WELLESLEY COLLEGE

Annual Report

2016–2017

The images used throughout this Annual Report showcase Wellesley's innovative new arts center, Pendleton West. Designed to promote creative dialogue and cross-disciplinary collaboration, Pendleton West's spaces emphasize individual artistic practice as well as communal experiences—transforming how our faculty and student artists, creators, and scholars work with each other, and better enabling them to respond to and reflect the world through their art.

Wellesley College Annual Report

For the year ended June 30, 2017

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Report of the Vice President for Finance and Administration and Treasurer

December 2017

It is a privilege to report to you on Wellesley College's financial results for the fiscal year ended June 30, 2017. Wellesley College remains an exceptionally strong institution, with outstanding faculty, engaged and supportive alumnae, and a talented and diverse student body, all of whom embrace the mission of the College: "to provide an excellent liberal arts education for women who will make a difference in the world."

Institutional Strengths

In fiscal year 2017, operating performance improved and the College made significant progress toward its long-term goal of generating a surplus from operations in order to fund capital maintenance and campus renewal. Wellesley's total net assets stand at $2.2 billion, up $172 million from the last fiscal year, owing primarily to strong investment performance. The market value of the endowment stands at $1.97 billion, generating $89 million a year in earnings that support our $229 million operating budget. (For more information on the endowment and its management, please see the report of the chief investment officer.) In contrast, the College's current liabilities (at the end of FY17) total $368 million. Outstanding debt decreased to $228 million, the majority of which is long-term fixed rate debt.

One of Wellesley's greatest strengths is support from its active and engaged alumnae and friends. In FY2017, the College received gifts of $68 million—for current-use needs, facilities upkeep, and the endowment—with an alumnae participation rate of 49 percent. [See Schedule C.] Moreover, as of June 30, 2017, Wellesley has raised $441.5 million of the $500 million goal of its comprehensive campaign dedicated to advancing the Wellesley Effect—with two years remaining. Contributions receivable at the end of FY17 total $70 million.

The sustained philanthropic support of the community, including cumulative gifts to the endowment over generations, ensures that all who are admitted to Wellesley have the opportunity and financial support to attend—an essential foundation to Wellesley's commitment to inclusive excellence, and to removing financial barriers to access. Earnings from the endowment and current use gifts funded 57 percent of the budget in FY17.

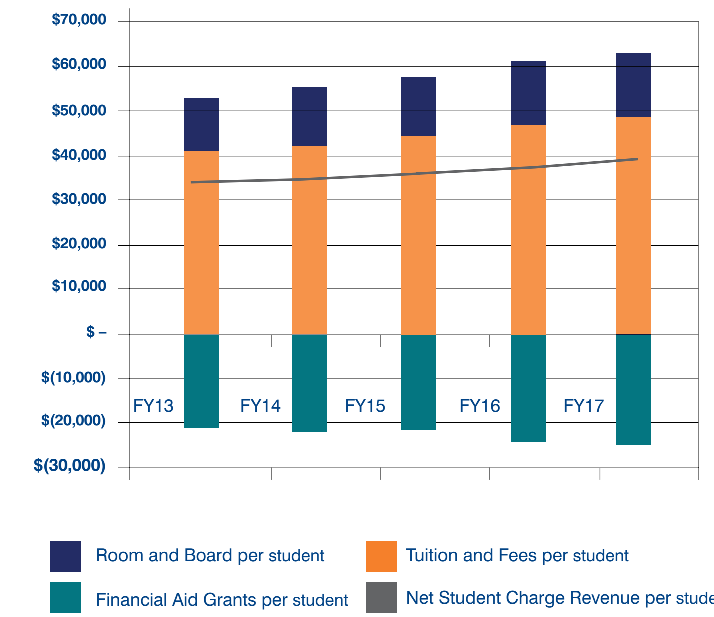
Wellesley continues to attract exceptional young women from around the world. Applications for the incoming class of 2021 increased 17 percent. Wellesley accepted 22 percent of first-year applicants, a 6 percentage-point improvement from the prior year; 48 percent of those admitted chose to enroll. In addition, forty-two percent of incoming students are African-American, Latina, Asian-American or Native American, and fifteen percent of the incoming class are international students.

Financial Results

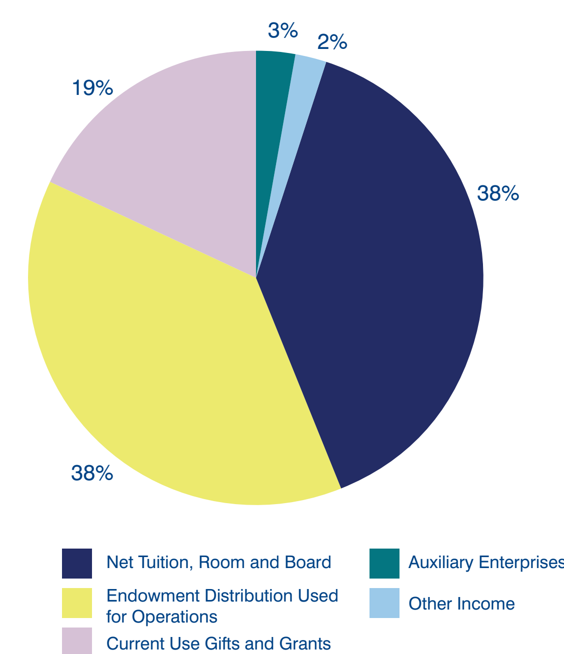
Due to strong donor contributions in FY2017, Wellesley finished the year with a $8.1 million operating surplus on a GAAP basis, and a surplus of $17.9 million on a cash basis. This compares to a $3.6 million operating loss on a GAAP basis in FY16. [See Schedule A.] We continue on a pathway established by the Board of Trustees in 2013 to improve our annual operating budget in order to contribute to deferred maintenance and to invest in campus renewal on an ongoing basis. We recognize the impact of successful fundraising for the comprehensive campaign on FY17 results, as well as the need to continue to rebalance the fundamentals of the operating budget to fully fund depreciation, to maintain the campus and buildings to adequately support the academic and residential programs, and to invest in curricular and program innovation.

Total revenues this year grew 6.6 percent to $237 million, while total expenditures increased 1.8 percent compared to the prior year. The major sources of revenue were net tuition and fees ($91 million), distributions from the endowment ($89 million, or roughly $38,000 per student), and current-use gifts and grants ($46 million). The College's endowment-spending policy seeks to balance the need for a strong, stable, and growing income stream to support operations with the objective of maintaining, in perpetuity, the purchasing power of the endowment. (In FY17, the endowment income used to support operations was 5 percent of the beginning-of-year market value.)

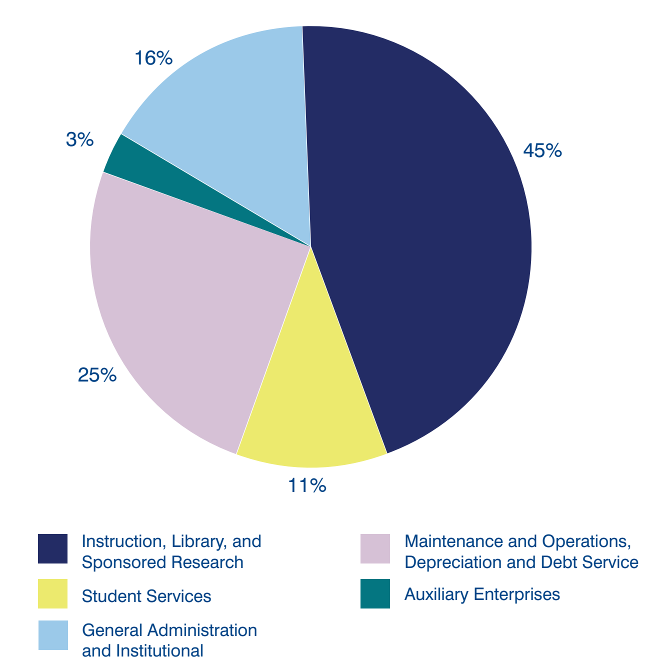
Cost per student rose to $97,594 in FY17—an increase of 1.5 percent, the lowest rate of expenditure growth since 2011, so Wellesley's comprehensive fee of $63,916 represents a substantial discount to the College's cost per student: all students, even those who did not receive financial aid, were the beneficiaries of nearly $33,700 of support, principally in the form of earnings from the College's endowment and support from Wellesley's alumnae and friends. Additionally, 55 percent of students receive financial aid, with an average grant of $44,258 per student. In contrast to the cost per student of over $97,000 per year, the net charge revenue per student was $38,660. [See Schedule C.]



Total Revenue = $237.4 M



Total Expenses = $229.3 M



The College depends on both current-use gifts and the income earned from previous gifts to the endowment to support current and future generations of women. Sustained support of alumnae and friends resulted in $131 million of income for support, exceeding the $106 million in revenues that the College generates from the programs it operates.

Wellesley spends 56 percent of its operating budget on academic programs, student services (including room and board), and other programs. Twenty-five percent of the budget is committed to operating, maintaining, and renewing the campus, inclusive of debt service. Auxiliary enterprises comprise 3 percent of the operating budget, and general administrative and institutional support make up the remaining 16 percent of expenses. Capital investments funded by the operating budget in FY17 (including principal repayment on debt for campus renewal) were $11.1 million.

Institutional Priorities

Wellesley remains committed to enabling all who are admitted to the College to be able to afford a Wellesley education through our need-blind admission policy and our commitment to meeting 100 percent of the demonstrated financial need of admitted students who qualify for aid. Wellesley has also been committed to keeping student loan levels low so that the debt burden from a college education does not limit a student's options upon graduation. In support of these foundational commitments, the average financial aid grant awarded has increased 56 percent over the past decade (from $28,364 to $44,258), while the comprehensive fee has increased 39 percent over the same time period. [See Schedule C.] In aggregate, students and their families continue to pay between 36 percent and 40 percent of the total cost of their Wellesley education—a proportion that has remained remarkably consistent over more than a decade.

The College has a beautiful and historic campus, and iconic buildings that are in significant need of investment in deferred maintenance. Wellesley 2025: A Plan for Campus Renewal (W2025) established programmatic priorities to ensure that both the campus and the facilities will meet the needs of students and faculty in the 21st century. The total W2025 plan approved by the trustees in 2013 is expected to cost $587 million over the next decade and will be funded by gifts, bequests, and the operating budget. In 2017, significant renovations were completed on Pendleton West, in addition to the creation of a home for the first-year Writing and Quantitative Reasoning Programs in Clapp Library, renovations in the residence halls, and marked progress on planning for the upcoming renovation of the Science Center.

Future Challenges and Outlook

Looking ahead, the pace of renovation and campus renewal will continue to increase as we prepare for a $200 million investment in renovations to the Science Center, including the replacement of Sage Hall, and for similar investments in major improvements to various residence halls. We will continue our work to re-balance the operating budget to ensure that it funds all of the College's operating costs, including depreciation and deferred maintenance, on a fully sustainable basis. We are also beginning the work to address the aging co-generation power plant, and will be developing a strategy to meet the College's energy needs and sustainability goals. We will be issuing additional debt in 2018 to support those investments, so achieving these goals will continue to require prioritization and focus, bold choices, hard work, and the support and engagement of the entire Wellesley College community.

Piper Starr Orton
Vice President for Finance and Administration and Treasurer

Report of the Chief Investment Officer

December 2017

Wellesley's endowment is the keystone of the College's financial strength—as well as fundamental to our promise of continuous investment in women—providing approximately 38 percent of operating revenue in Fiscal Year 2017. On June 30, 2017, the end of our fiscal year, the Wellesley College endowment had a market value of $1.968 billion** (versus $1.785 billion on June 30, 2016—an increase of $183 million). The long-term investment-pool portfolio earned a return of 13.1 percent (net of investment management fees) during this last fiscal year.

Fiscal Year 2017 Developments

During FY2017, global stock prices rose, and public equity outpaced private equity—although private equity and real assets both had strong results. Bond returns were negative.

The 13.1 percent investment return for FY2017 benefited from favorable relative returns in public equities, private equity, real assets, and semi-marketable strategies.

Total Return by Asset Class Year Ended June 30, 2017

	Wellesley Return	Market Return	Benchmark/Comparative Index
Public Equity	21.6%	19.7%	Public Equity Blended Benchmark (1)
Private Equity	12.1%	11.3%	Cambridge Associates (2)
Real Assets	11.7%	8.5%	Real Assets Benchmark (3)
Semi-marketable (4)	9.6%	9.1%	Cambridge Associates Hedge Fund-of-Funds Index
Fixed Income	(5.4%)	(4.4%)	Fixed Income Benchmark (5)
Cash & Equivalents	1.3%	0.5%	Citigroup Three-Month T-Bill
Total Portfolio	**13.1%**	**12.0%**	

1. Public Equity Blended Benchmark is a weighted average of MSCI ACWI, MSCI EAFE, MSCI EM, and Russell 3000.
2. Private Equity results are measured against the Cambridge Associates Private Equity, Growth Equity, Venture Capital, and Distressed indices.
3. Real Assets Benchmark is a weighted average of the NCREIF Timber, Cambridge Associates Real Estate, and the Cambridge Associates Natural Resources Index (x-Timber).
4. Semi-marketable investments include strategies focused on absolute return.
5. Fixed Income Benchmark is a weighted average of the Barclays 5+ Year Treasury Index and the Citigroup World Government Bond Index.

** The value of the endowment includes the proceeds from the sale of 47 acres of land in fiscal year 2016.

Longer-Term Results

The endowment's investment returns are strong compared to a variety of common yardsticks.

- As shown in the table below, long-term results were mixed, when viewed in the context of the 7.5 percent to 8.0 percent return necessary to support College spending and to maintain the endowment's purchasing power. Both the five- and seven-year results—periods that span the financial crisis highs—are above both measures.
- Over the last 10 years, the College's well-diversified portfolio has lagged a hypothetical portfolio of 65 percent stocks and 35 percent bonds. Alternative assets—such as venture capital, growth equity, and buyouts—have contributed significantly to strong portfolio results. Less visible is the fact that the College's investment return has been much less volatile than the hypothetical portfolio.
- Investment returns have exceeded the Policy Portfolio benchmark. The Policy Portfolio benchmark is a measure of how the College's target asset allocation would perform if returns in every asset class matched the market. The difference between the portfolio and the benchmark is a measure of the value added by the Investment Office and the College's investment managers.
- Another yardstick is performance versus peers. Over the last five and 10 years, Wellesley ranks in the top quartile in a universe of institutions with investments pools larger than $1 billion.

Total Annualized Return on Endowment, Year Ended June 30, 2017

	3 Years	5 Years	7 Years	10 Years
Wellesley Portfolio	5.7%	9.5%	9.7%	5.8%
S&P 500 Index	9.6%	14.6%	15.4%	7.2%
65/35 Stock/Bond Portfolio [6]	7.2%	10.3%	11.2%	6.6%
Policy Portfolio Benchmark	4.3%	8.1%	9.0%	5.2%

6. A commonly used measure of portfolio performance is a comparison with a passive portfolio. We use a blend of 65 percent stocks (as measured by the S&P 500 Index) and 35 percent bonds (as measured by the Citigroup Broad Investment Grade Index).

Policy Portfolio and Strategy Going Forward

To provide strong operating support while preserving purchasing power, the endowment is invested across diverse asset classes, strategies, geographies, and managers. The Policy Portfolio, established by the Wellesley College Investment Committee, guides asset allocation. The Investment Committee and Investment Office team regularly review the expectations upon which the Policy Portfolio is based, with the goal of refining target allocations in order to improve the portfolio's risk/return characteristics.

The table below compares the Policy Portfolio and the actual asset allocation on June 30, 2017. The actual portfolio was in line with policy at the end of the fiscal year. The portfolio has sufficient exposure to liquid investments to maintain the endowment's financial support of the College's operations and to provide for the liquidity needs of the portfolio.

Asset Allocation as of June 30, 2017

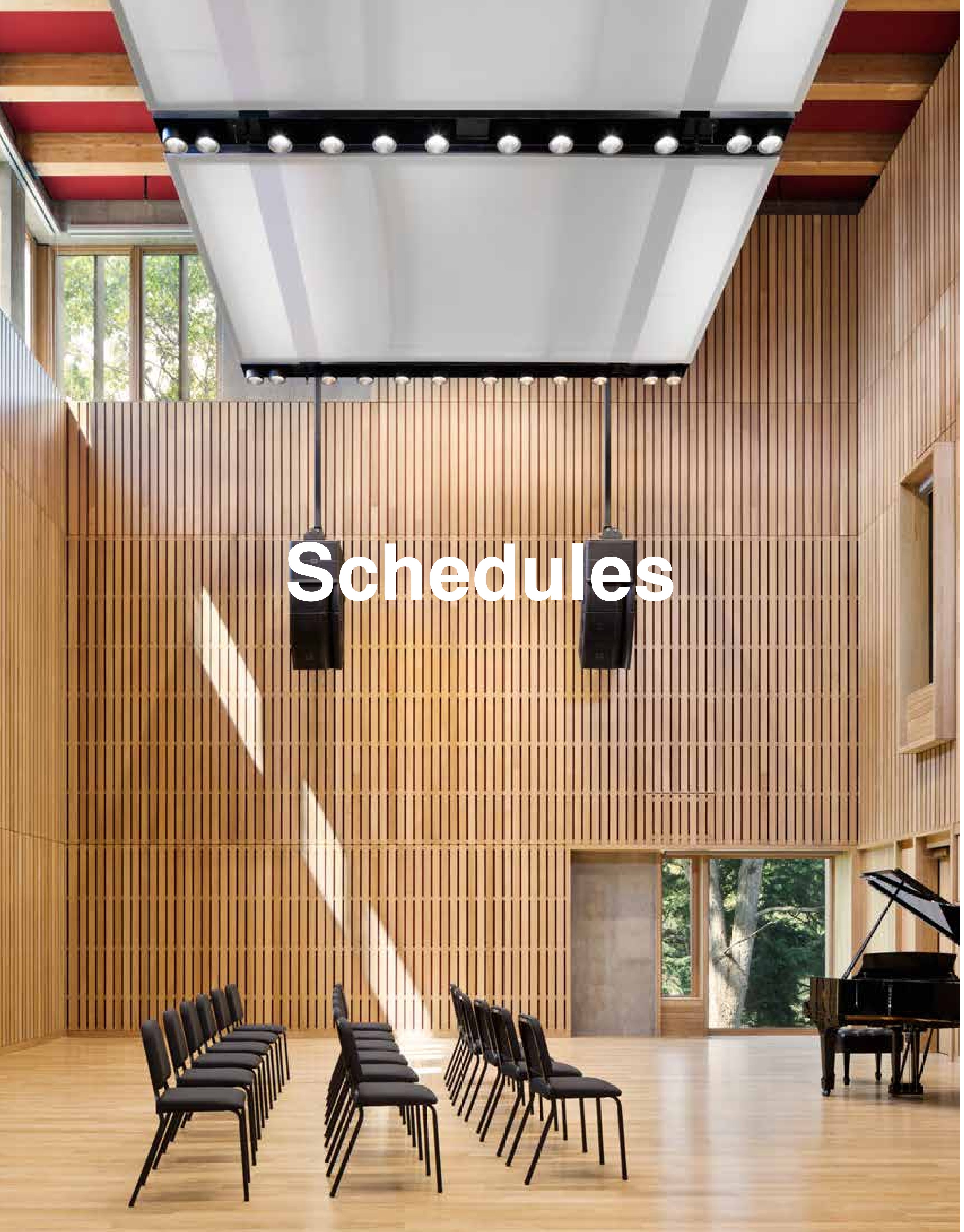
Asset Class	Policy Portfolio	Asset Allocation
Public Equities	34%	34%
Private Equity	19%	22%
Real Assets	13%	11%
Semi-marketable	26%	25%
Total Alternative Assets	58%	58%
Fixed Income and Cash	8%	8%
Total Portfolio	100%	100%

In executing the investment strategy, the Investment Office team works to add value within asset classes through long-term partnerships with strong-performing, highly ethical investment managers. Across the portfolio, our managers must have an uncompromising focus on integrity, which not only ensures alignment with the College's values, but protects long-term returns as these managers put their clients' interests first. In addition, we look for managers with a sustainable investment "edge." Typical characteristics of Wellesley managers include: long investment horizons; a bias toward fundamental, bottom-up investing; a focus on value; relatively concentrated portfolios that often show little relationship to benchmarks; and strong organizations.

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, and 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.

Deborah F. Kuenstner
Chief Investment Officer



Schedules

Schedule A

Summary of Operating Revenues and Expenditures Years Ended June 30, 2017 and 2016 (in $000s)

	2017	2016	Increase (Decrease)	% Change
Operating Revenues				
Tuition and Fees	$115,610	$112,070	$3,540	3.1%
Room and Board	$33,078	$31,567	$1,511	4.6%
Financial Aid	($57,838)	($56,996)	($842)	1.5%
Net Student Charge Revenue	$90,850	$86,640	$4,210	4.6%
Distribution from Endowment Used for Operations	$84,423	$83,403	$1,020	1.2%
Endowment Transfers	$4,929	$0	$4,929	100.0%
Restricted Gifts & Grants	$33,615	$23,459	$10,156	30.2%
Unrestricted Bequests	$1,664	$7,434	($5,770)	(346.7%)
The Wellesley Fund	$10,877	$10,296	$581	5.3%
Auxiliary Enterprises	$6,787	$6,500	$287	4.2%
Other Income	$4,290	$3,937	$353	8.2%
Total Revenues	**$237,435**	**$221,668**	**$15,767**	**6.6%**
Operating Expenditures (GAAP)				
Instruction	$71,948	$70,608	$1,340	1.9%
Student Services	$25,523	$24,960	$563	2.2%
Academic Support	$17,649	$16,811	$838	4.7%
Institutional Support	$36,617	$39,069	($2,452)	(6.7%)
Maintenance and Operations	$25,049	$24,009	$1,040	4.2%
Debt Service	$8,102	$8,150	($48)	(.6%)
Major Maintenance	$6,104	$4,508	$1,596	26.1%
Depreciation	$17,997	$17,410	$587	3.3%
Sponsored Research	$12,520	$12,647	($127)	(1.0%)
Auxiliary Enterprises	$7,836	$7,109	$727	9.3%
Total Expenditures	**$229,345**	**$225,280**	**$4,064**	**1.8%**
GAAP Net Operating Income/(Loss)	***$8,090***	***($3,612)***	***$11,702***	***144.6%***
Cash Basis Adjustments				
Depreciation	($17,997)	($17,410)	($587)	3.3%
Capital Assets funded by Operations	$9,353	$9,061	$292	3.1%
Principal Payments & Amortization	$3,176	$3,011	$165	5.2%
Other Adjustments	($4,378)	$1,675	($6,053)	138.3%
Total Adjustments	**($9,846)**	**($3,663)**	**($6,183)**	*62.8%*
Cash Basis Addition to /(Use of) Reserves	***$17,936***	***$51***	***$17,885***	***99.7%***

Schedule B

Ten-Year Operating Budget Financial Summary 2008–2017 (in $000s)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Average Annual Percentage Change Since June 30, 2008 Nominal %	Real %
Operating Revenues												
Tuition and Fees	$83,447	$86,543	$90,400	$96,402	$96,702	$100,075	$102,635	$104,427	$112,070	$115,610	3.9%	2.2%
Room and Board	$22,289	$23,958	$24,859	$26,759	$27,436	$28,228	$29,131	$29,248	$31,567	$33,078	4.6%	3.0%
Financial Aid Grants	($35,009)	($39,813)	($42,669)	($47,850)	($47,889)	($50,561)	($51,933)	($51,305)	($56,996)	($57,838)	5.7%	4.0%
Net Student Charge Revenue	$70,727	$70,688	$72,590	$75,311	$76,249	$77,742	$79,833	$82,370	$86,641	$90,850	3.1%	1.5%
Endowment Distribution	$76,584	$81,199	$86,612	$79,107	$78,392	$79,924	$81,487	$82,561	$83,403	$89,352	1.9%	.3%
Private Gifts & Grants	$20,802	$22,300	$20,805	$18,738	$22,137	$24,458	$25,042	$24,769	$35,157	$41,664	6.2%	4.5%
Government Grants	$4,183	$3,657	$4,838	$3,635	$4,148	$4,448	$4,887	$3,863	$6,032	$4,492	3.4%	1.7%
Auxiliary Operations	$7,811	$6,174	$6,423	$6,239	$6,440	$5,206	$5,947	$8,085	$6,500	$6,787	(.7%)	(2.3%)
Other	$6,030	$4,060	$3,725	$3,118	$4,336	$3,736	$3,972	$3,872	$3,937	$4,290	(1.8%)	(3.5%)
Total Revenues	**$186,137**	**$188,078**	**$194,993**	**$186,148**	**$191,702**	**$195,514**	**$201,168**	**$205,520**	**$221,669**	**$237,435**	2.6%	1.0%
Operating Expenditures (GAAP)												
Instruction	$61,349	$63,529	$63,915	$63,862	$67,175	$67,599	$71,329	$70,705	$70,788	$71,948	1.8%	.1%
Student Services	$24,393	$21,000	$20,974	$22,092	$22,041	$23,457	$22,912	$22,809	$24,250	$25,523	29.7%	28.1%
Academic	$19,734	$19,816	$18,489	$20,237	$19,180	$20,657	$21,084	$21,830	$20,470	$17,649	(2.2%)	(3.9%)
Institutional Support	$19,925	$27,608	$21,908	$22,998	$21,555	$27,262	$22,370	$27,903	$34,775	$34,003	16.1%	14.5%
Maintenance and Operations	$20,870	$22,727	$22,063	$18,684	$17,827	$20,384	$21,926	$23,699	$24,012	$25,049	1.6%	(.1%)
Debt Service	$6,431	$4,408	$5,522	$5,506	$6,065	$6,422	$8,152	$8,054	$8,150	$8,102	(2.9%)	(4.6%)
Major Maintenance	$3,710	$2,315	$261	$1,614	$5,803	$5,462	$4,677	$3,225	$6,006	$9,413	70.9%	69.3%
Sponsored Research and Centers	$11,206	$10,942	$10,854	$11,080	$11,923	$12,568	$12,296	$11,854	$13,810	$12,520	(3.7%)	(5.3%)
Auxilary	$7,187	$7,889	$7,718	$7,515	$8,712	$8,406	$8,663	$7,011	$7,109	$7,836	(2.0%)	(3.6%)
Depreciation	$13,527	$13,611	$14,304	$15,419	$15,959	$15,792	$16,638	$16,587	$15,912	$17,302	15.0%	13.4%
Total Expenditures	**$188,332**	**$193,845**	**$186,008**	**$189,006**	**$196,240**	**$208,009**	**$210,047**	**$213,676**	**$225,281**	**$229,345**	2.2%	.5%
GAAP Net Operating Income/(Loss)	**($2,195)**	**($5,767)**	**$8,985**	**($2,858)**	**($4,538)**	**($12,495)**	**($8,879)**	**($8,156)**	**($3,612)**	**$8,090**		
Net Budget/Cash Basis Adjustments	$2,195	$5,767	($2,056)	$6,915	$4,990	$11,000	$7,382	$4,763	$3,663	$9,846		
Cash Basis Addition to/(Use of) Reserves	**($0)**	**($0)**	**$6,929**	**$4,057**	**$452**	**($1,495)**	**($1,497)**	**($3,393)**	**$51**	**$17,936**		

Schedule C

Key Facts and Statistics 2008–2017

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Faculty, Staff and Students										
Faculty Headcount	340	352	340	350	377	374	379	374	383	370
Faculty Instructional FTE	277	297	299	306	332	331	337	331	340	332
Staff FTE	760	802	673	691	713	749	726	710	729	753
Student Enrollment	2,404	2,366	2,371	2,431	2,374	2,365	2,347	2,308	2,344	2,350
Student-to-Faculty FTE Ratio	8.7	8.0	7.9	7.9	7.2	7.2	7.0	7.0	6.9	7.1
Admissions and Enrollment										
Number of First-Year Student Applications	4,017	4,001	4,156	4,267	4,400	4,478	4,795	4,710	4,888	5,703
First-Year Students Admitted as a % of Applicants	35.7%	36.0%	35.2%	33.7%	31.0%	30.1%	28.9%	30.1%	28.4%	22.0%
First-Year Students Enrolled as a % of Students Admitted	41.1%	41.3%	40.3%	44.0%	42.0%	43.4%	42.9%	41.8%	42.5%	48.0%
Comprehensive Fee										
Tuition and Fees	$34,994	$36,640	$38,062	$39,666	$40,660	$42,082	$43,554	$45,078	$46,836	$48,802
Room and Board	$10,826	$11,336	$11,786	$12,284	$12,590	$13,032	$13,488	$13,960	$14,504	$15,114
Comprehensive Fee	$45,820	$47,976	$49,848	$51,950	$53,250	$55,114	$57,042	$59,038	$61,340	$63,916
Financial Aid and Net Price										
Percentage of Students Receiving Financial Aid Grant Assistance	52%	54%	55%	58%	57%	58%	58%	58%	62%	55%
Average Financial Aid Grant as % of Comprehensive Fee	62%	66%	67%	69%	69%	69%	66%	68%	65%	67%
Average Financial Aid Grant per Aided Student	$28,364	$31,501	$33,497	$35,773	$36,656	$37,990	$37,523	$39,988	$41,188	$44,258
Net Student Charge Revenue per Student FTE	$29,421	$29,877	$30,616	$30,979	$32,118	$32,872	$34,015	$35,689	$36,963	$38,660
Cost and Share of Cost Charged and Paid										
Total College Expenditures per Student FTE	$78,341	$81,929	$78,451	$77,748	$82,662	$87,953	$89,496	$92,581	$96,110	$97,594
Comprehensive Fee as a Percentage of Total College Expenditures per Student FTE	58%	59%	64%	67%	64%	63%	64%	64%	64%	65%
Net Student Charge Revenue per Student as a Percentage of Total College Expenditures per Student FTE	38%	36%	39%	40%	39%	37%	38%	39%	38%	40%
Resources/Fundraising ($000s)										
Unrestricted Gifts - current use	$8,413	$8,847	$8,847	$8,690	$9,177	$9,390	$9,731	$8,740	$8,656	$9,230
Restricted Gifts - current use	$9,137	$8,217	$8,330	$9,211	$8,699	$9,908	$19,977	$8,306	$14,567	$31,160
Endowment Gifts	$6,056	$4,958	$4,068	$7,810	$6,863	$3,918	$34,336	$15,285	$15,431	$10,871
Planned Gifts	$2,943	$3,389	$1,219	$1,409	$6,990	$4,329	$3,504	$1,860	$3,179	$1,819
Bequests	$4,210	$6,349	$7,555	$8,666	$5,242	$7,766	$11,464	$13,199	$10,652	$2,799
Facilities Gifts	$7,006	$6,482	$3,098	$2,315	$2,442	$7,154	$17,104	$5,088	$7,611	$12,459
Total Fundraising	$37,765	$38,242	$33,117	$38,101	$39,413	$42,465	$96,116	$52,478	$60,096	$68,338
Number of Alumnae Donors	14,561	13,527	14,177	14,562	13,388	15,017	16,396	15,355	14,596	14,842
Percentage of Alumnae Contributing	47%	44%	45%	47%	45%	49%	53%	50%	48%	49%
Unrestricted Gifts and Total Bequests as % of Total Expenditures	7%	8%	9%	9%	7%	8%	10%	10%	9%	5%
Endowment										
Endowment Market Value ($000s)	$1,629,447	$1,287,284	$1,330,045	$1,523,451	$1,468,370	$1,576,337	$1,834,137	$1,881,031	$1,784,479	$1,930,752
Endowment per Student FTE	$677,807	$544,076	$560,964	$626,677	$618,521	$666,527	$781,481	$815,005	$761,297	$821,597
Endowment Income per Student FTE	$31,857	$34,319	$36,530	$32,541	$33,021	$33,795	$34,720	$35,772	$35,581	$38,022
Endowment Income as Percentage of Total Expenditures	41%	42%	47%	42%	40%	38%	39%	39%	37%	39%
Endowment Income Used to Support Operations as a Percentage of: Beginning of Year Market Value	4.6%	5.4%	6.4%	5.8%	5.3%	5.3%	5.2%	4.5%	4.4%	5.0%
Other										
Gross Square Feet of Buildings	2,598,000	2,594,031	2,587,761	2,592,757	2,592,797	2,592,797	2,593,703	2,593,703	2,593,703	2,603,703
Library Collections in Volumes	1,600,258	1,458,179	1,702,321	1,683,644	1,892,255	1,935,793	1,981,764	2,067,579	2,185,052	2,230,706

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Schedule D

Total Sources of Student Financial Aid—Grants and Work Assistance 2008–2017 (in $000s)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Percentage Change (2008–2017)
Restricted Sources											
Endowment Income	$22,823	$24,292	$25,920	$23,791	$23,772	$24,231	$24,811	$25,138	$25,467	$25,606	12.2%
Endowment Income - Special Supplement	$2,000	$2,000	$2,000	$2,000	$2,000	$2,000	$2,000	$2,000	$2,000	$2,000	0.0%
Total Restricted Endowment Income	$24,823	$26,292	$27,920	$25,791	$25,772	$26,231	$26,811	$27,138	$27,467	$27,606	11.2%
Restricted Annual Gifts	$3,478	$3,339	$2,718	$1,686	$1,474	$1,761	$1,782	$1,695	$1,785	$627	-82.0%
Federal Government											
Pell Grants	$1,203	$1,402	$2,018	$2,467	$2,058	$2,055	$1,925	$1,929	$2,069	$2,008	66.9%
Supplemental Educational Opportunity Grants	$339	$348	$337	$330	$307	$307	$301	$228	$315	$385	13.7%
College Work Study Program - Federal Government Share	$333	$342	$383	$322	$322	$322	$322	$322	$322	$322	-3.3%
Total Federal Government Grants	$1,875	$2,092	$2,738	$3,119	$2,687	$2,684	$2,548	$2,479	$2,706	$2,715	44.8%
Commonwealth of Massachusetts	$268	$238	$143	$184	$171	$169	$162	$152	$88	$164	-38.9%
Total Restricted Sources	**$30,444**	**$31,961**	**$33,519**	**$30,780**	**$30,104**	**$30,845**	**$31,303**	**$31,463**	**$32,045**	**$31,111**	2.2%
Unrestricted Sources											
Distributions from Endowment	$7,826	$9,249	$13,049	$12,657	$12,543	$12,789	$13,038	$13,364	$13,369	$13,631	74.2%
General College Revenues	**$0**	**$0**	**$0**	**$6,018**	**$7,300**	**$8,982**	**$9,517**	**$8,406**	**$13,651**	**$15,103**	N/A
Total Financial Aid from all sources	$38,270	$41,210	$46,568	$49,455	$49,947	$52,616	$53,858	$53,234	$59,065	$59,846	56.4%
% of Aid funded by Restricted Sources	80%	78%	72%	62%	60%	59%	58%	59%	54%	52%	

Note: Pell Grants are not included as part of Financial Aid expenditures on Schedule A per audit reporting standards.

Schedule E

General Endowment Pool Annual Total Return Since Inception

Year Ended	Market Value ($000s)	Ending Unit Value	Number of Units	Distribution Per Unit	Total Return %
		$100.00			
1970	$92,600	107.13	864,370.391	$5.50	12.26
1971	121,050	138.68	872,872.801	5.70	33.57
1972	136,273	154.80	880,316.537	5.90	15.44
1973	126,928	139.30	911,184.494	6.00	(5.70)
1974	109,672	116.43	941,956.540	7.30	(10.15)
1975	111,340	116.82	953,090.224	7.05	6.36
1976	115,922	119.77	967,871.754	7.00	8.36
1977	119,152	122.86	969,819.307	7.30	8.52
1978	111,852	116.54	959,773.468	7.68	0.44
1979	119,151	119.70	995,413.534	8.05	9.45
1980	133,168	119.32	1,116,057.660	9.30	7.76
1981	134,871	121.64	1,108,771.786	9.11	10.20
1982	127,842	110.90	1,152,768.260	10.72	0.90
1983	167,556	135.78	1,234,025.630	10.40	29.60
1984	156,258	123.60	1,264,223.301	9.00	(2.41)
1985	201,793	149.44	1,350,327.891	9.09	27.98
1986	260,481	188.93	1,378,716.985	8.41	32.40
1987	294,574	207.66	1,418,539.921	8.90	14.72
1988	290,270	198.53	1,462,096.409	10.25	0.90
1989	319,235	211.06	1,512,531.981	11.10	12.78
1990	352,537	222.70	1,583,013.022	11.30	11.20
1991	371,464	231.81	1,602,450.283	11.30	9.23
1992	409,082	252.95	1,617,244.515	11.02	14.50
1993	475,797	281.83	1,688,241.138	11.37	15.50
1994	475,961	278.97	1,706,136.861	14.00	4.00
1995	520,108	305.01	1,705,216.222	16.15	15.20
1996	595,950	336.88	1,769,027.547	17.02	18.24
1997	677,932	371.67	1,824,015.928	19.60	17.17
1998	780,203	410.41	1,901,037.745	21.00	15.22
1999	887,036	446.73	1,985,619.949	22.00	14.96
2000	1,253,008	610.15	2,053,599.759	23.50	42.85
2001	1,135,925	543.88	2,088,558.138	24.75	(6.62)
2002	1,031,991	484.59	2,129,616.789	26.04	(5.19)
2003	1,043,476	479.33	2,176,946.989	26.88	4.85
2004	1,179,988	521.95	2,260,729.955	26.16	15.18
2005	1,275,529	550.55	2,316,826.810	27.88	11.46
2006	1,412,410	595.46	2,371,964.532	28.96	13.97
2007	1,672,235	691.71	2,417,537.696	30.74	22.70
2008	1,629,331	668.81	2,436,164.232	31.55	1.22
2009	1,287,082	523.84	2,457,013.592	33.18	(16.97)
2010	1,330,045	535.74	2,482,631.500	35.08	9.34
2011	1,523,452	608.09	2,505,306.780	31.68	20.36
2012	1,468,370	579.48	2,533,944.226	31.11	0.75
2013	1,576,337	616.39	2,557,369.523	31.36	12.47
2014	1,834,137	692.31	2,649,300.169	31.21	18.80
2015	1,881,031	699.88	2,687,647.882	30.57	5.91
2016	1,784,479	659.15	2,707,242.661	30.76	(1.50)
2017	1,930,752	710.06	2,719,139.228	30.96	13.14

*For reporting purposes, beginning in 2007, Total Return is reported based on the general investment pool excluding faculty mortgages.

Report of the Independent Auditors

pwc

To the Board of Trustees of Wellesley College:

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

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

Auditors' Responsibility
Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

PricewaterhouseCoopers LLP

Boston, Massachusetts
October 30, 2017

PricewaterhouseCoopers LLP, 101 Seaport Boulevard, Suite 500, Boston, .MA 02210
T: (617) 530 5000, F: (617) 530 5001, www.pwc.com/us

Statements of Financial Position

June 30, 2017 and 2016 (in $000s)

	2017	2016
Assets		
Cash and cash equivalents	$ 83,307	$ 60,682
Accounts receivable, net	8,684	8,697
Loans receivable, net	7,649	8,249
Contributions receivable, net	69,918	88,081
Grants receivable	2,301	4,348
Prepaid, inventory and other assets	8,542	6,485
Operating investments	13,647	27,450
Investments	1,975,253	1,823,588
Planned giving investments	64,194	62,293
Land, buildings and equipment, net	335,844	332,586
Total assets	$ 2,569,339	$ 2,422,459
Liabilities		
Accounts payable and accrued expenses	$ 46,120	$ 61,316
Student deposits and deferred revenues	3,133	1,078
Advances under grants and contracts	4,931	5,455
Annuities and unitrusts payable	31,040	31,185
Asset retirement and environmental obligations	24,071	23,383
Accrued pension liability	26,399	34,435
Bonds payable	228,365	231,542
Government loan advances	3,574	4,480
Total liabilities	367,633	392,874
Net Assets		
Unrestricted	641,445	601,503
Temporarily restricted	1,005,069	877,416
Permanently restricted	555,192	550,666
Total net assets	2,201,706	2,029,585
Total liabilities and net assets	$ 2,569,339	$ 2,422,459

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

Statement of Activities

Year Ended June 30, 2017(in $000s)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2017 Total
Operating revenues				
Tuition and fees	$ 115,610	$ -	$ -	$ 115,610
Room and board	33,078	-	-	33,078
Less: Financial aid				
Donor sponsored	(27,666)	-	-	(27,666)
Institutionally sponsored	(30,172)	-	-	(30,172)
Net tuition and fees	90,850	-	-	90,850
Auxiliary operations	6,787	-	-	6,787
Government grants	4,492	-	-	4,492
Private gifts and grants	17,700	23,964	-	41,664
Endowment distributed for operations	40,577	43,846	-	84,423
Amounts transferred from endowment funds	4,929	-	-	4,929
Other	4,290	-	-	4,290
Net assets released from restrictions	46,705	(46,705)	-	-
Total operating revenues	216,330	21,105	-	237,435
Operating expenses				
Instruction	97,834	-	-	97,834
Sponsored research and centers	12,520	-	-	12,520
Student services	41,557	-	-	41,557
Academic Support	22,867	-	-	22,867
Institutional Support	40,015	-	-	40,015
Auxiliary operations	14,552	-	-	14,552
Total operating expenses	229,345	-	-	229,345
Change in net assets from operating activities	(13,015)	21,105	-	8,090
Nonoperating activities				
Investment return, net of spending allocation	37,896	108,984	-	146,880
Endowment distributed for operations	(4,929)	-	-	(4,929)
Matured planned giving agreements	1,269	(1,434)	165	-
Gifts and pledges	43	4,775	4,361	9,179
Pension related changes other than net periodic pension cost	5,682	-	-	5,682
Net realized/unrealized gain on interest swap	7,219	-	-	7,219
Net assets released from restrictions	5,777	(5,777)	-	-
Total nonoperating revenues	52,957	106,548	4,526	164,031
Net change in net assets	39,942	127,653	4,526	172,121
Net assets				
Beginning of year	601,503	877,416	550,666	2,029,585
End of year	$ 641,445	$ 1,005,069	$ 555,192	$ 2,201,706

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

Statement of Activities

Year Ended June 30, 2016 (in $000s)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2016 Total
Operating revenues				
Tuition and fees	$ 112,070	$ -	$ -	$ 112,070
Room and board	31,567	-	-	31,567
Less: Financial aid		-	-	
Donor sponsored	(28,678)	-	-	(28,678)
Institutionally sponsored	(28,318)	-	-	(28,318)
Net tuition and fees	86,641	-	-	86,641
Auxiliary operations	6,499	-	-	6,499
Government grants	6,032	-	-	6,032
Private gifts and grants	22,808	12,349	-	35,157
Investment return designated for operations	40,473	42,930	-	83,403
Other	3,937	-	-	3,937
Net assets released from restrictions	46,051	(46,051)	-	-
Total operating revenues	212,441	9,228	-	221,669
Operating expenses				
Instruction	94,049	-	-	94,049
Sponsored research and centers	13,196	-	-	13,196
Student services	38,858	-	-	38,858
Academic Support	21,341	-	-	21,341
Institutional Support	45,413	-	-	45,413
Auxiliary operations	12,424	-	-	12,424
Total operating expenses	225,281	-	-	225,281
Change in net assets from operating activities	(12,840)	9,228	-	(3,612)
Nonoperating activities	-			
Investment return, net of spending allocation	(28,924)	(96,601)	1,294	(124,231)
Matured planned giving agreements	908	(943)	35	-
Gifts and pledges	2,420	29,102	21,904	53,426
Pension related changes other than net periodic pension cost	(9,203)	-	-	(9,203)
Net realized/unrealized loss on interest swap	(9,665)	-	-	(9,665)
Gain on sale of property	757	-	-	757
Net assets released from restrictions	188	(188)	-	-
Transfers between restrictions	4,366	3,239	(7,605)	-
Total nonoperating revenues	(39,153)	(65,391)	15,628	(88,916)
Net change in net assets	(51,993)	(56,163)	15,628	(92,528)
Net assets				
Beginning of year	653,496	933,579	535,038	2,122,113
End of year	$ 601,503	$ 877,416	$ 550,666	$ 2,029,585

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

Statement of Cashflows

June 30, 2017 and 2016 (in $000s)

	2017	2016
Cash flows from operating activities		
Change in net assets	$ 172,121	$ (92,528)
Adjustment to reconcile change in net assets		
to net cash used in operating activities		
Depreciation and amortization	17,302	15,757
Contributions restricted for long-term purposes	(2,582)	(62,453)
Donated securities received	(7,059)	(4,163)
Realized and unrealized (gain)/loss on investments	(233,098)	35,963
Change in discount and allowance for doubtful accounts	(4,190)	7,138
Pension related changes other than net periodic pension cost	(5,682)	9,203
Unrealized (gain)/loss on interest rate swap	(7,219)	9,665
(Gain)/loss on sale and dispoals of plant and equipment	7,012	(757)
Changes in operating assets and liabilities		
Accounts receivable, net	13	(5,689)
Contributions receivable, net	22,399	(33,266)
Grants receivable	2,047	(2,296)
Prepaid, inventory and other assets	(2,057)	849
Accounts payable and accrued expenses	(8,706)	8,436
Student deposits and deferred revenue	2,055	(112)
Advances under grants and contracts	(1,430)	(579)
Annuities and unitrusts payable	(145)	197
Net cash used in operating activities	(49,219)	(114,635)
Cash flows from investing activities		
Purchases of land, buildings and equipment	(30,807)	(29,478)
Proceeds from sale of land, buildings and equipment	2,142	485
Proceeds from student loans collections	935	359
Student loans issued	(381)	(49)
Decrease in restricted cash for construction funds	-	18,232
Purchases of investments	(407,561)	(640,249)
Proceeds from sales and maturities of investments	500,895	687,323
Net cash provided by investing activities	65,223	36,623
Cash flows from financing activities		
Proceeds from contributions for		
Investment in endowment	2,214	21,976
Investment in planned giving	368	1,733
Plant and equipment	-	38,744
Proceeds from sale of donated securities restricted for long term purposes	7,059	4,163
Payments on bonds and notes payable	(3,020)	(2,856)
Net cash provided by financing activities	6,621	63,760
Net increase (decrease) in cash and cash equivalents	22,625	(14,252)
Cash and cash equivalents		
Beginning of year	60,682	74,934
End of year	$ 83,307	$ 60,682
Contributed securities	$ 7,059	$ 4,163
Cash paid for interest	8,376	8,139
Capital additions included in accounts payable and accrued expenses	6,688	7,625

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

Notes to Financial Statements

June 30, 2017 and 2016

1. Summary of Significant Accounting Policies

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. The College records as unrestricted net assets any donor-restricted contributions for which the donor-imposed restrictions are met in the same reporting period as the contribution is received.

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 College 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, pension related changes other than net periodic pension cost and changes in matured planned giving agreements.

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.

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 and 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, and are included in annuities and unitrusts payable on the Statement of Financial Position.

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.

The College recognized no deficiencies of donor-restricted endowment funds for the year ended June 30, 2017, and $776,000 for the year ended June 30, 2016.

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 2015, the Board of Trustees approved the Endowment Spending Policy which is in effect for the year ended June 30, 2017. Wellesley's Endowment Spending Policy is based on a combination of the prior year's spending and latest known endowment value with a weighting of 80% and 20%, respectively. Prior year spending is adjusted for Higher Education Price Index (HEPI) inflation, and 4.25% is the rate applied to the most recent endowment value on December 31. The amount of allowable spending will be capped at 5.0% or no less than 4.0% of the average of the last three fiscal year end endowment values adjusted for HEPI inflation. The Endowment Spending Policy is applied on a per unit basis. The sources of the payout are endowment earned income (interest and dividends), both current and previously reinvested income and a portion of realized gains. Investment return earned in prior years may be utilized if current year income is less than current year spend. The spending policy is designed to insulate investment policy from budgetary pressures, and to insulate program spending from fluctuations in capital markets.

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.

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 2017 and 2016, are reported net of allowances for doubtful accounts of $190,000 and $287,000, respectively. Loans receivable for 2017 and 2016, are reported net of allowances for doubtful loans of $747,000 and $701,000, 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.

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.

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.

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. Interest, depreciation, operations, and maintenance expenses have been allocated to functional expense classifications based on square footage utilized. 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

Financial Aid
The Statement of Activities reflects financial aid as an offset to tuition and fee revenues. The College's financial aid is funded through private gifts, grants and endowment income (donor sponsored). Additional grants, when necessary, are funded through unrestricted institutional resources (institutionally sponsored).

Auxiliary Operations
Auxiliary operations includes Summer Programs, the Nehoiden Golf Club and 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 the direct expenses of running these operations, as well as an allocation for depreciation, debt service and physical plant maintenance and operation.

Room and board revenue is reported independently as a separate line item for the years ended June 30, 2017 and 2016. The correlating room and board expenses are included in the student services functional line item on the Statement of Activities.

Internal Revenue Code Status
The College has been granted tax-exempt status as a nonprofit organization under section 501(c)(3) of the Internal Revenue Code.

Asset Retirement and Environmental Obligations
Asset retirement and environmental obligations ("ARO") are legal obligations associated with long lived assets. The College recognizes the fair value of a liability that recognizes the legal obligations associated with environmental asset retirements in the period in which the obligation is incurred, typically when the College becomes obligated to remediate. These liabilities are initially recorded at fair value and the related asset retirement costs are capitalized by increasing the carrying amount of the related assets by the same amount as the liability. Asset retirement costs are subsequently depreciated over the useful lives of the related assets. Subsequent to the initial recognition, the College records period-to-period changes in the ARO liability resulting from the passage of time and revisions to either the timing or the amount of the original estimate of undiscounted cash flows. The College adjusts the ARO liabilities when the related obligations are settled. 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.

Interest Rate Swap
In fiscal year 2008, the College 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 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 is recorded in the operating section of the Statement of Activities as an allocation to the functional expense categories and is treated as another component of debt service. The change in fair value of the swap is recorded in the nonoperating section of the Statement of Activities as net realized/unrealized gain/(loss) on interest swap.

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.

New Accounting Pronouncements
In May 2014, the FASB issued Accounts Standards Update (ASU) 2014-09 Revenue from Contracts with Customers. This standard implements a single framework for recognition of all revenue earned from customers. This framework ensures that entities appropriately reflect the consideration to which they expect to be entitled in exchange for goods and services by allocating transaction price to identified performance obligations and recognizing revenue as performance obligations are satisfied. Qualitative and quantitative disclosures are required to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The standard is effective for fiscal years beginning after December 15, 2017. The College is evaluating the impact this will have on the financial statements beginning in Fiscal Year 2019.

In February 2016, the FASB issued ASU 2016-02, Leases, which, for operating leases, requires a lessee to recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, in its balance sheet. The standard also requires a lessee to recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term, on a generally straight-line basis. The guidance also expands the required quantitative and qualitative disclosures surrounding leases. The standard is effective for fiscal years beginning after December 15, 2018. The College is evaluating the impact this will have on the financial statements beginning in Fiscal Year 2020.

In August 2016, the FASB issued ASU 2016-14, Presentation of Financial Statements for Not-for-Profit Entities. The new pronouncement amends certain financial reporting requirements for not-for-profit entities, including revisions to the classification of net assets and expanded disclosure requirements concerning expenses and liquidity. The standard is effective for fiscal years beginning after December 15, 2017. The College is evaluating the impact this will have on the financial statements beginning in Fiscal Year 2019.

Reclassifications
During fiscal year 2017, the College implemented a revised Chart of Accounts in order to enhance reporting, to provide a more consistent accounting structure, and to reflect best practice NACUBO (National Association of College and University Business Officers) definitions

2. Contributions Receivable

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

	2017	2016
Unconditional promises expected to be collected in		
Less than one year	$ 3,979	$ 2,378
One year to five years	51,682	51,799
Over five years	26,878	50,761
	82,539	104,938
Less: Discounts and allowance for uncollectible accounts	12,621	16,857
Net contributions receivable	$ 69,918	$ 88,081

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 3.0% to 5.0% at June 30, 2017 and 2.6% to 5.0% at June 30, 2016.

3. Land, Buildings and Equipment

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

	2017	2016
Land and land improvements	$ 50,093	$ 50,093
Buildings and building improvements	508,763	463,538
Equipment	7,880	8,152
Construction in progress	52,330	77,325
	619,066	599,108
Less: Accumulated depreciation	283,222	266,522
	$ 335,844	$ 332,586

Depreciation expense was $17,302,000 and $15,912,000 for the years ended June 30, 2017 and 2016, respectively.

The College recognized $978,000 and $963,000 of operating expenses relating to the accretion of environmental liabilities associated with the asset retirement obligations for the years ended June 30, 2017 and 2016, respectively. Conditional asset retirement obligations of $24,071,000 and $23,383,000 at June 30, 2017 and 2016, respectively, are presented in the liabilities section of the Statement of Financial Position.

4. Investments

The book and fair values of investments at June 30, 2017 and 2016 were as follows:

	2017		2016	
($000s)	**Book Value**	**Fair Value**	**Book Value**	**Fair Value**
Investments				
Investments pooled				
Cash and cash equivalents	$ 96,832	$ 96,816	$ 91,498	$ 90,909
Bonds	52,116	53,938	67,187	72,050
Equities	369,834	659,643	380,615	568,517
Private equity	342,727	426,749	316,232	391,799
Real assets	276,014	220,859	282,330	212,910
Absolute return	359,151	495,693	359,325	464,502
Other assets	851	851	851	851
Total pooled investments	1,497,525	1,954,549	1,498,038	1,801,538
Faculty mortgage Subvention	11	11	4	4
Faculty mortgages	20,480	20,480	21,816	21,833
Total pooled investments and faculty mortgages	1,518,016	1,975,040	1,519,858	1,823,375
Investments not pooled				
Cash and cash equivalents	213	213	213	213
Total investments not pooled	213	213	213	213
Total investments	1,518,229	1,975,253	1,520,071	1,823,588
Other investments				
Restricted construction funds	15,008	13,647	30,678	27,450
Total other investments	15,008	13,647	30,678	27,450
Total all investments	$ 1,533,237	$ 1,988,900	$ 1,550,749	$ 1,851,038
Planned giving investments				
Separate Pooled Funds				
Cash and cash equivalents	$ 352	$ 352	$ 697	$ 697
Bonds	10,253	10,118	11,770	12,344
Equities	22,967	28,637	22,125	24,780
Total pooled funds	33,572	39,107	34,592	37,821
Unitrusts				
Cash and cash equivalents	522	522	433	433
Bonds	3,599	3,662	3,246	3,403
Equities	4,134	8,786	4,741	8,713
Other assets	1,887	1,887	2,034	2,034
Assets held by trustees	10,230	10,230	9,889	9,889
Total funds not pooled	20,372	25,087	20,343	24,472
Total planned giving investments	$ 53,944	$ 64,194	$ 54,935	$ 62,293

The majority of College investments are invested in the College's long term investment pool. Assets in this pool include endowment assets, faculty mortgages, proceeds from sale of real estate assets, and planned giving assets.

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 leverage as part of their strategies.

Included in the Cash, Bonds and Equity portfolios are various investment vehicles including separate accounts, commingled funds, and hedge funds. The following table illustrates the detail of these holdings for the years ended June 30, 2017 and 2016 ($000):

2017	Separate Account	Commingled Funds	Hedge Funds	Total
Cash and cash equivalents	$ 61,037	$ -	$ -	$ 61,037
Bonds	-	34,637	19,301	53,938
Equities	38,319	245,565	374,341	658,225
	$ 99,356	$ 280,202	$ 393,642	$ 773,200

2016	Separate Account	Commingled Funds	Hedge Funds	Total
Cash and cash equivalents	$ 65,361	$ -	$ 2,471	$ 67,832
Bonds	15,985	35,119	20,946	72,050
Equities	74,629	203,499	287,926	566,054
	$ 155,975	$ 238,618	$ 311,343	$ 705,936

The College's investment return from pooled investments and planned giving investments was as follows for the years ended June 30, 2017 and 2016 ($000s):

2017	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Dividends and interest (net of investment expenses of $16,000,000)	$ 183	$ (2,171)	$ -	$ (1,988)
Net realized and unrealized gains/(losses)	78,290	155,001	-	233,291 -
Total return on endowment and planned giving investments	78,473	152,830	-	231,303
Investment return designated for current operations	(40,577)	(43,846)	-	(84,423)
	$ 37,896	$ 108,984	$ -	$ 146,880

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Dividends and interest (net of investment expenses of $14,000,000)	$ (22)	$ (2,909)	$ 1,294	$ (1,637)
Net realized and unrealized gains/(losses)	(1,379)	(37,812)	-	(39,191)
Total return on endowment and planned giving investments	(1,401)	(40,721)	1,294	(40,828)
Investment return designated for current operations	(27,523)	(55,880)	-	(83,403)
	$ (28,924)	$ (96,601)	$ 1,294	$ (124,231)

The total return consisting of realized and unrealized gains and losses and dividends and interest net of investment management fees was 13.14% and (1.50%) for the fiscal years ended June 30, 2017 and 2016, 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.

The following fair value hierarchy tables present information about the College's assets and liabilities measured at fair value on a recurring basis based upon the least observable level of significant input to the valuations at June 30, 2017 and 2016.

	2017				
($000s)	NAV Practical Expedient	Level 1	Level 2	Level 3	Total
Investments					
Equities	$ 621,324	$ 38,319	$ -	$ -	$ 659,643
Bonds	53,938	-	-	-	53,938
Private equity	426,750	-	-	-	426,750
Real assets	220,859	-	-	-	220,859
Absolute return	472,331	23,362	-	-	495,693
Cash and other assets	21,556	96,817	-	-	118,373
Planned giving investments	64,194	-	-	-	64,194
Total assets at fair value	$ 1,880,952	$ 158,498	$ -	$ -	$ 2,039,450
Interest rate swap				$ 15,129	$ 15,129

	2016				
($000s)	NAV Practical Expedient	Level 1	Level 2	Level 3	Total
Investments					
Equities	$ 493,889	$ 74,629	$ -	$ -	$ 568,518
Bonds	56,065	15,985	-	-	72,050
Private equity	391,799	-	-	-	391,799
Real assets	212,910	-	-	-	212,910
Absolute return	439,913	24,589	-	-	464,502
Cash and other assets	25,158	88,651	-	-	113,809
Planned giving investments	64,268	25	-	-	64,293
Total assets at fair value	$ 1,684,002	$ 203,879	$ -	$ -	$ 1,887,881
Interest rate swap				$ 22,348	$ 22,348

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.

The following tables present liabilities carried at fair value as of June 30, 2017 and 2016 that are classified within Level 3 of the fair value hierarchy.

	2017					
($000s)	Balance at July 1, 2016	Realized and Unrealized Gains/Losses	Purchases	Sales	Transfer in/ (out) of Level 3	Balance at June 30, 2017
Interest rate swap - asset/liability	$ (22,348)	$ 7,219	$ -	$ -	$ -	$ (15,129)
Balances at June 30, 2017	$ (22,348)	$ 7,219	$ -	$ -	$ -	$ (15,129)

($000s)	Balance at July 1, 2015	Realized and Unrealized Gains/Losses	Purchases	Sales	Transfer in/ (out) of Level 3	Balance at June 30, 2016
	2016					
Interest rate swap - asset/liability	$ (12,683)	$ (9,665)	$ -	$ -	$ -	$ (22,348)
Balances at June 30, 2016	$ (12,683)	$ (9,665)	$ -	$ -	$ -	$ (22,348)

The College uses Net Asset Value (NAV) or its equivalent to determine the fair value of certain investments, which may not have a readily determined fair value. These investments also have various redemption restrictions and redemption terms. The following investments are measured at NAV as of June 30, 2017 and 2016.

2017

($000s)	NAV in Funds	Unfunded Commitments	Timing to Draw Commitments	Redemption Terms/Restrictions
Investment				
Private equity	$ 426,750	$ 225,798	1 to 12 years	Funds are private equity, no ability to redeem.
Real assets	220,859	98,283	1 to 12 years	Funds are private equity, no ability to redeem.
Equities	621,324			90% of NAV is redeemable within 90 days; 5% of NAV is redeemable within a year; 5% has a multi-year redemption period.
Bonds	53,938			76% of NAV is redeemable within 90 days; 12% of NAV is redeemable within a year; 12% has a multi-year redemption period.
Absolute return	472,331	5,809	1 to 4 years	41% of NAV is redeemable within 90 days; 37% of NAV is redeemable within a year; 22% has a multi-year redemption period.
Other assets	21,556			100% has a multi-year redemption period.
	$ 1,816,758	$ 329,890		

2016

($000s)	NAV in Funds	Unfunded Commitments	Timing to Draw Commitments	Redemption Terms/Restrictions
Investment				
Private equity	$ 391,799	$ 216,454	1 to 12 years	Funds are in private equity structure, with no ability to redeem
Real assets	212,910	99,886	1 to 12 years	Funds are in private equity structure, with no ability to redeem
Equities	493,889			89% of NAV is redeemable within 90 days; 5% of NAV is redeemable within a year; remaining 6% has a multi-year redemption period.
Bonds	56,065			75% of NAV is redeemable within 90 days; 13% of NAV is redeemable within 90 days; remaining 12% has a multi-year redemption period.
Absolute return	464,502	8,603	1 to 4 years	45% of NAV is redeemable within 90 days: 35% is redeemable within a year; remaining 20% has a multi-year redemption period.
Other assets	25,158			22% of NAV is redeemable within 90 days; 16% of NAV is redeemable within a year; 62% of NAV has a multi-year redemption period.
	$ 1,644,323	$ 324,943		

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. These amounts are excluded from the tables presented above.

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 endowment funds were as follows as of June 30:

	2017	2016
Investments in pooled funds and faculty mortgages, market value ($000s)	$ 1,937,701	$ 1,790,390
Total number of units	2,728,948	2,716,209
Market value per unit	710.06	659.15
Distribution per unit	30.96	30.76

The following are the components of the pooled and nonpooled endowment funds at market value at June 30, 2017 and 2016 ($000s):

	Units	Pooled Endowment	Nonpooled Endowment	Total Endowment
2017 Funds				
Endowment and similar funds				
Endowment funds	1,774,075	$ 1,259,696	$ -	$ 1,259,696
Temporarily restricted funds	102,888	72,833	213	73,046
Unrestricted and quasi-endowment	851,985	604,959	-	604,959
	2,728,948	$ 1,937,488	$ 213	$ 1,937,701

	Units	Pooled Endowment	Nonpooled Endowment	Total Endowment
2016 Funds				
Endowment and similar funds				
Endowment funds	1,764,978	$ 1,163,385	$ -	$ 1,163,385
Temporarily restricted funds	94,791	62,269	213	62,482
Quasi-endowment	856,440	564,523	-	564,523
	2,716,209	$ 1,790,177	$ 213	$ 1,790,390

7. Related Parties

The College acts as fiscal agent 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 long term investment pool and are reflected as part of the College's net assets or a pension liability. The market value of the assets totaled $19,266,000 and $17,773,000 at June 30, 2017 and 2016, respectively.

Mortgages due from faculty of $20,480,000 and $21,833,000 at June 30, 2017 and 2016, respectively, are included within investments on the Statement of Financial Position.

The College had Charitable Gift Annuities invested alongside the endowment with a market value of $6,949,000 and $5,911,000 at June 30, 2017 and June 30, 2016, respectively. These assets are included within the investments total on the Statement of Financial Position.

8. Bonds Payable and Lines of Credit

Indebtedness at June 30, 2017 and 2016 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 $6,672,000 and $6,280,000 during fiscal years 2017 and 2016, respectively.

During January 2008, the College issued $57,385,000 in Series I tax-exempt variable rate demand bonds. The proceeds have been 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 allowed the College to realize the present value savings through a restructuring of the College's debt.

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 were 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.

During April 2012, the College issued $99,210,000 in Series K taxable bonds. The bonds mature in 2042. The proceeds were used for major asset preservation and modernization projects and were used to retire $50,040,000 of Series H bond debt. The refunding allowed the College to realize the present value savings in 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, 2017 and 2016, all of these construction funds have been drawn down to fund various construction projects.

On January 11, 2017, the College converted its existing Series E, G and I bonds from self-liquidity, variable rate demand bond structures to a variable rate direct placement with a financial institution.

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

	2017	2016
MDFA, Series I, Variable Rate Demand Bonds, bearing interest at a weekly rate, maturing July 2039. The rate at June 30, 2017 was 1.085%.	$ 57,385	$ 57,385
MDFA, Series G, Variable Rate Demand Bonds, bearing interest at a weekly rate, maturing July 2039. The rate at June 30, 2017 was 1.085%.	20,000	20,000
MDFA, Series E, Variable Rate Demand Bonds, bearing interest at a weekly rate, maturing July 2022. The rate at June 30, 2017 was 1.085%.	5,800	6,800
MDFA, Series J, Revenue Bonds, issued at an interest rate of 5.0%, maturing 2042.	49,800	49,800
Wellesley College, Series K, Taxable Bonds, bearing interest at a rate of 1.772% to 4.196%, maturing 2042.	92,025	94,045
Total debt	225,010	228,030
Less unamortized bond issue costs	(1,356)	(1,387)
Add unamortized original issue premium	4,711	4,898
	$ 228,365	$ 231,541

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

2018	$ 3,175
2019	3,325
2020	1,200
2021	2,730
2022	3,820
Thereafter	210,760
Total bonds and notes payable	$ 225,010

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, 2017 and 2016, the market value of the swap agreement amounted to a liability of $15,129,000 and $22,348,000, respectively. The fair value of the swaps is the estimated amount that the College would receive or pay to terminate the agreement at the reporting date, taking into account current interest rates and the current credit worthiness of the swap counterparties. The value of the interest rate swap is reflected within accounts payable and accrued expenses on the Statement of Financial Position. The change in fair value of the swap is recorded in the nonoperating section of the Statement of Activities as net realized/unrealized gain or loss on interest swap. 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 change in fair value resulted in a gain of $7,219,000 in 2017 and a loss of $9,665,000 in 2016. Additionally, the College paid net interest expense in association with the swap agreement of $1,456,000 and $1,795,000 for the years ended June 30, 2017 and 2016, respectively, which are recorded in the operating section of the Statement of Activities as an allocation to the functional expense categories.

The College has outstanding debt at June 30, 2017 as follows: fixed rate debt of $141,825,000 and variable rate debt of $83,185,000. 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.

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. Split-interest agreements are included in planned giving investments, and at June 30, 2017 and 2016, there is approximately $6,949,000 and $5,911,000, respectively, invested alongside the endowment, which are included within the investments total on the Statement of Financial Position. 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 $31,040,000 and $31,185,000 at June 30, 2017 and 2016, 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. Retirement 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 $9,265,000 and $8,793,000, respectively, for the years ended June 30, 2017 and 2016.

The College also has a defined benefit pension plan for certain 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. As of December 2012, this plan is no longer accepting new participants.

The measurement date of determining the benefit obligations and net periodic benefit cost for the defined benefit plan were June 30, 2017 and 2016.

The significant assumptions underlying the actuarial computations at June 30 were as follows:

	2017	2016
Assumptions used to determine benefit obligations		
Discount rate	3.800%	3.650%
Rate of compensation increase	3.000%	3.000%
Assumptions used to determine net periodic benefit cost		
Discount rate	3.650%	4.400%
Expected return on plan assets	7.000%	7.000%
Rate of compensation increase	3.000%	3.000%
Change in projected benefit obligation ($000s)		
Benefit obligation at end of prior year	$ 82,237	$ 71,484
Service cost	2,476	2,212
Interest cost	2,950	3,090
Actuarial (gain) loss, net of administrative expenses paid	(6,687)	8,192
Benefits paid	(6,203)	(2,742)
Benefit obligation at end of year	$ 74,773	$ 82,236
Accumulated benefit obligation	$ 65,674	$ 71,735
Change in plan assets ($000s)		
Fair value of plan assets at end of prior year	$ 47,802	$ 49,367
Actual return on plan assets, net of administrative expenses	5,074	1,177
Employer contributions	1,700	-
Benefits paid	(6,203)	(2,742)
Fair value of plan assets at end of year	$ 48,373	$ 47,802
Funded status ($000s)		
Funded status	$ (26,399)	$ (34,435)
Components of net periodic benefit cost ($000s)		
Service cost	$ 2,182	$ 2,212
Interest cost	2,783	3,090
Expected return on plan assets	(3,343)	(3,210)
Amortization of prior service cost	154	55
Net loss (gain) on amortization	907	968
Net periodic benefit cost	$ 2,683	$ 3,115

($000s)	2017	2016
New net actuarial (gain) loss	$ (8,684)	$ 10,226
Net (loss) gain on amortization	(1,658)	(968)
Amortization of prior service cost	(48)	(55)
	$ (10,390)	$ 9,203
Amounts recognized in the statement of financial position consist of a liability ($000s)	$ (26,399)	$ (34,435)
Other changes in plan assets and benefit obligations recognized in unrestricted net assets ($000s)		
Net prior service cost	-	48
Net actuarial loss	18,288	28,630
	$ 18,288	$ 28,678

The amounts expected to be recognized as amortization of prior net service cost and the (gain)/losses to be recognized as a component of net periodic cost in the year are $48,000 and $55,000, respectively.

Estimated future benefit payments reflecting anticipated service, as appropriate, are expected to be paid as shown below ($000's):

2018	$ 3,090
2019	3,789
2020	3,537
2021	4,468
2022	4,252
2023-2026	$ 23,780

The College expects to make an employer contribution into the defined benefit plan of $2,250,000 in the 2018 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. Although this basis is consistent with prior years, assumptions vary from year to year.

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	65%
Real estate investment trust	5%
Commodities	5%
Fixed income	25%
Cash and cash equivalents	0%
	100%

The following lists the Plan's asset allocation at June 30, 2017 and 2016:

Asset Category	Value at June 30, 2017 *(000s)*	2017	2016
Equity securities	$ 34,167	71%	56 %
Real estate investment trust	2,408	5%	8
Commodities	2,443	5%	3
Fixed income	9,333	19%	29
Cash and cash equivalents	-	0%	4
	$ 48,351	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, 2017 and 2016 ($000):

	2017	2016
Unrestricted		
Designated for specific purposes and plant	$ 66,732	$ 65,923
Quasi-endowment	574,713	535,580
	641,445	601,503
Temporarily restricted		
Endowment and similar funds including pledges	872,276	746,245
Annuity, life income and unitrusts including pledges	24,989	22,203
Deficiencies in donor-restricted endowments	-	776
Other restricted	107,804	108,192
	1,005,069	877,416
Permanently restricted		
Endowment including pledges	555,192	550,666
	555,192	550,666
	$ 2,201,706	$ 2,029,585

12. Endowment

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

The College's endowment consists of approximately 3,000 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments (quasi funds). 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.

At June 30, 2017, endowment net assets consisted of the following:

($000s)	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted funds	$ -	$ 812,713	$ 526,562	$ 1,339,275
Board-designated (quasi) and other unrestricted funds	591,477	-	-	591,477
	$ 591,477	$ 812,713	$ 526,562	$ 1,930,752

Changes in endowment net assets for the year ended June 30, 2017, consisted of the following (000's):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at beginning of year	$ 558,073	$ 698,627	$ 527,779	$ 1,784,479
Investment income, net of expenses	283	575	-	858
Net appreciation (realized and unrealized)	73,655	157,023	-	230,678
	632,011	856,225	527,779	2,016,015
Contributions and transfers to endowment	43	334	(1,217)	(840)
Appropriation of endowment assets for expenditure	(40,577)	(43,846)	-	(84,423)
Endowment net assets at end of year	$ 591,477	$ 812,713	$ 526,562	$ 1,930,752

At June 30, 2016, endowment net assets consisted of the following (000's):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted funds	$ -	$ 698,627	$ 527,779	$ 1,226,406
Board-designated (quasi) and other unrestricted funds	558,073	-	-	558,073
	$ 558,073	$ 698,627	$ 527,779	$ 1,784,479

Changes in endowment net assets for the year ended June 30, 2016, consisted of the following (000's):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at beginning of year	$ 595,366	$ 776,743	$ 508,922	$ 1,881,031
Investment income, net of expenses	633	1,286	-	1,919
Net appreciation (realized and unrealized)	(11,238)	(22,907)	-	(34,145)
	584,761	755,122	508,922	1,848,805
Contributions and transfers to endowment	835	(615)	18,857	19,077
Appropriation of endowment assets for expenditure	(27,523)	(55,880)	-	(83,403)
Endowment net assets at end of year	$ 558,073	$ 698,627	$ 527,779	$ 1,784,479

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 HEFA bond issuance and the remainder from unrestricted endowment. Costs associated with the campus improvement project are capitalized as land improvements. Costs incurred to remediate this property are charged to expense when they can be estimated. Ongoing expenses associated with the monitoring and maintenance of the engineered barrier are charged to operations. Total expenses for this project were $101,000 and $71,000, respectively, for the years ended June 30, 2017 and 2016. 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 the DEP recommending that no remedial action be taken in respect of the groundwater portion of the site beyond periodic monitoring of hexavalent chromium concentrations. The 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. There were no expenses in 2017 or 2016 for remediation work for Lower Waban Brook. A liability of $2,494,000 has been recorded as of June 30, 2017 and 2016, respectively, and is included in the Statement of Financial Position within accounts payable and accrued expenses.

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.

Outstanding commitments amounted to approximately $337,816,000 and $339,188,000 as of June 30, 2017 and 2016, respectively, for the following (000's):

	2017	2016
Alternative investments	$ 329,890	$ 324,943
Construction contracts	7,926	14,245
	$ 337,816	$ 339,188

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 2018.

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 30, 2017, the date the audited financial statements were issued, 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

2016–2017

Wellesley College, 106 Central Street, Wellesley, Massachusetts 02481