Wellesley College

Financial Statements
June 30, 2018 and 2017

Wellesley College
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June 30, 2018 and 2017

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Report of Independent Auditors

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, 2018 and 2017, 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 includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation 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.

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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, 2018 and 2017, and its changes in 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 29, 2018

Wellesley College
Statements of Financial Position
June 30, 2018 and 2017

($000s)	2018	2017
Assets		
Cash and cash equivalents	$ 88,210	$ 83,307
Restricted cash	95,190	-
Accounts receivable, net	9,177	8,684
Loans receivable, net	7,205	7,649
Contributions receivable, net	68,103	69,918
Grants receivable	7,463	2,301
Prepaid, inventory and other assets	3,765	8,542
Operating investments	-	13,647
Investments	2,113,204	1,975,253
Planned giving investments	66,525	64,194
Land, buildings and equipment, net	353,599	335,844
Total assets	$ 2,812,441	$ 2,569,339
Liabilities		
Accounts payable and accrued expenses	$ 62,957	$ 46,120
Student deposits and deferred revenues	10,331	3,133
Advances under grants and contracts	407	4,931
Annuities and unitrusts payable	30,735	31,040
Asset retirement and environmental obligations	24,348	24,071
Accrued pension liability	23,453	26,399
Bonds payable	325,061	228,365
Government loan advances	2,379	3,574
Total liabilities	479,671	367,633
Net Assets		
Unrestricted	637,501	641,445
Temporarily restricted	1,113,462	1,005,069
Permanently restricted	581,807	555,192
Total net assets	2,332,770	2,201,706
Total liabilities and net assets	$ 2,812,441	$ 2,569,339

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

Wellesley College
Statement of Activities
Year Ended June 30, 2018

($000s)	Unrestricted	Temporarily Restricted	Permanently Restricted	2018 Total
Operating revenues				
Tuition and fees	$ 121,912	$ -	$ -	$ 121,912
Room and board	34,532	-	-	34,532
Less: Financial aid				-
Donor sponsored	(24,768)	-	-	(24,768)
Institutionally sponsored	(38,482)	-	-	(38,482)
Net tuition and fees	93,194	-	-	93,194
Auxiliary operations	5,634	-	-	5,634
Government grants	4,901	-	-	4,901
Private gifts and grants	13,507	9,859	-	23,366
Endowment distributed for operations	47,977	38,006	-	85,983
Amounts transferred from endowment funds	3,917	-	-	3,917
Restricted and designated funds used in operations	4,091	-	-	4,091
Other	4,371	1,599	-	5,970
Net assets released from restrictions	44,710	(44,710)	-	-
Total operating revenues	222,302	4,754	-	227,056
Operating expenses				
Instruction	95,679	-	-	95,679
Sponsored research and centers	11,530	-	-	11,530
Student services	51,084	-	-	51,084
Academic support	22,955	-	-	22,955
Institutional support	48,320	-	-	48,320
Auxiliary operations	11,013	-	-	11,013
Total operating expenses	240,581	-	-	240,581
Change in net assets from operating activities	(18,279)	4,754	-	(13,525)
Nonoperating activities				
Investment return, net of spending allocation	14,508	105,220	-	119,728
Endowment distributed for operations	(3,917)	-	-	(3,917)
Matured planned giving agreements	1,197	(2,047)	850	-
Gifts and pledges	307	9,278	25,765	35,350
Pension related changes other than net periodic pension cost	2,513	-	-	2,513
Net realized/unrealized gain on interest swap	3,759	-	-	3,759
Restricted and designated funds used in operations	(4,091)	-	-	(4,091)
Other changes	(8,753)	-	-	(8,753)
Net assets released from restrictions	8,812	(8,812)	-	-
Total nonoperating revenues	14,335	103,639	26,615	144,589
Net change in net assets	(3,944)	108,393	26,615	131,064
Net assets				
Beginning of year	641,445	1,005,069	555,192	2,201,706
End of year	$ 637,501	$ 1,113,462	$ 581,807	$ 2,332,770

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

Wellesley College
Statements of Activities
Years Ended June 30, 2017

($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.

Wellesley College
Statements of Cash Flow
Years Ended June 30, 2018 and 2017

($000s)	2018	2017
Cash flows from operating activities		
Change in net assets	$ 131,064	$ 172,121
Adjustment to reconcile change in net assets		
to net cash used in operating activities		
Depreciation and amortization	20,359	17,302
Contributions restricted for long-term purposes	(20,969)	(2,582)
Donated securities received	(12,612)	(7,059)
Realized and unrealized gain on investments	(217,647)	(233,098)
Change in discount and allowance for doubtful accounts	317	(4,190)
Pension related changes other than net periodic pension cost	(2,513)	(5,682)
Unrealized gain on interest rate swap	(3,759)	(7,219)
Loss on sale and dispoals of plant and equipment	2,051	7,012
Changes in operating assets and liabilities		
Accounts receivable, net	(493)	13
Contributions receivable, net	1,519	22,399
Grants receivable	(5,162)	2,047
Prepaid, inventory and other assets	4,345	(2,057)
Accounts payable and accrued expenses	14,781	(8,706)
Student deposits and deferred revenue	7,198	2,055
Advances under grants and contracts	(5,719)	(1,430)
Annuities and unitrusts payable	(305)	(145)
Net cash used in operating activities	(87,545)	(49,219)
Cash flows from investing activities		
Purchases of land, buildings and equipment	(34,235)	(30,807)
Proceeds from sale of land, buildings and equipment	-	2,142
Proceeds from student loans collections	1,225	935
Student loans issued	(802)	(381)
Decrease in restricted cash for construction funds	(95,190)	-
Purchases of investments	(699,123)	(407,561)
Proceeds from sales and maturities of investments	790,135	500,895
Net cash (used in) provided by investing activities	(37,990)	65,223
Cash flows from financing activities		
Proceeds from contributions for		
Investment in endowment	21,025	2,214
Investment in planned giving	(56)	368
Proceeds from sale of donated securities restricted for long term purposes	12,612	7,059
Proceeds from bonds issued	104,831	-
Payments on bonds and notes payable	(7,974)	(3,020)
Net cash provided by financing activities	130,438	6,621
Net increase in cash and cash equivalents	4,903	22,625
Cash and cash equivalents		
Beginning of year	83,307	60,682
End of year	$ 88,210	$ 83,307
Contributed securities	$ 12,612	$ 7,059
Cash paid for interest	8,357	8,376
Capital additions included in accounts payable and accrued expenses	6,500	6,688

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

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, gifts and pledges, 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. Restricted cash represents amounts for construction held by trustees in association with the Massachusetts Development Finance Agency Series L bond issue.

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 years ended June 30, 2018 and 2017.

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, 2018. 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 2018 and 2017, are reported net of allowances for doubtful accounts of $319,000 and $190,000, respectively. Loans receivable for 2018 and 2017, are reported net of allowances for doubtful loans of $768,000 and $747,000, 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, Building and Building improvements	15–60
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, 2018 and 2017. 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.

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

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 January 2016, the FASB issued (ASU) 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*, which address certain aspects of recognition, measurement, presentation and disclosure of financial instruments. This guidance allows an entity to choose, investment-by-investment, to report an equity investment that neither has a readily determinable fair value, nor qualifies for the practical expedient for fair value estimation using NAV, at its cost minus impairment (if any), plus or minus changes resulting from observable price changes in orderly transactions for the identical or similar investment of the same issue. Impairment of such investments must be assessed qualitatively at each reporting period. Entities must disclose their financial assets and liabilities by measurement category and form of asset either on the face of the statement of financial position or in the accompanying notes. The ASU is effective for annual reporting periods beginning after December 15, 2018. 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.

In March 2017, the FASB issued final guidance on (ASU) 2017-07, *Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. Presently, net benefit cost is reported as an employee cost within operating income (or capitalized into assets where appropriate). The amendment requires the bifurcation of net benefit cost. The service cost component will be presented with other employee costs in operating income (or capitalized in assets). The other components will be reported separately outside of operations, and will not be eligible for capitalization. The College is evaluating the impact this will have on the financial statements beginning in Fiscal Year 2020.

2. Contributions Receivable

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

	2018	2017
Unconditional promises expected to be collected in		
Less than one year	$ 13,348	$ 3,979
One year to five years	52,238	51,682
Over five years	12,916	26,878
	78,502	82,539
Less: Discounts and allowance for uncollectible accounts	10,399	12,621
Net contributions receivable	$ 68,103	$ 69,918

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 6.0% at June 30, 2018 and 3.0% to 5.0% at June 30, 2017.

3. Land, Buildings and Equipment

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

	2018	2017
Land and land improvements	$ 50,093	$ 50,093
Buildings and building improvements	565,525	508,763
Equipment	8,511	7,880
Construction in progress	28,645	52,330
	652,774	619,066
Less: Accumulated depreciation	299,175	283,222
	$ 353,599	$ 335,844

Depreciation and amortization expense was $20,359,000 and $17,302,000 for the years ended June 30, 2018 and 2017, respectively.

The College recognized $1,026,000 and $978,000 of operating expenses relating to the accretion of environmental liabilities associated with the asset retirement obligations for the years ended June 30, 2018 and 2017, respectively. Conditional asset retirement obligations of $24,348,000 and $24,071,000 at June 30, 2018 and 2017, 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, 2018 and 2017 were as follows:

	2018		2017	
($000s)	**Book Value**	**Fair Value**	**Book Value**	**Fair Value**
Investments				
Investments pooled				
Cash and cash equivalents	$ 120,819	$ 120,825	$ 96,832	$ 96,816
Bonds	60,924	63,039	52,116	53,938
Equities	353,561	675,252	369,834	659,643
Private equity	333,190	487,045	342,727	426,749
Real assets	201,984	179,325	276,014	220,859
Absolute return	387,797	564,641	359,151	495,693
Other assets	851	851	851	851
Total pooled investments	1,459,126	2,090,978	1,497,525	1,954,549
Faculty mortgage subvention	11	11	11	11
Faculty mortgages	22,007	22,000	20,480	20,480
Total pooled investments and faculty mortgages	1,481,144	2,112,989	1,518,016	1,975,040
Investments not pooled				
Cash and cash equivalents	215	215	213	213
Total investments not pooled	215	215	213	213
Total investments	1,481,359	2,113,204	1,518,229	1,975,253
Other investments				
Restricted construction funds	-	-	15,008	13,647
Total other investments	-	-	15,008	13,647
Total all investments	$ 1,481,359	$ 2,113,204	$ 1,533,237	$ 1,988,900
Planned giving investments				
Separate pooled funds				
Cash and cash equivalents	$ 874	$ 874	$ 352	$ 352
Bonds	10,727	10,493	10,253	10,118
Equities	22,771	29,535	22,967	28,637
Total pooled funds	34,372	40,902	33,572	39,107
Unitrusts				
Cash and cash equivalents	294	294	522	522
Bonds	3,820	3,797	3,599	3,662
Equities	3,920	9,386	4,134	8,786
Other assets	1,887	1,887	1,887	1,887
Assets held by trustees	10,321	10,259	10,230	10,230
Total funds not pooled	20,242	25,623	20,372	25,087
Total planned giving investments	$ 54,614	$ 66,525	$ 53,944	$ 64,194

The majority of College investments are invested in the College's long term investment pool. Assets in this pool include endowment assets, faculty mortgages, 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, 2018 and 2017 ($000):

	2018			
	Separate Accounts	Commingled Funds	Hedge Funds	Total
Cash and cash equivalents	$ 55,828	$ -	$ -	$ 55,828
Bonds	-	43,946	19,093	63,039
Equities	43,646	296,935	334,671	675,252
	$ 99,474	$ 340,881	$ 353,764	$ 794,119

	2017			
	Separate Accounts	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

The College's investment return from pooled investments and planned giving investments was as follows for the years ended June 30, 2018 and 2017 ($000s):

	2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Dividends and interest (net of investment expenses of $18,000,000)	$ (1,793)	$ (6,780)	$ -	$ (8,573)
Net realized and unrealized gains (losses)	64,278	150,006	-	214,284
Total return on endowment and planned giving investments	62,485	143,226	-	205,711
Investment return designated for current operations	(47,977)	(38,006)	-	(85,983)
	$ 14,508	$ 105,220	$ -	$ 119,728

	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

The total return consisting of realized and unrealized gains and losses and dividends and interest net of investment management fees was 11.00% and 13.14% for the fiscal years ended June 30, 2018 and 2017, 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, 2018 and 2017.

	2018				
($000s)	**NAV Practical Expedient**	**Level 1**	**Level 2**	**Level 3**	**Total**
Investments					
Equities	$ 621,606	$ 53,646	$ -	$ -	$ 675,252
Bonds	63,039	-	-	-	63,039
Private equity	487,045	-	-	-	487,045
Real assets	179,325	-	-	-	179,325
Absolute return	540,307	24,334	-	-	564,641
Cash and other assets	49,616	94,286	-	-	143,902
Planned giving investments	56,204	-	-	10,321	66,525
Total assets at fair value	$ 1,997,142	$ 172,266	$ -	$ 10,321	$ 2,179,729
Interest rate swap	$ -	$ -	$ -	$ 11,371	$ 11,371

($000s)	2017 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

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, 2018 and 2017 that are classified within Level 3 of the fair value hierarchy.

($000s)	2018 Balance at July 1, 2017	Realized and Unrealized Gains/Losses	Purchases	Sales	Transfer in (out) of Level 3	Balance at June 30, 2018
Interest rate swap - asset/liability	$ (15,129)	$ 3,758	$ -	$ -	$ -	$ (11,371)
Planned giving investments	-				10,321	10,321
Balances at June 30, 2018	$ (15,129)	$ 3,758	$ -	$ -	$ 10,321	$ (1,050)

($000s)	2017 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)

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, 2018 and 2017.

	2018				
($000s)	**NAV in Funds**	**Unfunded Commitments**	**Timing to Draw Commitments**	**Redemption Terms/Restrictions**
Investment				
Private equity	$ 487,045	$ 240,815	1 to 12 years	Funds are private equity, no ability to redeem.
Real assets	179,325	77,541	1 to 12 years	Funds are private equity, no ability to redeem.
Equities	621,606	-		90% of NAV is redeemable within 90 days; 5% of NAV is redeemable within a year; 5% has a multi-year redemption period.
Bonds	63,039	-		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	540,307	25,069	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	49,616	-		100% has a multi-year redemption period.
	$ 1,940,938	$ 343,425		

	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		

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:

	2018	2017
Investments in pooled funds and faculty mortgages, market value ($000s)	$ 2,113,050	$ 1,937,701
Total number of units	2,802,550	2,728,948
Market value per unit	753.97	710.06
Distribution per unit	31.01	30.96

The following are the components of the pooled and nonpooled endowment funds at market value at June 30, 2018 and 2017 ($000s):

	Units	Pooled Endowment	Nonpooled Endowment	Total Endowment
2018 Funds				
Endowment and similar funds				
Endowment funds	1,777,752	$ 1,340,372	$ -	$ 1,340,372
Temporarily restricted funds	102,888	77,371	215	77,586
Unrestricted and quasi-endowment	921,910	695,092	-	695,092
	2,802,550	$ 2,112,835	$ 215	$ 2,113,050

	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

7. Related Parties

The Wellesley College Alumnae Association is a separate 501(c)(3) organization whose mission is to support the institutional priorities of Wellesley College. Endowment investments held on its behalf are included in the College's long term investment pool and are reflected as part of the College's assets and liabilities. The market value of the assets totaled $8,753,000 and $8,124,000 at June 30, 2018 and 2017, respectively.

Mortgages due from faculty of $22,000,000 and $20,480,000 at June 30, 2018 and 2017, 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 $7,777,000 and $6,949,000 at June 30, 2018 and June 30, 2017, 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, 2018 and 2017 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 $7,290,000 and $6,672,000 during fiscal years 2018 and 2017, 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, 2018 and 2017, all of these construction funds have been drawn down to fund various construction projects.

During January 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.

During March 2018, the College issued $96,500,000 in Series L tax-exempt bonds. The bonds mature in 2048. The proceeds were used to retire $5,800,000 of Series E bond debt and fund the renovation of the College’s Science Center and other capital projects. The College incurred bond issue costs of $821,000 associated with the issue which have been capitalized and are being amortized over the life of the bonds.

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

	2018	2017
MDFA, Series I, Variable Rate Demand Bonds, bearing interest at a weekly rate, maturing July 2039. The rate at June 30, 2018 was 1.963%.	$ 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, 2018 was 1.944%.	20,000	20,000
MDFA, Series E, Variable Rate Demand Bonds, bearing interest at a weekly rate, maturing July 2022.	-	5,800
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 2.121% to 4.196%, maturing 2042.	89,850	92,025
MDFA, Series L, Revenue Bonds, issued at an interest rate of 3.000% to 5.000%, maturing 2048.	96,500	-
Total debt	313,535	225,010
Less: Unamortized bond issue costs	(2,030)	(1,356)
Add unamortized original issue premium	13,556	4,711
	$ 325,061	$ 228,365

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

2019	$ 3,245
2020	1,140
2021	2,685
2022	3,790
2023	4,555
Thereafter	298,120
Total bonds and notes payable	$ 313,535

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, 2018 and 2017, the market value of the swap agreement amounted to a liability of $11,371,000 and $15,129,000, 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 $3,759,000 in 2018 and $7,219,000 in

2017. Additionally, the College paid net interest expense in association with the swap agreement of $1,385,000 and $1,456,000 for the years ended June 30, 2018 and 2017, 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, 2018 as follows: fixed rate debt of $236,150,000 and variable rate debt of $77,385,000. 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, 2018 and 2017, there is approximately $7,777,000 and $6,949,000, 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 $30,735,000 and $31,040,000 at June 30, 2018 and 2017, 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 $8,887,000 and $9,265,000, respectively, for the years ended June 30, 2018 and 2017.

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, 2018 and 2017.

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

		2018		2017
Assumptions used to determine benefit obligations				
Discount rate		4.150 %		3.800 %
Rate of compensation increase		3.000 %		3.000 %
Assumptions used to determine net periodic benefit cost				
Discount rate		3.800 %		3.650 %
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	$	74,773	$	82,237
Service cost		2,182		2,476
Interest cost		2,783		2,950
Actuarial (gain) loss, net of administrative expenses paid		(2,017)		(6,687)
Benefits paid		(3,328)		(6,203)
Benefit obligation at end of year	$	74,393	$	74,773
Accumulated benefit obligation	$	65,496	$	65,674
Change in plan assets ($000s)				
Fair value of plan assets at end of prior year	$	48,373	$	47,802
Actual return on plan assets, net of administrative expenses		3,644		5,074
Employer contributions		2,250		1,700
Benefits paid		(3,328)		(6,203)
Fair value of plan assets at end of year	$	50,939	$	48,373
Funded status ($000s)				
Funded status	$	(23,453)	$	(26,399)
Components of net periodic benefit cost ($000s)				
Service cost	$	2,182	$	2,182
Interest cost		2,783		2,783
Expected return on plan assets		(3,189)		(3,343)
Amortization of prior service cost		-		154
Net loss (gain) on amortization		907		907
Net periodic benefit cost	$	2,683	$	2,683

($000s)	**2018**	**2017**
New net actuarial gain	$ (2,472)	$ (8,684)
Net loss on amortization	(907)	(1,658)
Amortization of prior service cost	-	(48)
	$ (3,379)	$ (10,390)
Amounts recognized in the statement of financial position consist of a liability ($000s)	$ (23,453)	$ (26,399)
Other changes in plan assets and benefit obligations recognized in unrestricted net assets ($000s)		
Net prior service cost	$ -	$ -
Net actuarial loss	14,909	18,288
	$ 14,909	$ 18,288

The amounts expected to be recognized as amortization of prior net service cost and the gain to be recognized as a component of net periodic cost in the year are $0 and $48,000, respectively.

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

2019	$ 3,356
2020	3,418
2021	4,489
2022	4,159
2023	4,503
2024-2027	23,174

The College expects to make an employer contribution into the defined benefit plan of $2,250,000 in the 2019 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, 2018 and 2017:

Asset Category	**Value at June 30, 2018** *(000s)*	**2018**	**2017**
Equity securities	$ 35,181	69 %	71 %
Real estate investment trust	1,069	2	5
Commodities	3,542	7	5
Fixed income	9,859	19	19
Cash and cash equivalents	1,288	3	0
	$ 50,939	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, 2018 and 2017 ($000):

	2018	2017
Unrestricted		
Designated for specific purposes and plant	$ 55,677	$ 66,732
Quasi-endowment	581,824	574,713
	637,501	641,445
Temporarily restricted		
Endowment and similar funds including pledges	960,724	872,276
Annuity, life income and unitrusts including pledges	41,426	24,989
Other restricted	111,312	107,804
	1,113,462	1,005,069
Permanently restricted		
Endowment including pledges	581,807	555,192
	581,807	555,192
	$ 2,332,770	$ 2,201,706

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, 2018, endowment net assets consisted of the following:

($000s)	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted funds	$ -	$ 912,584	$ 544,876	$ 1,457,460
Board-designated (quasi) and other unrestricted funds	647,752	-	-	647,752
	$ 647,752	$ 912,584	$ 544,876	$ 2,105,212

Changes in endowment net assets for the year ended June 30, 2018, consisted of the following (000's):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at beginning of year	$ 591,477	$ 812,713	$ 526,562	$ 1,930,752
Investment income, net of expenses	(1,466)	(2,977)		(4,443)
Net appreciation (realized and unrealized)	69,376	140,854	-	210,230
	659,387	950,590	526,562	2,136,539
Contributions and transfers to endowment	36,342	-	18,314	54,656
Appropriation of endowment assets for expenditure	(47,977)	(38,006)	-	(85,983)
Endowment net assets at end of year	$ 647,752	$ 912,584	$ 544,876	$ 2,105,212

At June 30, 2017, endowment net assets consisted of the following (000's):

($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

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. After the passage of federal and state “superfund” laws in the early 1980’s, under which the College had liability for the legacy paint factory contamination as the property’s current owner, and after the promulgation in the late 1980s of state regulations governing the process for responding to the public health and ecological risks posed by contaminated land, the College undertook a lengthy process of investigation, remediation and monitoring. This process was substantially completed by 2014, but the College remains responsible for the periodic monitoring of conditions at the paint factory site.

Early in the process, the site was divided into four basic parts or units. These were: (1) U pland/Wetland/Pond; (2) Groundwater; (3) Lake Waban; and (4) Lower Waban Brook. In 2001, the College commenced the remediation of the Upland/Wetland/Pond portion of the Site. The Uplands remediation involved the excavation and consolidation, on-site, of soils and sediments impacted by historic paint pigment releases. The consolidation area was capped with recreational playing fields. The Upland/Wetland/Pond project cost $32.8 million, and was formally completed with the filing of closure documentation with the Massachusetts Department of Environmental Protect ion (MassDEP) in 2005. The College continues to maintain the recreational field cap over the consolidation area (activities it would perform anyway as part of normal field maintenance), and, at a minor annual cost, to monitor groundwater and sediment quality adjacent to the consolidation area. No additional remedial efforts are anticipated at the Upland/Wetland/Pond unit.

In 2004, the College submitted to MassDEP a recommendation that the Groundwater unit of the site be routinely monitored for the “natural attenuation” that was expected to occur following completion of the Upland/Wetland/Pond project , which eliminated major sources of contaminant transport to ground water. Since then, the College has been periodically monitoring groundwater quality and submitting the results to MassDEP. Groundwater monitoring is performed at a minor annual cost. No additional remedial efforts are anticipated at the Groundwater unit.

In 2005, the College filed a report with MassDEP documenting the absence of feasible remediation options for the Lake Waban unit of the site, and recommending that environmental conditions in the Lake be monitored rather than remediated. Since then, the College has been periodically monitoring sediment and surface water quality in Lake Waban, and on two occasions has submitted updated reports to MassDEP confirming the absence of feasible remedial options in the Lake. Annual Lake monitoring costs are insignificant. No additional remedial efforts are anticipated at the Lake Waban unit.

In 2014, the College, with the advance approval of MassDEP, submitted to the agency a report documenting the absence of ecological risks warranting remediation in the Lower Waban Brook unit of the site. No additional remedial efforts are anticipated at the Lower Waban Brook unit.

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 $347,905,000 and $337,816,000 as of June 30, 2018 and 2017, respectively, for the following (000's):

	2018	2017
Alternative investments	$ 343,425	$ 329,890
Construction contracts	4,480	7,926
	$ 347,905	$ 337,816

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 2019.

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 29, 2018, 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.