WELLESLEY COLLEGE

Annual Report 2003–2004

Wellesley College
Fiscal Year 2003 and 2004

Diana Chapman Walsh
President

Finance and Investments

Andrew B. Evans
Vice President
for Finance and Treasurer

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Wellesley College

Annual Report for the Year Ended June 30, 2004

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October 2004

To the Board of Trustees, Alumnae, Faculty, and Friends of Wellesley College

It is my privilege to submit the 2003–2004 annual financial report of Wellesley College and, with it, the news that our College continues to thrive, thanks to the dedication of its many wise and vigilant stewards. The familiar rhythms of college life produce predictable patterns from one year to the next, and yet each year develops a character all its own. This past year was one of transitions in the leadership ranks, and, perhaps because of the changes, a year in which we revisited and reinforced some of our deepest values.

In the letters that follow, Andrew B. Evans, our new vice president for finance and treasurer, and Jane L. Mendillo, our chief investment officer, report, respectively, on the College's financial position and endowment performance. Below, I offer a perspective on another year of meaningful learning, greatly enhanced by the special initiatives made possible through generous gifts to The Wellesley Campaign.

Academic Excellence

In their final year as dean and associate deans of the college, Lee Cuba, Andrea Levitt, and Andrew Shennan continued to lead the faculty in a searching exploration of questions about "academic excellence" formulated with the trustees at a two-day retreat with academic department and program chairs in October 2002. The faculty made significant headway this year addressing issues related to grade inflation, the honor code, and global education. As they did so, they were also advancing a longer-term aspiration identified at the retreat: a desire to strengthen the empirical foundation on which we ask questions about our quality and make choices about our future. The deans described these efforts in a thoughtful five-year re-accreditation report, submitted in January to the New England Association of Schools and Colleges.

To identify curricular strengths as well as gaps in the academic experience, the Committee on Academic Excellence, chaired by Dean Cuba, solicited self-assessments from academic departments and programs, reviewed extensive data from regular surveys of students and alumnae, conducted consultations with the faculty, and met throughout the year to develop specific recommendations aimed at assuring, to the full extent possible, the quality of the academic experience for every Wellesley student. By year's end, the committee had produced a far-reaching and candid report identifying opportunities for improvements in a number of areas, including: requirements for the major; advanced placement credits; instruction in public speaking; opportunities for collaborative learning; special programs for first-year students; academic advising; and institutional self-assessment.

Meanwhile, the Committee on Curriculum and Instruction (CCI), chaired by associate dean Andrew Shennan, catalyzed a year-long discussion of the problem of grade inflation and, in April, brought a successful resolution to the Academic Council committing the faculty to a new, college-wide grading standard designed to reverse an inflationary trend in average grades that has been a matter of concern for several years, and to diminish the grading discrepancies across departments and divisions.

Another hard-working committee, this one charged to review the status of the Wellesley College honor code, spent its first year assessing and recommending improvements to our adjudicatory procedures. The committee consulted widely with students, faculty, staff, trustees, and alumnae to identify practices and procedures needing change, and reviewed standards of practice in disciplinary proceedings at peer institutions. They presented preliminary findings in a series of public meetings during the spring semester, and, in June, submitted a report to me recommending substantial improvements to the general judiciary system. We envisage further work on the honor code in the year ahead, both to implement the recommendations from this year's report and to develop a robust program that will continuously reinforce intellectual integrity as one of the most fundamental values that defines an academic community.

Among significant enhancements this year to the global education initiative that has been a centerpiece of The Wellesley Campaign, the dean's office: restructured the international relations major; reconstituted the departments of Chinese and Japanese, and added Korean language, to create a new department of East Asian Languages and Literatures; designed a new financing plan for study abroad; and established a new position of administrative director of international study. In addition, the extraordinary program being sponsored by Shelby M.C. Davis has greatly expanded the international profile and consciousness of the Wellesley student body. This year we had 52 exceptional and enthusiastic graduates of the nine United World College campuses around the globe enrolled for four years at Wellesley as Davis-UWC Scholars.

There was good news in the sciences, too. In May, we were excited to learn that our proposal to the Howard Hughes Medical Institute (HHMI) was selected for a $1.2 million four-year competitive grant. These all-important funds for the natural sciences will support summer research collaborations between students and faculty, post-doctoral fellowships in scientific fields that cross disciplinary lines, curriculum development, and new instrumentation for the science center. The support we have been fortunate to enjoy from HHMI (this is our fifth major award) has been a critical factor in our ability to recruit and retain exceptionally talented teacher-scholars in the sciences who provide our students the personalized hands-on research mentoring that would be reserved for graduate students in a research university.

The Susan and Donald Newhouse Center for the Humanities was launched this year by a planning committee, chaired by associate dean, Andrea Levitt, responding to my request for a mission statement and a vision for the new center, and for recommendations for its administrative structure and eventual location in Green Hall. We appointed Timothy Peltason, William R. Kenan, Jr. Professor of English, the first director of the center, which intends to "promote innovative, imaginative, and influential research and teaching in the humanities, broadly defined," to bring "the best current research to bear upon new and enduring issues in the humanities," to "create a dynamic and cosmopolitan intellectual community that extends from Wellesley College to the wider Boston-area community and beyond," and to create "opportunities for intellectual risk taking and the exchange of ideas among faculty and students."

Year Four of The Wellesley Campaign

On June 30, 2004 we closed the penultimate year of The Wellesley Campaign with gifts and pledges totaling $373.6 million, over 90% of our dollar goal with 12 months still to go. What a wonderful position in which to be. With several programmatic needs still only partially funded, the campaign continues to generate high levels of excitement. Donors made 15 new gifts and pledges of seven figures or more in fiscal '04. Total giving to the College in FY 04 was $54.7 million. For the final year, we are hoping to secure additional support for major capital projects, particularly the Alumnae Valley restoration, named spaces within the Wang Campus Center, and the chapel project, as well as support for financial aid, global education, and library acquisitions.

Already nearly 23,000 individuals have made gifts to this campaign. That comes to roughly 10 donors per student, a lovely image that captures the potency of the Wellesley network: 10 of us standing behind each and every student, cheering her on. Almost 70% of Wellesley alumnae have participated in the campaign so far, a remarkable participation rate I hope we will raise even higher in the final year. It is an inspiring story of generosity and faithful stewardship.

An explicit goal of the campaign has been to strengthen our Annual Giving program, on which we depend for unrestricted and current-use gifts that help us balance our budget every year. Annual giving this year totaled $10.6 million, an increase of 8% over last year and another all-time record for unrestricted gifts combined with current-use financial aid gifts. The Shelby Davis-United World College fund was again a major factor, providing more than $1.7 million in current-use financial aid in FY04 for the 52 Davis-UWC scholars. This year's reunion classes set many records, including new College records for dollars raised by the Classes of '49, '54, '64 and '79 and a new record by the Class of 2004, for their senior class gift of $15,908. Alumnae participation in giving was a solid 53%.

We hosted five more campaign celebrations through the year, bringing the total to 16. These gala events have drawn capacity crowds of alumnae and friends of all ages. In September a celebration in London at the British Museum enabled us to connect with alumnae from the UK and the European continent. Because that trip corresponded with the Wellesley

College Alumnae Association's third annual Day to Make a Difference, a group of us began the day by running a 10K road race through Hyde Park to raise money for cancer research. Later in the fall we held campaign celebrations in Minneapolis, Denver, and Phoenix and, in the spring, one in Philadelphia.

In October, near the site of the new Wang Campus Center and Davis Parking Facility, the trustees held a "beam signing" ceremony with Lulu and Tony Wang and Kathryn Davis and her family to commemorate their extraordinary gifts that have made those two projects possible. In January, we rededicated the Margaret Clapp Library as the capstone of a gradual process of renovating the building over a period of years, beginning in 1995. Working from a large vision and a master plan, we took up the project in segments as we were able to assemble the resources, and were glad for the opportunity to thank the major donors.

The opening of the Davis Parking Facility in February was an historic event, accompanied by a new campus-wide parking plan which entailed reassigning over 600 parking permits. In accordance with the campus master plan, we have now removed parking along roadways throughout the core of the campus: up and down Jewett and Pendleton hills, in front of Houghton Memorial Chapel, behind Margaret Clapp Library, down Tupelo Road and in the temporary parking lots that are being restored as meadows. Pedestrians have regained the primacy they enjoyed decades ago, and can now enjoy views of the campus unmediated by chrome, glass, and metal. The difference is quite striking.

And that very practical change is but one of the ways in which the campaign has already transformed the Wellesley educational experience and the campus in which that experience is so deeply rooted. The program of innovation and revitalization enabled by the campaign has created a wealth of new opportunities for our students and has unleashed a spirit of creative initiative across the College. New directions bring new budgetary challenges, inevitably, and, as you will note in Andy Evans's financial report, we have begun asking ourselves, for the long-term future, what we need to do to maintain our competitive position and support our commitments while also freeing up funds to afford new initiatives. We approach the question of financial equilibrium from a position of significant strength.

Leadership Transitions

Every year in academia is a year of transitions, as our rituals constantly remind us, but the theme of transitions was especially salient this year. Fortunately, the senior staff was strong and seasoned; several members of the team took on special assignments to carry us through a challenging time.

The fall semester began, in effect, with a handoff of the incoming first-year class from our director of admissions, Jennifer Desjarlais (who had taken up her interim responsibilities heading the admissions office only in June) to our dean of students, Kimberly Goff-Crews (who had just arrived on August 1). Both of these impressive women quickly hit their stride.

As we opened college, I was particularly pleased that we had persuaded the various cultural groups to begin orientation with the whole first-year class together, rather than in the preorientation programs that for many years had separated students into racial and ethnic groups as they first arrived. Michelle Lepore, the associate dean of students (who had served for one year as interim dean), led the residential life staff and the cultural advisors in coaching the student leaders to design a successful program of diversity education for everyone. This was a big step forward for us, and was testimony to progress in the student life division and a new spirit of collaboration among student leaders.

We started the year, as well, preparing for a complete turnover in the office of the dean of the college. I spent much of my time in the fall semester consulting members of the faculty for their views on the opportunities ahead, the qualities of leadership that would best serve our needs, and potential candidates for the deanship. In February, I announced the appointment of Professor Andrew Shennan as Dean of the College for an initial three-year term beginning July 1, 2004. In his capacity as associate dean for the previous five years, Andy had emerged as a trusted and thoughtful leader of the faculty who assembles and assesses evidence to inform complex decisions and persuades through the force of argument. He holds himself to the highest standards of integrity and intellectual rigor, and expects no less of others. At the same time, he is a good listener and is open and sensitive to the varied concerns of faculty, students, staff, and alumnae of the college. In the spring semester, Dean Shennan and I selected two distinguished scientists as the two new associate deans: Joanne Berger-Sweeney, Allene Lummis Russell '46 Professor in Neuroscience, and Adele Wolfson, professor of chemistry.

In September, too, we began a national search for a dean of admission, with Jennifer Desjarlais as a strong internal candidate. Dean Rapelye had recruited Jenn to Wellesley as senior associate director of admission in January 1999 and, in July 2001, promoted her to director of admission, with management responsibility for the day-to-day operations of the division. As its interim leader for the six months of the search, Jenn earned the respect of trustees, faculty, members of the administration, and her own staff. She demonstrated her ability to take on a larger leadership role, within the College and in the wider educational community, and the search produced plentiful evidence of the high regard in which she is held by professional colleagues across the country.

Under Dean Desjarlais, we logged another record-breaking admissions year for the College. The number of applications for the Class of 2008 increased a full 17% over last year's record increase of 20%. This was the most selective the Board of Admission has been in more than 30 years; they admitted 36% of applicants. Among the factors that likely increased our profile with high school graduates were the attention focused on Wellesley by the release of best-selling memoirs by Hillary Rodham Clinton '69 and Madeleine Korbel Albright '59, both of whom reflected warmly on their Wellesley years. In addition, the magazine *U.S. News and World Report* ran a special feature in their college edition on women's colleges and, specifically, Wellesley. Also, the major motion picture, *Mona Lisa Smile,* was controversial with many alumnae and provoked numerous discussions of Wellesley in the public media. Younger viewers were less troubled by the historical inaccuracies in the film than were alumnae whose experiences it purported to depict; some applicants said the film attracted them to Wellesley.

By far the most wrenching transition this past year was in the finance division. Over the summer it became increasingly clear that Susan Vogt, vice president for finance and treasurer, was seriously ill and although her team worked day and night to hold her job open for her recovery, I came to the reluctant conclusion in early September, with Susan's assent, that we needed to find someone who could cover her role for an indefinite period. We were extremely fortunate to secure the services of Raymond J. Clark, treasurer emeritus of Princeton University, as interim vice president of finance and treasurer. He was willing to stay as long as we needed his help.

Susan died in October, just three years after joining the Wellesley administration. She left a strong and enduring legacy, together with many admirers and friends. Early in her tenure at Wellesley, she had recruited an excellent professional, Donna Ng, as a new controller, and they had been working together to augment and streamline our systems and controls and to institute a process of continuous improvement in the controller's office. As is so often the case in such a transformation, the work uncovered more work and we were especially grateful for Ray Clark's steady presence through the year, as we continued to modernize that vital function and to search for a new vice president.

In February, I asked Patricia Byrne, vice president of administration and planning, to chair a committee that would conduct a national search for a vice president for finance and treasurer and would recommend to me a group of qualified finalists from which to make my selection. On June 1, I announced the appointment of Andrew B. Evans, who had been serving as vice president for finance and administration at Oberlin College since 1995 and, before that, had for 10 years been associate dean for management, finance, and development at the Fletcher School of Law and Diplomacy at Tufts University. Andy Evans emerged from our search as a person of integrity and character who listens and communicates exceedingly well with everyone and has a strong understanding of the academic mission.

Other Important Arrivals and Departures

This year we welcomed seven new tenure-track professors, one each in chemistry, classical studies, English, political science, psychology, sociology and women's studies. We bade farewell to four departing members of the faculty who have served the College with distinction: Richard Wallace, Professor of Art, after 40 years of service, Linda B. Miller, Professor of Political Science, who served for 35 years, James O'Gorman, Grace Slack McNeil Professor of the History of American Art, 29 years, and Barbara Brenzel, Professor of Education, 26 years.

Five members of the Board of Trustees completed their service. Marissa Van Saanen '01 served from 2001 to 2004 as young alumna trustee commuting from Oxford University in England for board meetings. Lynn B. Sherr '63 served with great verve and energy as an alumna trustee from 1998 until 2004. Theresa Mall Mullarkey '60 served for 16 years, 1988-2004, connecting the world of New York to the College and encouraging alumnae from around the country to do their part in assuring Wellesley's future. Gail Heitler Klapper '65 provided powerful leadership as chair of the board from 1993 to 1999, and, from 1986 to 2004, as a highly-respected member of the board. Edward Lawrence served as a wise and trusted counselor and friend for 18 years, beginning in 1986; from 1995 to 2004 he was vice chair of the board. At its final meeting in May, the board elected Tess Mullarkey, Gail Klapper and Ed Lawrence trustees emeritae/i.

Four new members joined the Board of Trustees: James Kloppenberg, Faculty Trustee, Ellen Goldberg Luger '83, President of the Alumnae Association, Norton Reamer, and Patricia J. Williams '73.

Other Noteworthy News

Wellesley did very well again in the competition for prestigious national fellowships. Our record of success over the past decade has equaled and in many cases exceeded those of large, elite universities. The Class of 2004 matched last year's remarkable record of 14 Fulbright Scholarships. They won a Rhodes Scholarship and, for the third year in a row, two Watson Fellowships. We had three recipients of the Rockefeller Brothers Fund Fellowship and one recipient each of the Andrew W. Mellon Fellowship, the Harry S. Truman Scholarship, the Beineke Scholarship and the Paul and Daisy Soros Fellowship for New Americans.

In October, we hosted the annual Seven College (formerly the "seven sisters") Conference. This year's topic, viewpoint diversity on campus, stimulated a lively discussion. Later that month we celebrated the tenth anniversary of the Davis Museum and Cultural Center. Through the year, as always, we hosted many interesting speakers: award-winning author and performer Anna Deveare Smith; television journalist Bill Moyers; two-time Olympic gold medalist and Emmy Award-winning broadcaster Donna de Varona; Douglas S. Massey, Princeton professor of sociology; Debra Knopman '75, associate director of RAND Science and Technology. Wellesley's annual distinguished faculty lecture, held during Parent/Family Weekend, was "What We Can Learn from Myth," by Mary Lefkowitz, Andrew W. Mellon Professor in the Humanities and Professor of Classical Studies. Toni Morrison was a memorable commencement speaker for the Class of 2004.

Bracketed by the heartache of sudden and untimely death – of our chief financial officer in October and a first-year student in April – this was a year that sounded every note on the emotional register, a year of sorrow and struggle, of pleasure and joy, of transition and transformation. I end it with profound appreciation for the constancy of my colleagues: the vice presidents and the deans and the people who work for and with them, the trustees and the faculty, all the good and caring people who give so much of themselves to the possibility of a liberal education that truly awakens minds and the promise that our graduates will continue to do their part to create a better future on this increasingly fragile earth. I thank you for your support.

Yours very truly,

Diana Chapman Walsh

Diana Chapman Walsh
President

Report of the Vice President for Finance and Treasurer

October 2004

To the Board of Trustees of Wellesley College

We are pleased to present the financial statements for fiscal year 2003–2004 that reflect Wellesley College as a strong, financially sound educational institution. During the year, the College's net assets increased by $130 million; the College's endowment grew by 13.1% to $1.18 billion; and total gifts to the College's comprehensive campaign were $54.7 million. Other highlights of this fiscal year included a $15 million investment of operating cash, a refinancing of outstanding debt that included repayment of the Series D bonds with proceeds from Series H bonds, and the implementation of a flexible loan program with JP Morgan to finance capital projects. This Annual Report presents the results for the fiscal year ending June 30, 2004 and discusses the prospects for the College's financial future.

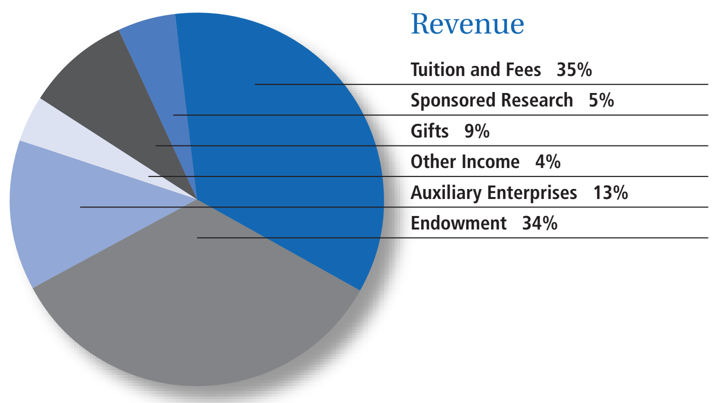
Results of the 2003–2004 Fiscal Year

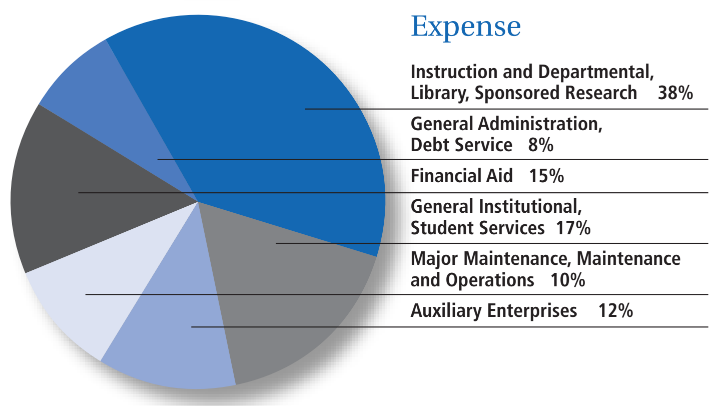
Academically and financially, Wellesley College remains one of the strongest educational institutions in the country. Augmented by new gifts and a positive investment return of 15.2%, as discussed in the Chief Investment Officer's report, the market value of the endowment increased from $1.04 billion to $1.18 billion. The funds used during the year to support the operating budget and to fund various capital projects equaled 5.1% of the endowment market value for the one-year and the three-year rolling average. During the course of the year, the endowment per student increased by 13.9% from $476,466 to $542,466. At $54.7 million, total gifts increased 5.8% over the prior year.

The operating budget was in balance in this fiscal year with revenues and expenses totaling $181.5 million. The revenue base for the operating budget was well diversified with five principal revenue sources: tuition income 35%, endowment 34%, auxiliary enterprises including room and board 13%, gifts used for operations 9% and other sources of revenue including sponsored research 9%. Operating expenses had an incremental increase of 6.9%. As might be expected in a labor-intensive institution, about 52% of the operating budget was used for salaries and benefits; budgeted salary pool increases for fiscal year 2004 were 3% to 4.5%. In addition, with high health care and pension costs, fringe benefit expenses increased by 12% over the prior year.

Operating in Financial Equilibrium

The requirements for achieving a state of financial equilibrium are (1) to balance revenues and expenses in the operating budget; (2) to preserve the purchasing power of the endowment; (3) to maintain the physical assets of the College; and (4) to sustain and support the human assets of the College.

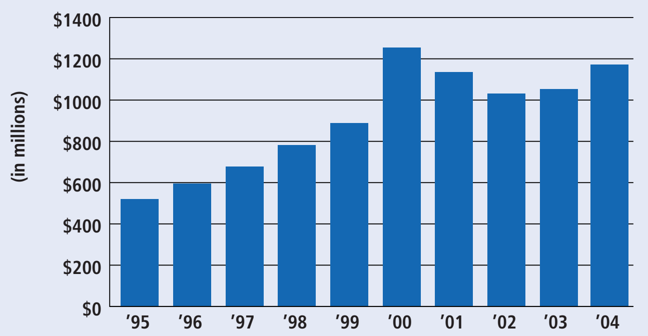




1. Balancing Revenues and Expenses

The Budget Advisory Committee, which includes faculty, staff and students, worked with the Budget Office during the fiscal year to achieve budget equilibrium in the FY04 budget. In developing the FY04 budget, particular attention was paid to increasing financial aid support both because of the difficult economic times and because of more liberal changes in financial aid decisions reached by a number of peer institutions. By all academic and talent measures, the Class of 2008 recruited during fiscal year 2004 is very strong.

General Endowment Pool, 1995–2004



During FY04, the College reviewed its short term interest return on operating funds. After careful review of cash flow history and projections, we determined that the College should invest $15 million of existing operating cash in a manner consistent with how we invest the endowment. The excess investment return over typical short-term interest rates for operating funds will be maintained and used to fund extraordinary items.

2. Preserving the Purchasing Power of the Endowment
A primary responsibility of the Board of Trustees and of senior management of the College is to insure equity between current and future generations of students. A key component of this responsibility is to preserve the long-term purchasing power of the endowment through a prudent endowment spending policy. Wellesley's spending policy is to use the actual amount taken from the endowment in the prior year and add 5% of new gifts and increase this new total each year by 3% above the rate of inflation. We then monitor the amount actually available to ensure that it does not fall below 4.5% or exceed 6% of the trailing three-year market average. In FY04, the spending rate was 5.1%. The 42% support of the educational and general budget derived from the endowment highlights the College's reliance on this funding source.

3. Maintaining the Physical Assets of the College
During the past year, Wellesley College has been enhancing its physical assets. A major landscape restoration and renovation project that includes the restoration of Alumnae Valley, the land on the west campus that frames views of Lake Waban, is nearly complete. The Wang Campus Center, now under construction, will take full advantage of these spectacular views and will be completed during FY05. The Davis Parking Facility which is adjacent to the Wang Campus Center was completed during fiscal year 2004.

With careful planning over the past few years, the budget for major maintenance now includes $5 million in each year's operating budget. In fiscal year 2003, Wellesley took advantage of the low interest rate environment to refinance existing debt, and without increasing annual interest costs, yielded $19 million of funds for major maintenance which will be used over the next two years. As of June 30, 2004, the College had spent about $6 million of these funds on major maintenance projects.

As with most capital projects funded with gifts, the College has temporary cash shortfalls due to timing differences between the receipt of the full amount pledged and the cash expenditure for goods and services. Rather than using operating cash to fund these temporary cash shortfalls, the College entered into a flexible loan program with JP Morgan. This loan program allows the College to borrow an amount up to $40 million with flexible terms at a rate of 1/5 of 1% above LIBOR.

4. Maintaining the Human Assets of the College
The faculty, administrative, and union staff at the College are critical to its educational mission. It is imperative that the workforce be deployed in ways that continue to support this mission. Faculty and staff salaries and benefits remain very competitive and among the strongest in higher education. The College's compensation policies have helped Wellesley to retain an outstanding, dedicated faculty and staff.

Future Challenges

While tuition revenues are expected to increase, the College must be diligent to ensure that costs are not increasing at a greater rate. In addition, with increased public scrutiny on higher education costs, the College needs to ensure moderate expense growth and review guidelines for expenses. The College operates under a variety of well understood general financial policies and monitors its operating performance against these guidelines. With the continuing desire to keep tuition low but an ever increasing appetite for expenditures in support of the academic mission, and with the College's comprehensive campaign entering the last year, this upcoming fiscal year will be an appropriate time to review the financial framework for long-range planning. This framework will set the major parameters and policies for financial planning including endowment spending, tuition setting, and salary increases for the coming years. I look forward to working with the Trustees and College leadership on this, such an important task.

Respectfully submitted,

Andrew B. Evans

Andrew B. Evans
Vice President for Finance and Treasurer

Report of the Chief Investment Officer

October 2004

To the Board of Trustees of Wellesley College

It is my pleasure to report to you that as of the fiscal year ended June 30, 2004 the Wellesley endowment had a market value of $1.180 billion, versus $1.044 billion as of June 30, 2003, an increase of $136 million. The investment return for the year in the endowment portfolio, after all fees and expenses, was 15.2%. 2004 yielded the best investment results for the College's portfolio since the year 2000, and was the second consecutive positive return year, in both nominal and real (after inflation) terms. We also added value, for the second year in a row, relative to our benchmark Policy Portfolio.

Recent Progress

The significant increase in the market value of the Wellesley endowment was enabled by several factors: the broadly strong domestic and international public equity markets, the collective success of our strategies and managers across asset classes in outperforming their markets, and the incremental progress we have made in the allocation of assets to certain less-efficient investment arenas, such as energy, real estate, and commodities.

All asset classes yielded positive investment performance for the year, although some were much larger contributors to our 15.2% return than others (bonds, in particular were an area of only marginal returns last year, however, our performance in bonds was slightly positive compared to the broad bond market index). Wellesley's investment returns by asset class, and the relative performance versus benchmarks for each asset class, are summarized below. For all reported asset classes, returns for the Wellesley portfolio exceeded the returns of the relevant broad market indices.

Longer-Term Results

Over the ten-year period the endowment has grown from $484 million in 1994 to $1.18 billion, an increase in value of roughly $700 million, and has achieved an average annual investment return, after all fees and expenses, of 12.4%. Wellesley has realized significant value added over time, through portfolio diversification/strategy and manager selection. The longer-term investment results for the endowment portfolio are compared below with the stock and bond market indices and with a 65% stock / 35% bond passive portfolio. Wellesley's investment results exceeded the passive portfolio by an average of 180 basis points per year over the last ten years, and by 750 basis points per year over the last five years. This excess return translates directly to increased financial strength and flexibility for the College.

	1 Year	3 Years	5 Years	10 Years
Wellesley Portfolio	15.2%	4.6%	8.8%	12.4%
S&P 500 Index	19.1%	–0.7%	–2.2%	11.8%
Citigroup BIG**	0.4%	6.4%	7.0%	7.4%
65/35 Stock/ Bond Portfolio	12.3%	2.1%	1.3%	10.6%

Strategy Going Forward

We have made significant progress over the past year along our multiyear plan for reshaping the endowment portfolio to reflect the College's long-term investment strategy and goals. Our aim is to enhance long-term returns and increase diversification, in concert with the College's goals of maintaining the inflation-adjusted financial support provided by the endowment while controlling portfolio risk and volatility.

Total Return – Year Ended June 30, 2004	Wellesley Portfolio Return	Market Benchmark/Comparative Index	
U.S. Equity	24.0%	19.1%	S&P 500
International Equity	32.9%	32.0%	MSCI AC World ex-US
Private Equity	17.4%	—	Cambridge Associates*
Real Assets	21.5%	10.8%	NCREIF Property Index
Absolute Return	10.8%	8.2%	Cambridge Associates Fund-of-Funds Index
Fixed Income	0.5%	0.4%	Citigroup BIG**
Total Portfolio	15.2%		

*Private Equity Results are measured against Cambridge Associates Private Equity, Venture Capital and Distressed Indices, which, as of 9/15/04, have not yet been reported for the period ended 6/30/04.

**Broad Investment Grade US bond index

The Policy Portfolio, developed by the Investment Committee in 2002, provides a guide for allocating assets, which is consistent with the College's need for both a growing and fairly steady stream of financial support. Given that certain asset classes where we are targeting incremental exposure (such as real assets – including real estate, energy, and other commodity and resource-related investments) are not areas that can or should be entered into overnight, we expect that it will be at least two to four more years before we approach our targeted allocation.

Asset Class	Policy Portfolio	June 30, 2004 Allocation
U.S. Equities	24%	27%
International Equities	14%	17%
Total Equities	38%	44%
Private Equity	12%	9%
Real Assets	13%	3%
Absolute Return	13%	14%
Total Alternatives	38%	26%
Fixed Income & Cash	24%	30%
Total Portfolio	100%	100%

For each of the asset categories in the Policy Portfolio, we are continuously evaluating our actual exposure, rebalancing, and analyzing our allocation to imbedded subcategories (e.g., small capitalization equities, emerging markets, oil and gas, international bonds) and specific investments and investment managers. We will only increase our exposure to an asset class when exceptional opportunities for returns are found. Our goal is to always maintain a "best in class" set of investments within each of our targeted categories.

The investment and oversight of the Wellesley College endowment is a large and complicated task, as well as a great opportunity. The team in the Investment Office is grateful to have a network of Trustees, Investment Committee members, colleagues and alumnae who provide us with ideas, perspective, and support.

I especially would like to express my appreciation for the time and effort contributed by our Investment Committee Chair, Ms. Lulu Chow Wang, and by Wellesley's Trustee Chair and Investment Committee Member, Ms. Victoria Herget, both of whom continue to be valuable sources of advice and insight into how we can best support Wellesley's long-term needs and priorities with our investment strategy.

We are optimistic about the future of Wellesley's endowment. While markets are certain to cycle up and down and year-to-year returns will vary, Wellesley is well positioned to benefit from a mix of both traditional and nontraditional investments chosen and monitored for their long-term return potential and risk control qualities.

Trustees and alumnae with questions or thoughts about the management of Wellesley's endowment are invited to contact me at any time.

Thank you.

Sincerely,

Jane L. Mendillo
Chief Investment Officer

Wellesley College
Financial Highlights

(in $000s)

	2000	2001	2002	2003	2004
Total College Summary					
Total Revenues	$542,558	$ 64,757	$ 91,107	$182,049	$312,805
Total Expenses	157,192	167,351	171,751	175,442	182,700
Net Surplus/(Deficit)	$385,366	($102,594)	($ 80,644)	$ 6,607	$130,105
Current Operations Summary					
Revenues including Trustee approved use of unrestricted bequests	$151,664	$161,708	$165,546	$169,771	$179,714
Expenditures	151,458	161,708	165,519	169,757	179,714
Operating Surplus	$ 206	$ 0	$ 27	$ 14	$ 0
Resources					
Unrestricted Gifts	$ 7,476	$ 8,068	$ 7,847	$ 7,668	$ 7,857
Endowment Gifts and Bequests	31,733	18,314	23,482	28,191	28,367
Planned Gifts	10,733	2,276	2,544	3,468	2,670
Facilities Gifts	2,792	8,089	4,572	5,502	11,327
Current-Use Gifts and Grants	6,776	8,934	10,335	6,892	4,498
Total	$59,510	$45,681	$48,780	$51,721	$54,719
Endowment					
Market Value	$1,253,385	$1,136,426	$1,032,465	$1,043,937	$1,180,405
Total Return	$373,890	($87,307)	($51,431)	$35,449	$152,797
Total Return Used for Operations	$47,546	$53,520	$54,932	$54,333	$59,639
Unit Value	$610.15	$543.88	$484.59	$479.33	$521.95
Investment Return – Total	42.8%	(6.6%)	(5.2%)	4.9%	15.2%
Yield	4.4%	3.7%	3.8%	4.1%	5.7%
Appreciation	38.4%	(10.3%)	(9.0%)	.7%	9.4%
Average Endowment Operating Support (% of Average Market Value)					
One-Year Average	4.2%	4.2%	5.0%	5.3%	5.1%
Three-Year Average	4.7%	4.4%	4.5%	4.8%	5.1%
Assets					
Total College Net Assets	$1,424,551	$1,321,957	$1,241,312	$1,247,919	$1,378,024

Schedule A

Wellesley College
Summary of Operating Revenues and Expenditures

Years ended June 30, 2004 and 2003
(in $000s)

	2004	2003	Increase (Decrease)	%
Revenues from Operations				
Tuition and Fees	$ 62,928	$ 59,828	$3,100	5.2%
Endowment Income				
Education and General Support	33,416	29,968	3,448	11.5%
Endowment Income - Prior Year	1,006	1,776	(770)	–43.4%
Special Purposes	4,242	3,319	923	27.8%
Debt Service Support	4,765	3,912	853	21.8%
Total Endowment Support	43,429	38,975	4,454	11.4%
Unrestricted Gifts & Bequests	10,589	8,887	1,702	19.2%
Comprehensive Campaign Funding	1,323	1,578	(255)	–16.2%
Restricted Gifts and Use of Reserves	2,860	2,310	550	23.8%
Other Income	3,556	3,590	(34)	-0.9%
Student Financial Aid				
Endowment Income	17,093	17,134	(41)	–0.2%
Federal and State Grants	2,155	2,114	41	1.9%
Restricted Gifts	2,747	2,305	442	19.2%
Total Student Financial Aid	21,995	21,553	442	2.1%
Total Education and General	146,680	136,721	9,959	7.3%
Sponsored Research	8,810	8,557	253	3.0%
Auxiliary Enterprises	24,224	24,493	(269)	–1.1%
Total Revenues	179,714	169,771	9,943	5.9%
Operating Expenditures				
Instruction and Departmental	48,802	44,079	4,723	10.7%
Library	5,602	5,602	—	0.0%
Student Services	9,932	10,056	(124)	–1.2%
Student Financial Aid	26,499	23,843	2,656	11.1%
General Administration	7,791	8,451	(660)	–7.8%
General Institutional	19,914	18,897	1,017	5.4%
Comprehensive Campaign Costs	1,323	1,577	(254)	–16.1%
Maintenance and Operations	11,746	11,156	590	5.3%
Debt Service	7,082	6,449	633	9.8%
Major Maintenance, Capital Expenditures, & Reserves	6,416	5,237	1,179	22.5%
Total Educational and General Expenditures	145,107	135,347	9,760	7.2%
Sponsored Research	8,810	8,558	252	2.9%
Other Programs	4,063	3,557	506	14.2%
Auxiliary Enterprises	21,734	22,295	(561)	–2.5%
Total Expenditures	179,714	169,757	9,957	5.9%
Operating Surplus	$ —	$ 14	$ (14)	–100.0%

Schedule B

Wellesley College
Ten-Year Financial Summary 1995–2004

	1995	1996	1997	1998
Financial Statement ($000s)				
Total Revenues				
Tuition and Fees	$ 41,846	$ 44,109	$ 46,645	$ 49,150
Investment Return	73,205	100,670	103,473	105,908
Private Gifts, Grants, Bequests and Contracts	24,610	31,043	36,531	51,744
Federal Grants and Contracts - Restricted	3,984	3,425	4,021	3,865
Sales and Services of Auxiliary Enterprises	20,649	20,438	21,432	21,310
Interest Income	937	845	1,208	1,153
Other	1,148	1,409	1,912	1,900
Total Revenues and Other Additions	$166,379	$201,939	$215,222	$235,030
Total Expenditures				
Instruction and Departmental	$ 31,338	$ 34,078	$ 31,406	$ 34,994
Library	4,023	4,322	4,585	4,934
Student Services	5,131	5,367	5,789	6,236
Maintenance and Operations	8,433	7,876	10,288	11,686
Provision for Depreciation	6,930	7,115	7,234	7,338
Interest on Indebtedness	4,046	3,438	3,141	3,093
General Administration	4,425	6,038	5,787	6,598
General Institutional	11,669	13,151	13,584	14,880
Student Financial Aid	14,449	14,102	14,941	15,174
Sponsored Research and Other Programs	6,316	6,014	8,282	8,371
Auxiliary Enterprise Expenditures	18,988	19,272	19,033	19,575
Other	1,517	—	—	—
Changes in Accounting Policies	2,366	—	—	—
Total Expenditures and Other Deductions	$119,631	$120,773	$124,070	$132,879
Excess of Revenue over Expenditures	$46,748	$81,166	$91,152	$102,151
Excess of Revenues over Expenditures as a Percent of Expenditures	39.1%	67.2%	73.5%	76.9%
Endowment Total Return Used to Support Current Operations	$31,250	$32,771	$35,861	$39,161
Endowment End-Of-Year Market Value	$528,405	$605,509	$691,088	$780,872
Average Endowment Return Used to Support Current Operations as a Percent of:				
One Year – Beginning and Ending Market Value	5.6%	5.6%	5.3%	5.1%
Three Year – Average of Three Years	5.0%	5.4%	5.5%	5.3%
Other Financial Information				
Tuition and Fees per Student				
Comprehensive Fee	$24,860	$25,810	$26,970	$28,330
Tuition	$18,345	$19,610	$20,174	$21,254
Enrollment (Average FTE)	2,179	2,201	2,227	2,224
Educational and General Costs per Student	$41,507	$43,383	$43,446	$47,182
Tuition as a Percent of Educational and General Expenses	44.2%	45.2%	46.4%	45.0%
Endowment per Student	$242,499	$275,106	$310,322	$351,112

Schedule B, Continued

Wellesley College
Ten-Year Financial Summary 1995–2004

1999	2000	2001	2002	2003	2004	Average Annual Percent Change Since 6-30-95 Nominal %	Real %
$ 51,469	$ 53,669	$ 55,197	$ 57,491	$ 59,828	$ 62,928	4.6%	2.0%
111,934	361,536	(87,307)	(51,431)	35,449	152,797	29.8%	27.2%
57,906	94,098	62,234	49,355	52,261	63,101	14.7%	12.1%
4,092	4,641	5,251	6,225	7,448	5,608	5.0%	2.4%
22,317	23,180	24,120	24,059	24,493	24,224	1.8%	-0.8%
1,929	3,333	2,910	1,253	747	713	6.0%	3.4%
2,800	2,101	2,352	4,155	1,823	3,434	22.3%	19.7%
$252,447	$542,558	$ 64,757	$ 91,107	$182,049	$312,805	31.5%	28.9%
$ 35,983	$ 38,815	$ 40,074	$ 42,104	$ 43,650	$ 47,746	4.9%	2.3%
4,819	4,849	5,195	5,574	5,602	5,556	3.7%	1.1%
7,001	7,670	8,516	9,876	10,056	9,917	7.7%	5.1%
14,632	14,330	18,291	15,635	14,312	13,452	6.6%	4.0%
7,468	8,527	8,745	8,718	9,429	9,894	4.1%	1.5%
3,888	5,194	5,077	4,237	4,712	6,069	6.1%	3.5%
7,827	8,336	7,626	8,328	9,737	9,412	9.5%	6.9%
15,859	18,445	21,136	21,137	20,117	19,676	6.2%	3.6%
15,843	18,281	19,189	20,878	23,479	26,511	7.1%	4.5%
9,077	9,932	10,138	12,681	12,115	12,850	9.0%	6.4%
20,617	21,523	23,364	22,583	22,233	21,617	1.5%	–1.1%
—	1,290	—	—	—	—		
—	—	—	—	—	—		
$143,014	$157,192	$167,351	$171,751	$175,442	$182,700	4.9%	2.3%
$109,433	$385,366	($102,594)	($80,644)	$6,607	$130,105		
76.5%	245.2%	–61.3%	–47.0%	3.8%	71.2%		
$41,516	$47,546	$53,520	$54,931	$54,333	$59,639	7.4%*	
$887,489	$1,253,385	$1,136,426	$1,032,465	$1,043,937	$1,180,405	9.3%*	
4.8%	4.2%	4.2%	5.0%	5.3%	5.1%		
5.1%	4.7%	4.4%	4.5%	4.8%	5.1%		
$29,520	$30,554	$31,654	$33,394	$34,944	$36,513	4.4%	1.8%
$22,114	$22,894	$23,718	$25,022	$26,138	$27,314	4.5%	1.9%
2,222	2,248	2,212	2,195	2,191	2,176	0.0%	
$50,999	$55,359	$60,510	$62,181	$64,397	$68,122	5.7%	3.1%
43.4%	41.4%	39.2%	40.2%	40.6%	40.1%	–1.0%	–3.6%
$399,410	$557,556	$513,755	$470,371	$476,466	$542,466	10.2%	7.6%

*compound growth

Schedule C

Wellesley College
Key Statistics

Years ended June 30, 1994, 1999, and 2004

	1994	1999	2004
Faculty / Student FTE Headcount			
Student Enrollment (Average FTE)	2,245	2,222	2,176
Faculty Teaching Strength (FTE)	225	218	224
Student/Faculty Ratio	9.98	10.19	9.71
Enrollment			
Number of First-Year Student Applications	3,385	3,075	3,434
First-Year Students Admitted as a % of Applicants	39.0%	44.9%	40.6%
First-Year Students Enrolled as a % of Applicants	16.8%	19.2%	17.2%
First-Year Students Enrolled as a % of Students Admitted	43.1%	42.7%	42.4%
Financial Aid			
Percent of Students Receiving Financial Aid Grant Assistance	51.6%	45.0%	53.0%
Average Financial Aid Grant as % of Comprehensive Fee	49.2%	48.0%	57.6%
Student Aid Expense as % of Educational and General Expense	18.0%	14.0%	17.9%
Educational & General Cost per Student	$33,590	$50,999	$68,122
Tuition as % of Educational and General Expense	51.8%	43.4%	40.1%
Development ($000s)			
Total Development Fund-Raising	$22,541	$54,020	$54,719
Total Alumnae Giving Including Bequests	$16,217	$32,800	$45,030
Number of Alumnae Donors	13,937	14,004	16,019
Percent of Alumnae Contributing	49.6%	49.2%	52.5%
Total Unrestricted Gifts	$4,362	$7,270	$7,857
Total Planned Gifts	$4,613	$10,038	$2,670
Total Bequests	$3,024	$15,235	$10,573
Unrestricted Gifts as % of Educational and General Expense	5.8%	6.4%	7.1%
Endowment			
Endowment Market Value ($000s)	$484,126	$887,489	$1,180,405
Endowment per Student	$215,646	$399,410	$542,466
Endowment Income as % of Educational and General Expense	32.5%	36.6%	40.2%
Physical Plant			
Plant Replacement Value ($000s)	$365,120	$545,625	$749,070
Gross Square Feet of Buildings	2,282,000	2,425,000	2,583,000
Replacement Cost per Square Foot	$160.00	$225.00	$290.00
Library			
Library Collections in Volumes	1,168,147	1,191,254	1,558,607

Schedule D

Wellesley College
Development Fund Report

Years ended June 30, 2004 and 2003
(in $000s)

	2004	2003	% Change
By Type			
Outright Gifts	$41,476	$36,200	14.6%
Deferred Gifts	2,670	3,468	–23.0%
Subtotal	44,146	39,668	11.3%
Bequests:			
Restricted	6,942	8,109	–14.4%
Unrestricted	3,631	3,944	–7.9%
Subtotal	10,573	12,053	–12.3%
Total	$54,719	$51,721	5.8%
By Source			
Alumnae:			
Gifts	$35,107	$32,098	9.4%
Bequests	9,923	10,347	–4.1%
Parents	397	1,139	–65.1%
Other Individuals and Clubs	4,646	4,244	9.5%
Corporate:			
Grants	82	159	–48.4%
Matching Gifts	658	674	–2.4%
Foundations	3,906	3,060	27.6%
Total	$54,719	$51,721	5.8%
Notes			
Unrestricted Gifts	$7,857	$7,668	2.5%
Current-Use Financial Aid	2,746	2,129	29.0%
	$10,603	$9,797	8.2%
Pledges Outstanding	$75,744	$78,726	–3.8%
Alumnae Solicited	30,537	30,147	1.3%
Alumnae Donors	16,019	15,600	2.7%
Participation	52.5%	51.7%	1.4%
Durant Society Membership	3,208	2,990	7.3%

Schedule E

Wellesley College
Total Sources of Student Financial Aid
Grant and Work Assistance

Years ended June 30, 2004 and 2003
(in $000s)

	2004	2003	Increase/ (Decrease)
Unrestricted Revenue			
General College Revenues	$ 2,504	$ 290	$2,214
Total Unrestricted Revenue	2,504	290	2,214
Restricted Revenue			
Restricted Endowment			
Income	17,093	17,134	(41)
Income – Special Supplement	2,000	2,000	—
Federal Government			
Pell Grants	1,124	1,029	95
Supplemental Educational Opportunity Grants	405	418	(13)
College Work Study Program - Federal Government Share	381	427	(46)
Total Government Grants	1,910	1,874	36
Commonwealth of Massachusetts	245	240	5
Restricted Gifts	2,747	2,305	442
Total Restricted Revenue	23,995	23,553	442
Total Unrestricted and Restricted Revenues	$26,499	$23,843	$2,656

Schedule F

Wellesley College
Five-Year Endowment Summary 2000–2004

	2000	2001	2002	2003	2004
Total Endowment ($000s)					
General Endowment Pool	$1,253,008	$1,135,925	$1,031,991	$1,043,476	$1,179,988
Nonpooled Endowment	377	501	474	461	417
Total Endowment	$1,253,385	$1,136,426	$1,032,465	$1,043,937	$1,180,405
General Endowment Pool					
Market Value ($000s)	$1,253,008	$1,135,925	$1,031,991	$1,043,476	$1,179,988
Unit Value	$610.15	$543.88	$484.59	$479.33	$521.95
Unit Distribution	$23.50	$24.75	$26.04	$26.88	$26.16
Total Return Comparison					
Yield	4.4%	3.7%	3.8%	4.1%	5.7%
Appreciation	38.4%	–10.3%	–9.0%	0.7%	9.4%
Total Nominal Return	42.8%	–6.6%	–5.2%	4.9%	15.2%
Real Return	37.8%	–9.6%	–6.2%	2.7%	12.7%
Market Indices (Nominal)					
S&P 500	7.2%	–14.8%	–18.0%	0.3%	19.1%
Citigroup Broad Investment Grade Bond Index	4.5%	11.3%	8.5%	10.5%	0.4%
Composite Index	6.5%	–6.1%	–9.1%	4.3%	12.3%
Consumer Price Index	3.7%	3.3%	1.5%	2.1%	2.2%
Annual Compound Returns					
Period Ending	5	4	3	2	1
Wellesley: Nominal	8.8%	1.7%	4.6%	9.9%	15.2%
Real	6.2%	–0.5%	2.8%	7.6%	12.7%
S&P 500	–2.2%	–4.4%	–0.7%	9.3%	19.1%
Citigroup Broad Investment Grade Bond Index	7.0%	7.6%	6.4%	5.3%	0.4%
Composite Index	1.3%	0.0%	2.1%	8.2%	12.3%
Consumer Price Index	2.6%	2.3%	1.9%	2.1%	2.2%
General Endowment Pool Asset Allocation					
Liquid Funds	12.0%	14.0%	5.6%	5.4%	5.4%
Fixed Income Investments	20.1%	24.9%	29.8%	26.6%	23.7%
Equities	43.8%	42.2%	43.2%	44.6%	44.3%
Other	24.1%	18.9%	21.4%	23.4%	26.6%
Total	100.0%	100.0%	100.0%	100.0%	100.0%
Endowment/Student	$557,556	$513,755	$470,371	$476,466	$542,466
Enrollment (Average FTE)	2,248	2,212	2,195	2,191	2,176
Endowment Income Support for Current Operations					
Average Operating Support / Average Endowment Market Value					
One-Year Average	4.2%	4.2%	5.0%	5.3%	5.1%
Three-Year Average	4.7%	4.4%	4.5%	4.8%	5.1%

Schedule G

Wellesley College
Investment of Endowment and Similar Funds and Planned Giving Funds

Year ended June 30, 2004
(in $000s)

	Market Value	% of Total
Investments Pooled		
Liquid Funds (Net of Payables and Receivables)	$ 63,309	5.37%
Fixed Income		
U.S. Bonds	216,371	18.34%
Non-U.S. Bonds	38,957	3.30%
High-Yield Bonds	13,137	1.11%
Faculty Mortgages	11,801	1.00%
Total Fixed Income	280,266	23.75%
Common Stocks		
U.S. Stocks	317,274	26.89%
Non - U.S. Stocks	205,258	17.39%
Total Common Stocks	522,532	44.28%
Alternative Assets		
Venture Capital	33,471	2.84%
Buyout Funds	44,782	3.79%
Hedge and Arbitrage Funds	168,805	14.30%
Oil and Gas	7,555	0.64%
Distressed Securities	25,449	2.16%
Real Estate	18,443	1.56%
Commodities	12,468	1.06%
Miscellaneous Other	2,908	0.25%
Total Alternative Assets	313,881	26.60%
Total General Pooled Investments	1,179,988	100.00%
Investments Not Pooled	417	
Total Endowment and Similar Funds	1,180,405	
Planned Giving		
Separate Pooled Funds	46,294	
Unitrusts and Funds Not Pooled	25,356	
Total Planned Giving Funds	71,650	
Grand Total	$1,252,055	

Schedule H

Wellesley College
Quarterly Market Value per Unit of Funds Participating in Various Investment Pools

Year ended June 30, 2004

	Number of Units	Market Value ($000s)	Market Value Per Unit
General Investment Pool			
June 30, 2003	2,176,958	$1,043,476	$479.328
September 30, 2003	2,188,456	1,064,973	486.632
December 31, 2003	2,206,000	1,140,057	516.798
March 31, 2004	2,217,384	1,179,171	531.785
June 30, 2004	2,260,709	1,179,988	521.955
Annuity Pool			
June 30, 2003	139,446	$23,837	$170.943
September 30, 2003	135,653	23,350	172.127
December 31, 2003	172,024	31,257	181.704
March 31, 2004	171,809	31,714	184.587
June 30, 2004	172,082	30,815	179.072
Life Income Pool (Pre-1970)			
June 30, 2003	1,522	$353	$232.268
September 30, 2003	1,353	322	238.311
December 31, 2003	1,353	340	251.441
March 31, 2004	1,353	349	257.803
June 30, 2004	0	0	0.000
Life Income Pool			
June 30, 2003	20,137	$4,461	$221.542
September 30, 2003	19,936	4,426	222.012
December 31, 2003	19,498	4,449	228.177
March 31, 2004	19,392	4,509	232.529
June 30, 2004	16,191	3,647	225.234
Growth Fund Pool			
June 30, 2003	5,773	$2,650	$459.122
September 30, 2003	5,773	2,745	475.518
December 31, 2003	5,784	2,997	518.196
March 31, 2004	5,784	3,095	535.176
June 30, 2004	5,784	3,062	529.373
Balanced Fund Pool			
June 30, 2003	15,641	$2,726	$174.316
September 30, 2003	15,593	2,746	176.107
December 31, 2003	15,648	2,874	183.679
March 31, 2004	15,544	2,920	187.874
June 30, 2004	15,550	2,848	183.155
High Yield Pool			
June 30, 2003	49,674	$5,476	$110.245
September 30, 2003	48,890	5,287	108.145
December 31, 2003	49,225	5,256	106.773
March 31, 2004	48,976	5,280	107.815
June 30, 2004	48,976	5,081	103.749

Schedule I

Wellesley College
General Endowment Pool
Annual Total Return Since Inception

Year Ended	Market Value ($000s)	Ending Unit Value	Distribution	Total Return Yield %	Total Return Appreciation %	Total Return Total %
		$100.00				
1970	$92,600	107.13	$5.50	5.13	7.13	12.26
1971	121,050	138.68	5.70	4.11	29.46	33.57
1972	136,273	154.80	5.90	3.81	11.63	15.44
1973	126,928	139.30	6.00	4.31	(10.01)	(5.70)
1974	109,672	116.43	7.30	6.27	(16.42)	(10.15)
1975	111,340	116.82	7.05	6.03	0.33	6.36
1976	115,922	119.77	7.00	5.84	2.52	8.36
1977	119,152	122.86	7.30	5.94	2.58	8.52
1978	111,852	116.54	7.68	6.59	(6.15)	1.44
1979	119,151	119.70	8.05	6.73	2.72	9.45
1980	133,168	119.32	9.30	7.79	(0.03)	7.76
1981	134,871	121.64	9.11	7.49	2.71	10.20
1982	127,842	110.90	10.72	9.67	(8.77)	0.90
1983	167,556	135.78	10.40	7.66	21.94	29.60
1984	156,258	123.60	9.00	7.28	(9.69)	(2.41)
1985	201,793	149.44	9.09	6.36	21.62	27.98
1986	260,481	188.93	8.41	5.50	26.90	32.40
1987	294,574	207.66	8.90	4.34	10.38	14.72
1988	290,270	198.53	10.25	5.20	(4.30)	0.90
1989	319,235	211.06	11.10	5.50	7.28	12.78
1990	352,537	222.70	11.30	5.20	6.00	11.20
1991	371,464	231.81	11.30	5.15	4.08	9.23
1992	409,082	252.95	11.02	4.50	10.00	14.50
1993	475,797	281.83	11.37	4.00	11.50	15.50
1994	475,961	278.97	14.00	3.50	0.50	4.00
1995	520,108	305.01	16.15	3.20	12.00	15.20
1996	595,950	336.88	17.02	3.21	15.03	18.24
1997	677,932	371.67	19.60	2.89	14.28	17.17
1998	780,203	410.41	21.00	3.24	11.98	15.22
1999	887,036	446.73	22.00	3.91	11.05	14.96
2000	1,253,008	610.15	23.50	4.41	38.44	42.85
2001	1,135,925	543.88	24.75	3.72	(10.34)	(6.62)
2002	1,031,991	484.59	26.04	3.81	(9.00)	(5.19)
2003	1,043,476	479.33	26.88	4.12	0.73	4.85
2004	1,179,988	521.95	26.16	5.74	9.44	15.18

PRICEWATERHOUSECOOPERS

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To the Board of Trustees of Wellesley College:

In our opinion, the accompanying statements of financial position and the related statements of activities and cash flows present fairly, in all material respects, the financial position of Wellesley College at June 30, 2004 and 2003, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of Wellesley College's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

October 5, 2004

Wellesley College
Statements of Financial Position

June 30, 2004 and 2003
(in $000s)

	2004	2003
Assets		
Cash and cash equivalents	$ 12,949	$ 36,104
Cash, restricted	12,464	56,875
Accounts receivable, net	2,372	1,895
Loans receivable, net	6,363	5,920
Contributions receivable, net	55,698	57,218
Grants receivable	1,540	2,369
Prepaid, inventory and other assets	2,486	1,437
Investments	1,180,405	1,043,937
Planned giving investments	71,650	64,871
Land, buildings and equipment, net	240,178	212,284
Total assets	$1,586,105	$1,482,910
Liabilities		
Accounts payable and accrued expenses	$ 19,889	$ 19,739
Student deposits and deferred revenues	3,742	3,371
Advances under grants and contracts	3,737	6,584
Annuities and unitrusts payable	38,879	34,577
Bonds and notes payable	137,382	166,356
Government loan advances	4,452	4,364
Total liabilities	208,081	234,991
Net Assets		
Unrestricted	450,726	408,572
Temporarily restricted	585,671	524,987
Permanently restricted	341,627	314,360
Total net assets	1,378,024	1,247,919
Total liabilities and net assets	$1,586,105	$1,482,910

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

Wellesley College
Statement of Activities

For the year ended June 30, 2004
(in $000s)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2004 Total
Operating Revenues				
Tuition and Fees	$ 62,928			$ 62,928
Less financial aid				
Donor sponsored	(20,086)			(20,086)
Institutionally sponsored	(5,547)			(5,547)
Net tuition and fees	37,295			37,295
Auxiliary operations	24,224			24,224
Government grants	4,782			4,782
Private gifts and grants	19,718	3,828		23,546
Investment return designated for operations	28,048	31,591		59,639
Other	4,148			4,148
Net assets released from restrictions	33,226	(33,226)		—
Total operating revenues	151,441	2,193		153,634
Operating Expenses				
Instruction and departmental research	60,466			60,466
Sponsored research and other programs	12,802			12,802
Library	8,465			8,465
Student services	12,179			12,179
General administration	9,354			9,354
General institutional	22,387			22,387
Auxiliary operations	30,448			30,448
Total operating expense	156,101			156,101
Nonoperating Activities				
Investment return, net of spending allocation	36,960	53,284	2,914	93,158
Matured planned giving agreements	3,742	(4,710)	968	—
Gifts and pledges	2,177	15,748	21,333	39,258
Other	(2,092)	196	2,052	156
Net assets released from restrictions	6,027	(6,027)		—
Total nonoperating revenues	46,814	58,491	27,267	132,572
Net change in net assets	42,154	60,684	27,267	130,105
Net assets at beginning of year	408,572	524,987	314,360	1,247,919
Net assets at end of year	$450,726	$585,671	$341,627	$1,378,024

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

Wellesley College
Statement of Activities

For the year ended June 30, 2003
(in $000s)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2003 Total
Operating Revenues				
Tuition and Fees	$ 59,828			$ 59,828
Less financial aid				
Donor sponsored	(20,524)			(20,524)
Institutionally sponsored	(2,537)			(2,537)
Net tuition and fees	36,767			36,767
Auxiliary operations	24,493			24,493
Government grants	5,138			5,138
Private gifts and grants	18,084	556		18,640
Investment return designated for operations	22,851	31,482		54,333
Other	3,851			3,851
Net assets released from restrictions	33,425	(33,425)		—
Total operating revenues	144,609	(1,387)		143,222
Operating Expenses				
Instruction and departmental research	55,952			55,952
Sponsored research and other programs	12,115			12,115
Library	8,416			8,416
Student services	12,327			12,327
General administration	10,151			10,151
General institutional	21,460			21,460
Auxiliary operations	30,775			30,775
Total operating expense	151,196			151,196
Nonoperating Activities				
Investment return, net of spending allocation	(10,697)	(9,124)	937	(18,884)
Matured planned giving agreements	1,006	(2,869)	1,863	—
Gifts and pledges	213	15,872	17,536	33,621
Other	(156)			(156)
Net assets released from restrictions	10,565	(10,565)		—
Transfer between restriction categories	(35,021)	18,650	16,371	—
Total nonoperating revenues	(34,090)	11,964	36,707	14,581
Net change in net assets	(40,677)	10,577	36,707	6,607
Net assets at beginning of year	449,249	514,410	277,653	1,241,312
Net assets at end of year	$408,572	$524,987	$314,360	$1,247,919

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

Wellesley College
Statements of Cash Flows

For the years ended June 30, 2004 and 2003
(in $000s)

	2004	2003
Cash Flows from Operating Activities		
Change in net assets	$130,105	$ 6,607
Adjustment to reconcile change in net assets to net cash used by operating activities:		
Depreciation and amortization, net	9,851	9,419
Contributions restricted for investments	(38,013)	(37,127)
Realized and unrealized gains on investments	(139,696)	(25,608)
Changes in operating assets and liabilities:		
Accounts receivable, net	(477)	162
Contributions receivable, net	1,520	4,451
Grants receivable	829	34
Prepaid, inventory and other assets	(1,049)	236
Accounts payable and accrued expenses	150	4,325
Student deposits and deferred revenue	371	923
Advances under grants and contracts	(2,847)	429
Net cash used by operating activities	(39,256)	(36,149)
Cash Flows from Investing Activities		
Purchase of plant and equipment	(31,300)	(34,580)
Proceeds from student loans collections	1,246	896
Student loans issued	(1,689)	(1,400)
Purchases of investments	(948,695)	(1,357,177)
Proceeds from sales and maturities of investments	945,144	1,369,620
Net cash used by investing activities	(35,294)	(22,641)
Cash Flows from Financing Activities		
Proceeds from contributions for:		
Investment in endowment	21,479	28,251
Investment in planned giving	7,790	3,461
Plant and equipment	8,744	5,415
Annuities and unitrusts payable	4,302	8,173
Increase in federal student loan funds	88	87
Decrease/(Increase) in restricted cash for debt service	37,915	(56,875)
Bond and notes payable proceeds received, net	10,000	62,167
Payments on bonds payable	(38,923)	(2,678)
Net cash provided by financing activities	51,395	48,001
Net decrease in cash and cash equivalents	(23,155)	(10,789)
Cash and cash equivalents, beginning of year	36,104	46,893
Cash and cash equivalents, end of year	$ 12,949	$ 36,104
Cash paid for interest	$ 6,121	$ 4,641

The accompanying notes are an integral part of these financial statements

1. Summary of Significant Accounting Policies

(a) Basis of Presentation

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

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

Unrestricted – Net assets that are not subject to donor-imposed stipulations. These include all revenues, expenses, gains and losses that are not changes in permanently or temporarily restricted net assets. This category includes realized and unrealized gains on unrestricted endowment. Unrestricted net assets may be designated for specific purposes by action of the Board of Trustees or may otherwise be limited by contractual agreements with outside parties. Unrestricted net assets generally result from revenues derived from providing services, receiving unrestricted contributions, unrealized and realized gains and losses on unrestricted endowment, and receiving dividends and interest from investing in income producing assets, less expenses incurred in providing services, raising contributions, and performing administrative functions.

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

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

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

Contributions restricted for the acquisition of land, buildings and equipment are reported as temporarily restricted revenues. These contributions are reclassified to unrestricted net assets upon acquisition of the assets or placed in service dates if the asset is constructed.

Non-operating 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, appropriation of previous years gains, and investment return beyond what the College has appropriated for current operational support in accordance with the College's investment return spending guidelines.

(b) Cash Equivalents

Cash equivalents include short-term, highly liquid investments with a maturity of three months or less at the time of purchase. Cash and cash equivalents representing endowment assets and planned giving assets are included in endowment investments and planned giving investments, respectively.

(c) Investments

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

Venture capital and buyout limited partnerships include investments in both publicly and privately owned securities. The fair values of private investments are 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 values of public investments not yet distributed generally reflect discounts for illiquidity. The limited partnership valuations consider variables such as the financial performance of the investments, recent sales prices of similar investments and other pertinent information. The estimated values as determined by the general partners and investment managers may differ significantly from the values that would have been used had a ready market for the investments existed and the differences could be materially higher or lower.

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

The College's split-interest agreements with donors consist of irrevocable charitable gift annuities, pooled life income funds and charitable remainder unitrusts. 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 the planned giving investments on the Statement of Financial Position. Contribution revenues are recognized as of the date the donated assets are transferred to the College and liabilities are recorded for the present value of the estimated future payments to the donors or other beneficiaries. The liabilities are adjusted during the term of the planned giving contracts consistent with changes in the value of the assets and actuarial assumptions.

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

(d) Endowment Investment Return Spending Policy

The College uses a "total return" approach to managing endowment assets. Funds are invested to maximize total return consistent with prudent risk without regard to the mix of current investment income and realized and unrealized gains or losses. The College's endowment distribution policy determines a payout rate that is based on total investment value over a rolling twelve quarter average within a range of 4.5% to 6%. The sources of the payout are endowment earned income (interest and dividends), both current and previously reinvested income and a portion of realized gains. Any income earned in excess of the spending limit is reinvested. Funds may be withdrawn from investment return earned in prior years if income is less than the spending limit. The spending policy is designed to insulate investment policy from budgetary pressures, and to insulate program spending from fluctuations in capital markets.

(e) Inventories

Inventories are stated at the lower of cost (first-in, first-out method) or market.

(f) Accounts Receivable and Student Loans Receivable

Accounts receivable include amounts due from students, student organizations and other miscellaneous receivables. Loans to students are carried at cost. Accounts receivable for 2004 and 2003, are reported net of allowances for doubtful accounts of $550,000 and $772,000, respectively. Loans receivable for 2004 and 2003, are reported net of allowances for doubtful loans of $549,000. The provisions are intended to provide for student accounts and loans that may not be collected.

(g) Grant Revenue

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

(h) Pledges

The College recognizes the present value of unconditional promises to give as revenues in the period in which the pledges are made.

(i) Loans Receivable

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

(j) Land, Buildings, and Equipment

Land, buildings, and equipment are recorded at cost, or if donated, at fair market value at the date of donation. Additions to plant assets are capitalized while scheduled maintenance and minor renovations are charged to operations. Library books are expensed when purchased. Museum collections are not capitalized. Plant assets are presented net of accumulated depreciation. When assets are retired or disposed of, the cost and accumulated depreciation are removed from the accounts and gains and losses from disposal are included in the statement of activities. Depreciation is computed on a straight-line basis over the estimated useful lives of the related assets as follows:

	Years
Land improvements	60
Buildings and improvements	10–50
Equipment	4–20

(k) Financial Aid

The statement of activities reflects financial aid as an offset to tuition revenues. The College's financial aid is primarily funded through private gifts, grants and endowment income with the remainder, if needed, representing unrestricted institutional resources for scholarships.

(l) Auxiliary Operations

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

(m) Internal Revenue Code Status

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

(n) 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.

(o) Reclassifications

Certain June 30, 2003 balances previously reported have been reclassified to conform to June 30, 2004 presentation.

2. Contributions Receivable

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

Unconditional Promises Expected to be Collected in:	2004	2003
Less than one year	$13,454	$15,550
One year to five years	30,098	32,716
Over five years	32,192	30,460
Total	75,744	78,726
Less discounts and allowance for uncollectible accounts	20,046	21,508
Net contributions receivable	$55,698	$57,218

Discount rates used to calculate the present value of contributions receivable ranged from 4% to 5% at June 30, 2004 and was 5% at June 30, 2003.

3. Land, Buildings and Equipment

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

	2004	2003
Land and land improvements	$ 36,978	$ 35,856
Buildings and building improvements	263,262	240,024
Equipment	29,899	28,321
Construction in progress	28,176	16,326
	358,315	320,527
Less: accumulated depreciation	118,137	108,243
	$240,178	$212,284

Depreciation expense was $9,894,000 and $9,429,000 for the years ended June 30, 2004 and 2003, respectively.

4. Investments

The book and market values of investments at June 30, 2004 and 2003 were as follows ($000s):

	2004 Book Value	2004 Market Value	2003 Book Value	2003 Market Value
Endowment Investments				
Investments pooled				
Cash and cash equivalents	$ 63,309	$ 63,309	$ 56,026	$ 56,026
Bonds	281,604	280,266	267,238	277,374
Equities	403,922	522,532	432,050	466,039
Other assets	285,836	313,881	231,399	244,037
Total pooled investments	1,034,671	1,179,988	986,713	1,043,476
Investments not pooled				
Cash and cash equivalents	417	417	461	461
Total investments not pooled	417	417	461	461
Total endowment investments	$1,035,088	$1,180,405	$987,174	$1,043,937
Planned Giving Investments				
Separate pooled funds				
Cash and cash equivalents	$ 729	$ 729	$ 641	$ 641
Bonds	18,005	17,637	18,229	19,160
Equities	25,967	27,928	26,286	21,233
Total pooled funds	44,701	46,294	45,156	41,034
Unitrusts				
Cash and cash equivalents	314	314	1,299	1,299
Bonds	7,633	7,251	6,393	6,319
Equities	7,851	11,017	8,485	9,998
Other assets	1,058	1,058	833	833
Assets held by Trustees	5,284	5,716	4,892	5,388
Total funds not pooled	22,140	25,356	21,902	23,837
Total Planned Giving Investments	$66,841	$71,650	$67,058	$64,871

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

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

The College's investment return from endowment and planned giving was as follows for the years ended June 30, 2004 and 2003 ($000s):

2004	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Dividends and interest (net of expenses of $6,561)	$ 5,037	$ 5,150	$2,914	$ 13,101
Net realized and unrealized gains	59,971	79,725		139,696
Total return on endowment and planned giving investments	65,008	84,875	2,914	152,797
Investment return designated for current operations	(28,048)	(31,591)		(59,639)
	$36,960	$53,284	$2,914	$ 93,158

2003	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Dividends and interest (net of expenses of $5,789)	$ 3,965	$ 4,939	$937	$ 9,841
Net realized and unrealized gains	8,189	17,419		25,608
Total return on endowment and planned giving investments	12,154	22,358	937	35,449
Investment return designated for current operations	(22,851)	(31,482)		(54,333)
	$(10,697)	$ (9,124)	$937	$(18,884)

The total return consisting of realized and unrealized gains and losses and dividends and interest net of investment management and custodial fees was 15.2% and 4.9% for the fiscal years ended June 30, 2004 and 2003, respectively.

5. Pooled Funds

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

Pooled funds were as follows as of June 30:

	2004	2003
Investments in pooled funds, market value (in $000s)	$1,179,988	$1,043,476
Total number of units	2,260,709	2,176,958
Market value per unit	$521.96	$479.33
Distribution per unit	$26.16	$26.88

The following two schedules list the components of the pooled and nonpooled endowment funds at market value at June 30, 2004 and 2003 (in $000s, except for units):

2004 Funds	Units	Pooled Endowment	Nonpooled Endowment	Total Endowment
Endowment and similar funds:				
Endowment funds	1,427,228	$ 744,949		$ 744,949
Term funds	67,370	35,164	417	35,581
Quasi-endowment	766,111	399,875		399,875
Total	2,260,709	$1,179,988	$417	$1,180,405

2003 Funds	Units	Pooled Endowment	Nonpooled Endowment	Total Endowment
Endowment and similar funds:				
Endowment funds	1,376,756	$ 659,917		$ 659,917
Term funds	67,178	32,200	461	32,661
Quasi-endowment	733,024	351,359		351,359
Total	2,176,958	$1,043,476	$461	$1,043,937

6. Related Parties

The College acts as fiscal agent and investment advisor for the Wellesley College Alumnae Association and a retired president of the College. Endowment investments held on their behalf are included in the College's general pool of investments and are reflected either as part of the College's net assets or a pension liability. The market value of the assets totaled $10,318,000 and $9,463,000 at June 30, 2004 and 2003, respectively.

Mortgages due from faculty of $11,801,000 and $18,661,000 at June 30, 2004 and 2003, respectively are included within Investments on the Statement of Financial Position.

7. Notes and Bonds Payable

Indebtedness at June 30, 2004 and 2003 includes various bonds issued through the Massachusetts Health and Education Facilities Authority (MHEFA). Interest payments on debt totaled $6,145,000 and $4,641,000 during fiscal years 2004 and 2003, respectively.

During May 2003, the College issued $56.75 million in Series H tax-exempt fixed rate bonds. The proceeds will be used for major infrastructure projects, major maintenance and renovation projects in dormitories, and modernization projects and was used to retire the Series D bonds, with $36.6 million outstanding, on November 24, 2003, the earliest possible call date. The refunding allows the College to realize the present value savings through a restructuring of the College's debt.

The Series H bonds, which mature in 2033, currently bear fixed interest rates from 2% to 5% payable on July 1, 2003 and on each January 1 and July 1 thereafter. 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 D bonds, proceeds of the Series H bonds were deposited into a refunding account established under the indenture and held by the Trustee. The proceeds were invested in authorized investments as directed by the College, and were included as Restricted Cash on the Statement of Financial Position as of June 30, 2003.

During March, 2004, the College executed a fixed rate promissory note with a bank. The College may borrow up to $40 million with various terms and interest rates at LIBOR plus ⅓ of 1%.

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

	2004	2003
MHEFA, Series H, Revenue Bonds issued at an interest rate of 2.0%–5.0% maturing July 2033.	$56,075	$56,465
MHEFA, Series F, Revenue Bonds issued at an interest rate of 5.125% maturing July 2039.	30,000	30,000
MHEFA, Series G, Variable Rate Revenue Bonds, bearing interest at a daily rate, maturing July 2039. The rate at June 30, 2004 was 3.15%.	20,000	20,000
MHEFA Capital Asset Program, Series B & C, Variable Rate Demand Bonds, monthly amortization of principal with final payment due June 2010. Interest rate reset semi-annually. The rate at June 30, 2004 was 1.75%.	4,750	6,183
MHEFA, Series E, Variable Rate Demand Bonds, scheduled amortization of principal with final maturity July 2022. Interest adjusted weekly. The rate at June 30, 2004 was 1.03%.	15,700	16,200
MHEFA, Series D, Revenue Bonds, Periodic Auction Reset Securities (PARS) converted to term bonds November, 1993 with annual scheduled amortization of principal maturing July 2019. Interest rates range from 3.2% to 5.3%.		36,600
Notes Payable Promissory Note, principal maturing July 2004. The rate at June 30, 2004 was 1.31%.	10,000	
Total debt	136,525	165,448
Less unamortized bond issue costs	(493)	(510)
Add unamortized original issue premium	1,350	1,418
	$137,382	$166,356

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

2005	$ 12,408
2006	1,587
2007	1,780
2008	1,872
2009	2,156
Thereafter	116,722
Total bonds and notes payable	$136,525

The College has outstanding at June 30, 2004 fixed rate debt of $86,075,000 and variable rate debt of $50,450,000. The fair market value of the College's fixed rate debt at June 30, 2004 approximates $85,552,000. The College's variable rate debt approximates fair value. Fair value for fixed and variable rate debt is based on estimates using current interest rates available for debt with equivalent maturities.

8. Annuities and Unitrusts Payable

Annuities, life income plans and unitrusts payable of $38,879,000 and $34,577,000 at June 30, 2004 and 2003, respectively, represent actuarially determined liabilities for contractual obligations of gift annuities and unitrusts. Payments of income to beneficiaries are principally funded by the investment income of the related gift annuity and unitrust investments.

9. Pension Plans

The College has a defined contribution, noncontributory annuity pension plan for faculty and administrative personnel administered by the Teachers Insurance and Annuity Association and College Retirement Equities Fund ("TIAA/CREF"). Under this Plan, the College contributed $4,599,000 and $4,364,000 respectively, for the years ended June 30, 2004 and 2003.

The College also has a defined benefit pension plan for classified office and service employees. The Plan provides retirement and death benefits based on the highest of the last four years of consecutive earnings. Contributions to the plan are made in amounts sufficient to meet the minimum funding requirements set forth in the Employee Retirement Income Security Act of 1974.

The measurement date of determining the benefit obligations and net periodic benefit (income) cost was June 30, 2004 and 2003.

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

	2004	2003
Assumptions used to determine benefit obligations:		
Discount rate	6.25%	6.00%
Rate of compensation increase	4.00%	4.00%
Assumptions used to determine net periodic benefit (income) cost:		
Discount rate	6.00%	7.00%
Expected return on plan assets	8.00%	8.00%
Rate of compensation increase	4.00%	4.50%

	2004	2003
Change in projected benefit obligation ($000s)		
Benefit obligation at end of prior year	$26,749	$22,463
Service cost	1,055	894
Interest cost	1,586	1,528
Actuarial loss/(gain)	(974)	2,694
Benefits paid	(833)	(824)
Administrative expenses paid	(6)	(6)
Benefit obligation at end of year	$27,577	$26,749
Change in plan assets ($000s)		
Fair value of plan assets at end of prior year	$18,322	$18,005
Actual return on plan assets	2,823	604
Employer contributions	778	543
Benefits paid	(833)	(824)
Administrative expenses paid	(6)	(6)
Fair value of plan assets at end of year	$21,084	$18,322
Funded status ($000s)		
Funded status	$(6,493)	$(8,427)
Unrecognized transition asset		(24)
Unrecognized prior service cost	1,069	1,243
Unrecognized net actuarial loss	3,987	6,611
Accrued benefit cost	(1,437)	(597)
Additional minimum liability		(1,399)
Accrued benefit liability	(1,437)	(1,996)
Intangible asset		1,243
Net liability	(1,437)	(753)
Accumulated other income adjustments		156
Net amount recognized	$(1,437)	$(597)
Components of net periodic benefit cost ($000s)		
Service cost	$1,055	$ 894
Interest cost	1,586	1,528
Expected return on plan assets	(1,431)	(1,408)
Amortization of transition asset	(24)	(202)
Amortization of prior service cost	174	174
Recognized net actuarial loss	258	46
Net periodic benefit cost	$1,618	$1,032

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

2005	$ 931
2006	955
2007	1,026
2008	1,123
2009	1,116
2010–2014	7,425

The College expects to make employer contributions into the plan of $1,170,000 in the 2005 fiscal year.

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

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

Asset Category	Target Allocation
Equity Securities	55%
Real Estate Investment Trust	5%
Fixed Income	35%
Cash and Equivalents	5%
Total	100%

The following lists the Plan's asset allocation at June 30, 2004 and 2003:

Asset Category	2004	2003
Equity Securities	57%	67%
Real Estate Investment Trust	6%	0%
Fixed Income	35%	31%
Cash and Equivalents	2%	2%
Total	100%	100%

10. Net Assets

Net assets consist of the following at June 30, 2004 and 2003:

($000s)	2004	2003
Unrestricted:		
Designated for specific purposes and plant	$ 104,644	$ 72,483
Quasi-endowment	348,276	340,452
Deficiencies in donor-restricted endowments	(2,194)	(4,363)
	450,726	408,572
Temporarily restricted:		
Endowment and similar funds including pledges	469,900	410,236
Annuity, life income and unitrusts including pledges	32,586	30,260
Deficiencies in donor-restricted endowments	2,194	4,363
Other restricted	80,991	80,128
	585,671	524,987
Permanently restricted:		
Endowment including pledges	341,627	314,360
	341,627	314,360
	$1,378,024	$1,247,919

During fiscal year 2003, the College reviewed its classification, for financial accounting purposes, of gifts received from its donors and made certain adjustments, the net effect of which is reflected in the fiscal year 2003 statement of activities and statement of financial position. The reclassifications are not material to the treatment of the funds.

11. Commitments and Contingencies

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

After the contaminated material was removed, the area was capped and seeded. These actions were undertaken in accordance with plans approved by the Department of Environmental Protection (DEP) on July 5, 1991. The College has continued to work with the DEP and has completed the process of remediating and restoring approximately 30 acres of land referred to as the Upland site. The College began in April 2001 excavating contaminated soils and sediments from the upland and wetland portions of the site and along the Northern Shoreline and West Cove of Lake Waban. 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 monitoring expenses are charged to operations. Total expenses for this project were $662,000 and $192,000, respectively for the years ended June 30, 2004 and 2003. The College has purchased an insurance policy to cover cost overruns and ground water remediation.

In 2001, the Commonwealth of Massachusetts and the College entered an agreement pursuant to which the Commonwealth agreed to share in the cost of the Northern Shoreline and Western Cove cleanup project, with the Commonwealth's share capped at $1.4 million. This clean up was completed in 2002 at a total cost of approximately $1.2 million. Additional reimbursable costs of approximately $100,000 have been incurred since the end of construction. In 2003, acting pursuant to the cost-sharing agreement, the College received a first reimbursement payment of $400,000 of the $900,000 receivable. A remaining reimbursement payment is due to the College upon DEP's approval of the final documentation showing the cleanup project eliminated "significant risks" to human health and the environment in the Northern Shoreline and West Cove of Lake Waban.

The College and the Commonwealth continue to explore the steps needed to resolve the remediation issues of Lake Waban and Lower Waban Brook.

Outstanding commitments amounted to approximately $252,601,000 and $161,070,000 as of June 30, 2004 and 2003, respectively for the following:

	2004	2003
Alternative investments	$219,200,000	$126,343,000
Construction contracts	33,401,000	34,727,000
	$252,601,000	$161,070,000

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

The College built a gas-fired cogeneration plant capable of producing 7.5 megawatts of electricity. The plant supplies electricity for the entire campus. The College pays the Town $111,000 annually as a guarantee for back-up power to the College. This contract is in force until September 2007.

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.

11/04 4.85M

Senior Administration 2003–2004

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Assistant to the President

David Blinder
Vice President for Resources and Public Affairs

Linda M. Brothers
Director of Equal Opportunity

Patricia M. Byrne
Vice President for Administration and Planning

Raymond J. Clark
Interim Vice President for Finance and Treasurer
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