679	291,083	258,708	302,277
Real assets	301,652	241,828	288,153	245,188
Absolute return	197,300	257,645	92,435	160,605
Other assets	852	852	880	880
Total pooled investments	1,213,023	1,444,609	1,185,883	1,499,872
Faculty mortgages	23,761	23,761	23,580	23,580
Total pooled investments and faculty mortgages	1,236,784	1,468,370	1,209,463	1,523,452
Investments not pooled				
Cash and cash equivalents	212	212	231	231
Total investments not pooled	212	212	231	231
Total endowment investments	$1,236,996	$1,468,582	$1,209,694	$1,523,683
Other Investments				
Restricted construction funds	45,000	45,566	—	—
Total other investments	45,000	45,566	—	—
Total Investments	$1,281,996	$1,514,148	$1,209,694	$1,523,683
Planned Giving Investments				
Separate Pooled Funds				
Cash and cash equivalents	$1,937	$1,937	$992	$992
Bonds	10,495	10,667	11,913	12,070
Equities	29,160	31,723	30,414	33,914
Total pooled funds	41,592	44,327	43,319	46,976
Unitrusts				
Cash and cash equivalents	252	252	205	205
Bonds	4,686	4,944	5,098	5,620
Equities	8,241	10,806	7,766	10,900
Other assets	2,022	2,022	887	887
Assets held by trustees	7,991	7,991	8,262	8,262
Total funds not pooled	23,192	26,015	22,218	25,874
Total planned giving investments	$64,784	$70,342	$65,537	$72,850

Table 5: Investment Returns from Endowment and Planned Giving

For years ended June 30, 2012 and 2011 (in $000s)

2012	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Dividends and interest (net of expenses of $11,439)	$545	$(2,095)	$130	$(1,420)
Net realized and unrealized gains/losses	142	7,873	—	8,015
Total return on endowment and planned giving investments	687	5,778	130	6,595
Investment return designated for current operations	(25,869)	(52,523)	—	(78,392)
	$(25,182)	$(46,745)	$130	$(71,797)
2011				
Dividends and interest (net of expenses of $9,728)	$2	$(2,319)	$225	$(2,092)
Net realized and unrealized gains/losses	86,714	181,997	—	268,711
Total return on endowment and planned giving investments	86,716	179,678	225	266,619
Investment return designated for current operations	(26,105)	(53,002)	—	(79,107)
	$60,611	$126,676	$225	$187,512

Table 6: Assets and Liabilities

Measured at Fair Value (in $000s)

2012	Level 1	Level 2	Level 3	Total
Investments				
Equities	$146,884	$339,770	$18,990	$505,644
Bonds	16,603	94,098	—	110,701
Private equity	—	—	291,083	291,083
Real assets	—	13,831	227,997	241,828
Absolute return	—	79,510	178,135	257,645
Cash and other assets	37,068	45,566	852	83,486
Planned giving investments	52,061	8,403	9,878	70,342
Total assets at fair value	$252,616	$581,178	$726,935	$1,560,729
Interest rate swap	$—	$—	$16,253	$16,253
Total liabilities at fair value	$—	$—	$16,253	$16,253

2011	Level 1	Level 2	Level 3	Total
Investments				
Equities	$187,257	$395,253	$22,986	$605,496
Bonds	26,858	125,981	—	152,839
Private equity	—	—	302,276	302,276
Real assets	—	—	245,188	245,188
Absolute return	—	35,809	124,796	160,605
Cash and other assets	32,818	—	881	33,699
Planned giving investments	13,128	—	59,722	72,850
Total assets at fair value	$260,061	$557,043	$755,849	$1,572,953
Interest rate swap	$—	$—	$4,933	$4,933
Total liabilities at fair value	$—	$—	$4,933	$4,933

Table 7: Assets and Liability

Carried at Fair Value as of June 30, 2012 and 2011 (in $000s)

2012	Balance July 1, 2011	Realized and Unrealized Gains/losses	Purchases	Sales	Transfer in/(out) of level 3	Balance, June 30, 2012
Equities	$22,986	($5,592)	$1,596	$—	$—	$18,990
Private equity	302,276	18,290	64,168	(93,651)	—	291,083
Real assets	245,188	(3,185)	22,187	(17,233)	(18,960)	227,997
Absolute return	124,796	1,357	68,520	(16,538)	—	178,135
Cash and other assets	881	2,771	—	(2,800)	—	852
Planned giving investments	59,722	(1,017)	3,628	(5,120)	(47,335)	9,878
Interest rate swap - asset/liability	(4,933)	(11,320)	—	—	—	(16,253)
Balance, June 30, 2012	$750,916	$1,304	$160,099	$(135,342)	$(66,295)	$710,682

2011	Balance July 1, 2010	Realized and Unrealized Gains/losses	Purchases	Sales	Transfer in/(out) of level 3	Balance, June 30, 2011
Equities	$20,047	$1,804	$12,229	$(2,280)	$(8,814)	$22,986
Private equity	252,834	65,367	166,335	(182,260)	—	302,276
Real assets	201,847	25,843	43,037	(25,539)	—	245,188
Absolute return	82,390	14,108	35,000	(6,702)	—	124,796
Cash and other assets	888	1,820	1,553	(3,380)	—	881
Planned giving investments	64,671	9,445	843	(2,109)	(13,128)	59,722
Interest rate swap—asset/liability	(6,816)	1,883	—	—	—	(4,933)
Balance, June 30, 2011	$615,861	$120,270	$258,997	$(222,270)	$(21,942)	$750,916

Table 8: Investments Measured At NAV

As of June 30, 2012 and 2011 (in $000s)

2012 Investment	NAV In Funds	Unfunded Commitments	Timing to draw Commitments	Redemption terms/Restrictions
Private equity	$291,083	$99,352	1 to 10 years	Funds are private equity, no ability to redeem.
Real assets	241,828	53,286	1 to 10 years	Funds are private equity, no ability to redeem.
Equities	358,760	152	1 to 10 years	80% of NAV is redeemable within 90 days; 10% of NAV is redeemable within a year; remaining 10% has a multi-year redemption period.
Bonds	94,098	—		76% of NAV is redeemable within 90 days; 16% of NAV is redeemable within a year; remaining 8% has a multi-year redemption period.
Absolute return	257,645	12,862	1 to 4 years	15% of NAV is redeemable within 90 days: 43% is redeemable within a year; 42% of NAV has a multi-year redemption period.
Other assets	852	—		No ability to redeem
Total	$1,244,266	$165,652		

2011 Investment	NAV In Funds	Unfunded Commitments	Timing to draw Commitments	Redemption terms/Restrictions
Private equity	$302,276	$101,699	1 to 10 years	Funds are private equity, no ability to redeem.
Real assets	245,188	70,792	1 to 10 years	Funds are private equity, no ability to redeem.
Equities	418,239	1,748	1 to 10 years	84% of NAV is redeemable within 90 days; 5% of NAV is redeemable within a year; remaining 11% has a multi-year redemption period.
Bonds	125,981	—		55% of NAV is redeemable within 90 days; the remaining 45% has a multi-year redemption period.
Absolute return	160,605	—		26% of NAV is redeemable within 90 days: 47% is redeemable within a year; 27% of NAV are redeemed investments.
Other assets	881	—		No ability to redeem
Total	$1,253,170	$174,239		

Table 9: Pooled Funds

As of June 30, 2012 and 2011

	2012	2011
Investments in pooled funds and faculty mortgages, market value ($000s)	$1,468,370	$1,523,452
Total number of units	2,533,938	2,505,295
Market value per unit	$579.48	$608.09
Distribution per unit	$31.11	$31.68

Table 10: Components of Pooled and Nonpooled Endowment Funds at Market Value

As of June 30, 2012 and 2011 (in $000s)

	Units	Pooled Endowment	Nonpooled Endowment	Total Endowment
2012 Funds:				
Endowment and similar funds:				
Endowment funds	1,610,607	$933,316	$—	$933,316
Term funds	89,553	51,895	212	52,107
Quasi-endowment	833,778	483,159	—	483,159
Total	2,533,938	$1,468,370	$212	$1,468,582
2011 Funds:				
Endowment and similar funds:				
Endowment funds	1,591,507	$967,779	$—	$967,779
Term funds	88,231	53,660	231	53,891
Quasi-endowment	825,557	502,013	—	502,013
Total	2,505,295	$1,523,452	$231	$1,523,683

8. Notes and Bonds Payable

Indebtedness at June 30, 2012 and 2011 includes various bonds issued through the former Massachusetts Health and Education Facilities Authority (the Authority). On October 1, 2010, pursuant to certain provisions of Chapter 240 of the Acts of 2010 of the Massachusetts Legislature, signed into law by the Massachusetts governor on August 5, 2010, the Authority was merged into the Massachusetts Development Finance Agency (MDFA). Interest payments on debt totaled $3,574,000 and $2,748,000 during fiscal years 2012 and 2011, 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, 2011, restricted cash included $1,806,000 of construction funds held by trustees that were drawn down to fund various construction projects. All funds were drawn down during the fiscal year ended June 30, 2012.

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.

During April 2012, the College issued $49,800,000 in Series J tax-exempt bonds. The bonds mature in 2042. The proceeds will be used for major asset preservation and modernization projects. The College incurred bond issue costs of $499,000 associated with the issue which have been capitalized and are being amortized over the life of the bonds. At June 30, 2012, restricted cash included $55,001,000 of construction funds held by trustees that will be drawn down to fund various construction projects.

During April 2012, the College issued $99,210,000 in Series K taxable bonds. The bonds mature in 2042. The proceeds will be used for major asset preservation and modernization projects and will be used to retire $50,040,000 of Series H bond debt. The College recognized a debt extinguishment charge of $2,430,000 which has been reflected in the statement of activities. The refunding allows the College to realize the present value savings through a restructuring of the College's debt. The College incurred costs of $525,000 associated with the issue which have been capitalized and are being amortized over the life of the bonds. At June 30, 2012, operating investments included $45,566,000 of construction funds that will be drawn down to fund various construction projects.

The College has two lines of credit with different banks. The College may borrow up to $40 million with various terms and interest rates at LIBOR plus 1/5 of 1%. There were no amounts outstanding under this line of credit as of June 30, 2012 and 2011. The second line of credit was secured in February, 2012. The College may borrow up to $50 million with various terms and interest rates. This line of credit expires on February 10, 2015. There were no amounts outstanding as of June 30, 2012.

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

	2012	2011
MDFA, Series I, Variable Rate Demand Bonds, bearing interest at a daily rate, maturing July 2039. The rate at June 30, 2012 was 0.13%.	$57,385	$57,385
MDFA, Series H, Revenue Bonds issued at an interest rate of 4.0% to 5.0% maturing July 2033.	925	51,870
MDFA, Series G, Variable Rate Demand Bonds, bearing interest at a daily rate, maturing July 2039. The rate at June 30, 2012 was 0.13%.	20,000	20,000
MDFA, Series E, Variable Rate Demand Bonds, bearing interest at a daily rate, maturing July 2022. The rate at June 30, 2012 was 0.15%.	10,400	11,200
MDFA, Series J, Revenue Bonds issued at an interest rate of 5.0% maturing 2042.	49,800	—
Wellesley College, Series K, Taxable Bonds, bearing interest at a rate of 0.782% to 4.196%, maturing 2042.	99,210	—
Notes Payable Promissory Note, principal maturing November 2012. The rate at June 30, 2012 was 1.48%.	7,135	7,174
Total debt	244,855	147,629
Less unamortized bond issue costs	(1,489)	(797)
Add unamortized original issue premium	5,654	889
	$249,020	$147,721

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

2013	$8,860
2014	2,415
2015	2,695
2016	2,855
2017	3,020
Thereafter	225,010
Total bonds and notes payable	$244,855

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, 2012 and 2011, the market value of the swap agreement amounted to a liability of $16,253,000 and $4,933,000, respectively. The fair value of the swap 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 $11,320,000 in 2012 and a gain of $1,883,000 in 2011 reflected in nonoperating activities on the Statement of Activities. Additionally, the College paid net interest expense in association with the swap agreement of $1,765,000 and $1,761,000 which is reflected as part of the net realized/unrealized loss/gain on interest swap for the years ended June 30, 2012 and 2011, 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, 2012 fixed rate debt of $149,935,000 and variable rate debt of $87,785,000. 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, 2012 approximates $165,853,000. 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 $36,134,000 and $38,677,000 at June 30, 2012 and 2011, 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 $7,900,000 and $7,627,000 respectively, for the years ended June 30, 2012 and 2011.

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 thirty-six months 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, 2012 and 2011.

	2012	2011
Assumptions used to determine benefit obligations:		
Discount rate	4.000%	5.500%
Rate of compensation increase	3.500%	3.500%
Assumptions used to determine net periodic benefit cost:		
Discount rate	5.500%	5.375%
Expected return on plan assets	7.200%	7.800%
Rate of compensation increase	3.500%	4.000%
Change in projected benefit obligation ($000s)		
Benefit obligation at end of prior year	$46,908	$46,621
Service cost (including expense load)	1,533	1,629
Interest cost	2,505	2,454
Actuarial loss/(gain), net of administrative expenses paid	13,439	(2,370)
Benefits paid	(1,457)	(1,426)
Benefit obligation at end of year	$62,928	$46,908
Accumulated benefit obligation	$52,229	$39,332
Change in plan assets ($000s)		
Fair value of plan assets at end of prior year	$35,298	$27,253
Actual return on plan assets, net of administrative expenses	615	6,471
Employer contributions	3,000	3,000
Benefits paid	(1,457)	(1,426)
Fair value of plan assets at end of year	$37,456	$35,298

	2012	2011
Funded status ($000s)		
Funded status	$(25,472)	$(11,610)
Components of net periodic benefit cost ($000s)		
Service cost	$1,533	$1,629
Interest cost	2,505	2,454
Expected return on plan assets	(2,588)	(2,136)
Amortization of prior service cost	64	64
Cost of prior events/net loss on amortization	291	841
Net periodic benefit cost	$1,805	$2,852
New net actuarial loss/(gain)	$15,412	$(6,705)
Net loss on benefit costs	(1,485)	(989)
Amortization of prior service cost	(64)	(64)
Total	$13,863	$(7,758)
Amounts recognized in the Statement of Financial Position consist of a liability	$(25,472)	$(11,610)
Amounts recognized in unrestricted net assets		
Net prior service cost	$281	$345
Net actuarial loss/(gain)	13,582	(8,103)
Total unrestricted net asset	$13,863	$(7,758)

The amount expected to be recognized as amortization of prior net service and the (gain)/loss to be recognized both as components of net periodic cost in both years are $64,500.

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

2013	$1,646
2014	1,764
2015	1,920
2016	2,126
2017	2,358
2018–2022	15,577

The College expects to make employer contributions into the plan of $3,000,000 in the 2013 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 cash equivalents	3%
Total	100%

The following lists the Plan's asset allocation at June 30, 2012 and 2011:

Asset Category	Value at June 30, 2012	2012	2011
Equity securities	$23,640	63%	63%
Real estate investment trust	1,500	4%	3%
Commodities	1,788	5%	5%
Fixed income	10,031	27%	27%
Cash and cash equivalents	497	1%	2%
Total	$37,456	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, 2012 and 2011:

($000s)	2012	2011
Unrestricted		
Designated for specific purposes and plant	$106,804	$142,746
Quasi-endowment	441,971	462,428
Deficiencies in donor-restricted endowments	(1,535)	(472)
	547,240	604,702
Temporarily restricted		
Endowment and similar funds including pledges	583,004	624,232
Annuity, life income and unitrusts including pledges	33,584	32,931
Deficiencies in donor-restricted endowments	1,535	472
Other restricted	50,809	52,572
	668,932	710,207
Permanently restricted		
Endowment including pledges	443,273	433,967
	443,273	433,967
	$1,659,445	$1,748,876

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 3,800 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by 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.

Table 19: Endowment Net Asset Composition by Type of Fund

As of June 30, 2012 (in $000s)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted funds	$—	$562,710	$422,711	$985,421
Board-designated and other unrestricted funds	483,161	—	—	483,161
	$483,161	$562,710	$422,711	$1,468,582

Table 20: Endowment Net Assets

For the year ended June 30, 2012 (in $000s)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$502,013	$609,751	$411,919	$1,523,683
Investment income, net of expenses	698	1,417	—	2,115
Net appreciation (realized and unrealized)	1,775	3,186	—	4,961
Subtotal	504,486	614,354	411,919	1,530,759
Contributions and transfers to endowment	4,544	879	10,792	16,215
Appropriation of endowment assets for expenditure	(25,869)	(52,523)	—	(78,392)
Endowment net assets, end of year	$483,161	$562,710	$422,711	$1,468,582

Table 21: Endowment Net Asset Composition by Type of Fund

As of June 30, 2011 (in $000s)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted funds	$—	$609,751	$411,919	$1,021,670
Board-designated and other unrestricted funds	502,013	—	—	502,013
	$502,013	$609,751	$411,919	$1,523,683

Table 22: Endowment Net Assets

For the year ended June 30, 2011 (in $000s)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$449,273	$482,983	$397,988	$1,330,244
Investment income, net of expenses	3	4	—	7
Net appreciation (realized and unrealized)	81,111	178,054	—	259,165
Subtotal	530,387	661,041	397,988	1,589,416
Contributions and transfers to endowment	(2,269)	1,712	13,931	13,374
Appropriation of endowment assets for expenditure	(26,105)	(53,002)	—	(79,107)
Endowment net assets, end of year	$502,013	$609,751	$411,919	$1,523,683

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. For the purposes of investigation and potential cleanup, the site has been segmented into various sub-areas, as follows: (1) the "Upper/Wetland/Pond" portion consisting of the former upland site of the paint factory, Paint Shop Pond, adjacent wetlands and Upper Waban Brook; (2) Lake Waban; and (3) Lower Waban Brook.

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 MDFA 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 $171,000 and $75,000, respectively for the years ended June 30, 2012 and 2011. 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, 2012 and 2011 total expenses to the Lower Waban Brook remedial project were $22,000 and $26,000, respectively. A liability of $2,777,000 and $2,799,000 has been recorded as of June 30, 2012 and 2011, respectively and is included in the Statement of Financial Position within accounts payable and accrued expenses.

Outstanding commitments amounted to approximately $169,863,000 and $174,417,000 as of June 30, 2012 and 2011, respectively for the following:

	2012	2011
Alternative investments	$165,652,000	$174,239,000
Construction contracts	4,211,000	178,000
	$169,863,000	$174,417,000

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 of Wellesley $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.

14. Subsequent Events

The College has assessed the impact of subsequent events through October 24, 2012, the date the audited financial statements were available for issuance, and has concluded that there are no such events that require adjustment to the audited financial statements or disclosure in the notes of the audited financial statements.

Board of Trustees

2011–2012

Wellesley College, 106 Central Street, Wellesley, Massachusetts 02481