WELLESLEY COLLEGE
ANNUAL REPORT
2007–2008

Wellesley College
Fiscal Year 2007–2008

H. Kim Bottomly
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

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REPORT OF THE PRESIDENT



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

I am pleased to submit the annual financial report of Wellesley College for the 2007–2008 fiscal year. On the pages that follow, you will find two additional letters: Vice President for Finance and Treasurer Andrew Evans will report on the financial status of the College, and Lou Sousa and John Barker, interim co-chief investment officers, will describe the performance of our endowment.

On August 1, 2007, I assumed the presidency of Wellesley College. I was warmly welcomed by the entire Wellesley community, including students, faculty, staff members, and alumnae. I have spent the last year working with my colleagues to develop plans for accomplishing a number of strategic objectives. To generate these plans, we asked ourselves a series of questions to clarify our strategic imperatives.

What are our goals? Identifying our strategic priorities.

The 2015 Commission report correctly indicated that now is the time for Wellesley to elucidate its purpose and sharpen its position. Wellesley must be a flexible, resilient institution that embraces new ideas, pursues new opportunities, and becomes energized by change. Every successful institution understands the importance of managing innovation and change in today's world, and we intend to make Wellesley a leader in the pursuit of this strategy.

What makes us special? Building on our academic strengths.

Our most important area is academics, the hallmark of a Wellesley education. During the fall semester, I established an all-faculty academic planning committee, led by Dean Andrew Shennan. That committee is evaluating the short- and long-term needs and goals of Wellesley College and will help us to articulate a concrete and focused delineation of our academic mission, our priorities, and our programs. The committee will construct a broad, but specific, academic plan, which will be used to guide our decision-making on academic and budgetary matters in the future.

How can we continue to attract and enroll the best students? Ensuring Wellesley's affordability.

The reputation of Wellesley College is inextricably linked to the quality of our students. Our goal is to attract applications from a large proportion of the capable and talented high school seniors who will thrive at Wellesley College. In recent years, it has become clear that we lose many prospective students who have the potential to succeed here because they believe they cannot afford to attend. This occurs even though we maintain a need-blind admission policy and provide financial aid to more than 50 percent of our students (a high figure nationally). Today, more prospective students than ever before say that financial aid is a consideration in their college search. In order to ensure that every qualified student at least considers Wellesley, it is important to do more. Accordingly, we instituted a series of policies designed to make a Wellesley education affordable to every qualified student. This includes replacing loans with grants for students from families with calculated annual incomes less than $60,000. For students from families with calculated annual incomes between $60,000 and $100,000, one-third of loans will be converted into grants. These measures reinforce our long-standing commitment to help our students graduate with a manageable four-year debt—a maximum of $12,825—freeing them to pursue their futures.

In addition to these financial aid initiatives, our recruitment efforts also include extensive outreach programs. Working in partnership with community-based organizations and programs such as QuestBridge, we have successfully recruited and enrolled a higher percentage of bright and highly motivated low-income students, while maintaining the extremely impressive academic quality of our student body.

How do we pay for it all? Strengthening our budget process.

As I write, the country is facing the greatest financial uncertainty in generations. The current crisis underscores our need to make thoughtful decisions about the functions, programs, and services we maintain in support of our academic mission. Working together with members of the senior staff, the budget advisory committee, department heads, the finance division, and many others across campus, I have sought ways to ensure that our budgetary allocations are in line with our priorities and that choices are made appropriately among competing budgetary demands. We must be prepared to meet increasing pressures on our budget. We must determine, with clear-eyed vision, what is critical, what is less critical, and what we might consider eliminating altogether.

Transitions

It is traditional to use this space to inform you about important changes in the leadership team at Wellesley. This year, we have two official "welcomes" to issue, and one farewell.

We filled two crucial vacancies during this year. A 12-member multiconstituency committee, chaired by Vice President for Administration and Planning Patricia Byrne, conducted a national search and assembled a competitive and diverse pool of candidates for the position of dean of students. We are pleased to welcome Debra DeMeis, who was professor of psychology and the dean of the college at William Smith College, the women's college component of Hobart and William Smith Colleges in Geneva, New York, a position she held for 13 years.

Andrew Evans, vice president for finance and treasurer, and Beth Pfeiffer, trustee, co-chaired a multiconstituency search committee for the new vice president of resources and public affairs. Following a national search, the committee recommended Cameran Mason '84, who had been vice president for institutional advancement at Barnard College since 2001.

We are pleased to welcome Debra DeMeis and Cameran Mason to our administrative team.

We bid farewell to Jane Mendillo, Wellesley's chief investment officer since 2002, who accepted a new position as president and chief executive officer of Harvard Management Company. During her tenure, Jane oversaw the growth of the endowment's market value from $1.03 billion at the end of fiscal year 2002 to $1.67 billion last year. Just as important, this growth coincided with a diversification of the endowment's portfolio across a range of asset classes. Thanks to Jane's skillful leadership and partnership with the investment committee of the board of trustees, Wellesley's endowment portfolio is well positioned to continue to weather the volatility in the financial markets and the global economy.

John Barker, alternative assets manager, and Lou Sousa, investment manager and chief operating officer, were appointed interim co-chief investment officers on July 1, 2008.

In closing, I would like to recognize those who organized the ceremonies surrounding my formal installation as president on May 9, 2008. A dedicated and thoughtful committee, co-chaired by Alicia Cooney, trustee, Panagiotis Metaxas, associate professor of computer science, and Micheline Jedrey, vice president of information services and college librarian, created a glorious celebration that was memorable to all.

Yours truly,

H. Kim Bottomly
President

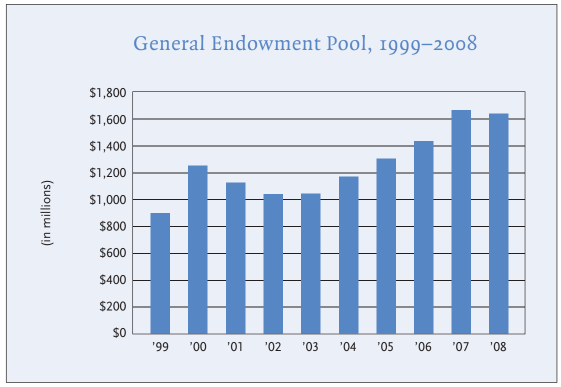
REPORT OF THE VICE PRESIDENT
FOR FINANCE AND TREASURER


To the Board of Trustees of Wellesley College

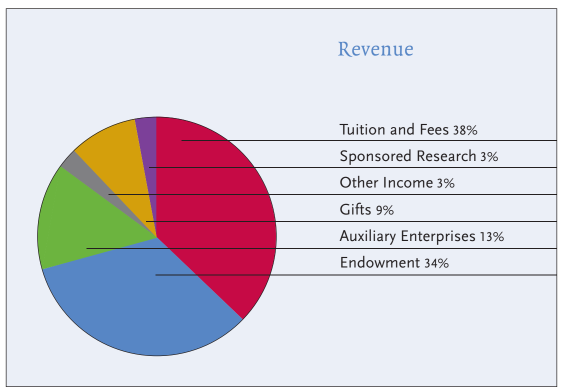
This annual report presents the operating and audited results at Wellesley College for the fiscal year ending June 30, 2008. For fiscal year 2007–2008 the College's net assets decreased by $43.6 million. The College's endowment decreased by $43 million and was valued at $1.63 billion as of June 30, 2008. On a positive note, in January 2008 the College issued $57.4 million in Series I tax-exempt variable rate bonds, and as part of the debt issuance process, I am pleased to report that the College received an upgrade to a "Aaa" rating from Moody's Investors Service, the highest rating given by this rating agency.

Results of Fiscal Year 2008

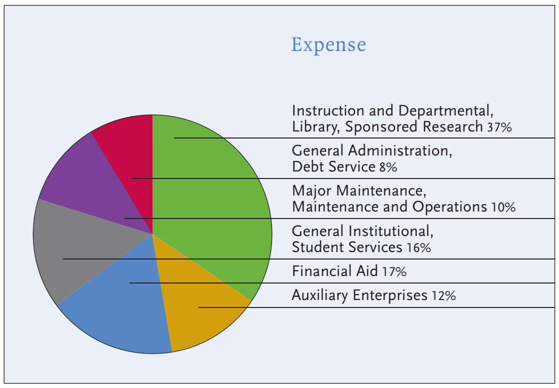
Wellesley College is an institution that is strong academically and remains strong financially despite the effects that market difficulties had on most institutions during this year. The gain from a positive investment return of 1.22% was offset by the endowment spending needed to support the College's operations resulting in a decrease in endowment value from $1.67 billion to $1.63 billion. A positive investment return is impressive given the difficult economic environment. 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 4.6% and 4.7% 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 decreased by 4.2% from $761,600 to $729,385 and gifts were at $37.8 million.



The operating budget (Schedule A) in this fiscal year reflects revenues and expenses totaling $221.4 million. The revenue base for the operating budget was well diversified with five principal revenue sources: tuition income 38%, endowment 34%, auxiliary enterprises, including room and board 13%, gifts used for operations 9% and other sources of revenue, including sponsored research 6%. Total operating revenues in this fiscal year increased by $7.9 million over fiscal year 2007.



Operating expenses had an incremental increase of 3.7% over fiscal year 2007. In 2008, we continued to establish reserves that included amounts for financial aid, capital, and other unforeseen expenditure increases due to unanticipated external shocks. As might be expected in a labor-intensive institution, about 52% of the operating budget was used for salaries and benefits.



Financial Strength and Flexibility

In fiscal year 2008, the College continued to implement the recommendations, a set of principles for financial strength and flexibility, that were developed by the financial planning working group. This trustee/staff committee was asked 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 going forward. The group recognized that to support Wellesley College's institutional values and strategic priorities, the College must preserve the purchasing power of the endowment by limiting endowment spending, ensure that the growth rates of income and expenses are in balance, and create reserves to mitigate unanticipated shocks to the balanced budget.

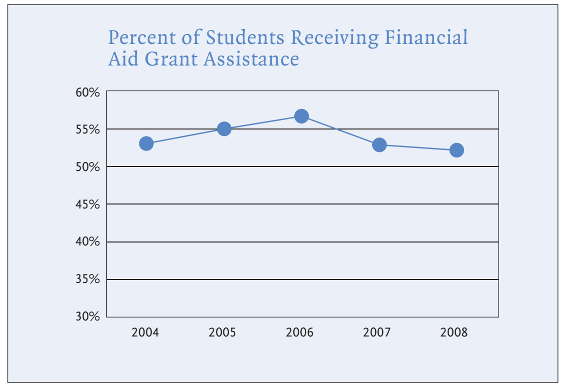
During fiscal year 2008, the College implemented a new endowment spending policy that attempts to address the need for a strong, stable growing income stream from the endowment to support operations and to address the long-term objective of maintaining the purchasing power of the endowment. The methodology for setting annual spending from endowment is based on a combination of prior year's spending and endowment value. As a general rule, the total amount spent needs to be within a 4.5% to 5.5% range of the prior year market value of the endowment. In fiscal year 2008, the one-year spending rate was 4.6%.

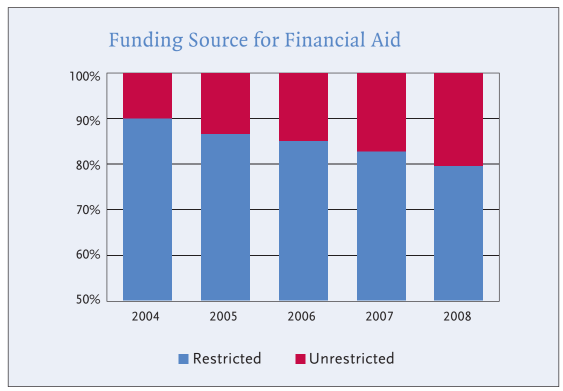
Another principle identified by the financial planning working group was to create a new budget process that is multiyear and built around institutional priorities, that allows for inclusiveness and institution-wide input, and that uses all sources of funds including restricted income sources. For fiscal year 2008, the College revised its previous budget process to focus on aligning expenditures with institutional priorities. To build the budget for fiscal year 2010 a new management structure has been formed with the dean of the college as chair of a senior staff budget subgroup. This subgroup's objective is to ensure that the College's budget process aligns resources to the College's academic mission. Specifically, the subgroup is charged with the responsibility of reviewing, discussing, and making recommendations on all budget drivers and other specific budget procedures, questions, and data.

As shown in Schedule A, the growth in expenses equaled the growth in revenue in the operating budget. During fiscal year 2008, the College invested $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, 2008 totaled approximately $1.3 million. This excess will be reserved 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 measure the effects of this important policy against other expenses. Over the past five years, there has been an increase in the use of unrestricted resources for financial aid as shown below. Even though the percent of students receiving financial aid assistance has decreased from 53% in 2004 to 52% in 2008, the percentage of student financial aid expenditures supported by restricted revenues has decreased from 91% in 2004 to 80% in 2008 resulting in a need to fund more of this important value with unrestricted resources.





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. During fiscal year 2008, the College began to work on some of the projects identified in the comprehensive facilities plan that was completed during fiscal year 2007. This plan established facilities-planning principles and factors for use in setting facilities priorities and documented the College's use of space and future needs as well as evaluated the condition of facilities and their ability to meet long-term program needs.

The $57.4 million in Series I bonds issued during the year will be used for major asset preservation and modernization projects identified in the comprehensive facilities plan and will be used to retire the Series F bonds, with $30.0 million outstanding, on July 1, 2009, the earliest possible call date. The refunding allowed the College to realize the present value savings through a restructuring of the College's debt. In conjunction with this debt which Moody's Investor Service rated "Aaa", the College entered into an interest rate swap agreement that effectively locks in a fixed rate of 3.239% per annum. At June 30, 2008, the market value of this swap agreement amounted to an asset of $37,000.

Future Challenges and Outlook

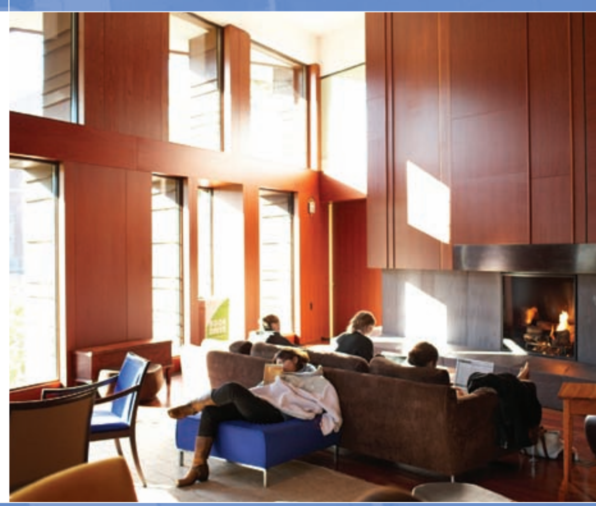
The College, like many institutions across the country, is impacted by the current state of the U. S. economy. With the recent collapse of several financial service companies, the capital markets have been weakened and require a "rescue" plan from the government. These tumultuous events have had an impact on the College's endowment, debt, and operations. However, in the long term, we believe that our well-diversified asset allocation of the endowment portfolio will be able to weather such turmoil in the market. Our endowment spending policy was developed to provide a fairly steady stream of income to the operating budget with 80% of the support based on the previous year's endowment draw and 20% of the support based on the endowment market value. In addition, we have been able to build up some reserves that may be used for any major changes in interest rates on our variable rate debt.

Under the leadership of President Bottomly, the College refocused our spending to align more closely to our institutional priorities and encouraged a new look at long-term academic planning. The financial underpinning to support the implementation of this planning will require further implementation of the set of principles for financial strength and flexibility. We know that these steps over the coming years will make the College's financial condition even stronger.

Respectfully submitted,

Andrew B. Evans
Vice President for Finance and Treasurer

REPORT OF THE CHIEF INVESTMENT OFFICER



To the Board of Trustees of Wellesley College

As of the fiscal year ended June 30, 2008, the Wellesley College endowment had a market value of $1.629 billion, versus $1.672 billion on June 30, 2007, a decrease of approximately $43 million. The investment return for the year earned by the endowment portfolio, net of investment management fees, was 1.2%. The benefits of maintaining a well diversified portfolio were evident during a period of heightened volatility in the financial markets.

Recent Progress

During the fiscal year ended June 30, 2008, global financial markets came under pressure from liquidity disruptions, increasing commodity prices, market dislocations, and major de-leveraging of corporate balance sheets. Credit markets were under significant stress as troubled financial institutions reined in loose-lending practices, culminating in unprecedented government intervention into financial markets. Despite extremely challenging market conditions, Wellesley's endowment was able to support current operations while maintaining much of its value due to its diverse mix of assets balanced across various markets and asset classes.

Wellesley's investment returns by asset class, and the relative performance versus benchmarks for each asset class, are summarized below.

Given the markets' volatility during the fiscal year, our returns versus the relevant broad market indices were respectable. In terms of contribution to positive return, the strong results from Wellesley's fixed income investments provided a beneficial tailwind, as did the positive returns in real assets, which include the College's investments in real estate, private energy and timberland. The College's private equity investments also finished the year as a positive contributor to performance. Exposure to domestic and international equities detracted from our results during an extremely challenging period for U.S. and non-U.S. equities markets, which returned -13.1% and -6.6%, respectively. The semi-marketable portfolio was also a detractor to overall portfolio returns during the period.

As noted in last year's annual letter, our office tempered return expectations early in the fiscal year as a number of stresses began to weigh on financial markets. While we could not have predicted the events that unfolded, we are pleased with the resilience of the endowment portfolio. Utilizing a thoughtfully crafted long-term policy portfolio, overseen by the Wellesley College Investment Committee, the Wellesley endowment held up well during a challenging period for investors.

TOTAL RETURN BY ASSET CLASS YEAR ENDED JUNE 30, 2008	WELLESLEY PORTFOLIO RETURN	MARKET BENCHMARK/ COMPARATIVE INDEX	
U.S. Equity	-13.1%	-13.1%	S&P 500
International Equity	-8.3	-6.6%	MSCI AC World ex-US
Private Equity	3.6	—	Cambridge Associates[1]
Real Assets	15.0	27.7	Real Assets Benchmark[2]
Semi-marketable[3]	-5.1	0.8	Cambridge Associates Hedge Fund-of-Funds Index
Fixed Income	25.9	14.1	Fixed Income Benchmark[4]
Total Portfolio	1.2%		

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

[2] Real Assets Benchmark is a weighted average of NCREIF Property, NCREIF Timber and Goldman Sachs Commodities Index.

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

[4] Fixed Income Benchmark is a weighted average of Lehman 5+ Year Treasury Index, Barclays >5 Year TIPS Index and Citigroup World Govt. Bond Index.

Longer-Term Results

Over the last ten-year period the Wellesley endowment has grown by over two times from $780 million in 1998 to $1.629 billion in 2008. The endowment portfolio has achieved an average annual investment return of 10.9%, net of investment management fees, during this period. Wellesley has achieved significant value added over this time through asset allocation and prudent selection of investment managers. Wellesley's well diversified endowment has significantly outperformed U.S. equity investments, represented by the S&P 500, as well as the 65% stock/35% bond portfolio, as shown below. A gradual shift over the past several years from traditional asset classes to alternative asset classes with higher long-term return expectations has been a key catalyst to strong portfolio results.

TOTAL ANNUALIZED RETURN ON ENDOWMENT ENDED JUNE 30, 2008

	1 YEAR	3 YEARS	5 YEARS	10 YEARS
Wellesley Portfolio	1.2%	12.3%	12.7%	10.9%
S&P 500 Index	-13.1	4.4	7.6	2.9
65/35 Stock/ Bond Portfolio[5]	-6.0	4.5	6.5	4.2

Policy Portfolio and Strategy Going Forward

The policy portfolio detailed below serves as a valuable road map for the allocation of Wellesley's assets and implementation of investment strategy. It was developed by the investment committee in 2002 and is reviewed on a regular basis. The policy was established with the goals of balancing long-term returns and risks and increasing portfolio diversification through the allocation of assets to less efficient asset classes. Much progress has been made in achieving these goals over the past six years. The portfolio as of June 30, 2008 is evenly split between traditional and alternative asset classes. While the benefits of an increased allocation to alternative assets will be most pronounced over the long-term, we are encouraged by the strong portfolio results achieved from the inception of the policy portfolio. In addition to making meaningful progress toward shifting the endowment portfolio closer to desired long term allocation targets, we have also focused on adding value within each asset category through the selection of specific investments and investment managers. Our goal is to always maintain a "best in class" set of investments within each of our targeted asset classes.

Portfolio allocation as of June 30, 2008 versus the policy portfolio is detailed in the table below. Exposure to total long-term alternative assets has now reached our long-term target of 50% of the portfolio. Relative to long-term policy portfolio targets, the endowment portfolio was over-weighted to fixed income and cash as of the end of the fiscal year and under-weighted to traditional equities. A portfolio rebalancing taking place over the fiscal year end reduced exposure to fixed income and cash, and increased exposure to domestic equities early in the new fiscal year. The portfolio continues to maintain sufficient exposure to liquid fixed income and cash investments to maintain the steady level of financial support it provides to the College's operations and to provide for portfolio liquidity needs.

5 A commonly used measure of portfolio performance is a comparison with a passive portfolio consisting of 65% stocks, as measured by the S&P 500 Index, and 35% bonds, as measured by the Citigroup Broad Investment Grade Bond Index.

ASSET CLASS	POLICY PORTFOLIO	JUNE 30, 2008 ALLOCATION
U.S. Equity	19%	14%
International Equity	19	16
Total Equities	38	30
Private Equity	16	19
Real Assets	16	15
Semi-marketable	18	16
Total Alternative Assets	50	50
Fixed Income	12	16
Cash	0	4
Total Portfolio	100%	100%

As our portfolio weights move more closely in line with our long-term policy weights, we will continue to regularly challenge our own assumptions and expectations and seek to refine the assets held in the Wellesley portfolio to provide the most optimal risk/return characteristics. We will continue to focus on exploring new ideas, themes, asset classes and strategies, for possible investment opportunities that will add value to the portfolio. We continue to be extremely selective about the investment managers we entrust with Wellesley's assets and will maintain diligent oversight of all investments.

We are pleased with the long-term results of our endowment on behalf of the College and would like to express our great appreciation for the valuable guidance provided by our Investment Committee Chair, Sidney R. Knafel, during the past fiscal year. Sid has served in this capacity with distinction and he remains an important member of the investment committee. Long-standing Investment Committee Member Alicia Cooney was recently named as the new chair of the investment committee. We look forward to working closely with Alicia as the College navigates through the current market challenges. We would also like to acknowledge the important contribution of Jane L. Mendillo to the long-term investment results reported in this letter. Beginning in 2002, Jane served as Wellesley's first chief investment officer and was a tireless and dedicated steward of the College's assets during the past six years. Jane was appointed president and CEO of Harvard Management Company, effective July 1, 2008. We wish her much success in her new role.

Wellesley's endowment continues to be in fine condition and the mix of assets and strategies employed provide much potential for continued long-term growth. We remain focused on investments with the most attractive risk and reward characteristics to provide Wellesley with the continued financial strength needed to support its mission.

Trustees and alumnae with questions, suggestions, or thoughts about the management of the Wellesley College endowment are invited to contact the investment office at any time.

Thank you.

Sincerely,

John R. Barker
Interim Co-Chief Investment Officer

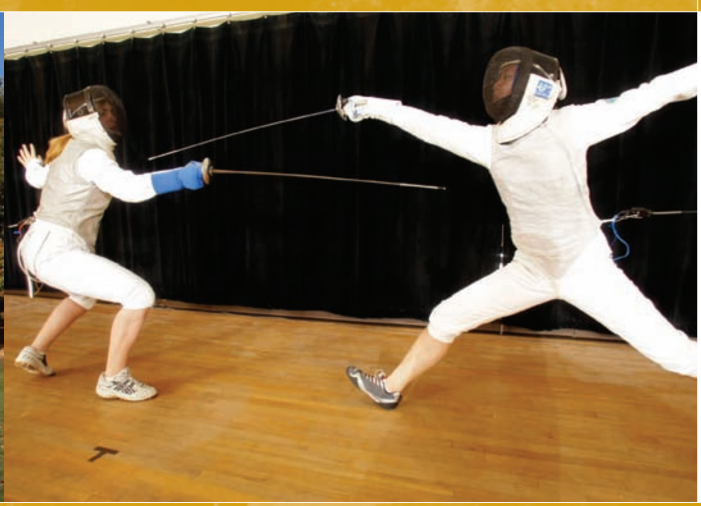
Louis E. Sousa
Interim Co-Chief Investment Officer

FINANCIAL HIGHLIGHTS

FINANCIAL HIGHLIGHTS
(in $000s)

	2004	2005	2006	2007	2008
Total College Summary					
Total Revenues	$312,805	$338,366	$331,744	$491,051	$182,338
Total Expenses	182,700	189,269	219,273	224,722	225,903
Net Surplus	$130,105	$149,097	$112,471	$266,329	($43,565)
Current Operations Summary					
Revenues including Trustee-approved use of unrestricted bequests	$179,714	$189,422	$195,463	$213,514	$221,417
Expenditures	179,714	189,420	195,460	213,507	221,416
Operating Surplus	$0	$2	$3	$7	$1
Resources					
Unrestricted Gifts	$7,857	$8,024	$8,761	$8,421	$8,848
Endowment Gifts and Bequests	28,367	36,943	23,854	19,908	10,266
Planned Gifts	2,670	1,626	2,411	1,389	2,943
Facilities Gifts	11,327	31,667	10,789	22,390	14,341
Current-Use Gifts and Grants	4,498	10,358	10,097	12,071	1,367
Total	$54,719	$88,618	$55,912	$64,179	$37,765
Endowment					
Market Value	$1,180,405	$1,275,767	$1,412,604	$1,672,473	$1,629,447
Total Return	$152,797	$131,721	$175,886	$312,636	$12,487
Total Return Used for Operations	$59,639	$65,219	$69,159	$74,496	$76,584
Unit Value (not in $000s)	$521.95	$550.55	$595.46	$691.71	$668.81
Investment Return Total	15.2%	11.5%	14.0%	22.7%	1.2%
Yield	5.8%	5.5%	5.9%	8.1%	7.8%
Appreciation	9.4%	6.0%	8.1%	14.6%	(6.6%)
Average Endowment Operating Support (% of Average Market Value)					
One-Year Average	5.1%	5.1%	5.0%	4.7%	4.6%
Three-Year Average	5.1%	5.2%	5.1%	4.9%	4.7%
Assets					
Total College Net Assets	$1,378,024	$1,527,121	$1,639,592	$1,905,921	$1,862,356

SCHEDULES



SCHEDULE A
SUMMARY OF OPERATING REVENUES AND EXPENDITURES
Years ended June 30, 2008 and 2007 (in $000s)

	2008	2007	INCREASE (DECREASE)	%
Revenues from Operations				
Tuition and Fees	$83,447	$79,298	$4,149	5.2%
Endowment Income				
Education and General Support	52,569	50,673	1,896	3.7%
Total Endowment Support	52,569	50,673	1,896	3.7%
Unrestricted Gifts	8,298	8,413	(115)	(1.4%)
Unrestricted Bequests	2,373	2,193	180	8.2%
Restricted Gifts and Use of Reserves	3,291	2,699	592	21.9%
Other Income	6,716	6,467	249	3.9%
Student Financial Aid				
Endowment Income	22,823	21,922	901	4.1%
Federal and State Grants	2,143	2,058	85	4.1%
Restricted Gifts	3,478	3,678	(200)	(5.4%)
Total Student Financial Aid	28,444	27,658	786	2.8%
Total Education and General	185,138	177,401	7,737	4.4%
Sponsored Research	6,179	6,731	(552)	(8.2%)
Auxiliary Enterprises	30,100	29,382	718	2.4%
Total Revenues	221,417	213,514	7,903	3.7%
Operating Expenditures				
Instruction and Departmental	65,219	60,763	4,456	7.3%
Library	6,458	6,247	211	3.4%
Student Services	11,735	10,689	1,046	9.8%
Student Financial Aid	38,270	35,548	2,722	7.7%
General Administration	11,106	11,817	(711)	(6.0%)
General Institutional	23,470	22,647	823	3.6%
Maintenance and Operations	15,542	15,038	504	3.4%
Debt Service	7,135	7,907	(772)	(9.8%)
Major Maintenance, Capital Expenditures, and Reserves	5,596	6,916	(1,320)	(19.1%)
Total Educational and General Expenditures	184,531	177,572	6,959	3.9%
Sponsored Research	6,179	6,731	(552)	(8.2%)
Other Programs	4,493	3,981	512	12.9%
Auxiliary Enterprises	26,213	25,223	990	3.9%
Total Expenditures	221,416	213,507	7,909	3.7%
Operating Surplus	$1	$7	($6)	(85.7%)

SCHEDULE B
TEN-YEAR FINANCIAL SUMMARY
1999–2008

	1999	2000	2001	2002
FINANCIAL STATEMENT (IN $000S)				
Total Revenues				
Tuition and Fees	$51,469	$53,669	$55,197	$57,491
Investment Return	111,934	361,536	(87,307)	(51,431)
Private Gifts, Grants, Bequests and Contracts	57,906	94,098	62,234	49,355
Federal Grants and Contracts—Restricted	4,092	4,641	5,251	6,225
Sales and Services of Auxiliary Enterprises	22,317	23,180	24,120	24,059
Interest Income	1,929	3,333	2,910	1,253
Other	2,800	2,101	2,352	4,155
Total Revenues and Other Additions	252,447	542,558	64,757	91,107
Total Expenditures				
Instruction and Departmental	35,983	38,815	40,074	42,104
Library	4,819	4,849	5,195	5,574
Student Services	7,001	7,670	8,516	9,876
Maintenance and Operations	14,632	14,330	18,291	15,635
Provision for Depreciation	7,468	8,527	8,745	8,718
Interest on Indebtedness	3,888	5,194	5,077	4,237
General Administration	7,827	8,336	7,626	8,328
General Institutional	15,859	18,445	21,136	21,137
Student Financial Aid	15,843	18,281	19,189	20,878
Sponsored Research and Other Programs	9,077	9,932	10,138	12,681
Auxiliary Enterprise Expenditures	20,617	21,523	23,364	22,583
Other	—	1,290	—	—
Total Expenditures and Other Deductions	143,014	157,192	167,351	171,751
Excess of Revenue over Expenditures	$109,433	$385,366	($102,594)	($80,644)
Excess of Revenues over Expenditures as a Percent of Expenditures	76.5%	245.2%	-61.3%	-47.0%
Endowment Total Return Used to Support Current Operations	$41,516	$47,546	$53,520	$54,931
Endowment End-of-Year Market Value	$887,489	$1,253,385	$1,136,426	$1,032,465
Average Endowment Return Used to Support Current Operations as a Percent of:				
One Year—Beginning and Ending Market Value	4.8%	4.2%	4.2%	5.0%
Three Year—Average of Three Years	5.1%	4.7%	4.4%	4.5%
OTHER FINANCIAL INFORMATION				
Tuition and Fees per Student				
Comprehensive Fee	$29,520	$30,554	$31,654	$33,394
Tuition	$22,114	$22,894	$23,718	$25,022
Enrollment (Average FTE)	2,222	2,248	2,212	2,195
Educational and General Costs per Student	$50,999	$55,359	$60,510	$62,181
Tuition as a Percent of Educational and General Expenses	43.4%	41.4%	39.2%	40.2%
Endowment per Student	$399,410	$557,556	$513,755	$470,371

						Average annual percent change since 6/30/99	
2003	2004	2005	2006	2007	2008	Nominal%	Real%
$59,828	$62,928	$66,989	$71,431	$79,298	$83,447	5.5%	2.5%
35,449	152,797	131,721	175,886	312,636	12,487	22.7%	19.7%
52,261	63,101	105,136	47,336	58,547	41,631	5.3%	2.3%
7,448	5,608	4,567	4,560	5,121	4,983	3.7%	.7%
24,493	24,224	25,779	27,428	29,382	30,100	3.5%	.5%
747	713	713	1,598	2,402	2,207	19.2%	16.2%
1,823	3,434	3,461	3,505	3,665	7,483	25.4%	22.4%
182,049	312,805	338,366	331,744	491,051	182,338	23.8%	20.8%
43,650	47,746	51,035	54,663	60,474	64,458	6.3%	3.3%
5,602	5,556	5,909	5,818	6,239	6,473	2.8%	(.2%)
10,056	9,917	10,396	10,616	10,872	11,706	6.6%	3.6%
14,312	13,452	14,896	20,954	24,985	19,118	6.9%	3.9%
9,429	9,894	10,497	12,374	12,419	13,527	6.5%	3.5%
4,712	6,069	4,930	5,442	5,588	4,844	6.1%	3.1%
9,737	9,412	9,128	8,247	10,521	8,121	3.1%	.1%
20,117	19,676	19,472	19,942	22,236	22,807	4.6%	1.6%
23,479	26,511	29,649	31,590	34,736	36,316	9.2%	6.2%
12,115	12,850	11,079	10,138	10,682	10,672	3.0%	—
22,233	21,617	22,278	23,632	25,052	26,020	3.0%	—
—	—	—	15,857	918	1,841		
175,442	182,700	189,269	219,273	224,722	225,903	5.5%	2.5%
$6,607	$130,105	$149,097	$112,471	$266,329	($43,565)		
3.8%	71.2%	78.8%	51.3%	118.5%	-19.3%		
$54,333	$59,639	$65,219	$69,159	$74,496	$76,584	6.6% *	
$1,043,937	$1,180,405	$1,275,767	$1,412,604	$1,672,473	$1,629,447	7.9% *	
5.3%	5.1%	5.1%	5.0%	4.7%	4.6%		
4.8%	5.1%	5.2%	5.1%	4.9%	4.7%		
$34,944	$36,513	$38,998	$41,030	$43,288	$45,820	4.8%	1.8%
$26,138	$27,314	$29,176	$30,696	$32,384	$34,770	4.8%	1.8%
2,191	2,176	2,169	2,193	2,196	2,234	(.3%)	
$64,397	$68,122	$71,882	$77,358	$85,642	$83,872	6.6%	3.6%
40.6%	40.1%	40.6%	39.7%	37.8%	41.5%	(1.7%)	(4.7%)
$476,466	$542,466	$588,182	$644,142	$761,600	$729,385	9.3%	6.3%

* compound growth

SCHEDULE C
KEY STATISTICS

	2004	2005	2006	2007	2008
Faculty / Student FTE Headcount					
Student Enrollment (Average FTE)	2,176	2,169	2,193	2,196	2,234
Faculty Teaching Strength (FTE)	224	224	231	236	241
Student/Faculty Ratio	9.71	9.68	9.49	9.31	9.27
Enrollment					
Number of First-Year Student Applications	3,434	3,944	4,347	3,974	4,017
First-Year Students Admitted as a % of Applicants	40.6%	37.5%	33.7%	36.1%	35.7%
First-Year Students Enrolled as a % of Applicants	17.2%	15.6%	13.9%	14.7%	14.7%
First-Year Students Enrolled as a % of Students Admitted	42.4%	41.7%	41.4%	40.9%	41.1%
Financial Aid					
Percent of Students Receiving Financial Aid Grant Assistance	53.0%	55.0%	56.0%	53.0%	52.0%
Average Financial Aid Grant as % of Comprehensive Fee	57.6%	63.5%	59.6%	61.4%	61.9%
Student Aid Expense as % of Educational and General Expense	17.9%	19.0%	18.6%	18.5%	19.4%
Educational and General Cost per Student	$68,122	$71,882	$77,358	$85,642	$83,872
Tuition as % of Educational and General Expense	40.1%	40.6%	39.7%	37.8%	41.5%
Development (in $000s)					
Total Development Fund-Raising	$54,719	$88,618	$55,912	$64,179	$37,765
Total Alumnae Giving Including Bequests	$45,030	$65,665	$40,752	$46,812	$28,884
Number of Alumnae Donors	16,019	15,450	15,113	15,160	14,561
Percent of Alumnae Contributing	52.5%	51.0%	49.7%	49.6%	47.4%
Total Unrestricted Gifts	$7,857	$8,024	$8,761	$8,421	$8,848
Total Planned Gifts	$2,670	$1,626	$2,411	$1,389	$2,943
Total Bequests	$10,573	$36,295	$14,305	$13,017	$4,210
Unrestricted Gifts and Bequests as % of Educational and General Expense	7.1%	8.1%	5.2%	4.5%	4.4%
Endowment					
Endowment Market Value (in $000s)	$1,180,405	$1,275,767	$1,412,604	$1,672,473	$1,629,447
Endowment per Student	$542,466	$588,182	$644,142	$761,600	$729,385
Endowment Income as % of Educational and General Expense	40.2%	41.8%	40.8%	39.6%	40.9%
Other					
Gross Square Feet of Buildings	2,583,000	2,643,000	2,643,000	2,600,000	2,598,000
Library Collections in Volumes	1,558,607	1,571,517	1,594,395	1,604,787	1,600,258

SCHEDULE D
TOTAL SOURCES OF STUDENT FINANCIAL AID GRANT AND WORK ASSISTANCE
(in $000s)

	2004	2005	2006	2007	2008
Unrestricted Revenue					
General College Revenues	$2,504	$3,751	$4,822	$5,890	$7,826
Total Unrestricted Revenue	2,504	3,751	4,822	5,890	$7,826
Restricted Revenue					
Restricted Endowment					
Income	17,093	18,881	20,178	21,922	$22,823
Income—Special Supplement	2,000	2,000	2,000	2,000	2,000
Federal Government					
Pell Grants	1,124	1,046	945	1,110	1,203
Supplemental Educational Opportunity Grants	405	401	388	358	339
College Work Study Program—Federal Government Share	381	359	331	322	333
Total Government Grants	1,910	1,806	1,664	1,790	$1,875
Commonwealth of Massachusetts	245	238	239	268	268
Restricted Gifts	2,747	3,008	2,625	3,678	3,478
Total Restricted Revenue	23,995	25,933	26,706	29,658	30,444
Total Unrestricted and Restricted Revenues	$26,499	$29,684	$31,528	$35,548	$38,270

SCHEDULE E
INVESTMENT OF ENDOWMENT AND SIMILAR FUNDS AND PLANNED GIVING FUNDS
As of June 30, 2008 (in $000s)

	MARKET VALUE	% OF TOTAL
Investments Pooled		
Liquid Funds (Net of Payables and Receivables)	$60,329	3.74%
Fixed Income		
U.S. Bonds	241,356	14.99%
Non-U.S. Bonds	19,636	1.22%
Total Fixed Income	260,992	16.21%
Common Stocks		
U.S. Stocks	231,429	14.36%
Non-U.S. Stocks	251,022	15.58%
Total Common Stocks	482,451	29.94%
Alternative Assets		
Venture Capital	108,443	6.73%
Buyout Funds	122,649	7.61%
Hedge and Arbitrage Funds	262,033	16.26%
Oil and Gas	79,373	4.93%
Distressed Securities	66,764	4.14%
Real Estate	126,115	7.83%
Timberland	39,868	2.47%
Miscellaneous Other	2,301	0.14%
Total Alternative Assets	807,546	50.11%
Total General Pooled Investments	1,611,318	100.00%
Faculty Mortgages	17,913	
Total General Pooled Investments and Faculty Mortgages	1,629,231	
Investments Not Pooled	216	
Total Endowment and Similar Funds	1,629,447	
Planned Giving		
Separate Pooled Funds	17,494	
Unitrusts and Funds Not Pooled	59,036	
Total Planned Giving Funds	76,530	
Grand Total	$1,705,977	

SCHEDULE F
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)	0.44
1979	119,151	119.70	8.05	6.73	2.72	9.45
1980	133,168	119.32	9.30	7.79	(0.03)	7.76
1981	134,871	121.64	9.11	7.49	2.71	10.20
1982	127,842	110.90	10.72	9.67	(8.77)	0.90
1983	167,556	135.78	10.40	7.66	21.94	29.60
1984	156,258	123.60	9.00	7.28	(9.69)	(2.41)
1985	201,793	149.44	9.09	6.36	21.62	27.98
1986	260,481	188.93	8.41	5.50	26.90	32.40
1987	294,574	207.66	8.90	4.34	10.38	14.72
1988	290,270	198.53	10.25	5.20	(4.30)	0.90
1989	319,235	211.06	11.10	5.50	7.28	12.78
1990	352,537	222.70	11.30	5.20	6.00	11.20
1991	371,464	231.81	11.30	5.15	4.08	9.23
1992	409,082	252.95	11.02	4.50	10.00	14.50
1993	475,797	281.83	11.37	4.00	11.50	15.50
1994	475,961	278.97	14.00	3.50	0.50	4.00
1995	520,108	305.01	16.15	3.20	12.00	15.20
1996	595,950	336.88	17.02	3.21	15.03	18.24
1997	677,932	371.67	19.60	2.89	14.28	17.17
1998	780,203	410.41	21.00	3.24	11.98	15.22
1999	887,036	446.73	22.00	3.91	11.05	14.96
2000	1,253,008	610.15	23.50	4.41	38.44	42.85
2001	1,135,925	543.88	24.75	3.72	(10.34)	(6.62)
2002	1,031,991	484.59	26.04	3.81	(9.00)	(5.19)
2003	1,043,476	479.33	26.88	4.12	0.73	4.85
2004	1,179,988	521.95	26.16	5.74	9.44	15.18
2005	1,275,529	550.55	27.88	5.52	5.94	11.46
2006	1,412,410	595.46	28.96	5.84	8.13	13.97
2007*	1,656,565	691.71	30.74	8.12	14.58	22.70
2008	1,611,318	668.81	31.55	7.85	(6.63)	1.22

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

AUDITED FINANCIAL STATEMENTS

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
125 High Street
Boston MA 02110-2611
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, 2008 and 2007, and the changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1 to the accompanying financial statements, the College changed the manner in which it reports the funded status of its defined benefit plan in 2007.

PricewaterhouseCoopers LLP

October 23, 2008

STATEMENTS OF FINANCIAL POSITION

June 30, 2008 and 2007 (in $000s)

	2008	2007
Assets		
Cash and cash equivalents	$18,538	$24,583
Cash and cash equivalents, restricted	39,985	17,783
Accounts receivable, net	747	1,549
Loans receivable, net	8,801	8,120
Contributions receivable, net	46,950	47,835
Grants receivable	1,176	1,310
Prepaid, inventory and other assets	2,807	2,509
Investments	1,629,447	1,672,473
Planned giving investments	76,530	83,558
Collateral received for securities lending	103,246	87,820
Land, buildings, and equipment, net	285,785	278,582
Total assets	$2,214,012	$2,226,122
Liabilities		
Accounts payable and accrued expenses	$25,610	$30,083
Student deposits and deferred revenues	3,664	3,691
Advances under grants and contracts	2,166	2,313
Annuities and unitrusts payable	38,580	39,041
Asset retirement obligation	16,883	16,395
Liability under securities lending transactions	103,246	87,820
Bonds and notes payable	156,938	136,289
Government loan advances	4,569	4,569
Total liabilities	351,656	320,201
Net Assets		
Unrestricted	649,079	624,644
Temporarily restricted	812,235	886,231
Permanently restricted	401,042	395,046
Total net assets	1,862,356	1,905,921
Total liabilities and net assets	$2,214,012	$2,226,122

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

STATEMENT OF ACTIVITIES

For the year ended June 30, 2008 (in $000s)

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	2008 TOTAL
Operating Revenues				
Tuition and Fees	$83,447	$—	$—	$83,447
Less financial aid				
Donor sponsored	(26,994)	—	—	(26,994)
Institutionally sponsored	(8,015)	—	—	(8,015)
Net tuition and fees	48,438	—	—	48,438
Auxiliary operations	30,100	—	—	30,100
Government grants	4,183	—	—	4,183
Private gifts and grants	18,006	2,796	—	20,802
Investment return designated for operations	36,585	39,999	—	76,584
Other	6,030	—	—	6,030
Net assets released from restrictions	43,020	(43,020)	—	—
Total operating revenues	186,362	(225)	—	186,137
Operating Expenses				
Instruction and departmental research	80,742	—	—	80,742
Sponsored research and other programs	10,672	—	—	10,672
Library	10,199	—	—	10,199
Student services	14,712	—	—	14,712
General administration	10,094	—	—	10,094
General institutional	24,585	—	—	24,585
Auxiliary operations	37,328	—	—	37,328
Total operating expenses	188,332	—	—	188,332
Nonoperating Activities				
Investment return, net of spending allocation	(765)	(63,483)	505	(63,743)
Matured planned giving agreements	3,366	(3,466)	100	—
Gifts and pledges	1,240	13,621	5,391	20,252
Other	3,962	—	—	3,962
Debt extinguishment charge	(1,540)	—	—	(1,540)
Net realized/unrealized loss on interest swap	(301)	—	—	(301)
Net assets released from restrictions	20,443	(20,443)	—	—
Total nonoperating revenues	26,405	(73,771)	5,996	(41,370)
Net change in net assets	24,435	(73,996)	5,996	(43,565)
Net assets at beginning of year	624,644	886,231	395,046	1,905,921
Net assets at end of year	$649,079	$812,235	$401,042	$1,862,356

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

STATEMENT OF ACTIVITIES
For the year ended June 30, 2007 (in $000s)

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	2007 TOTAL
Operating Revenues				
Tuition and Fees	$79,298	$—	$—	$79,298
Less financial aid				
Donor sponsored	(26,384)	—	—	(26,384)
Institutionally sponsored	(7,260)	—	—	(7,260)
Net tuition and fees	45,654	—	—	45,654
Auxiliary operations	29,382	—	—	29,382
Government grants	4,278	—	—	4,278
Private gifts and grants	15,854	9,013	—	24,867
Investment return designated for operations	35,751	38,745	—	74,496
Other	6,070	—	—	6,070
Net assets released from restrictions	41,964	(41,964)	—	—
Total operating revenues	178,953	5,794	—	184,747
Operating Expenses				
Instruction and departmental research	77,610	—	—	77,610
Sponsored research and other programs	10,662	—	—	10,662
Library	10,158	—	—	10,158
Student services	14,034	—	—	14,034
General administration	12,196	—	—	12,196
General institutional	24,077	—	—	24,077
Auxiliary operations	36,950	—	—	36,950
Total operating expenses	185,687	—	—	185,687
Nonoperating Activities				
Investment return, net of spending allocation	78,157	159,912	307	238,376
Matured planned giving agreements	1,915	(1,986)	71	—
Gifts and pledges	2,284	20,684	10,443	33,411
Other	(3,600)	—	—	(3,600)
Net assets released from restrictions	891	(891)	—	—
Total nonoperating revenues	79,647	177,719	10,821	268,187
Change in net assets before cumulative effect of change in accounting principle	72,913	183,513	10,821	267,247
Cumulative effect of a change in accounting principle	(918)	—	—	(918)
Net change in net assets	71,995	183,513	10,821	266,329
Net assets at beginning of year	552,649	702,718	384,225	1,639,592
Net assets at end of year	$624,644	$886,231	$395,046	$1,905,921

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

STATEMENT OF CASH FLOWS
For the years ended June 30, 2008 and 2007 (in $000s)

	2008	2007
Cash Flows from Operating Activities		
Change in net assets	$(43,565)	$266,329
Adjustment to reconcile change in net assets to net cash used by operating activities:		
Depreciation and amortization, net	13,504	12,376
Contributions restricted for investments	(12,098)	(28,071)
Receipt of contributed securities	(5,898)	(6,063)
Realized and unrealized (gains) losses on investments	(7,141)	(308,788)
Change in discount and allowance for doubtful accounts	(1,311)	(457)
Debt extinguishment charge	1,540	—
Unrealized gain on interest swap	(37)	—
Cumulative effect of change in accounting principle	—	918
Changes in operating assets and liabilities:		
Accounts receivable, net	802	(938)
Contributions receivable, net	2,126	8,204
Grants receivable	134	(139)
Prepaid, inventory and other assets	(261)	563
Accounts payable and accrued expenses	(7,469)	10,555
Student deposits and deferred revenue	(27)	(267)
Advances under grants and contracts	(147)	222
Annuities and unitrusts payable	(461)	(870)
Net cash used in operating activities	(60,309)	(46,426)
Cash Flows from Investing Activities		
Purchase of plant and equipment	(17,247)	(9,104)
Proceeds from student loans collections	1,168	1,051
Student loans issued	(1,779)	(1,646)
Increase in restricted cash for construction funds	(21,620)	—
Increase in restricted cash for plant and equipment	(582)	(898)
Purchases of investments	(811,163)	(765,554)
Proceeds from sales and maturities of investments	874,256	813,841
Net cash provided by investing activities	23,033	37,690
Cash Flows from Financing Activities		
Proceeds from contributions for:		
Investment in endowment	7,186	12,504
Investment in planned giving	670	861
Plant and equipment	4,242	14,706
Bond and notes payable proceeds received, net	55,303	—
Payments on bonds and notes payable	(36,170)	(12,470)
Net cash provided by financing activities	31,231	15,601
Net (decrease) increase in cash and cash equivalents	(6,045)	6,865
Cash and cash equivalents, beginning of year	24,583	17,718
Cash and cash equivalents, end of year	$18,538	$24,583
Contributed securities	$5,898	$6,063
Cash paid for interest	$4,996	$5,508
Capital additions included in accounts payable and accrued expenses	$4,587	$1,103
Net change in securities lending	$15,426	$25,262

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.

Nonoperating activities reflect transactions of a long-term investment or capital nature including contributions to be invested by the College to generate a return that will support future operations, contributions to be received in the future, contributions to be used for facilities and equipment, and investment return beyond what the College has appropriated for current operational support in accordance with the College's investment return spending guidelines. Nonoperating activities also include net realized and unrealized gains and losses on the interest rate swap and debt extinguishment charges.

(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. Restricted cash represents amounts for construction held by trustees in association with the Massachusetts Health and Education Facilities Authority (MHEFA) Series I bond issue and amounts restricted by a donor for the Science Center and Power Plant.

(c) Investments

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

Venture capital and buyout limited partnerships include investments in both publicly and privately owned securities. The fair values of private investments are determined by the College and based on estimates and assumptions of the general partners or partnership valuation committees in the absence of readily determinable public market values. These values are audited annually by other auditors, most typically based on calendar year-end information. The 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 and annuities. 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 a methodology that uses a combination of prior year's spending and endowment value with a general rule that the total amount spent needs to be within a 4.5% to 5.5% range of the prior year market value of the endowment. The sources of the payout are endowment earned income (interest and dividends), both current and previously reinvested income and a portion of realized gains. Any income earned in excess of the spending limit is reinvested. Funds may be withdrawn from investment return earned in prior years if income is less than the spending limit. The spending policy is designed to insulate investment policy from budgetary pressures, and to insulate program spending from fluctuations in capital markets.

(e) Inventories

Inventories are stated at the lower of cost (first-in, first-out method) or market and are included in prepaid, inventory, and other assets on the Statement of Financial Position.

(f) Accounts Receivable and Student Loans Receivable

Accounts receivable include amounts due from students, student organizations, and other miscellaneous receivables. Loans to students are carried at net realizable value. Accounts receivable for 2008 and 2007 are reported net of allowances for doubtful accounts of $374,000. Loans receivable for 2008 and 2007 are reported net of allowances for doubtful loans of $694,000 and $624,000, 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	20
Buildings and improvements	20–40
Equipment	4–12

(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 grants.

(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 nonprofit 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) Interest Rate Swap

The College has entered into an interest rate swap agreement on the Massachusetts Health and Education Facilities Authority, Variable Rate Revenue Bonds, Series I in order to convert the variable rate debt to fixed rate, thereby economically hedging against changes in the cash flow requirements of the College's variable rate debt obligations.

Net payments or receipts (difference between variable and fixed rate) under the swap agreement along with the change in fair value of the swap are recorded in nonoperating activities as net realized/unrealized loss on interest swap.

(p) 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.

(q) New Accounting Pronouncements

The Financial Accounting Standards Board (FASB) has issued SFAS No. 157, Fair Value Measurements, SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, and Staff Position 117-1, Endowments of Not-for-Profit Organizations. The standards and staff position are effective for the College's fiscal year ending June 30, 2009, except for certain provisions of the standards which were deferred for an additional year. The College is still evaluating the impact of SFAS No. 157. The College does not believe the adoption of SFAS No. 159 and Staff Position 117-1 will have a material impact on the financial statements.

Effective July 1, 2007, the College adopted Financial Accounting Standards Board (FASB) Interpretation No. 48 (FIN 48), Accounting for Uncertainly in Income Taxes—An Interpretation of SFAS No. 109, Accounting for Income Taxes. FIN 48 addresses the accounting for uncertainly in income taxes recognized in an entity's financial statements and prescribes a threshold of more-likely-than-not for recognition and derecognition of tax provisions taken or expected to be taken in a tax return. FIN 48 also provides guidance on measurement, classification, interest and penalties, and disclosure. The adoption did not have a material effect on the College's financial statements.

(r) Cumulative Effect of Change in Accounting Principle

Effective June 30, 2007, the College adopted SFAS No. 158, Employer's Accounting for Defined Benefit Pension and Other Post Retirement Plans. The cumulative effect of this change is discussed in Note 9.

(s) Revised Presentation and Changes in Classifications

During fiscal year 2008, the College determined that based on certain securities lending activity, $87,820,000 should have been reflected gross as both collateral received for securities lending as an asset and as a liability under securities lending transactions within the Statement of Financial Position at June 30, 2007. Net assets as of June 30, 2007 and the Statement of Activities for fiscal year 2007 were not impacted as a result of this adjustment. The College has reflected this on their financial statements as of June 30, 2007 within the financial statements issued for June 30, 2008 for comparative purposes.

The classification of the receipt of contributed securities in the Statement of Cash Flows for the year ended June 30, 2007 has been changed to conform to the presentation for the year ended June 30, 2008.

2. Contributions Receivable

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

UNCONDITIONAL PROMISES EXPECTED TO BE COLLECTED IN:	2008	2007
Less than one year	$6,298	$7,880
One year to five years	48,477	13,709
Over five years	1,220	36,586
Total	55,995	58,175
Less discounts and allowance for uncollectible accounts	9,045	10,340
Net contributions receivable	$46,950	$47,835

Discount rates used to calculate the present value of contributions receivable ranged from 3.00% to 5.10% at June 30, 2008 and 2007.

3. Land, Buildings, and Equipment

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

	2008	2007
Land and land improvements	$46,015	$45,500
Buildings and building improvements	376,245	353,292
Equipment	12,696	14,806
Construction in progress	1,707	5,444
	436,663	419,042
Less accumulated depreciation	150,878	140,460
	$285,785	$278,582

Depreciation expense was $13,527,000 and $12,418,000 for the years ended June 30, 2008 and 2007, respectively.

The College recognized $620,000 and $603,000 of operating expenses relating to the accretion of liabilities recorded under FIN No. 47 for the years ended June 30, 2008 and 2007, respectively. Conditional asset retirement obligations of $16,883,000 and $16,395,000 at June 30, 2008 and 2007, respectively are included in the College's asset retirement obligation. 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.

4. Investments

The book and market values of investments at June 30, 2008 and 2007 are shown in Table 4A on page 34.

"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 $261,349,000 and $237,381,000 and commingled funds with a market value of $270,519,000 and $358,954,000 at June 30, 2008 and 2007, respectively, whose holdings are bonds and equities.

The college's investment returns from endowment and planned giving for the year ended June 30. 2008 and 2007 appear in Table 4B on page 35.

The total return consisting of realized and unrealized gains and losses and dividends and interest net of investment management and custodial fees was 1.22% and 22.70% for the fiscal years ended June 30, 2008 and 2007, respectively.

At June 30, 2008 and 2007 investment securities having a fair value of $100,808,000 and $86,046,000, respectively, were loaned to various brokerage firms through a securities lending agent. The loaned securities are returnable on demand and are collateralized by cash deposits. The College has recorded the fair value of the collateral received of $103,246,000 and $87,820,000 and an offsetting liability for the return of the collateral on the Statement of Financial Position at June 30, 2008 and 2007, 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. (See Table 5A on page 35.)

The components of the pooled and nonpooled endowment funds at market value at June 30, 2008 and 2007 are shown in Table 5B on page 35.

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 $14,893,000 and $15,018,000 at June 30, 2008 and 2007, respectively.

Mortgages due from faculty of $17,913,000 and $15,670,000 at June 30, 2008 and 2007, respectively, are included within investments on the Statement of Financial Position.

Table 4A: Book and Market Values of Investments June 30, 2008 and 2007 (in $000s)

	2008 BOOK VALUE	2008 MARKET VALUE	2007 BOOK VALUE	2007 MARKET VALUE
Endowment Investments				
Investments pooled				
Cash and cash equivalents	$60,329	$60,329	$63,547	$63,547
Bonds	212,188	260,992	206,562	209,240
Equities	357,880	482,451	395,495	632,417
Other assets	644,559	807,546	572,170	751,361
Total pooled investments	1,274,956	1,611,318	1,237,774	1,656,565
Faculty mortgages	17,913	17,913	15,670	15,670
Total pooled investments and faculty mortgages	1,292,869	1,629,231	1,253,444	1,672,235
Investments not pooled				
Cash and cash equivalents	216	216	238	238
Total investments not pooled	$216	$216	$238	$238
Total endowment investments	$1,293,085	$1,629,447	$1,253,682	$1,672,473
Planned Giving Investments				
Separate pooled funds				
Cash and cash equivalents	$266	$266	$236	$236
Bonds	5,750	5,730	6,549	6,287
Equities	7,632	11,498	6,866	13,250
Total pooled funds	13,648	17,494	13,651	19,773
Unitrusts				
Cash and cash equivalents	1,065	1,065	1,288	1,288
Bonds	19,329	18,667	23,428	23,203
Equities	26,439	30,706	19,443	30,728
Other assets	889	889	889	889
Assets held by Trustees	7,248	7,709	7,248	7,677
Total funds not pooled	54,970	59,036	52,296	63,785
Total planned giving investments	$68,618	$76,530	$65,947	$83,558

Table 4B: Investment Returns from Endowment and Planned Giving
For years ended June 30, 2008 and 2007
(in $000s)

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
2008				
Dividends and interest (net of expenses of $7,216)	$2,338	$2,857	$505	$5,700
Net realized and unrealized gains/losses	33,482	(26,341)	—	7,141
Total return on endowment and planned giving investments	35,820	(23,484)	505	12,841
Investment return designated for current operations	(36,585)	(39,999)		(76,584)
	($765)	($63,483)	$505	($63,743)
2007				
Dividends and interest (net of expenses of $8,639)	$1,372	$2,405	$307	$4,084
Net realized and unrealized gains/losses	112,536	196,252	—	308,788
Total return on endowment and planned giving investments	113,908	198,657	307	312,872
Investment return designated for current operations	(35,751)	(38,745)		(74,496)
	$78,157	$159,912	$307	$238,376

Table 5A: Pooled Funds
As of June 30, 2008 and 2007

	2008	2007
Investments in pooled funds and faculty mortgages, market value (in $000s)	$1,629,231	$1,672,235
Total number of units	2,436,021	2,417,538
Market value per unit	$668.81	$691.71
Distribution per unit	$31.55	$30.74

Table 5B: Components of Pooled and Nonpooled Endowment Funds at Market Value
As of June 30, 2008 and 2007 (in $000s)

	UNITS	POOLED ENDOWMENT	NONPOOLED ENDOWMENT	TOTAL ENDOWMENT
2008 Endowment and Similar Funds				
Endowment funds	1,543,330	$1,032,192	$—	$1,032,192
Term funds	81,843	54,737	216	54,953
Quasi-endowment	810,848	542,302	—	542,302
Total	2,436,021	$1,629,231	$216	$1,629,447
2007 Endowment and Similar Funds				
Endowment funds	1,535,268	$1,061,960	$—	$1,061,960
Term funds	79,498	54,990	238	55,228
Quasi-endowment	802,772	555,285	—	555,285
Total	2,417,538	$1,672,235	$238	$1,672,473

7. Notes and Bonds Payable

Indebtedness at June 30, 2008 and 2007 includes various bonds issued through the Massachusetts Health and Education Facilities Authority (MHEFA). Interest payments on debt totaled $4,844,000 and $5,588,000 during fiscal years 2008 and 2007, respectively.

During January 2008, the College issued $57,385,000 in Series I tax-exempt variable rate bonds. The proceeds will be used for major asset preservation and modernization projects and will be used to retire the Series F bonds, with $30.0 million outstanding, on July 1, 2009, the earliest possible call date. The refunding allows the College to realize the present value savings through a restructuring of the College's debt. The College recognized a debt extinguishment charge of $1,540,000 which has been reflected in the statement of activities. The College incurred costs of $542,000 associated with the issue which have been capitalized and are being amortized over the life of the bonds. At June 30, 2008, restricted cash also includes $21,620,000 of construction funds held by trustees that will be drawn down to fund various construction projects.

The Series I bonds, which mature in 2039, currently bear variable interest rates payable monthly. Interest on the bonds is calculated on the basis of twelve thirty-day months for a 360-day year. Pending the redemption of the Series F bonds, proceeds of the Series I bonds were deposited into a refunding account established under the indenture and held by the Trustee and were invested in authorized investments as directed by the College. At June 30, 2008, the trust fund of $31,850,000 is available to service principal and interest obligations, which will be fully repaid in fiscal year 2009. Since the refunded bonds are no longer deemed to be outstanding for financial reporting purposes, neither the debt nor the irrevocable trust assets are included in the Statement of Financial Position.

The College has 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 1/5 of 1%.

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

	2008	2007
MHEFA, Series I, Variable Rate Revenue Bonds, bearing interest at a daily rate, maturing July 2039. The rate at June 30, 2008 was 1.30%.	$57,385	—
MHEFA, Series H, Revenue Bonds issued at an interest rate of 2.0%–5.0% maturing July 2033	$54,120	$54,705
MHEFA, Series F, Revenue Bonds issued at an interest rate of 5.125% maturing July 2039	—	30,000
MHEFA, Series G, Variable Rate Revenue Bonds, bearing interest at a daily rate, maturing July 2039. The rate at June 30, 2008 was 1.55%.	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, 2008 was 4.75%.	1,458	2,144
MHEFA, Series E, Variable Rate Demand Bonds, scheduled amortization of principal with final maturity July 2022. Interest adjusted weekly. The rate at June 30, 2008 was 1.40%.	13,300	13,900
Notes Payable Promissory Note, principal maturing July 2008. The rate at June 30, 2008 was 2.58%.	10,512	14,810
Total debt	156,775	135,559
Less unamortized bond issue costs	(920)	(420)
Add unamortized original issue premium	1,083	1,150
	$156,938	$136,289

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

2009	$12,668
2010	2,172
2011	1,480
2012	1,705
2013	1,725
Thereafter	137,025
Total bonds and notes payable	$156,775

In January 2008, the College entered into an interest rate swap agreement, with a term through 2039. This swap effectively locks in a fixed rate of 3.239% per annum. The agreement has a notional amount of $57,385,000. At June 30, 2008, the market value of the swap agreement amounted to an asset of $37,000. The value of the interest rate swap is reflected within prepaid, inventory, and other assets on the statement of financial position and in nonoperating activities on the statement of activities. Additionally, the College paid interest expense in association with the swap agreement of $338,000 which is reflected as part of the net realized/unrealized loss on interest swap for the year ended June 30, 2008.

The College has outstanding at June 30, 2008 fixed rate debt of $54,120,000 and variable rate debt of $102,655,000. Included in variable rate debt is $57,385,000 of synthetic fixed debt which is debt that has an underlying variable rate but has an interest rate swap agreement that effectively locks in a fixed rate. The fair market value of the College's fixed rate debt at June 30, 2008 approximates $60,893,000. 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, pooled life income funds, and charitable remainder unitrusts for which the College may or may not serve as trustee. All split-interest agreements are included in planned giving investments. Contributions are recognized at the date the trusts are established net of a liability for the present value of the estimated future cash outflows to beneficiaries. The present value of payments is discounted at a risk-free rate of return that ranges from 4% to 6%. The liability of $38,580,000 and $39,041,000 at June 30, 2008 and 2007, 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 $7,546,000 and $6,232,000, respectively, for the years ended June 30, 2008 and 2007.

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, 2008 and 2007.

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

	2008	2007
Assumptions used to determine benefit obligations:		
Discount rate	6.875%	6.25%
Rate of compensation increase	4.00%	4.00%
Assumptions used to determine net periodic benefit (income) cost:		
Discount rate	6.875%	6.25%
Expected return on plan assets	7.80%	7.80%
Rate of compensation increase	4.00%	4.00%
Change in projected benefit obligation (in $000s)		
Benefit obligation at end of prior year	$34,346	$30,856
Service cost	1,230	1,154
Interest cost	2,076	1,911
Actuarial loss/(gain)	(3,639)	1,697
Benefits paid	(1,189)	(1,265)
Administrative expenses paid	(3)	(7)
Benefit obligation at end of year	$32,821	$34,346
Accumulated benefit obligation	$26,338	$26,799
Change in plan assets (in $000s)		
Fair value of plan assets at end of prior year	$31,989	$26,890
Actual return on plan assets	(1,311)	4,711
Employer contributions	1,279	1,660
Benefits paid	(1,189)	(1,265)
Administrative expenses paid	(3)	(7)
Fair value of plan assets at end of year	$30,765	$31,989

In September 2006, the FASB issued SFAS No. 158 *Employers' Accounting for Defined Benefit Pension and Other Post Retirement Plans*. SFAS 158 focuses primarily on the Statement of Financial Position reporting for the funded status of benefit plans and requires recognition of benefit liabilities for under-funded plans and benefit assets for over-funded plans, with offsetting impacts to unrestricted net assets. The impact of adoption resulted in a net decrease of $918,000 in unrestricted net assets, which has been recorded as a cumulative effect of a change in accounting principle. The net decrease is comprised of the net prior service cost of $621,000 and actuarial loss of $297,000.

	2008	2007
Funded status (in $000s)		
Funded status	($2,056)	($2,357)
Unrecognized prior service cost	—	—
Unrecognized net actuarial loss	—	—
Accrued benefit liability	($2,056)	($2,357)
Components of net periodic benefit cost (in $000s)		
Service cost	$1,230	$1,154
Interest cost	2,076	1,911
Expected return on plan assets	(2,488)	(2,089)
Amortization of prior service cost	75	98
Net periodic benefit cost	$893	$1,074
Other changes in plan assets and benefit obligations recognized in unrestricted net assets		
SFAS 158 change in accounting principle	$—	$(918)
New net actuarial loss	160	—
Amortization of prior service cost	(75)	—
Total	$85	$(918)
Amounts recognized in unrestricted net assets		
Net prior service cost	$546	$621
Net actuarial loss	$457	$297

The incremental effect of applying SFAS 158 on individual line items in the statement of financial position as of June 30, 2007 is as follows (in $000s):

	BEFORE APPLICATION OF SFAS 158	DEFINED BENEFIT PLAN ADJUSTMENTS	AFTER APPLICATION OF SFAS 158
Accounts payable and accrued expenses	$29,165	$918	$30,083
Total liabilities	$319,283	$918	$320,201
Unrestricted net assets	$625,562	($918)	$624,644
Total net assets	$1,906,839	($918)	$1,905,921

The amount expected to be recognized as amortization of prior net service cost and a component of net periodic cost in the upcoming year is $75,000.

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

2009	$1,170
2010	1,237
2011	1,242
2012	1,378
2013	1,572
2014–2018	11,188

The College expects to make employer contributions into the plan of $458,000 in the 2009 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, 2008 and 2007:

ASSET CATEGORY	2008	2007
Equity Securities	58%	59%
Real Estate Investment Trust	3%	3%
Commodities	5%	5%
Fixed Income	28%	30%
Cash and Equivalents	6%	3%
Total	100%	100%

10. Net Assets

Net assets consist of the following at June 30, 2008 and 2007 (in $000s):

	2008	2007
Unrestricted		
Designated for specific purposes and plant	$116,431	$108,468
Quasi-endowment	532,700	516,176
Deficiencies in donor-restricted endowments	(52)	—
	649,079	624,644
Temporarily restricted		
Endowment and similar funds including pledges	716,105	769,714
Annuity, life income and unitrusts including pledges	37,908	44,463
Deficiencies in donor-restricted endowments	52	—
Other restricted	58,170	72,054
	812,235	886,231
Permanently restricted		
Endowment including pledges	401,042	395,046
	401,042	395,046
	$1,862,356	$1,905,921

11. Commitments and Contingencies

In 1975 the College identified the presence of soil tainted with various hazardous materials on the site of an abandoned nineteenth-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 $254,000 and $463,000, respectively for the years ended June 30, 2008 and 2007. 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 2006. The College anticipates that the periodic monitoring program will be initiated in 2009. The cost of this program should be insignificant. After completing preliminary discussions with the DEP about the risk-based goals for the remediation of Lower Waban Brook, the College currently is in the early stages of designing and permitting that project. The Lower Waban Brook remedial project is anticipated to be undertaken in 2009 and is estimated to cost $3,600,000. For the year ended of June 30, 2008, total expenses to the Lower Waban Brook remedial project were $347,000. A liability of $3,253,000 and $3,600,000 has been recorded as of June 30, 2008 and 2007, respectively, and is included in the Statements of Financial Position within accounts payable and accrued expenses.

Outstanding commitments amounted to approximately $329,528,000 and $366,620,000 as of June 30, 2008 and 2007, respectively for the following:

	2008	2007
Alternative investments	$321,500,000	$355,400,000
Construction contracts	8,028,000	11,220,000
	$329,528,000	$366,620,000

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 May 2010.

The College has several legal cases pending that have arisen in the normal course of its operations. The College believes that the outcome of these cases will have no material adverse effect on the financial position of the College.

11/08 2.6M

Senior Administration 2007–2008

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President

Andrew Shennan
Dean of the College

Michelle Lepore
Interim Dean of Students

Jennifer C. Desjarlais
Dean of Admission

Mary Ann Hill
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Lynn Miles
Acting Vice President for Resources

Micheline E. Jedrey
Vice President for Information Services and College Librarian

Patricia M. Byrne
Vice President Administration and Planning

Andrew B. Evans
Vice President for Finance and Treasurer

Jane L. Mendillo
Chief Investment Officer

Joanne Berger-Sweeney
Associate Dean of the College

Adele Wolfson
Associate Dean of the College

Board of Trustees 2007–2008

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