WELLESLEY COLLEGE

Annual Report 2005–2006

Wellesley College
Fiscal Year 2005–2006

Diana Chapman Walsh
President

Finance and Investments

Andrew B. Evans
Vice President for Finance and Treasurer

Jane L. Mendillo
Chief Investment Officer

Linda Murphy Church
Assistant Vice President for Finance

Donna Ng
Assistant Vice President for Finance and Controller

Wellesley College

Annual Report for the Year Ended June 30, 2006

Contents

Schedules

Audited Financial Statements

Report of the President

October 2006

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

I am pleased to submit with this letter the annual financial report of Wellesley College for fiscal year 2005–2006, another full and successful year for the college, our students, and our faculty. In the letters that follow, Andrew B. Evans, vice president for finance and treasurer, and Jane L. Mendillo, chief investment officer, report respectively on the college's financial position and endowment performance. I provide below, a brief overview of some of the year's high points.

Celebrating The Wellesley Campaign

Although The Wellesley Campaign ended officially on June 30, 2005, the following summer and fall were among our busiest in recent memory. The entire administration and planning division was deeply absorbed in the many details involved in overseeing the completion of the massive construction and landscaping project in the 11 acres we now know as "alumnae valley," and in establishing operational plans and systems for their ongoing management. Meanwhile, the resources and public affairs staff were planning and executing the celebrations and communications to bring the campaign to a close, as well as designing new structures for the post-campaign period. All of us can take great satisfaction in the fact that we ended a very classy campaign (as we had conducted it throughout) with a jubilant sense of shared purpose, strength, and success.

At first-year orientation, members of the Class of 2009 moved eagerly into the Lulu Chow Wang Campus Center (a signature project of the campaign) and made it their own even before it was entirely completed. A sense of excitement spread across the campus through September and early October, as each day brought additional progress (and intriguing new furnishings and plantings) to the center and surrounding grounds. On the evening of October 12, trustees and honored guests gathered under a tent adjacent to the Wang Center for a gala celebration of The Wellesley Campaign, the most ambitious fund-raising campaign any liberal arts college had yet undertaken. The trustees had approved the campaign plan at their annual meeting on April 14, 2000 in a historic vote (in our 125th anniversary year), quite literally a vote of confidence in the future of Wellesley College, a powerful institution with a proud history, rooted in an ethic of service and in the founding belief that to provide a great education for women is to advance the cause of justice, directly and indirectly, at home and around the world.

The next day, October 13, as parent/family weekend began, we dedicated the Wang Campus Center with a huge and sprawling open house (including circus acts, plentiful music and food, and an especially popular chocolate fountain). From then on throughout the year, students, faculty, and staff made of the intriguing new building everything we had hoped it might eventually become: a place in which we now experience ourselves as more than the sum of our parts, a space in which all the smaller communities that constitute Wellesley are sharing in defining the meaning of the whole. The center brings us all together—regularly, spontaneously, unselfconsciously—to enact our vision of the inclusive, yet intense, inquiring, and interactive, global learning community that Wellesley is and aspires to be.

In January, we dedicated Weaver House, the new admissions center in the now renovated and expanded single-family house formerly known as Oakwoods. This is a beautiful and highly-functional space in which we can welcome prospective students and their families. In April, we dedicated the Newhouse Center for the Humanities, another significant campaign project, in the space in Green Hall formerly occupied by the board of admission. Wellesley has a long, distinguished record of excellence in the humanities, and we wanted to extend that tradition far into the future. The Newhouse Center is both a gracious space and an innovative program that is facilitating new interactions across the humanities disciplines at Wellesley, across the generations, and between the humanists and other faculty on our campus and beyond. The center's goal is to help shape and remake the case for humanistic study in the twenty-first century: the study of history, the arts, languages, culture, literature, philosophy, classics, the big ideas from the big disciplines, and the particular insights they provide into the trials and dilemmas of our fragile postmodern world. The center sponsored an exciting year of programming even before its formal opening and dedication in April.

The 2015 Commission

With the campaign behind us, it seemed important to begin thinking ahead. In early September we launched an expansive year-long inquiry into the future of Wellesley College, led by the 2015 Commission and two working groups: one on governance, the other on financial planning. A total of 38 people served either on the 20-member commission or one of the two working groups: 11 trustees, 15 faculty, nine administrators, and three students. Andrew Shennan, dean of the college, chaired the governance working group and Andrew Evans, vice president for finance and treasurer, the financial planning working group. I chaired the commission. Each of the three groups met at least monthly for a half day or more through the academic year and all gathered additional intelligence from many sources.

The commission identified aspects of the Wellesley educational experience that will be essential for success over the next 10 years and explored pressures that might either undermine values the college is determined to uphold or thwart its ability to achieve its future aspirations. Our purpose was to conduct an inquiry that would orient the college, catalyze a collective learning process, identify new possibilities, and set general intentions that will continue to evolve.

The governance working group early concluded that the faculty's active role in many aspects of college governance has served the college well and that changes in faculty work lives (many driven by outside forces) are putting pressure on systems of shared governance that have not changed in many years. The working group identified measures that might help ensure the continued strength of the faculty's collective voice and began a multiyear process of engaging the faculty in conversations about these recommendations, some of which will be more easily implemented than others.

The working group on financial planning articulated broad directions that will move the college to a stronger financial position in the decade ahead. The group addressed issues related to compensation, major maintenance, technology, endowment spending, financial aid, and the budgeting process among other topics. The group also developed specific recommendations designed to position the college to sustain its institutional values over an extended period by preserving the flexibility to respond to opportunities as they emerge and to buffer against external threats. These, too, will be the subject of ongoing discussion.

Academic Life In and Out of the Classroom

The office of the dean of the college and the office of the dean of students worked in collaboration throughout the year on an ambitious agenda focused on academic standards, educational innovation, and academic support of students. The academic deans organized a multiconstituency committee to review the first-year program and led the curriculum committee in the first of a two-year review of the multicultural requirement. They established a new precedent by making tenure-track hires directly into interdepartmental programs (one in environmental studies; one in neuroscience), completed a self-study and a visiting committee review of the American studies program, and began planning one for neuroscience. They also sponsored legislation that will facilitate inter-disciplinary appointments.

In addition, the deans continued a comprehensive review of the tenure process, which will extend over several years, and developed a preliminary plan for regularizing the college's contracts with non-tenure-track faculty. They sponsored successful legislation that will strengthen the faculty merit review process, launched a search for a new athletic director, and conducted a self-study and external review of the Pforzheimer learning and teaching center.

The administration and the faculty worked hard this year to improve our recent record in hiring faculty from diverse backgrounds. This included a more interventionist strategy on the part of the deans' office to require diversity in finalist pools, a more aggressive hiring strategy involving authorization of extra positions when highly-qualified candidates of color rose to the top of a department's applicant pool, and new outreach initiatives. We were pleased with the progress we made, even knowing that there is still much work to be done. We hired three new African-American teacher-scholars: two assistant professors, one in math and one in education, and a postdoctoral fellow in environmental studies. We recruited faculty of Asian descent in sociology and music. A large majority of our hires this year were women, reversing a trend in the other direction. And we attracted outstanding young faculty for the Knafel and Walsh assistant professorships, in neuroscience and education, respectively.

In pursuit of the long-term goal of narrowing gaps that reflect disparities in the cultural and social capital students bring to college, members of an academic support project team from the two deans' offices met with small groups of faculty representing virtually every department, with colleagues in student life and admissions, and with many student leaders. They presented their work at several outside meetings and engaged in collaborations with consortia and peer institutions. They laid the groundwork to implement pilot programs in supplemental instruction (starting in chemistry and biological sciences) and developed plans for campus-wide discussions of research on "stereotype threat." Finally, they are revitalizing alumnae mentor programs for students of color.

In the area of technology, we began to reconceptualize the science library and developed a proposal for discussion with faculty and students in the sciences. We piloted the use of student-owned laptops as a lower-cost alternative to providing classrooms with multiple workstations and began participation in an international "open access" publishing initiative and in the Mellon Foundation's initiative to ensure preservation of and permanent access to e-journal content. The information services division wrote and distributed a brochure outlining responsible use of computing resources, including information on intellectual property and copyright compliance. In a significant effort involving many departments, they conceived, designed, and tested a new "portal" through which entering students were able to interact with the college starting in June 2006.

The Faculty

Each year our faculty receive many awards and grants and this year was no exception. Too numerous to list in full, their range is suggested in the following sample: Chris Arumainayagam, professor of chemistry, received a grant from the National Science Foundation for his study "RUI: Electron-Induced Reactions in Halomethane Nanoscale Thin Films." The National Institutes of Health awarded research grants to Joanne Berger-Sweeney, associate dean and Russell Professor of Biological Sciences, for her project "Psychosis and Brain Glutamate" and to Kaye Peterman, professor of biological sciences, for her research on cytokinesis. Richard French, McDowell/Whiting Professor of Astronomy, was awarded a grant by NASA for his research on Pluto's atmosphere. Alejandra Osorio, assistant professor of history, was awarded a National Endowment for the Humanities Research Grant for "Inventing Lima: The Making of an Imperial Capital, ca.1535 – ca.1710."

Faculty publishing books this year included Thomas Cushman, professor of sociology, *A Matter of Principle: Humanitarian Arguments for War in Iraq*, Carol Dougherty, professor of classical studies, *Prometheus*, Joel Krieger, Norma Wilentz Hess Professor of Political Science, *Globalization and State Power:* A Reader. Frances Malino, Sophia Moses Robison Professor of Jewish Studies and Thomas Nolden, professor of German, *Voices of the Diaspora: Jewish Women Writing in Contemporary Europe.*

Frank Bidart, Andrew W. Mellon Professor of English, was named a finalist for the 2005 National Book Award. Pat Berman, professor of art, served as the curatorial consultant and one of the authors of the exhibition catalog for the exhibition "Edvard Munch: The Modern Life of the Soul" at the Museum of Modern Art in New York.

Student and Campus Life

The student life division organized and completed an external review of the health and counseling centers, reviewed the recommendations, and began developing new short- and long-term goals for those important services. Division staff were deeply immersed in a year-long dialogue with students about high-risk drinking; they pilot tested strategies to reduce these behaviors, wrote a report that synthesized survey data on alcohol use at Wellesley, reviewed the professional literature, and began developing a long-term plan to address this issue that exists in one form or another on most college campuses.

Once again this year Wellesley did well in the competition for national fellowships. Two of our students won Rhodes Scholarships, one was named a Watson Fellow, another a Gates Cambridge Scholar. Nine students won Fulbright grants for research and teaching. In addition, we had two recipients each of the Rockefeller Brothers Fund Fellowship, the Barry M. Goldwater Scholarship, and the Freeman-ASIA award for study in Asia.

During the summer, Wellesley supported many summer internships and community-service projects in the United States and around the world. More than 300 students participated in 52 internship programs in 33 countries. Some examples include: 10 students worked on local rebuilding efforts in Sri Lanka and India with the support of tsunami relief grants.

Nine students helped faculty develop new instructional technology as part of the Knapp instructional technology summer internship program. Wellesley's American cities internship program put 13 students to work in Chicago, Los Angeles, and San Francisco.

Speakers on campus this year included best-selling author Alice Siebold, film critic Laura Mulvey and poet Sonia Sanchez. Aaron Lazare presented "On Apology," and Parker J. Palmer spoke about living "an undivided life." "Dante Vivo," an international conference, featured distinguished international scholars and teachers sharing their passion for Italy's most famous poet. "Celebrating QR Connections," the Ellen Genat Hoffman '68 and Stephen G. Hoffman Series, highlighted the connections between quantitative reasoning and biology, featuring lectures by Notre Dame physics professor Albert-Laszlo Barabasi; Martin Nowak, professor of organismic and evolutionary biology and mathematics at Harvard; Dale Purves, M.D., professor of neurobiology at Duke; and Aviv Regev, research fellow at the Harvard's Bauer Center for Genomics Research.

Global public health activist Ophelia Dahl, a 1994 graduate in the Elisabeth Kaiser Davis scholars program, addressed the Class of 2006 at the College's 128th commencement exercises. Ms. Dahl is a founding trustee and executive director of Partners in Health, an international organization that brings the benefits of modern medical science to some of the most impoverished areas of the world. She gave the seniors a riveting and deeply inspiring send-off.

Administrative Initiatives

In the resource development area, we implemented a post-campaign fund-raising program, including a new major gifts program, and increased the minimum gift threshold for Durant society membership to $2,500, which resulted in a 43% increase in the number of donors at that level. The trustees established a new trustee development committee at their April meeting and a reorganized Wellesley Development and Outreach Council.

In 2002, the senior staff reviewed all administrative positions and set forth a four-year plan to shrink the staff by over 30 full-time equivalent positions through a process of attrition. We met our goals in this fiscal year and plan to review the results of the staff reduction plan and design appropriate next steps. With the support of the trustee audit committee, the finance division created a new policy governing business conduct, which was widely disseminated and is being implemented across the college.

Enhancements to our technology infrastructure this year included: an online telephone directory with increased searching capabilities and expanded content; secure, online voting for faculty committee elections; improvements to the library borrowing systems; expansion of wireless locations; upgrades of the network and the Banner system; and improved security controls. The information services division planned and oversaw the renovation of the lower level of Clapp Library and designed a new planning initiative that will run through January 2007, building on the work of the 2015 commission and the facilities master plan.

In the admissions area new partnerships were established this year with "bridge" organizations, such as QuestBridge, Venture Scholars, and Washington Metropolitan Scholars, resulting in more realistic applications from qualified students who would not previously have been in our pool. Through collaboration with the alumnae association, particularly related to the ALANA forum in October, we saw an encouraging increase in the participation of alumnae of color in outreach and yield activities.

In the fall, we participated in the anniversary celebration of the PRESCHO program in Cordoba, Spain. I traveled twice to New Orleans to participate in rebuilding efforts following the hurricanes. In October, we held several public events to help launch a New England "courage and renewal" program for teachers and other helping professionals, based on the work of Parker J. Palmer. We are participating, too, in a five-year project, organized by Richard Light at Harvard and funded by the Spencer Foundation, in which a group of preeminent colleges and universities has been invited to develop and evaluate interventions designed to enhance their capabilities as "learning organizations."

In April, we hosted a successful gathering of 24 leaders of liberal arts colleges, a dozen presidents, each of whom brought a trusted senior advisor for an evening and a day here at Wellesley. At a time when traditional leadership models are running aground, the meeting offered a rare opportunity for participants to engage in a thought-provoking and collegial exploration of pressures on their own leadership and of strategies for managing conflict and living with paradox.

Retirements and Other Noteworthy Departures and Arrivals

This year we welcomed 12 new tenure-track faculty members, one each in anthropology, art, philosophy and Spanish and two each in biology, economics, history and political science. Two members of the Wellesley faculty were awarded tenure this year: Akila Weerapana, economics, and Valerie Ramseyer, history.

We bade farewell to three retiring faculty members who served the college with distinction: Lilian Armstrong, the Mildred Lane Kemper Professor of Art, after 42 years of service, Harold Andrews, professor of geosciences, 36 years of service, and Louise O'Neal, athletic director and chair of physical education, recreation & athletics after 16 years of service.

Three members of the Board of Trustees completed their service in June. Pamela Leach Lewis '66 served for 17 years and was elected trustee emerita, Lia Gelin Poorvu '56 completed her six years of service as alumnae trustee and Ellen Goldberg Luger '83 completed her three-year term as president of the Wellesley College Alumnae Association. The Board welcomed three new trustees: Alicia Cooney '74, Pamela Melroy '83, and Bunny Winter '70.

In June, Linda Brothers, director of equal opportunity and multicultural policy and ombudsperson, announced her resignation in order to pursue other career options. Peter Zuraw was appointed assistant vice president for facilities management and planning. For the past 10 years, he had been a senior manager for Aramark Corporation working as a director of facilities and operations at Franklin and Marshall College. Before that, he directed facility services at the Washington National Cathedral and coordinated a significant energy management initiative for the New York State Office of Mental Health.

Concluding Thoughts

At the 136th annual meeting of the Board of Trustees in April, I announced my decision to complete my service to the college on June 30, 2007, after 14 years as president. I established and led the 2015 Commission with this impending decision very much in mind, hoping that its insights would be of value to the presidential search committee, as input to that group's thinking about the leadership Wellesley will need, as an aid in attracting and helping orient a new president, and to focus efforts on campus to position the college for a successful transition.

The work of the 2015 Commission has reconfirmed how very strong Wellesley College is now and what enormous potential the college continues to have, four decades after weathering the advent of widespread coeducation in the eastern men's colleges. In virtually all respects, the college today is as strong as it has ever been: widely admired for its excellence; clearly aligned behind its mission; thoroughly modern; resilient and confident.

It will, of course, be difficult to leave a position that has so completely engrossed and defined me, fueled my energy and passions for these 14 years; however, I will leave secure in the knowledge that the college is robust and focused, with an inspiring vision and a promising future ahead. I will always be grateful for the extremely generous and gracious support alumnae and friends of Wellesley College have provided so unstintingly over the years. I will always be grateful for your support—of our college and of me.

Yours very truly,

Diana Chapman Walsh

Diana Chapman Walsh

Report of the Vice President for Finance and Treasurer

October 2006

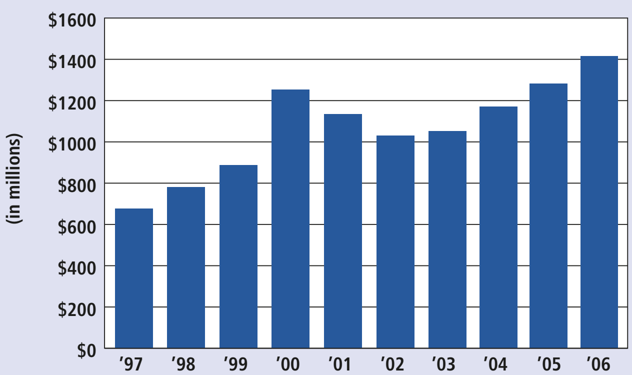
To the Board of Trustees of Wellesley College

I am pleased to report on Wellesley College's financial results for fiscal year 2005–2006. During the year, the College's net assets increased by $112 million; the College's endowment grew by 10.7% to $1.41 billion. This Annual Report presents the operating results for the fiscal year ending June 30, 2006 and discusses the prospects for the College's financial future.

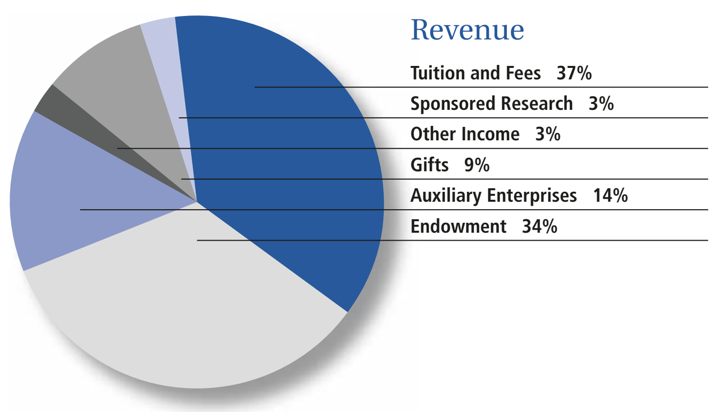
Results of Fiscal Year 2006

Academically and financially, Wellesley College remains one of the strongest educational institutions in the country. The market value of the endowment increased from $1.28 billion to $1.41 billion due to the gifts received from our generous alumnae, as well as the excellent work of our staff in the Investment Office who, along with the Investment Committee achieved a positive investment return of 14.0%. Further details about our endowment are discussed in the Chief Investment Officer's report. The funds used during the year to support the operating budget and to fund various capital projects equaled 5.0% and 5.1% of the endowment market value for the one-year and the three-year rolling average, respectively. During the course of the year, the endowment per student increased by 9.5% from $588,182 to $644,142. Even though our recent comprehensive campaign has ended, during this year total gifts remained strong at $55.9 million.

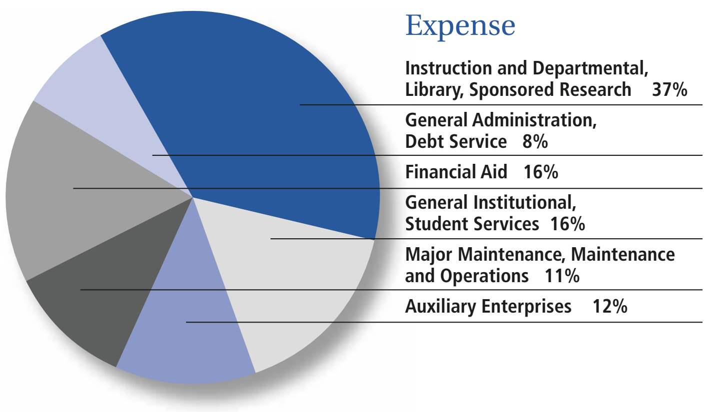
General Endowment Pool, 1997–2006



The operating budget (Schedule A) was in balance in this fiscal year with revenues and expenses totaling $195.5 million. The revenue base for the operating budget was well diversified with five principal revenue sources: tuition income 37%, endowment 34%, auxiliary enterprises, including room and board 14%, gifts used for operations 9% and other sources of revenue, including sponsored research 6%. Total operating revenues in this fiscal year increased by $6.0 million over fiscal year 2005. Increases in tuition and fees and other income were sufficient to offset the College's reduction of the draw on unrestricted bequests for operating purposes. Tuition and fees increased by $4.4 million or 6.6% due to the annual increase in the comprehensive fee as well as an increase in average student FTE enrollment at 2,193. Other income increased primarily due to higher interest returns on our operating cash.



Operating expenses had an incremental increase of 3.2%, a major accomplishment considering the increase in the cost of utilities of approximately $2.5 million over fiscal year 2005. This unanticipated increase in energy costs would have been larger had it not been for the conservation strategies identified by the Physical Plant Administration staff and the cooperation of the College community in implementing these strategies across the campus. In addition to conservation efforts, department heads were asked to reduce discretionary spending and some major maintenance and capital projects were funded by gifts rather than other operating budget resources. As might be expected in a labor-intensive institution, about 53% of the operating budget was used for salaries and benefits.



Financial Strength and Flexibility

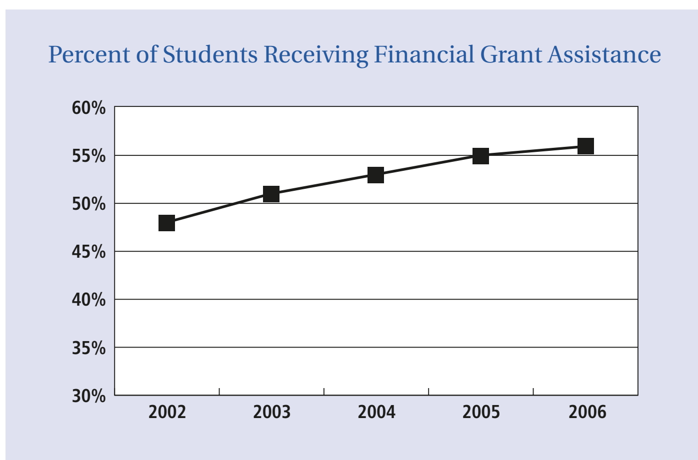
In order to support Wellesley College's institutional values and strategic priorities, the College recognizes it must be strong financially and develop greater financial flexibility. The College must preserve the purchasing power of the endowment by limiting endowment spending, and growth rates of income and expenses must be in balance. The accumulation of reserves for unanticipated spikes in costs, such as energy will help to smooth unanticipated shocks to the balanced budget.

The results of fiscal year 2006 show that the College is in a position of financial strength and is moving in the right direction for establishing reserves. During fiscal year 2006, the purchasing power of the endowment was preserved with a return of 14%, spending of 5%, and inflation of 3.8%. The College's current spending policy is to use the actual amount taken from the endowment in the prior year, 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 fiscal year 2006, the one-year spending rate was 5.0%. The 42% support of the educational and general budget derived from the endowment highlights the College's reliance on this funding source.

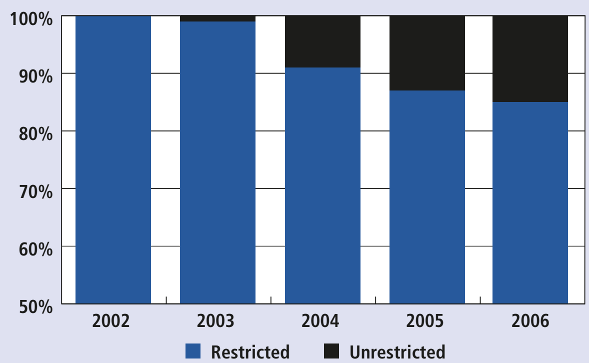
As noted above, the growth in expenses equaled the growth in revenue in the operating budget. During fiscal year 2006, the College invested nearly $20 million of existing operating cash in a manner consistent with how we invest the endowment. The cumulative excess investment return over typical short-term interest rates as of June 30, 2006 totaled approximately $1 million. This excess will be maintained and used to fund extraordinary items in the future.

Institutional Values and Priorities

One of the College's longest-held institutional values is our need-blind admission policy. Wellesley College believes that students should be considered for admission only on the basis of their talents and personal qualities, not on their ability to pay. The College continues to work hard on balancing the effects of this important policy with other expenses. Over the past five years, there has been an increase in all financial aid indicators as shown above. The percent of students receiving financial aid assistance has increased from 48% in 2002 to 56% in 2006. In fiscal year 2002, 100% of the student financial aid expenditures were supported by restricted revenues with none supported by unrestricted operating funds. The percentage of student financial aid expenditures supported by restricted revenues in 2006 decreased to 85% causing the percentage supported by unrestricted revenues to increase to 15%.



Funding Sources for Financial Aid



The maintenance and enhancement of the College's significant physical assets is an important institutional priority. With careful planning over the past few years, the budget for major maintenance now includes $5 to $6 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 yielded $19 million of funds for major maintenance. As of June 30, 2006, the College had spent all of these funds on major maintenance projects.

Future Outlook

A financial planning working group was formed as part of the President's planning initiative known as the 2015 Commission. This group met throughout fiscal year 2006 and was charged to assess the College's financial health, to identify opportunities for strengthening our finances, and to recommend strategies to ensure a more robust financial condition in an uncertain future. The group developed a set of principles of financial strength and flexibility that will be broadly discussed and implemented over the coming years. In addition, the College will be initiating a new highly participatory, institution-wide budgeting and decision-making process that is driven by institutional priorities and provides a high level framework for establishing yearly institutional and departmental goals.

During fiscal year 2006, the College initiated a facilities needs assessment that will be completed during fiscal year 2007. Among other outputs, this assessment will provide a prioritized list of major capital improvement needs. With this new planning information about its facilities, the College will decide which projects have the highest priority, and then research the financing options best suited for each of these projects while preserving the principles of financial strength and flexibility.

I look forward to the discussion of the principles brought forth by the financial planning working group. I am confident that these principles will guide the College to an even greater financial condition.

Respectfully submitted,

Andrew B. Evans
Vice President for Finance and Treasurer

Report of the Chief Investment Officer

October 2006

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, 2006, the Wellesley College endowment had a market value of $1.413 billion, versus $1.276 billion on June 30, 2005. The investment return for the year on the endowment portfolio, after investment management fees and expenses, was 14.0%. The fiscal year ended with solid gains across a variety of asset classes, and was the fourth consecutive year in which the endowment earned a substantial positive return, in both nominal and real (after inflation) terms. We also added value, for the fourth year in a row, relative to our benchmark Policy Portfolio[1].

Recent Progress

The value of the Wellesley endowment, as of June 2006, has exceeded its previous reported peak value, which was attained at the end of fiscal year 2005. As regular readers of this report will recall, the 2005 peak was significant, as it represented the endowment's full recovery of the value that was lost in the very difficult markets of 2001 and 2002. The endowment's further and continued growth in fiscal year 2006 has left Wellesley in a position of unprecedented financial strength and flexibility, a position which we must be careful to steward in the most productive and thoughtful manner possible.

Over the past year, the endowment experienced healthy returns in domestic and international equities, and across the board in our growing portfolio of alternative assets, including areas such as semi-marketable hedge funds, private real estate, private equities and commodities.

Wellesley's investment returns by asset class, and the relative performance versus benchmarks for each asset class, are summarized below. Wellesley's returns versus the relevant broad market indices were quite strong in nearly all areas of the portfolio. The Real Assets segment (which includes real estate, energy and commodities) delivered a 22.1% return over the last year, and exceeded the NCREIF Property index by a significant margin. This is especially notable because Real Assets is an area where Wellesley had virtually no exposure in its portfolio as recently as 3–4 years ago. It is gratifying to see that our recent diversification efforts are already bearing excellent results for the College's endowment.

Longer-Term Results

Over the last ten-year period the endowment has grown from $596 million in 1996 to $1.413 billion, an increase in value of roughly $816 million, and has achieved an average annual investment return, after fees and expenses, of 11.9%. Wellesley has achieved significant value-added over this time, through asset allocation 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 portfolio. Wellesley's investment results exceeded the passive portfolio by an average 400 basis points per year over the last ten years.

Total Return by Asset Class

Year Ended June 30, 2006	Wellesley Portfolio Return	Market Benchmark/Comparative Index	
U.S. Equity	11.7%	8.6%	S&P 500
International Equity	27.0%	27.9%	MSCI AC World ex-US
Private Equity	17.2%	—	Cambridge Associates[2]
Real Assets	22.1%	18.7%	NCREIF Property Index
Semimarketable[3]	12.0%	10.6%	Cambridge Associates Fund-of-Funds Index
Fixed Income	–1.4%	–4.8%	Lehman Brothers 5+ year Treasury Index
Total Portfolio	14.0%		

[1] The endowment return relative to the Policy Portfolio benchmark is estimated at +180 basis points for the 2006 fiscal year, although the final benchmarks used for the Private Equity portion of the portfolio are not yet known as of 9/30/06.

[2] Private Equity Results are measured against Cambridge Associates Private Equity, Venture Capital and Distressed Indices, which, as of 9/30/06, have not yet been reported for the period ended 6/30/06.

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

Total Annualized Return on Endowment

	1 Year	3 Years	5 Years	10 Years
Wellesley Portfolio	14.0%	13.5%	7.8%	11.9%
S&P 500 Index	8.6	11.2	2.5	8.3
65/35 Stock/ Bond Portfolio[4]	5.3	8.1	3.7	7.9

Strategy Going Forward

We have continued, over the course of this past year, to implement our long-term plan for reshaping the endowment portfolio, to optimize the level of return and risk associated with our investments and to reflect the College's long-term investment strategy and goals. Our aim is to balance long-term returns and risks by increasing our diversification and our allocation to less-efficient markets. This will enable the endowment to maintain the level of inflation-adjusted financial support it provides for the College's operations, and will also control volatility in spending.

The Policy Portfolio, developed by the Investment Committee in 2002 and reviewed annually, provides us with a guide for allocating assets which is consistent with the goals stated above. Because we are increasing our exposure to some of the less-liquid asset classes gradually (including real estate, energy, and other commodity and resource-related investments), and only when top-quality opportunities are found, we are currently over allocated to public equities and under allocated to Alternatives, versus our long-term goal.

Asset Class	Policy Portfolio	June 30, 2006 Allocation
U.S. Equity	20%	23%
International Equity	20	22
Total Equities	40	45
Private Equity	12	13
Real Assets	16	9
Semimarketable	16	17
Total Alternatives	44	39
Fixed Income & Cash	16	16
Total Portfolio	100%	100%

[4] A commonly used measure of portfolio performance is comparison with a "traditional" portfolio consisting of 65% stocks, as measured by the S&P 500 equity index, and 35% bonds, as measured by the Citigroup Broad Investment Grade bond index.

As an indication of our progress toward achieving a more diversified portfolio with greater exposure to alternative investments, the portfolio allocation to Fixed Income & Cash is now at the long-term target of 16% of the total portfolio, having moved to that level from 37% of the total portfolio at the end of fiscal year 2002. At the same time, our exposure to alternatives has grown to 39% of the portfolio, from 21% of assets four years ago.

Within 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, and 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.

Once again, we in the Investment Office would like to express our appreciation for the valuable and continuous contributions made by Lulu Chow Wang, our Investment Committee Chair, and by Victoria Herget, Wellesley's Chair of the Board of Trustees, both of whom have been tremendous resources as we strive to position the endowment to best support Wellesley's long-term needs and priorities. In addition, we are enormously grateful to have a network of Trustees, Investment Committee members, colleagues and alumnae who provide us with ideas, perspective, and support in the management of the College's endowment.

We have never felt better about the future of Wellesley's endowment and its potential for long-term growth. While year-to-year returns will vary, the investment commitments we are making today position Wellesley to benefit from a powerful mix of traditional and nontraditional investments, chosen and monitored for their quality, their long-term return potential and their risk control qualities.

Trustees and alumnae with questions, suggestions, 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)

	2002	2003	2004	2005	2006
Total College Summary					
Total Revenues	$ 91,107	$182,049	$312,805	$338,366	$331,744
Total Expenses	171,751	175,442	182,700	189,269	219,273
Net Surplus / (Deficit)	($ 80,644)	$ 6,607	$130,105	$149,097	$112,471
Current Operations Summary					
Revenues including Trustee approved use of unrestricted bequests	$165,546	$169,771	$179,714	$189,422	$195,463
Expenditures	165,519	169,757	179,714	189,420	195,460
Operating Surplus	$ 27	$ 14	$ 0	$ 2	$ 3
Resources					
Unrestricted Gifts	$ 7,847	$ 7,668	$ 7,857	$ 8,024	$ 8,761
Endowment Gifts and Bequests	23,482	28,191	28,367	36,943	23,854
Planned Gifts	2,544	3,468	2,670	1,626	2,411
Facilities Gifts	4,572	5,502	11,327	31,667	10,789
Current-Use Gifts and Grants	10,335	6,892	4,498	10,358	10,097
Total	$48,780	$51,721	$54,719	$88,618	$55,912
Endowment					
Market Value	$1,032,465	$1,043,937	$1,180,405	$1,275,767	$1,412,604
Total Return	($51,431)	$35,449	$152,797	$131,721	$175,886
Total Return Used for Operations	$54,931	$54,333	$59,639	$65,219	$69,159
Unit Value	$484.59	$479.33	$521.95	$550.55	$595.46
Investment Return – Total	(5.2%)	4.9%	15.2%	11.5%	14.0%
Yield	3.8%	4.1%	5.8%	5.5%	5.9%
Appreciation	(9.0%)	0.8%	9.4%	6.0%	8.1%
Average Endowment Operating Support (% of Average Market Value)					
One-Year Average	5.0%	5.3%	5.1%	5.1%	5.0%
Three-Year Average	4.5%	4.8%	5.1%	5.2%	5.1%
Assets					
Total College Net Assets	$1,241,312	$1,247,919	$1,378,024	$1,527,121	$1,639,592

Schedule A

Wellesley College
Summary of Operating Revenues and Expenditures

Years ended June 30, 2006 and 2005
(in $000s)

	2006	2005	Increase (Decrease)	%
Revenues from Operations				
Tuition and Fees	$ 71,431	$ 66,989	$4,442	6.6%
Endowment Income				
Education and General Support	37,654	35,705	1,949	5.5%
Endowment Income – Prior Year	851	1,486	(635)	(42.7%)
Special Purposes	4,218	4,827	(609)	(12.6%)
Debt Service Support	4,861	5,020	(159)	(3.2%)
Total Endowment Support	47,584	47,038	546	1.2%
Unrestricted Gifts	8,801	8,060	741	9.2%
Unrestricted Bequests	1,248	5,141	(3,893)	(75.7%)
Restricted Gifts and Use of Reserves	2,804	1,886	918	48.7%
Other Income	5,316	3,661	1,655	45.2%
Student Financial Aid				
Endowment Income	20,178	18,881	1,297	6.9%
Federal and State Grants	1,903	2,045	(142)	(6.9%)
Restricted Gifts	2,625	3,008	(383)	(12.7%)
Total Student Financial Aid	24,706	23,934	772	3.2%
Total Education and General	161,890	156,709	5,181	3.3%
Sponsored Research	6,145	6,934	(789)	(11.4%)
Auxiliary Enterprises	27,428	25,779	1,649	6.4%
Total Revenues	195,463	189,422	6,041	3.2%
Operating Expenditures				
Instruction and Departmental	54,892	51,503	3,389	6.6%
Library	6,094	5,922	172	2.9%
Student Services	10,648	10,422	226	2.2%
Student Financial Aid	31,528	29,684	1,844	6.2%
General Administration	8,970	8,358	612	7.3%
General Institutional	21,178	21,558	(380)	(1.8%)
Maintenance and Operations	16,123	13,089	3,034	23.2%
Debt Service	7,078	7,513	(435)	(5.8%)
Major Maintenance, Capital Expenditures, & Reserves	5,003	7,678	(2,675)	(34.8%)
Total Educational and General Expenditures	161,514	155,727	5,787	3.7%
Sponsored Research	6,145	6,934	(789)	(11.4%)
Other Programs	4,022	4,170	(148)	(3.5%)
Auxiliary Enterprises	23,779	22,589	1,190	5.3%
Total Expenditures	195,460	189,420	6,040	3.2%
Operating Surplus	$ 3	$ 2	$ 1	50.0%

Schedule B

Wellesley College
Ten-Year Financial Summary 1997–2006

	1997	1998	1999	2000
Financial Statement (in $000s)				
Total Revenues				
Tuition and Fees	$ 46,645	$ 49,150	$ 51,469	$ 53,669
Investment Return	103,473	105,908	111,934	361,536
Private Gifts, Grants, Bequests and Contracts	36,531	51,744	57,906	94,098
Federal Grants and Contracts – Restricted	4,021	3,865	4,092	4,641
Sales and Services of Auxiliary Enterprises	21,432	21,310	22,317	23,180
Interest Income	1,208	1,153	1,929	3,333
Other	1,912	1,900	2,800	2,101
Total Revenues and Other Additions	$215,222	$235,030	$252,447	$542,558
Total Expenditures				
Instruction and Departmental	$ 31,406	$ 34,994	$ 35,983	$ 38,815
Library	4,585	4,934	4,819	4,849
Student Services	5,789	6,236	7,001	7,670
Maintenance and Operations	10,288	11,686	14,632	14,330
Provision for Depreciation	7,234	7,338	7,468	8,527
Interest on Indebtedness	3,141	3,093	3,888	5,194
General Administration	5,787	6,598	7,827	8,336
General Institutional	13,584	14,880	15,859	18,445
Student Financial Aid	14,941	15,174	15,843	18,281
Sponsored Research and Other Programs	8,282	8,371	9,077	9,932
Auxiliary Enterprise Expenditures	19,033	19,575	20,617	21,523
Other	—	—	—	1,290
Total Expenditures and Other Deductions	$124,070	$132,879	$143,014	$157,192
Excess of Revenue over Expenditures	$91,152	$102,151	$109,433	$385,366
Excess of Revenues over Expenditures as a Percent of Expenditures	73.5%	76.9%	76.5%	245.2%
Endowment Total Return Used to Support Current Operations	$35,861	$39,161	$41,516	$47,546
Endowment End-of-Year Market Value	$691,088	$780,872	$887,489	$1,253,385
Average Endowment Return Used to Support Current Operations as a Percent of:				
One Year – Beginning and Ending Market Value	5.3%	5.1%	4.8%	4.2%
Three Year – Average of Three Years	5.5%	5.3%	5.1%	4.7%
Other Financial Information				
Tuition and Fees per Student				
Comprehensive Fee	$26,970	$28,330	$29,520	$30,554
Tuition	$20,174	$21,254	$22,114	$22,894
Enrollment (Average FTE)	2,227	2,224	2,222	2,248
Educational and General Costs per Student	$43,446	$47,182	$50,999	$55,359
Tuition as a Percent of Educational and General Expenses	46.4%	45.0%	43.4%	41.4%
Endowment per Student	$310,322	$351,112	$399,410	$557,556

Wellesley College
Ten-Year Financial Summary 1997–2006

2001	2002	2003	2004	2005	2006	Average Annual Percent Change Since 6-30-97 Nominal %	Real %
$ 55,197	$ 57,491	$ 59,828	$ 62,928	$ 66,989	$ 71,431	4.9%	1.1%
(87,307)	(51,431)	35,449	152,797	131,721	175,886	25.0%	21.2%
62,234	49,355	52,261	63,101	105,136	47,336	22.8%	19.0%
5,251	6,225	7,448	5,608	4,567	4,560	4.1%	0.3%
24,120	24,059	24,493	24,224	25,779	27,428	3.0%	(0.8%)
2,910	1,253	747	713	713	1,598	18.8%	15.0%
2,352	4,155	1,823	3,434	3,461	3,505	18.0%	14.2%
$ 64,757	$ 91,107	$182,049	$312,805	$338,366	$331,744	19.8%	16.0%
$ 40,074	$ 42,104	$ 43,650	$ 47,746	$ 51,035	$ 54,663	5.0%	1.2%
5,195	5,574	5,602	5,556	5,909	5,818	3.1%	(0.7%)
8,516	9,876	10,056	9,917	10,396	10,616	7.2%	3.4%
18,291	15,635	14,312	13,452	14,896	20,954	11.7%	7.9%
8,745	8,718	9,429	9,894	10,497	12,374	5.8%	2.0%
5,077	4,237	4,712	6,069	4,930	5,442	6.2%	2.4%
7,626	8,328	9,737	9,412	9,128	8,247	3.7%	(0.1%)
21,136	21,137	20,117	19,676	19,472	19,942	4.5%	0.7%
19,189	20,878	23,479	26,511	29,649	31,590	8.5%	4.7%
10,138	12,681	12,115	12,850	11,079	10,138	6.3%	2.5%
23,364	22,583	22,233	21,617	22,278	23,632	2.1%	(1.7%)
—	—	—	—	—	15,857		
$167,351	$171,751	$175,442	$182,700	$189,269	$219,273	6.2%	2.4%
($102,594)	($80,644)	$6,607	$130,105	$149,097	$112,471		
(61.3%)	(47.0%)	3.8%	71.2%	78.8%	51.3%		
$53,520	$54,931	$54,333	$59,639	$65,219	$69,159	7.8% *	
$1,136,426	$1,032,465	$1,043,937	$1,180,405	$1,275,767	$1,412,604	8.8% *	
4.2%	5.0%	5.3%	5.1%	5.1%	5.0%		
4.4%	4.5%	4.8%	5.1%	5.2%	5.1%		
$31,654	$33,394	$34,944	$36,513	$38,998	$41,030	4.7%	0.9%
$23,718	$25,022	$26,138	$27,314	$29,176	$30,696	4.5%	0.7%
2,212	2,195	2,191	2,176	2,169	2,193	(0.1%)	
$60,510	$62,181	$64,397	$68,122	$71,882	$77,358	5.8%	2.0%
39.2%	40.2%	40.6%	40.1%	40.6%	39.7%	(1.1%)	(4.9%)
$513,755	$470,371	$476,466	$542,466	$588,182	$644,142	9.6%	5.8%

*compound growth

Schedule C

Wellesley College
Key Statistics

	2002	2003	2004	2005	2006
Faculty/Student FTE Headcount					
Student Enrollment (Average FTE)	2,195	2,191	2,176	2,169	2,193
Faculty Teaching Strength (FTE)	228	224	224	224	231
Student/Faculty Ratio	9.63	9.78	9.71	9.68	9.49
Enrollment					
Number of First-Year Student Applications	3,049	2,877	3,434	3,944	4,347
First-Year Students Admitted as a % of Applicants	42.6%	47.1%	40.6%	37.5%	33.7%
First-Year Students Enrolled as a % of Applicants	19.0%	20.7%	17.2%	15.6%	13.9%
First-Year Students Enrolled as a % of Students Admitted	44.5%	43.9%	42.4%	41.7%	41.4%
Financial Aid					
Percent of Students Receiving Financial Aid Grant Assistance	48.0%	51.0%	53.0%	55.0%	56.0%
Average Financial Aid Grant as % of Comprehensive Fee	55.2%	55.7%	57.6%	63.5%	59.6%
Student Aid Expense as % of Educational and General Expense	15.3%	16.6%	17.9%	19.0%	18.6%
Educational & General Cost per Student	$62,181	$64,397	$68,122	$71,882	$77,358
Tuition as % of Educational and General Expense	40.2%	40.6%	40.1%	40.6%	39.7%
Development (in $000s)					
Total Development Fund-Raising	$48,780	$51,721	$54,719	$88,618	$55,912
Total Alumnae Giving Including Bequests	$37,327	$42,445	$45,030	$65,665	$40,752
Number of Alumnae Donors	15,510	15,600	16,019	15,450	15,113
Percent of Alumnae Contributing	53.5%	51.7%	52.5%	51.0%	49.7%
Total Unrestricted Gifts	$7,847	$7,668	$7,857	$8,024	$8,761
Total Planned Gifts	$2,544	$3,468	$2,670	$1,626	$2,411
Total Bequests	$9,827	$12,053	$10,573	$36,295	$14,305
Unrestricted Gifts and Bequests as % of Educational and General Expense	5.9%	6.3%	7.1%	8.1%	5.2%
Endowment					
Endowment Market Value (in $000s)	$1,032,465	$1,043,937	$1,180,405	$1,275,767	$1,412,604
Endowment per Student	$470,371	$476,466	$542,466	$588,182	$644,142
Endowment Income as % of Educational and General Expense	39.0%	38.5%	40.2%	41.8%	40.8%
Other					
Gross Square Feet of Buildings	2,425,000	2,425,000	2,583,000	2,643,000	2,643,000
Library Collections in Volumes	1,500,587	1,529,737	1,558,607	1,571,517	1,594,395

Schedule D

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

(in $000s)

	2002	2003	2004	2005	2006
Unrestricted Revenue					
General College Revenues	$ —	$ 290	$ 2,504	$ 3,751	$ 4,822
Total Unrestricted Revenue	—	290	2,504	3,751	4,822
Restricted Revenue					
Restricted Endowment					
Income	15,898	17,134	17,093	18,881	20,178
Income – Special Supplement	1,579	2,000	2,000	2,000	2,000
Federal Government					
Pell Grants	885	1,029	1,124	1,046	945
Supplemental Educational Opportunity Grants	391	418	405	401	388
College Work Study Program – Federal Government Share	444	427	381	359	331
Total Government Grants	1,720	1,874	1,910	1,806	1,664
Commonwealth of Massachusetts	295	240	245	238	239
Restricted Gifts	1,386	2,305	2,747	3,008	2,625
Total Restricted Revenue	20,878	23,553	23,995	25,933	26,706
Total Unrestricted and Restricted Revenues	$20,878	$23,843	$26,499	$29,684	$31,528

Schedule E

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

As of June 30, 2006
(in $000s)

	Market Value	% of Total
Investments Pooled		
Liquid Funds (Net of Payables and Receivables)	$ 7,891	0.56%
Fixed Income		
U.S. Bonds	162,013	11.48%
Non-U.S. Bonds	42,852	3.03%
Faculty Mortgages	13,581	0.96%
Total Fixed Income	218,446	15.47%
Common Stocks		
U.S. Stocks	324,243	22.96%
Non-U.S. Stocks	309,896	21.94%
Total Common Stocks	634,139	44.90%
Alternative Assets		
Venture Capital	53,698	3.80%
Buyout Funds	84,904	6.01%
Hedge and Arbitrage Funds	235,694	16.70%
Oil and Gas	40,415	2.86%
Distressed Securities	50,199	3.55%
Real Estate	66,299	4.69%
Timberland	4,993	0.35%
Commodities	13,970	0.99%
Miscellaneous Other	1,762	0.12%
Total Alternative Assets	551,934	39.07%
Total General Pooled Investments	1,412,410	100.00%
Investments Not Pooled	194	
Total Endowment and Similar Funds	1,412,604	
Planned Giving		
Separate Pooled Funds	18,470	
Unitrusts and Funds Not Pooled	58,393	
Total Planned Giving Funds	76,863	
Grand Total	$1,489,467	

Schedule F

Wellesley College
General Endowment Pool
Annual Total Return Since Inception

Year Ended	Market Value (in $000s)	Ending Unit Value	Distribution	Total Return Yield %	Appreciation %	Total %
		$100.00				
1970	$ 92,600	107.13	$ 5.50	5.13	7.13	12.26
1971	121,050	138.68	5.70	4.11	29.46	33.57
1972	136,273	154.80	5.90	3.81	11.63	15.44
1973	126,928	139.30	6.00	4.31	(10.01)	(5.70)
1974	109,672	116.43	7.30	6.27	(16.42)	(10.15)
1975	111,340	116.82	7.05	6.03	0.33	6.36
1976	115,922	119.77	7.00	5.84	2.52	8.36
1977	119,152	122.86	7.30	5.94	2.58	8.52
1978	111,852	116.54	7.68	6.59	(6.15)	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
2005	1,275,529	550.55	27.88	5.52	5.94	11.46
2006	1,412,410	595.46	28.96	5.84	8.13	13.97

Report of Independent Auditors

PRICEWATERHOUSECOOPERS

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

To the Board of Trustees of Wellesley College:

In our opinion, the accompanying statements of financial position and the related statements of activities and cash flows present fairly, in all material respects, the financial position of Wellesley College (the "College") at June 30, 2006 and 2005 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 the College's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 3 to the financial statements, the College adopted the provisions of Financial Accounting Standards Board Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations" as of June 30, 2006.

PricewaterhouseCoopers LLP

October 20, 2006

Wellesley College
Statements of Financial Position

June 30, 2006 and 2005
(in $000s)

	2006	2005
Assets		
Cash and cash equivalents	$ 17,718	$ 23,826
Cash, restricted	16,885	15,900
Accounts receivable, net	686	575
Loans receivable, net	7,530	7,228
Contributions receivable, net	55,502	67,659
Grants receivable	1,171	1,240
Prepaid, inventory and other assets	3,072	1,219
Investments	1,412,604	1,275,767
Planned giving investments	76,863	76,469
Land, buildings and equipment, net	281,620	271,602
Total assets	$1,873,651	$1,741,485
Liabilities		
Accounts payable and accrued expenses	$ 18,871	$ 20,668
Student deposits and deferred revenues	3,958	4,112
Advances under grants and contracts	2,091	2,712
Annuities and unitrusts payable	39,911	40,372
Asset retirement obligation	15,857	—
Bonds and notes payable	148,802	141,931
Government loan advances	4,569	4,569
Total liabilities	234,059	214,364
Net Assets		
Unrestricted	552,649	473,769
Temporarily restricted	702,718	678,833
Permanently restricted	384,225	374,519
Total net assets	1,639,592	1,527,121
Total liabilities and net assets	$1,873,651	$1,741,485

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

Wellesley College
Statement of Activities

For the year ended June 30, 2006
(in $000s)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2006 Total
Operating Revenues				
Tuition and Fees	$ 71,431	$ —	$ —	$ 71,431
Less financial aid				
Donor sponsored	(23,542)	—	—	(23,542)
Institutionally sponsored	(7,331)	—	—	(7,331)
Net tuition and fees	40,558			40,558
Auxiliary operations	27,428	—	—	27,428
Government grants	3,881	—	—	3,881
Private gifts and grants	16,397	7,804	—	24,201
Investment return designated for operations	32,946	36,213	—	69,159
Other	5,102	—	—	5,102
Net assets released from restrictions	40,214	(40,214)	—	—
Total operating revenues	166,526	3,803		170,329
Operating Expenses				
Instruction and departmental research	71,457	—	—	71,457
Sponsored research and other programs	10,107	—	—	10,107
Library	9,659	—	—	9,659
Student services	13,510	—	—	13,510
General administration	9,830	—	—	9,830
General institutional	21,814	—	—	21,814
Auxiliary operations	35,293	—	—	35,293
Total operating expenses	171,670	—	—	171,670
Nonoperating Activities				
Investment return, net of spending allocation	36,162	70,294	271	106,727
Matured planned giving agreements	2,319	(4,851)	2,532	—
Gifts and pledges	1,464	14,502	6,903	22,869
Net assets released from restrictions	59,863	(59,863)	—	—
Total nonoperating revenues	99,808	20,082	9,706	129,596
Change in net assets before cumulative effect of change in accounting principle	94,664	23,885	9,706	128,255
Cumulative effect of a change in accounting principle	(15,784)	—	—	(15,784)
Net change in net assets	78,880	23,885	9,706	112,471
Net assets at beginning of year	473,769	678,833	374,519	1,527,121
Net assets at end of year	$552,649	$702,718	$384,225	$1,639,592

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

Wellesley College
Statement of Activities

For the year ended June 30, 2005
(in $000s)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2005 Total
Operating Revenues				
Tuition and Fees	$ 66,989	$ —	$ —	$ 66,989
Less financial aid				
Donor sponsored	(22,882)	—	—	(22,882)
Institutionally sponsored	(5,804)	—	—	(5,804)
Net tuition and fees	38,303			38,303
Auxiliary operations	25,779	—	—	25,779
Government grants	3,874	—	—	3,874
Private gifts and grants	17,499	11,099	—	28,598
Investment return designated for operations	28,678	36,541	—	65,219
Other	4,175	—	—	4,175
Net assets released from restrictions	36,191	(36,191)	—	—
Total operating revenues	154,499	11,449		165,948
Operating Expenses				
Instruction and departmental research	64,142	—	—	64,142
Sponsored research and other programs	11,060	—	—	11,060
Library	8,907	—	—	8,907
Student services	12,791	—	—	12,791
General administration	8,946	—	—	8,946
General institutional	22,080	—	—	22,080
Auxiliary operations	31,381	—	—	31,381
Total operating expense	159,307			159,307
Nonoperating Activities				
Investment return, net of spending allocation	18,291	47,557	654	66,502
Matured planned giving agreements	828	(1,148)	320	—
Gifts and pledges	1,953	42,374	31,857	76,184
Other	(2,971)	2,680	61	(230)
Net assets released from restrictions	9,750	(9,750)	—	—
Total nonoperating revenues	27,851	81,713	32,892	142,456
Net change in net assets	23,043	93,162	32,892	149,097
Net assets at beginning of year	450,726	585,671	341,627	1,378,024
Net assets at end of year	$473,769	$678,833	$374,519	$1,527,121

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

Wellesley College
Statements of Cash Flows

For the years ended June 30, 2006 and 2005
(in $000s)

	2006	2005
Cash Flows from Operating Activities		
Change in net assets	$ 112,471	$ 149,097
Adjustment to reconcile change in net assets to net cash used by operating activities:		
Depreciation and amortization, net	12,331	10,455
Contributions restricted for investments	(26,048)	(71,303)
Realized and unrealized (gains) losses on investments	(169,036)	(119,964)
Change in discount and allowance for doubtful accounts	(5,534)	(3,180)
Cumulative effect of change in accounting principle	15,784	—
Changes in operating assets and liabilities:		
Accounts receivable, net	(91)	1,877
Contributions receivable, net	17,751	(8,861)
Grants receivable	69	300
Prepaid, inventory and other assets	(1,853)	1,267
Accounts payable and accrued expenses	1,272	2,131
Student deposits and deferred revenue	(154)	370
Advances under grants and contracts	(621)	(1,025)
Annuities and unitrusts payable	(461)	1,493
Net cash used in operating activities	(44,120)	(37,343)
Cash Flows from Investing Activities		
Purchase of plant and equipment	(25,387)	(43,275)
Proceeds from student loans collections	1,370	1,056
Student loans issued	(1,752)	(1,921)
Purchases of investments	(1,136,853)	(1,141,731)
Proceeds from sales and maturities of investments	1,168,658	1,161,515
Net cash provided by (used in) investing activities	6,036	(24,356)
Cash Flows from Financing Activities		
Proceeds from contributions for:		
Investment in endowment	18,282	29,997
Investment in planned giving	1,877	3,891
Plant and equipment	5,889	37,415
Increase in federal student loan funds	—	117
Decrease in restricted cash for debt service	3,296	9,168
Increase in restricted cash for plant and equipment	(4,281)	(12,604)
Bond and notes payable proceeds received, net	8,500	7,000
Payments on bonds payable	(1,587)	(2,408)
Net cash provided by financing activities	31,976	72,576
Net (decrease) increase in cash and cash equivalents	(6,108)	10,877
Cash and cash equivalents, beginning of year	23,826	12,949
Cash and cash equivalents, end of year	$ 17,718	$ 23,826
Cash paid for interest	$ 5,477	$ 4,901
Capital additions included in accounts payable and accrued expenses	$ 826	$ 3,895
Asset retirement obligations recognized	$ 15,857	$ —
Net fixed asset recognized related to asset retirement obligation	$ 73	$ —

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, 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 determined by the College and based on estimates and assumptions of the general partners or partnership valuation committees in the absence of readily determinable public market values. These values are audited annually by other auditors, most typically based on calendar year end information. The 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 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 and are included in prepaid, inventory and other assets on the Statement of Financial Position.

(f) Accounts Receivable and Student Loans Receivable

Accounts receivable include amounts due from students, student organizations and other miscellaneous receivables. Loans to students are carried at cost. Accounts receivable for 2006 and 2005, are reported net of allowances for doubtful accounts of $449,000 and $470,000, respectively. Loans receivable for 2006 and 2005, are reported net of allowances for doubtful loans of $629,000 and $549,000, respectively. The provisions are intended to provide for student accounts and loans that may not be collected.

(g) Grant Revenue

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

(h) Pledges

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

(i) Loans Receivable

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

(j) Land, Buildings, and Equipment

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

	Years
Land improvements	60
Buildings and improvements	3–50
Equipment	3–20

(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 and use of the campus during the summer by internal and external groups. Related expenses include direct expenses of running these operations as well as an allocation for depreciation, debt service and physical plant maintenance and operation.

(m) Internal Revenue Code Status

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

(n) Conditional Asset Retirement Obligations

The College recognizes the fair value of a liability for legal obligations associated with asset retirements in the period in which the obligation is incurred, in accordance with Statement of Financial Accounting Standards (SFAS) No. 143, "Accounting for Asset Retirement Obligations," and Financial Accounting Standards Interpretation (FIN) No. 47, "Accounting for Conditional Asset Retirement Obligations." When the liability is initially recorded, the cost of the asset retirement obligation is capitalized by increasing the carrying amount of the related long-lived asset. The liability is accreted to its present value each period, and the capitalized cost associated with the retirement obligation is depreciated over the useful life of the related asset. Upon settlement of the obligation, any difference between the cost to settle the asset retirement obligation and the liability recorded is recognized as a gain or loss in the statement of activities.

(o) 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.

2. Contributions Receivable

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

Unconditional Promises Expected to be Collected in:	2006	2005
Less than one year	$17,852	$33,936
One year to five years	14,770	22,355
Over five years	34,231	28,314
Total	66,853	84,605
Less discounts and allowance for uncollectible accounts	11,351	16,946
Net contributions receivable	$55,502	$67,659

Discount rates used to calculate the present value of contributions receivable ranged from 3.75% to 5.10% at June 30, 2006 and ranged from 3.75% to 5% at June 30, 2005.

3. Land, Buildings and Equipment

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

	2006	2005
Land and land improvements	$ 45,281	$ 36,978
Buildings and building improvements	349,098	282,621
Equipment	30,810	30,413
Construction in progress	1,320	50,225
	426,509	400,237
Less: accumulated depreciation	144,889	128,635
	$281,620	$271,602

Depreciation expense was $12,374,000 and $10,498,000 for the years ended June 30, 2006 and 2005, respectively.

In March 2005, the Financial Accounting Standards Board (FASB) issued FIN No. 47. This interpretation clarifies the recognition of conditional asset retirement obligations as referred to in SFAS No. 143. A conditional asset retirement obligation is defined as a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. Uncertainty with respect to the timing and/or method of settlement of the asset retirement obligation does not defer recognition of a liability. The obligation to perform the asset retirement activity is unconditional, and accordingly, a liability should be recognized. SFAS No. 143 requires the fair value of a liability for a legal obligation associated with an asset retirement be recorded in the period in which the obligation is incurred. When the liability is initially recorded, the cost of the asset retirement obligation is capitalized.

The College adopted FIN No. 47 effective June 30, 2006 and recorded net building assets of $73,000 and a related liability of $15,857,000, of which $15,784,000 was recorded as a cumulative effect of a change in accounting principle. The cumulative effect reflects the cumulative accretion of the liability and cumulative depreciation of the related asset component from the date the liability would have been recognized had the provisions of the interpretation been in effect when the liability was incurred through June 30, 2006. Substantially all of the impact of adopting FIN No. 47 relates to estimated costs to remove asbestos that is contained within the College's facilities. The following table illustrates the effect on the College's change in net assets in the Statement of Activities as if this interpretation had been applied for the years ended June 30 (in $000s):

	2006	2005
Change in net assets, as reported	$128,255	$149,097
Less: Total depreciation and interest accretion costs	(691)	(663)
Proforma change in net assets	$127,564	$148,434

4. Investments

The book and market values of investments at June 30, 2006 and 2005 were as follows (in $000s):

	2006 Book Value	2006 Market Value	2005 Book Value	2005 Market Value
Endowment Investments				
Investments pooled				
Cash and cash equivalents	$ 7,891	$ 7,891	$ 13,646	$ 13,646
Bonds	220,543	218,446	250,860	249,860
Equities	435,263	634,139	457,137	599,180
Other assets	479,747	551,934	385,735	412,843
Total pooled investments	1,143,444	1,412,410	1,107,378	1,275,529
Investments not pooled				
Cash and cash equivalents	194	194	238	238
Total investments not pooled	194	194	238	238
Total endowment investments	$1,143,638	$1,412,604	$1,107,616	$1,275,767
Planned Giving Investments				
Separate pooled funds				
Cash and cash equivalents	$ 251	$ 251	$ 259	$ 259
Bonds	7,003	6,686	7,863	8,013
Equities	7,122	11,533	7,900	11,453
Total pooled funds	14,376	18,470	16,022	19,725
Unitrusts				
Cash and cash equivalents	1,574	1,574	601	601
Bonds	18,175	17,072	19,481	19,348
Equities	24,337	31,194	24,585	28,761
Other assets	877	877	902	902
Assets held by Trustees	7,247	7,676	6,703	7,132
Total funds not pooled	52,210	58,393	52,272	56,744
Total Planned Giving Investments	$66,586	$76,863	$68,294	$76,469

"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.

Included in bonds and equities are alternative investment vehicles including hedge funds with a market value of $230,123,000 and $87,272,000 and commingled funds with a market value of $372,637,000 and $316,114,000 at June 30, 2006 and 2005, respectively, whose holdings are bonds and equities.

The College's investment return from endowment and planned giving was as follows for the years ended June 30, 2006 and 2005 (in $000s):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
2006				
Dividends and interest (net of expenses of $8,418)	$ 2,642	$ 3,937	$271	$ 6,850
Net realized and unrealized gains	66,466	102,570	—	169,036
Total return on endowment and planned giving investments	69,108	106,507	271	175,886
Investment return designated for current operations	(32,946)	(36,213)		(69,159)
	$ 36,162	$ 70,294	$271	$106,727
2005				
Dividends and interest (net of expenses of $7,371)	$ 4,360	$ 6,743	$654	$ 11,757
Net realized and unrealized gains	42,609	77,355	—	119,964
Total return on endowment and planned giving investments	46,969	84,098	654	131,721
Investment return designated for current operations	(28,678)	(36,541)		(65,219)
	$ 18,291	$ 47,557	$654	$ 66,502

The total return consisting of realized and unrealized gains and losses and dividends and interest net of investment management and custodial fees was 14.0% and 11.5% for the fiscal years ended June 30, 2006 and 2005, 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:

	2006	2005
Investments in pooled funds, market value (in $000s)	$1,412,410	$1,275,529
Total number of units	2,371,964	2,316,827
Market value per unit	$595.46	$550.55
Distribution per unit	$28.96	$27.88

The following two schedules list the components of the pooled and nonpooled endowment funds at market value at June 30, 2006 and 2005 (in $000s):

2006 Funds	Units	Pooled Endowment	Nonpooled Endowment	Total Endowment
Endowment and similar funds:				
Endowment funds	1,514,213	$ 901,653	$ —	$ 901,653
Term funds	76,782	45,721	194	45,915
Quasi-endowment	780,969	465,036	—	465,036
Total	2,371,964	$1,412,410	$194	$1,412,604

2005 Funds	Units	Pooled Endowment	Nonpooled Endowment	Total Endowment
Endowment and similar funds:				
Endowment funds	1,486,077	$ 818,160	$ —	$ 818,160
Term funds	70,468	38,796	238	39,034
Quasi-endowment	760,282	418,573	—	418,573
Total	2,316,827	$1,275,529	$238	$1,275,767

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 $12,634,000 and $11,388,000 at June 30, 2006 and 2005, respectively.

Mortgages due from faculty of $13,581,000 and $13,454,000 at June 30, 2006 and 2005, respectively, are included within Investments on the Statement of Financial Position.

7. Notes and Bonds Payable

Indebtedness at June 30, 2006 and 2005 includes various bonds issued through the Massachusetts Health and Education Facilities Authority (MHEFA). Interest payments on debt totaled $5,442,000 and $5,030,000 during fiscal years 2006 and 2005, respectively.

During March, 2005, 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%.

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

	2006	2005
MHEFA, Series H, Revenue Bonds issued at an interest rate of 2.0%–5.0% maturing July 2033.	$ 55,245	$ 55,635
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, 2006 was 3.96%.	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, 2006 was 5.00%.	2,785	3,382
MHEFA, Series E, Variable Rate Demand Bonds, scheduled amortization of principal with final maturity July 2022. Interest adjusted weekly. The rate at June 30, 2006 was 3.85%.	14,500	15,100
Notes Payable Promissory Note, principal maturing July 2006. The rate at June 30, 2006 was 5.2%.	25,500	17,000
Total debt	148,030	141,117
Less unamortized bond issue costs	(444)	(469)
Add unamortized original issue premium	1,216	1,283
	$148,802	$141,931

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

2007	$ 27,280
2008	1,872
2009	2,156
2010	2,172
2011	1,480
Thereafter	113,070
Total bonds and notes payable	$148,030

The College has outstanding at June 30, 2006 fixed rate debt of $85,245,000 and variable rate debt of $62,785,000. The fair market value of the College's fixed rate debt at June 30, 2006 approximates $87,235,000. 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

The College has split-interest agreements consisting primarily of annuities, life income plans and unitrusts, for which the College may or may not serve as trustee. All split-interest agreements are included in planned giving investments. Contributions are recognized at the date the trusts are established net of a liability for the present value of the estimated future cash outflows to beneficiaries. The present value of payments is discounted at a risk-free rate of return that range from 4% to 6%. The liability of $39,911,000 and $40,372,000 at June 30, 2006 and 2005, respectively, is adjusted during the term of the agreement for changes in actuarial assumptions. Payments of income to beneficiaries are principally funded by the investment income of the related gift annuity and unitrust investments.

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 $5,007,000 and $4,918,000 respectively, for the years ended June 30, 2006 and 2005.

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, 2006 and 2005.

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

	2006	2005
Assumptions used to determine benefit obligations:		
Discount rate	6.25%	5.13%
Rate of compensation increase	4.00%	4.00%
Assumptions used to determine net periodic benefit (income) cost:		
Discount rate	5.13%	6.25%
Expected return on plan assets	7.80%	7.80%
Rate of compensation increase	4.00%	4.00%

	2006	2005
Change in projected benefit obligation (in $000s)		
Benefit obligation at end of prior year	$34,954	$27,577
Service cost	1,330	1,010
Interest cost	1,751	1,680
Actuarial loss/(gain)	(6,192)	5,475
Benefits paid	(981)	(782)
Administrative expenses paid	(6)	(6)
Benefit obligation at end of year	$30,856	$34,954
Change in plan assets (in $000s)		
Fair value of plan assets at end of prior year	$23,809	$21,084
Actual return on plan assets	2,688	2,400
Employer contributions	1,380	1,113
Benefits paid	(981)	(782)
Administrative expenses paid	(6)	(6)
Fair value of plan assets at end of year	$26,890	$23,809
Funded status (in $000s)		
Funded status	$(3,965)	$(11,145)
Unrecognized prior service cost	719	894
Unrecognized net actuarial loss	1,222	8,602
Accrued benefit cost	(2,024)	(1,649)
Additional minimum liability	—	(1,124)
Accrued benefit liability	(2,024)	(2,773)
Intangible asset	—	894
Net liability	(2,024)	(1,879)
Accumulated other income adjustments	—	230
Net amount recognized	$(2,024)	$(1,649)
Components of net periodic benefit cost (in $000s)		
Service cost	$1,330	$1,010
Interest cost	1,751	1,680
Expected return on plan assets	(1,817)	(1,606)
Amortization of prior service cost	175	174
Recognized net actuarial loss	317	66
Net periodic benefit cost	$1,756	$1,324

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

2007	$1,042
2008	1,117
2009	1,108
2010	1,196
2011	1,233
2012–2016	9,091

The College expects to make employer contributions into the plan of $1,500,000 in the 2007 fiscal year.

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

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

Asset Category	Target Allocation
Equity Securities	60%
Real Estate Investment Trust	5%
Commodities	5%
Fixed Income	27%
Cash and Equivalents	3%
Total	100%

The following lists the Plan's asset allocation at June 30, 2006 and 2005:

Asset Category	2006	2005
Equity Securities	61%	61%
Real Estate Investment Trust	3%	4%
Commodities	5%	5%
Fixed Income	27%	24%
Cash and Equivalents	4%	6%
Total	100%	100%

10. Net Assets

Net assets consist of the following at June 30, 2006 and 2005:

(in $000s)	2006	2005
Unrestricted:		
Designated for specific purposes and plant	$ 120,890	$ 84,104
Quasi-endowment	431,943	390,737
Deficiencies in donor-restricted endowments	(184)	(1,072)
	552,649	473,769
Temporarily restricted:		
Endowment and similar funds including pledges	616,287	541,948
Annuity, life income and unitrusts including pledges	37,032	36,156
Deficiencies in donor-restricted endowments	184	1,072
Other restricted	49,215	99,657
	702,718	678,833
Permanently restricted:		
Endowment including pledges	384,225	374,519
	384,225	374,519
	$1,639,592	$1,527,121

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 and consolidating contaminated soils from the upland, wetland, and pond ("Upland/Wetland/Pond") portions of the site. The soils have been treated and consolidated on site under a permanent engineered barrier. The capped area has been developed into three playing fields, an eight lane all weather track, and a softball field and was completed in October 2002. The cost of this project was $32.8 million; $10 million has been funded from a HEFA bond issuance and the remainder from unrestricted endowment. Costs associated with the campus improvement project are capitalized as land improvements. Costs incurred to remediate this property are charged to expense when they can be estimated. Ongoing expenses associated with the monitoring and maintenance of the engineered barrier are charged to operations. Total expenses for this project were $464,000 and $757,000, respectively for the years ended June 30, 2006 and 2005. The College has purchased an insurance policy to cover cost overruns associated with the Upland/Wetland/Pond project as well as the assessment, monitoring, and, if necessary, remediation of contaminated groundwater located under the Uplands/Wetlands/Pond area. In September 2004, the College submitted a report to DEP recommending that no remedial action be taken in respect of the groundwater portion of the site beyond periodic monitoring of hexavalent chromium concentrations. DEP has not yet responded to this report.

In 2001, the Commonwealth of Massachusetts and the College entered an agreement pursuant to which the Commonwealth agreed to share in the cost of dredging the Northern Shoreline and Western Cove portion of Lake Waban, with the Commonwealth's share capped at $1.4 million. The dredging project was completed in 2002 at a total cost of approximately $1.2 million. Additional reimbursable costs of approximately $100,000 were incurred after the completion of dredging. In three payments made in 2005 and 2006, the Commonwealth reimbursed the College a total of approximately $1.06 million, fully satisfying the Commonwealth's reimbursement obligations under the 2001 cost-sharing agreement.

In a report filed with DEP in May 2005, the College recommended that no remedial action be taken in portions of Lake Waban beyond the Northern Shoreline and Western Cove, apart from periodic monitoring of water quality and fish-growth patterns. DEP responded favorably to this report in a letter dated October 2005. The College has initiated discussions with DEP about the possible scope and timing of any further remedial actions that might be taken in the Lower Waban Brook.

Outstanding commitments amounted to approximately $374,137,000 and $301,113,000 as of June 30, 2006 and 2005, respectively for the following:

	2006	2005
Alternative investments	$370,100,000	$293,900,000
Construction contracts	4,037,000	7,213,000
	$374,137,000	$301,113,000

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

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

12/06 3.55M

Wellesley College
106 Central Street
Wellesley
Massachusetts 02481

WELLESLEY COLLEGE PROVIDES AN EXCELLENT LIBERAL ARTS EDUCATION | FOR WOMEN WHO WILL MAKE A DIFFERENCE IN THE WORLD

W