

WELLESLEY COLLEGE

# Annual Report

2018-2019



# Wellesley College Annual Report

For the year ended June 30, 2019

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# Introduction from the Vice President for Finance and Administration and Treasurer

To Members of the Wellesley College Community:

We are pleased to provide you with the College's financial report for the fiscal year ending June 30, 2019.

The report contains five comparative and historical reports on financial and operational measures that provide useful indications of the financial well-being of Wellesley College over time. We report on Fiscal Year 2019 results compared with Fiscal Year 2018 (Schedule A); 10 years of operating results, key statistics, financial indicators, and sources of support for financial aid (Schedules B–D); and a report on the annual total return on the general endowment pool since inception (Schedule E). Following these are the audited financial statements for Fiscal Year 2019, prepared in accordance with generally accepted accounting principles.

We hope you find this information of interest.

A handwritten signature in cursive script that reads "Piper Starr Orton".

Piper Starr Orton  
*Vice President for Finance and Administration and Treasurer*



# Historical Reports

## Schedule A

### Summary of Operating Revenues and Expenditures Years Ended June 30, 2019 and 2018 (in \$000s)

	<u>2019</u>	<u>2018</u> <sup>*</sup>	<u>Increase (Decrease)</u>	<u>% Change</u>
<b>Operating Revenues</b>				
Tuition and Fees	\$128,441	\$121,912	\$6,529	5.4%
Room and Board	\$35,549	\$34,532	\$1,017	2.9%
Financial Aid	(\$67,791)	(\$63,250)	(\$4,541)	7.2%
Net Student Charge Revenue	<u>\$96,199</u>	<u>\$93,194</u>	<u>\$3,005</u>	<u>3.2%</u>
Distribution from Endowment Used for Operations	\$90,766	\$85,983	\$4,783	5.6%
Endowment Transfers	\$3,694	\$3,917	(\$223)	(5.7%)
Restricted Gifts & Grants	\$13,814	\$16,182	(\$2,368)	(14.6%)
Unrestricted Bequests	\$4,166	\$1,707	\$2,459	144.1%
The Wellesley Fund	\$10,113	\$10,378	(\$265)	(2.6%)
Auxiliary Enterprises	\$7,060	\$5,634	\$1,426	25.3%
Restricted and Designated Used in Operations	\$3,122	\$4,091	(\$969)	(23.7%)
Other Income	\$10,354	\$5,970	\$4,384	73.4%
<b>Total Revenues</b>	<b><u>\$239,288</u></b>	<b><u>\$227,056</u></b>	<b><u>\$12,232</u></b>	<b><u>5.4%</u></b>
<b>Operating Expenditures</b>				
Instruction	\$72,983	\$75,693	(\$2,710)	(3.6%)
Student Services	\$28,213	\$26,687	\$1,526	5.7%
Academic Support	\$18,699	\$17,298	\$1,401	8.1%
Institutional Support	\$32,690	\$29,177	\$3,513	12.0%
Maintenance and Operations	\$26,082	\$28,137	(\$2,055)	(7.3%)
Debt Service	\$12,262	\$10,573	\$1,689	16.0%
Major Maintenance	\$3,649	\$4,149	(\$500)	(12.1%)
Depreciation	\$20,419	\$20,359	\$60	0.3%
Sponsored Research	\$12,501	\$11,530	\$971	8.4%
Auxiliary Operations	\$8,185	\$7,146	\$1,039	14.5%
<b>Total Expenditures</b>	<b><u>\$235,683</u></b>	<b><u>\$230,749</u></b>	<b><u>\$4,934</u></b>	<b><u>2.1%</u></b>
<b>GAAP Net Operating Income/(Loss)</b>	<b><u>\$3,605</u></b>	<b><u>(\$3,693)</u></b>	<b><u>\$7,298</u></b>	<b><u>(197.6%)</u></b>
<b>Cash Basis Adjustments</b>				
Depreciation	(\$20,419)	(\$20,359)	(\$60)	0.3%
Capital Assets funded by Operations	\$15,153	\$11,165	\$3,988	35.7%
Principal Payments & Amortization	\$3,245	\$2,175	\$1,070	49.2%
Other Adjustments	\$4,595	(\$7,545)	\$12,140	(160.9%)
<b>Total Adjustments</b>	<b><u>\$2,574</u></b>	<b><u>(\$14,564)</u></b>	<b><u>\$17,138</u></b>	<b><u>(117.7%)</u></b>
<b>Cash Basis Addition to /(Use of) Reserves</b>	<b><u>\$1,031</u></b>	<b><u>\$1,039</u></b>	<b><u>(\$8)</u></b>	<b><u>(0.8%)</u></b>

\* FY18 operating results include a reclassification of voluntary retirement program expenses to a non-operating expense.

## Schedule B

### Ten-Year Operating Budget Financial Summary 2010–2019 (in \$000s)

	2010	2011	2012	2013	2014
<b>Operating Revenues</b>					
Tuition and Fees	\$90,400	\$96,402	\$96,702	\$100,075	\$102,635
Room and Board	\$24,859	\$26,759	\$27,436	\$28,228	\$29,131
Financial Aid Grants	(\$42,669)	(\$47,850)	(\$47,889)	(\$50,561)	(\$51,933)
Net Student Charge Revenue	\$72,590	\$75,311	\$76,249	\$77,742	\$79,833
Endowment Distribution	\$86,612	\$79,107	\$78,392	\$79,924	\$81,487
Private Gifts & Grants	\$20,805	\$18,738	\$22,137	\$24,458	\$25,042
Government Grants	\$4,838	\$3,635	\$4,148	\$4,448	\$4,887
Auxiliary Operations	\$6,423	\$6,239	\$6,440	\$5,206	\$5,947
Restricted and Designated Used in Operations	\$0	\$0	\$0	\$0	\$0
Other	\$3,725	\$3,118	\$4,336	\$3,736	\$3,972
<b>Total Revenues</b>	<b>\$194,993</b>	<b>\$186,148</b>	<b>\$191,702</b>	<b>\$195,514</b>	<b>\$201,168</b>
<b>Operating Expenditures</b>					
Instruction	\$63,915	\$63,862	\$67,175	\$67,599	\$71,329
Student Services	\$20,974	\$22,092	\$22,041	\$23,457	\$22,912
Academic Support	\$18,489	\$20,237	\$19,180	\$20,657	\$21,084
Institutional Support	\$21,908	\$22,998	\$21,555	\$27,262	\$22,370
Maintenance and Operations	\$22,063	\$18,684	\$17,827	\$20,384	\$21,926
Debt Service	\$5,522	\$5,506	\$6,065	\$6,422	\$8,152
Major Maintenance	\$261	\$1,614	\$5,803	\$5,462	\$4,677
Depreciation	\$14,304	\$15,419	\$15,959	\$15,792	\$16,638
Sponsored Research and Centers	\$10,854	\$11,080	\$11,923	\$12,568	\$12,296
Auxiliary Operations	\$7,718	\$7,515	\$8,712	\$8,406	\$8,663
<b>Total Expenditures</b>	<b>\$186,008</b>	<b>\$189,006</b>	<b>\$196,240</b>	<b>\$208,009</b>	<b>\$210,047</b>
<b>GAAP Net Operating Income/(Loss)</b>	<b>\$8,985</b>	<b>(\$2,858)</b>	<b>(\$4,538)</b>	<b>(\$12,495)</b>	<b>(\$8,879)</b>
<b>Net Budget/Cash Basis Adjustments</b>	<b>(\$2,056)</b>	<b>\$6,915</b>	<b>\$4,990</b>	<b>\$11,000</b>	<b>\$7,382</b>
<b>Cash Basis Addition to/(Use of) Reserves</b>	<b>\$6,929</b>	<b>\$4,057</b>	<b>\$452</b>	<b>(\$1,495)</b>	<b>(\$1,497)</b>

2015	2016	2017	2018 *	2019	Average Annual Percentage Change Since June 30, 2010	
					Nominal %	Real %
\$104,427	\$112,070	\$115,610	\$121,912	\$128,441	4.0%	2.3%
\$29,248	\$31,567	\$33,078	\$34,532	\$35,549	4.0%	2.3%
(\$51,305)	(\$56,996)	(\$57,838)	(\$63,250)	(\$67,791)	5.6%	3.8%
\$82,370	\$86,641	\$90,850	\$93,194	\$96,199	3.1%	1.4%
\$82,561	\$83,403	\$89,352	\$89,900	\$94,460	1.6%	(0.1%)
\$24,769	\$35,157	\$41,664	\$23,366	\$23,780	3.2%	1.4%
\$3,863	\$6,032	\$4,492	\$4,901	\$4,313	4.5%	2.8%
\$8,085	\$6,500	\$6,787	\$5,634	\$7,060	2.9%	1.1%
\$0	\$0	\$0	\$4,091	\$3,122	(2.4%)	(4.1%)
\$3,872	\$3,937	\$4,290	\$5,970	\$10,354	12.8%	11.0%
<b>\$205,520</b>	<b>\$221,669</b>	<b>\$237,435</b>	<b>\$227,056</b>	<b>\$239,288</b>	<b>2.5%</b>	<b>0.8%</b>
\$70,705	\$70,788	\$71,948	\$75,693	\$72,983	1.4%	(0.3%)
\$22,809	\$24,250	\$25,523	\$26,687	\$28,213	3.0%	1.3%
\$21,830	\$20,470	\$17,649	\$17,298	\$18,699	(0.3%)	(2.0%)
\$27,903	\$34,775	\$34,003	\$29,177	\$32,690	3.2%	1.4%
\$23,699	\$24,012	\$25,049	\$28,137	\$26,082	1.8%	0.0%
\$8,054	\$8,150	\$8,102	\$10,573	\$12,262	11.4%	9.6%
\$3,225	\$6,006	\$9,413	\$4,149	\$3,649	71.3%	69.6%
\$16,587	\$15,912	\$17,302	\$20,359	\$20,419	4.3%	2.6%
\$11,854	\$13,810	\$12,520	\$11,530	\$12,501	1.6%	(0.1%)
\$7,011	\$7,109	\$7,836	\$7,146	\$8,185	0.9%	(0.8%)
<b>\$213,676</b>	<b>\$225,281</b>	<b>\$229,345</b>	<b>\$230,749</b>	<b>\$235,683</b>	<b>2.0%</b>	<b>0.3%</b>
<b>(\$8,156)</b>	<b>(\$3,612)</b>	<b>\$8,090</b>	<b>(\$3,693)</b>	<b>\$3,605</b>		
\$4,763	\$3,663	\$9,846	\$14,564	(\$2,574)		
<b>(\$3,393)</b>	<b>\$51</b>	<b>\$17,936</b>	<b>\$1,039</b>	<b>\$1,031</b>		

\* FY18 operating results include a reclassification of voluntary retirement program expenses to a non-operating expense.

# Schedule C

## Key Facts and Statistics 2010–2019

	2010	2011	2012	2013	2014
<b><u>Faculty, Staff and Students</u></b>					
Faculty Headcount	340	350	377	374	379
Faculty Instructional FTE	299	306	332	331	337
Staff FTE	673	691	713	749	726
Student Enrollment	2,371	2,431	2,374	2,365	2,347
Student-to-Faculty FTE Ratio	7.9	7.9	7.2	7.2	7.0
<b><u>Admissions and Enrollment</u></b>					
Number of First-Year Student Applications	4,156	4,267	4,400	4,478	4,795
First-Year Students Admitted as a % of Applicants	35.2%	33.7%	31.0%	30.1%	28.9%
First-Year Students Enrolled as a % of Students Admitted	40.3%	44.0%	42.0%	43.4%	42.9%
<b><u>Comprehensive Fee</u></b>					
Tuition and Fees	\$38,062	\$39,666	\$40,660	\$42,082	\$43,554
Room and Board	\$11,786	\$12,284	\$12,590	\$13,032	\$13,488
Comprehensive Fee	\$49,848	\$51,950	\$53,250	\$55,114	\$57,042
<b><u>Financial Aid and Net Price</u></b>					
Percentage of Students Receiving Financial Aid Grant Assistance	55.0%	58.0%	57.0%	58.0%	58.0%
Average Financial Aid Grant as a % of Comprehensive Fee	67.3%	68.9%	68.8%	68.9%	66.0%
Average Financial Aid Grant per Aided Student	\$33,497	\$35,773	\$36,656	\$37,990	\$37,523
Net Student Charge Revenue per Student FTE	\$30,616	\$30,979	\$32,118	\$32,872	\$34,015
<b><u>Cost and Share of Cost Charged and Paid</u></b>					
Total College Expenditures per Student FTE	\$78,451	\$77,748	\$82,662	\$87,953	\$89,496
Comprehensive Fee as a Percentage of					
Total College Expenditures per Student FTE	63.5%	66.8%	64.4%	62.7%	63.7%
Net Student Charge Revenue per Student as a Percentage of					
Total College Expenditures per Student FTE	39.0%	39.8%	38.9%	37.4%	38.0%
<b><u>Resources/Fundraising (\$000s)</u></b>					
Unrestricted Gifts - current use	\$8,847	\$8,690	\$9,177	\$9,390	\$9,731
Restricted Gifts - current use	\$8,330	\$9,211	\$8,699	\$9,908	\$19,977
Endowment Gifts	\$4,068	\$7,810	\$6,863	\$3,918	\$34,336
Planned Gifts	\$1,219	\$1,409	\$6,990	\$4,329	\$3,504
Bequests	\$7,555	\$8,666	\$5,242	\$7,766	\$11,464
Facilities Gifts	\$3,098	\$2,315	\$2,442	\$7,154	\$17,104
Total Fundraising	\$33,117	\$38,101	\$39,413	\$42,465	\$96,116
Number of Alumnae Donors	14,177	14,562	13,388	15,017	16,396
Percentage of Alumnae Contributing	45.0%	46.6%	44.5%	49.4%	53.4%
Unrestricted Gifts and Total Bequests as a % of					
Total Expenditures	8.8%	9.2%	7.3%	8.2%	10.1%
<b><u>Endowment</u></b>					
Endowment Market Value (\$000s)	\$1,330,045	\$1,523,451	\$1,468,370	\$1,576,337	\$1,834,137
Endowment per Student FTE	\$560,964	\$626,677	\$618,521	\$666,527	\$781,481
Endowment Income per Student FTE	\$36,530	\$32,541	\$33,021	\$33,795	\$34,720
Endowment Income as Percentage of Total Expenditures	46.6%	41.9%	39.9%	38.4%	38.8%
Endowment Income Used to Support					
Operations as a Percentage of:					
Beginning of Year Market Value	6.4%	5.8%	5.3%	5.3%	5.2%
<b><u>Other</u></b>					
Gross Square Feet of Buildings	2,587,761	2,592,757	2,592,797	2,592,797	2,593,703
Library Collections in Volumes	1,702,321	1,683,644	1,892,255	1,935,793	1,981,764

2015	2016	2017	2018	2019
374	383	370	359	347
331	340	332	326	316
710	729	753	740	732
2,308	2,344	2,350	2,375	2,392
7.0	6.9	7.1	7.3	8.0
4,710	4,623	4,888	5,703	6,631
30.1%	30.0%	28.0%	22.0%	19.5%
41.8%	43.0%	43.0%	48.0%	47.4%
\$45,078	\$46,836	\$48,802	\$51,148	\$53,732
\$13,960	\$14,504	\$15,114	\$15,836	\$16,468
\$59,038	\$61,340	\$63,916	\$66,984	\$70,200
58.0%	62.0%	54.8%	58.5%	59.6%
68.0%	65.0%	67.1%	74.1%	78.2%
\$39,988	\$41,188	\$44,258	\$49,612	\$54,894
\$35,689	\$36,963	\$38,660	\$39,240	\$40,217
\$92,581	\$96,110	\$97,594	\$97,157	\$98,530
63.8%	63.8%	65.5%	68.9%	71.2%
38.5%	38.5%	39.6%	40.4%	40.8%
\$8,740	\$8,656	\$9,230	\$8,665	\$8,481
\$8,306	\$14,567	\$31,160	\$14,501	\$12,243
\$15,285	\$15,431	\$10,871	\$15,372	\$15,039
\$1,860	\$3,179	\$1,819	\$2,761	\$2,118
\$13,199	\$10,652	\$2,799	\$2,870	\$7,238
\$5,088	\$7,611	\$12,459	\$16,874	\$12,566
\$52,478	\$60,096	\$68,338	\$61,043	\$57,685
15,355	14,596	14,842	13,887	12,878
50.0%	48.0%	49.0%	46.0%	42.5%
10.3%	8.6%	5.2%	5.0%	6.7%
\$1,881,031	\$1,784,479	\$1,930,752	\$2,105,212	\$2,173,415
\$815,005	\$761,297	\$821,597	\$886,405	\$908,618
\$35,772	\$35,581	\$38,022	\$37,853	\$39,490
38.6%	37.0%	39.0%	39.0%	40.1%
4.5%	4.4%	5.0%	4.7%	4.5%
2,593,703	2,593,703	2,603,703	2,603,703	2,603,703
2,067,579	2,185,052	2,230,706	2,247,767	2,371,629

## Schedule D

### Total Sources of Student Financial Aid (Grants and Work Assistance) 2010–2019 (in \$000s)

	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
<b>Restricted Sources</b>				
Endowment Income	\$25,920	\$23,791	\$23,772	\$24,231
Endowment Income - Special Supplement	\$2,000	\$2,000	\$2,000	\$2,000
Total Restricted Endowment Income	<u>\$27,920</u>	<u>\$25,791</u>	<u>\$25,772</u>	<u>\$26,231</u>
Restricted Annual Gifts	\$2,718	\$1,686	\$1,474	\$1,761
Federal Government				
Pell Grants	\$2,018	\$2,467	\$2,058	\$2,055
Supplemental Educational Opportunity Grants	\$337	\$330	\$307	\$307
College Work Study Program - Federal Government Share	\$383	\$322	\$322	\$322
Total Federal Government Grants	<u>\$2,738</u>	<u>\$3,119</u>	<u>\$2,687</u>	<u>\$2,684</u>
Commonwealth of Massachusetts	\$143	\$184	\$171	\$169
<b>Total Restricted Sources</b>	<b><u>\$31,519</u></b>	<b><u>\$28,780</u></b>	<b><u>\$28,104</u></b>	<b><u>\$28,845</u></b>
<b>Unrestricted Sources</b>				
Distributions from Endowment	\$13,049	\$12,657	\$12,543	\$12,789
General College Revenues	\$2,000	\$8,018	\$9,300	\$10,982
<b>Total Financial Aid from all sources</b>	<b><u>\$46,568</u></b>	<b><u>\$49,455</u></b>	<b><u>\$49,947</u></b>	<b><u>\$52,616</u></b>
% of Aid funded by Restricted Sources	67.7%	58.2%	56.3%	54.8%

<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>Percentage Change (2010 - 2019)</b>
\$24,811	\$25,138	\$25,467	\$25,606	\$23,332	\$30,216	16.6%
\$2,000	\$2,000	\$2,000	\$2,000	\$0	\$0	-100.0%
\$26,811	\$27,138	\$27,467	\$27,606	\$23,332	\$30,216	8.2%
\$1,782	\$1,695	\$1,785	\$627	\$1,399	\$2,586	-4.9%
\$1,925	\$1,929	\$2,069	\$2,008	\$2,314	\$2,632	30.4%
\$301	\$228	\$315	\$385	\$409	\$411	22.0%
\$322	\$322	\$322	\$322	\$330	\$322	-15.9%
\$2,548	\$2,479	\$2,706	\$2,715	\$3,053	\$3,365	22.9%
\$162	\$152	\$88	\$164	\$82	\$60	-58.0%
<b>\$29,303</b>	<b>\$29,463</b>	<b>\$30,045</b>	<b>\$29,111</b>	<b>\$27,866</b>	<b>\$36,227</b>	14.9%
\$13,038	\$13,364	\$13,369	\$13,631	\$14,220	\$16,749	28.4%
\$11,517	\$10,406	\$15,651	\$17,103	\$23,478	\$17,447	N/A
<b>\$53,858</b>	<b>\$53,234</b>	<b>\$59,065</b>	<b>\$59,846</b>	<b>\$65,564</b>	<b>\$70,423</b>	51.2%
54.4%	55.3%	50.9%	48.6%	42.5%	51.4%	

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

## Schedule E

### General Endowment Pool Annual Total Return Since Inception

Year Ended	Market Value (\$000s)	Ending Unit Value	Number of Units	Distribution Per Unit	Total Return %
		\$100.00			
1970	\$92,600	107.13	864,370.391	\$5.50	12.26
1971	121,050	138.68	872,872.801	5.70	33.57
1972	136,273	154.80	880,316.537	5.90	15.44
1973	126,928	139.30	911,184.494	6.00	(5.70)
1974	109,672	116.43	941,956.540	7.30	(10.15)
1975	111,340	116.82	953,090.224	7.05	6.36
1976	115,922	119.77	967,871.754	7.00	8.36
1977	119,152	122.86	969,819.307	7.30	8.52
1978	111,852	116.54	959,773.468	7.68	0.44
1979	119,151	119.70	995,413.534	8.05	9.45
1980	133,168	119.32	1,116,057.660	9.30	7.76
1981	134,871	121.64	1,108,771.786	9.11	10.20
1982	127,842	110.90	1,152,768.260	10.72	0.90
1983	167,556	135.78	1,234,025.630	10.40	29.60
1984	156,258	123.60	1,264,223.301	9.00	(2.41)
1985	201,793	149.44	1,350,327.891	9.09	27.98
1986	260,481	188.93	1,378,716.985	8.41	32.40
1987	294,574	207.66	1,418,539.921	8.90	14.72
1988	290,270	198.53	1,462,096.409	10.25	0.90
1989	319,235	211.06	1,512,531.981	11.10	12.78
1990	352,537	222.70	1,583,013.022	11.30	11.20
1991	371,464	231.81	1,602,450.283	11.30	9.23
1992	409,082	252.95	1,617,244.515	11.02	14.50
1993	475,797	281.83	1,688,241.138	11.37	15.50
1994	475,961	278.97	1,706,136.861	14.00	4.00
1995	520,108	305.01	1,705,216.222	16.15	15.20
1996	595,950	336.88	1,769,027.547	17.02	18.24
1997	677,932	371.67	1,824,015.928	19.60	17.17
1998	780,203	410.41	1,901,037.745	21.00	15.22
1999	887,036	446.73	1,985,619.949	22.00	14.96
2000	1,253,008	610.15	2,053,599.759	23.50	42.85
2001	1,135,925	543.88	2,088,558.138	24.75	(6.62)
2002	1,031,991	484.59	2,129,616.789	26.04	(5.19)
2003	1,043,476	479.33	2,176,946.989	26.88	4.85
2004	1,179,988	521.95	2,260,729.955	26.16	15.18
2005	1,275,529	550.55	2,316,826.810	27.88	11.46
2006	1,412,410	595.46	2,371,964.532	28.96	13.97
2007	1,672,235	691.71	2,417,537.696	30.74	22.70
2008	1,629,331	668.81	2,436,164.232	31.55	1.22
2009	1,287,082	523.84	2,457,013.592	33.18	(16.97)
2010	1,330,045	535.74	2,482,631.500	35.08	9.34
2011	1,523,452	608.09	2,505,306.780	31.68	20.36
2012	1,468,370	579.48	2,533,944.226	31.11	0.75
2013	1,576,337	616.39	2,557,369.523	31.36	12.47
2014	1,834,137	692.31	2,649,300.169	31.21	18.80
2015	1,881,031	699.88	2,687,647.882	30.57	5.91
2016	1,784,479	659.15	2,707,242.661	30.76	(1.50)
2017	1,930,752	710.06	2,719,139.228	30.96	13.14
2018	2,105,212	753.97	2,802,550.165	31.01	11.00
2019	2,173,415	771.66	2,826,966.372	32.18	7.22

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

A photograph of a modern university hallway. In the foreground, a woman in a plaid shirt sits on an orange modular sofa, looking towards the right. In the background, several other students are sitting on similar orange blocks, some near whiteboards. A woman in a striped shirt is standing and smiling. The hallway has a concrete ceiling with exposed beams and a grey carpet.

# Audited Financial Statements

# Independent Auditors' Report



KPMG LLP  
Two International Place  
Boston, MA 02110

## Independent Auditors' Report

The Board of Trustees  
Wellesley College:

We have audited the accompanying financial statements of Wellesley College (the College), which comprise the statement of financial position as of June 30, 2019, the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Wellesley College as of June 30, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

### *Emphasis of Matter*

As discussed in Note 1(p) to the financial statements, in 2019, the College adopted new accounting guidance, Financial Accounting Standards Board Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

KPMG LLP is a Delaware limited liability partnership and the U.S. member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

# Independent Auditors' Report



## *Other Matter*

The accompanying 2018 summarized comparative information was derived from the College's financial statements as of and for the year ended June 30, 2018, which were audited by other auditors whose report thereon dated October 29, 2018 expressed an unmodified opinion on those financial statements, before the adjustments to adopt ASU 2016-14 as described in Note 1(p) to the 2019 financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived before the adjustments to adopt ASU 2016-14.

As part of our audit of the 2019 financial statements, we also audited the adjustments described in Note 1(p) that were applied to adopt ASU 2016-14 retrospectively in the 2018 summarized comparative information. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the audited financial statements from which the 2018 summarized comparative information was derived other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2018 financial statements as a whole.

*KPMG LLP*

October 25, 2019

# Statements of Financial Position

June 30, 2019 and 2018 (in \$000s)

<b>Assets</b>	<b>2019</b>	<b>2018</b>
Cash and cash equivalents	\$ 92,381	88,210
Restricted cash	28,383	95,190
Receivables, net	22,663	23,845
Contributions receivable, net	50,046	77,066
Prepaid, inventory and other assets	1,592	3,765
Investments	2,181,574	2,113,204
Planned giving investments	57,764	57,562
Land, buildings and equipment, net	420,883	353,599
Total assets	<u>\$ 2,855,286</u>	<u>2,812,441</u>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 42,032	42,833
Deferred income and advances under grants and contracts	9,272	10,738
Annuities and unitrusts payable	29,101	30,735
Asset retirement and environmental obligations	21,850	24,348
Accrued pension liability	27,150	23,453
Bonds payable	321,218	325,061
Other liabilities	25,699	20,124
Government loan advances	2,379	2,379
Total liabilities	478,701	479,671
Net assets:		
Without donor restrictions	661,237	637,501
With donor restrictions	1,715,348	1,695,269
Total net assets	<u>2,376,585</u>	<u>2,332,770</u>
Total liabilities and net assets	<u>\$ 2,855,286</u>	<u>2,812,441</u>

See accompanying notes to financial statements.

# Statement of Activities

Year Ended June 30, 2019 (in \$000s)

	Without donor restrictions	With donor restrictions	2019 Total	2018 Total
Operating revenues:				
Tuition, fees, room and board, net of financial aid of \$67,791	\$ 96,199	—	96,199	93,194
Auxiliary operations	7,060	—	7,060	5,634
Government grants	4,313	—	4,313	4,901
Private gifts and grants	19,691	4,089	23,780	23,366
Endowment distributed for operations	84,030	6,736	90,766	85,983
Amounts transferred from endowment funds	3,694	—	3,694	3,917
Restricted and designated funds used in operations	3,122	—	3,122	4,091
Other	10,354	—	10,354	5,970
Net assets released from restrictions	13,257	(13,257)	—	—
Total operating revenues	<u>241,720</u>	<u>(2,432)</u>	<u>239,288</u>	<u>227,056</u>
Operating expenses:				
Instruction	93,475	—	93,475	95,679
Sponsored research and centers	12,501	—	12,501	11,530
Student services	53,227	—	53,227	51,084
Academic support	24,501	—	24,501	22,955
Institutional support	39,829	—	39,829	38,488
Auxiliary operations	12,150	—	12,150	11,013
Total operating expenses	<u>235,683</u>	<u>—</u>	<u>235,683</u>	<u>230,749</u>
Change in net assets from operating activities	<u>6,037</u>	<u>(2,432)</u>	<u>3,605</u>	<u>(3,693)</u>
Nonoperating activities:				
Investment return, net of spending allocation	16,272	31,100	47,372	119,728
Endowment distributed for operations	(3,694)	—	(3,694)	(3,917)
Matured planned giving agreements	3,790	(3,790)	—	—
Gifts and pledges	59	7,438	7,497	35,350
Pension related changes other than net service cost	(4,289)	—	(4,289)	2,513
Net unrealized (loss) gain on interest swap	(5,337)	—	(5,337)	3,759
Other changes	(2,601)	4,384	1,783	(18,585)
Net assets released from restrictions	13,479	(16,601)	(3,122)	(4,091)
Changes in net asset classification and transfers	20	(20)	—	—
Total nonoperating revenues	<u>17,699</u>	<u>22,511</u>	<u>40,210</u>	<u>134,757</u>
Net change in net assets	<u>23,736</u>	<u>20,079</u>	<u>43,815</u>	<u>131,064</u>
Net assets:				
Beginning of year	<u>637,501</u>	<u>1,695,269</u>	<u>2,332,770</u>	<u>2,201,706</u>
End of year	<u>\$ 661,237</u>	<u>1,715,348</u>	<u>2,376,585</u>	<u>2,332,770</u>

See accompanying notes to financial statements.

# Statements of Cash Flows

June 30, 2019 and 2018 (in \$000s)

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Change in net assets	\$ 43,815	131,064
Adjustment to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	20,733	20,359
Contributions restricted for long-term purposes	(18,528)	(20,969)
Donated securities received	(355)	(12,612)
Realized and unrealized gains on investments	(145,890)	(217,647)
Change in discount and allowance for doubtful accounts	(4,314)	317
Pension related changes other than net periodic pension cost	4,289	(2,513)
Unrealized loss (gain) on interest rate swap	5,337	(3,759)
Gain on sale and disposals of plant and equipment	1,158	2,051
Changes in operating assets and liabilities:		
Receivables, net	980	(5,663)
Contributions receivable, net	31,395	1,519
Prepaid, inventory and other assets	2,196	4,345
Accounts payable, accrued expenses and other	(7,957)	14,781
Student deposits and deferred revenue	(1,536)	7,198
Advances under grants and contracts	70	(5,719)
Annuities and unitrusts payable	(1,634)	(305)
Other liabilities	238	8
Net cash used in operating activities	<u>(70,003)</u>	<u>(87,545)</u>
Cash flows from investing activities:		
Purchases of land, buildings and equipment	(84,468)	(34,235)
Proceeds from sale of land, buildings and equipment	(1,262)	—
Proceeds from student loans collections	1,251	1,225
Student loans issued	(1,110)	(802)
Decrease (increase) in restricted cash for construction funds	66,807	(95,190)
Purchases of investments	(632,313)	(699,123)
Proceeds from sales and maturities of investments	<u>709,631</u>	<u>790,135</u>
Net cash provided by (used in) investing activities	<u>58,536</u>	<u>(37,990)</u>
Cash flows from financing activities:		
Proceeds from contributions for:		
Investment in endowment	16,361	21,025
Investment in planned giving	2,167	(56)
Proceeds from sale of donated securities restricted for long term purposes	355	12,612
Proceeds from bonds issued	—	104,831
Payments on bonds and notes payable	<u>(3,245)</u>	<u>(7,974)</u>
Net cash provided by financing activities	<u>15,638</u>	<u>130,438</u>
Net increase in cash and cash equivalents	4,171	4,903
Cash and cash equivalents:		
Beginning of year	<u>88,210</u>	<u>83,307</u>
End of year	<u>\$ 92,381</u>	<u>88,210</u>
Contributed securities	\$ 5,292	12,612
Cash paid for interest	11,979	8,357
Change in capital additions included in accounts payable and accrued expenses	(3,134)	(188)

See accompanying notes to financial statements.



# Notes to Financial Statements

June 30, 2019 (with summarized comparative information for June 30, 2018)

## (1) Summary of Significant Accounting Policies

### (a) Organization

Founded in 1870, Wellesley College (the College) is a private, nonprofit liberal arts college for women. In pursuit of the College mission, Wellesley prepares women for leadership roles and educates them to make a difference in the world.

### (b) Basis of Presentation

The financial statements of Wellesley College have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) using the accrual basis of accounting.

For comparison purposes, the 2019 statement of activities has been presented with 2018 summarized comparative information in total but not by net asset class. This summarized 2018 information is not intended to and does not include sufficient detail to constitute a complete presentation of changes in net assets in conformity with GAAP. Accordingly, such information should be read in conjunction with the College's financial statements for the year ended June 30, 2019, from which the summarized information was derived before the adjustments described in note 2(p) were applied to adopt Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statement of Not-for-Profit Entities*, retrospectively to the 2018 summarized comparative information.

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:

*Without donor restrictions* – Net assets that are not subject to donor-imposed stipulations, but may be designated for specific purposes by the College, or may otherwise be limited by contractual agreements with outside parties. The College records any donor-restricted contributions for which the donor-imposed restrictions are met in the same reporting period as the contribution is received within net assets without donor restrictions.

*With donor restrictions* – Net assets that are subject to donor-imposed stipulations that expire by the passage of time, can be fulfilled by actions of the College pursuant to the stipulations, or which may be perpetual.

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 unrealized gains and losses on the interest rate swap, pension related changes other than net periodic pension cost, gifts and pledges, and changes in matured planned giving agreements.

## WELLESLEY COLLEGE

### Notes to Financial Statements

June 30, 2019

(with summarized comparative information for June 30, 2018)

#### **(c) Cash and Cash Equivalents**

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

#### **(d) Investments**

Investments are generally carried at fair market value. 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.

For investments made directly by the College whose values are based on quoted market prices in active markets, the market price is used to report fair value. The College's interests in alternative investment funds such as hedge, private equity, and absolute return, are reported at the net asset value (NAV) reported by the fund managers. Unless it is probable that all or a portion of the investments sold for an amount other than NAV, the College has concluded that, as a practical expedient, NAV approximates fair value.

The College has established a framework for measuring fair value under generally accepted accounting principles (GAAP). The College determines fair value based on amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering assumptions, the College follows a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the college has the ability to access at measurement date.

Level 2: Quoted prices, other than those included in Level 1, that are either directly or indirectly observable for the assets or liabilities.

Level 3: No observable quoted prices, reliance on assumptions market participants would use if a market existed for the assets or liabilities.

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

The College's split-interest agreements with donors consist of irrevocable charitable gift annuities, pooled life income funds, charitable remainder unitrusts and annuities and perpetual trusts. Unitrusts, in which the College has a remainder interest, but that are held in trust and administered by outside

## WELLESLEY COLLEGE

### Notes to Financial Statements

June 30, 2019

(with summarized comparative information for June 30, 2018)

agents, have been recorded as gifts that are with donor restriction. 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. For planned giving contracts, the contributed assets are included at fair value within planned giving investments and investments on the Statement of Financial Position. Contribution revenues are recognized as of the date the donated assets are transferred to the College and liabilities are recorded for the present value of the estimated future payments to the donors or other beneficiaries. The liabilities are adjusted during the term of the planned giving contracts consistent with changes in the value of the assets and actuarial assumptions, and are included in annuities and unitrusts payable on the Statement of Financial Position.

#### **(e) Endowment Investment Return Spending Policy**

The College has adopted endowment investment and spending policies that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of endowment assets. The College's investment strategy is based on a long-term policy portfolio that serves as a guide for asset allocation. The Policy Portfolio was established with the goal of balancing long-term returns and risks by increasing portfolio diversification through the allocation of assets to less efficient asset classes. The return objective for the endowment assets, measured over a full market cycle, is to maximize the return against a blended index, based on the endowment's target allocation applied to the appropriate individual benchmarks. The College uses a "total return" approach to managing endowment assets in which investment returns are achieved through both capital appreciation (realized and unrealized gains) and current yield (interest and dividends). Funds are invested to maximize total return consistent with prudent risk without regard to the mix of current investment income and realized and unrealized gains or losses.

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

In accordance with the Massachusetts Uniform Prudent of Management of Institutional Funds Act, the College considers the following factors in making a determination to appropriate for spending or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the College and the donor-restricted endowment fund
3. General economic conditions

## WELLESLEY COLLEGE

### Notes to Financial Statements

June 30, 2019

(with summarized comparative information for June 30, 2018)

4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the College
7. The College's investment policies

#### **(f) Receivables, Net**

Accounts receivable include amounts due from students, student organizations and other miscellaneous receivables. Loans to students are carried at net realizable value. Student accounts receivable as of June 30, 2019 and 2018 are \$764,000 and \$799,000, respectively, and are reported net of allowances for doubtful accounts of \$187,000 and \$319,000, respectively. Loans receivable as of June 30, 2019 and 2018 were \$7,003,000 and \$7,205,000, respectively, and are reported net of allowances for doubtful loans of \$828,000 and \$768,000, respectively. The provisions are intended to provide for student accounts and loans that may not be collected. The remaining balance as of June 30, 2019 and 2018 consists of grants and other accounts 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.

#### **(g) Contributions**

Contributions of cash and other assets, including unconditional promises to give, are recorded as revenue based on any donor-imposed restrictions on the date of the donors' commitment or gift. Contributions of other assets are recorded at their estimated fair value at the date of the gift. Unconditional pledges are recorded at their estimated present value, which approximates fair value, net of an allowance for uncollectible amounts. Conditional pledges are not recognized as revenue until such time as the conditions are substantially met.

#### **(h) Land, Buildings, and Equipment**

Land, buildings, and equipment are recorded at cost, or if donated, at fair market value at the date of donation. Additions to plant assets are capitalized while scheduled maintenance and minor renovations are charged to operations. Library books are expensed when purchased. Museum collections are not capitalized. Plant assets are presented net of accumulated depreciation. Interest, depreciation, operations, and maintenance expenses have been allocated to functional expense classifications based on square footage utilized. When assets are retired or disposed of, the cost and accumulated depreciation are removed from the accounts and gains and losses from disposal are included in the

## WELLESLEY COLLEGE

### Notes to Financial Statements

June 30, 2019

(with summarized comparative information for June 30, 2018)

Statement of Activities. Depreciation is computed on a straight-line basis over the estimated useful lives of the related assets as follows:

	<u>Years</u>
Land, building and building improvements	15–60
Equipment	4–12

#### **(i) Student Charges**

The College recognizes revenue from tuition, fees, room, and board within the fiscal year in which educational services are provided. Financial aid, in the form of scholarships and grants, includes amounts funded by the endowment, gifts and unrestricted institutional resources. This amount reduces the published price of tuition for students receiving such aid. As such, financial aid is referred to as a tuition discount and represents the difference between the stated charge for tuition and fees and the amount that is billed to the student and/or third parties making payments on behalf of the student. Tuition and fee revenue was \$128,441,000 and \$121,912,000 at June 30, 2019 and 2018, respectively, and room and board revenue was \$35,549,000 and \$34,532,000. Financial aid provided to students totaled \$67,791,000 and \$63,250,000 for the years ended June 30, 2019 and 2018, respectively.

#### **(j) Grant Revenue**

Grants and contracts awarded by federal and other sponsors, which generally are considered nonexchange transactions restricted by sponsors for certain purposes, are recognized as revenue when qualifying expenditures are incurred and conditions under the agreements are met. The College has elected the simultaneous release option for conditional contributions that are also subject to purpose restrictions. Under this option, net assets without donor restrictions will include the donor-restricted contributions for which the purpose restrictions are met in the same reporting period as the revenue is recognized. Total revenue from grants and contracts recognized in net assets without donor restrictions was \$7,640,000 and \$10,437,000 for the years ended June 30, 2019 and 2018, respectively, are included in the governmental grants and private gifts and grants line on the Statement of Activities. Payments received from sponsors in advance of conditions being met are reported as deferred revenue, which totaled \$6,912,000 and \$8,512,000 as of June 30, 2019 and 2018, respectively.

Government grants normally provide for the recovery of direct and indirect costs, subject to audit. 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.

#### **(k) Auxiliary Operations**

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

## WELLESLEY COLLEGE

### Notes to Financial Statements

June 30, 2019

(with summarized comparative information for June 30, 2018)

Room and board expenses are included in the student services functional line item on the Statement of Activities.

#### **(l) 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.

The Tax Cuts and Jobs Act (the Act) was enacted on December 22, 2017. The Act impacts the College in several ways, including new excise taxes on executive compensation and net investment income, increases to unrelated business taxable income (UBTI) by the amount of certain fringe benefits for which a deduction is not allowed, changes to the net operating loss rules, repeal of the alternative minimum tax (AMT), and the computation of UBTI separately for each unrelated trade or business. Further, the Act reduces the US federal corporate tax rate and federal corporate unrelated business income tax rate from 35% to 21%.

The overall impact of the Act remains uncertain and the full impact of the Act will not be known until further regulatory guidance is provided to assist the College with calculating income and excise tax liabilities. For the year ended June 30, 2019, the College is subject to the federal excise tax imposed on college's and universities at 1.4%. The excise tax imposed is on net investment income, as defined under federal law, which includes interest, dividends, and net realized gains on assets subject to the tax. The current portion of the excise tax was approximately \$1,500,000. The College made provisions for a deferred tax liability, resulting from net unrealized gains on investment and recorded at the 1.4% tax rate, of \$3,400,000 for the year ended June 30, 2019.

#### **(m) Asset Retirement and Environmental Obligations**

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

#### **(n) Interest Rate Swap**

In fiscal year 2008, the College entered into an interest rate swap agreement in conjunction with the issuance of the Massachusetts Development Finance Agency, Variable Rate Revenue Bonds, Series I in order to convert the variable rate debt to fixed rate, thereby hedging against changes in the cash flow requirements of the College's variable rate debt obligations.

## WELLESLEY COLLEGE

### Notes to Financial Statements

June 30, 2019

(with summarized comparative information for June 30, 2018)

Net payments or receipts (differences are between variable and fixed rate) under the swap agreement are recorded in the operating section of the Statement of Activities as an allocation to the functional expense categories and are treated as another component of debt service. The change in fair value of the swap is recorded in the nonoperating section of the Statement of Activities as net unrealized gain(loss) on interest swap.

#### **(o) Use of Estimates**

The preparation of financial statements in accordance with U.S. generally accepted accounting principles 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.

#### **(p) New Accounting Pronouncements**

In May of 2014, ASU 2014-09, *Revenue from Contracts with Customers*, was issued by the FASB and is intended to improve the financial reporting requirements for revenue from contracts with customers. The ASU establishes a five-step model and application guidance for determining the timing and amount of revenue recognition. The related application guidance in the ASU replaces most existing revenue recognition guidance in GAAP. The College's adoption of the ASU did not materially change the timing or amount of revenue recognized by the College. However, the ASU requires that tuition, fees and auxiliary student revenues be presented in the statement of activities at the transaction price, i.e., net of any institutional student aid. Previously, such revenues were presented gross, i.e., at published rates, followed by a reduction for institutional student aid. The College has retrospectively adopted this accounting standard in fiscal year 2019. Accordingly, the College's 2018 statement of activities has been revised to conform to the 2019 presentation.

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The new ASU is intended to assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonexchange transactions) within the scope of *Topic 958, Not-for-Profit Entities*, or as exchange transactions subject to other guidance and (2) determining whether a contribution is conditional. The ASU clarifies that a contribution is conditional if the agreement includes one or more barriers that must be overcome for the recipient to be entitled to the assets transferred and a right of return for the transferred assets or a right of release of the promisor's obligation to transfer assets. The ASU became effective for the College for the year ended June 30, 2019. The College's adoption of the ASU on a modified prospective basis did not have a material effect on its financial statements.

In 2019 the College adopted Financial Accounting Standards Board Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The primary changes, which affect most not-for-profit financial statements, include revisions to simplify and enhance the presentation of net assets, a requirement to present functional and natural expenses in a single location, and expanded disclosures regarding liquidity and availability of resources. The ASU is effective for fiscal years beginning after December 15, 2017. A

**WELLESLEY COLLEGE**

Notes to Financial Statements

June 30, 2019

(with summarized comparative information for June 30, 2018)

summary of the net asset reclassifications resulting from the adoption of ASU 2016-14 as of June 30, 2018 and 2017 is as follows (in thousands):

	<b>ASU 2016-14 Classification</b>		
	<b>Without donor restrictions</b>	<b>With donor restrictions</b>	<b>Total net assets</b>
2018 ending net assets as previously presented:			
Unrestricted	\$ 637,501	—	637,501
Temporarily restricted	—	1,113,462	1,113,462
Permanently restricted	—	581,807	581,807
2018 ending net assets, as reclassified	<u>\$ 637,501</u>	<u>1,695,269</u>	<u>2,332,770</u>

	<b>ASU 2016-14 Classification</b>		
	<b>Without donor restrictions</b>	<b>With donor restrictions</b>	<b>Total net assets</b>
2017 ending net assets as previously presented:			
Unrestricted	\$ 641,445	—	641,445
Temporarily restricted	—	1,005,069	1,005,069
Permanently restricted	—	555,192	555,192
2017 ending net assets, as reclassified	<u>\$ 641,445</u>	<u>1,560,261</u>	<u>2,201,706</u>

**(q) Reclassifications**

Certain other reclassifications have been made to the 2018 information to confirm to the 2019 presentation.

## WELLESLEY COLLEGE

### Notes to Financial Statements

June 30, 2019

(with summarized comparative information for June 30, 2018)

#### (2) Liquidity and Availability

As of June 30, 2019, financial assets and liquidity resources available within one year for general expenditure, such as operating expense, interest and principal payments on debt, and capital renewal programs, were as follows (in thousands):

	<u>2019</u>
Financial assets:	
Cash and cash equivalents	\$ 92,381
Contributions and accounts receivable, net	12,034
Fiscal 2020 endowment appropriation	<u>91,452</u>
Total financial assets available	195,867
Liquidity resources:	
Bank line of credit available	<u>60,000</u>
Total financial assets and other liquidity resources available	<u>\$ 255,867</u>

To manage liquidity, the College regularly monitors the availability of resources available to meet its general operating expenditures. Cash flows are subject to seasonal variations attributable to the timing of tuition billings, receipts of gifts and grants, pledge payments and transfers from the endowment.

In addition, as of June 30, 2019, the College had \$663 million of board designated endowment funds. Although the College does not intend to spend from its board-designated endowment funds, these amounts could be made available with Board approval, subject to liquidity provisions of underlying investments.

#### (3) Contributions Receivable

Contributions receivable, net, is summarized as follows at June 30 (in thousands):

	<u>2019</u>	<u>2018</u>
Unconditional promises expected to be collected in:		
Less than one year	\$ 10,898	13,348
One year to five years	24,187	52,238
Over five years	13,083	12,916
Less discounts and allowance for uncollectible accounts	<u>(6,024)</u>	<u>(10,399)</u>
Total	42,144	68,103
Assets held by external trustee	<u>7,902</u>	<u>8,963</u>
Contributions receivable, net	<u>\$ 50,046</u>	<u>77,066</u>

## WELLESLEY COLLEGE

### Notes to Financial Statements

June 30, 2019

(with summarized comparative information for June 30, 2018)

Contributions receivable expected to be collected within one year are recorded at their net realizable value. Those expected to be collected in future years are recorded at the present value of estimated future cash flows. The present value of estimated future cash flows has been measured at the time of the contribution using rates indicative of the market and credit risk associated with the contribution. Discount rates used to calculate the present value of contributions receivable ranged from 3.0% to 6.0% as of June 30, 2019 and 2018.

#### (4) Land, Buildings and Equipment

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

	<u>2019</u>	<u>2018</u>
Land and land improvements	\$ 50,107	50,093
Buildings and building improvements	586,021	565,525
Equipment	9,371	8,511
Construction in progress	<u>94,175</u>	<u>28,645</u>
	739,674	652,774
Less accumulated depreciation	<u>(318,791)</u>	<u>(299,175)</u>
Total	<u>\$ 420,883</u>	<u>353,599</u>

Depreciation and amortization expense was \$20,733,000 and \$20,359,000 for the years ended June 30, 2019 and 2018, respectively.

The College recognized \$932,000 and \$1,026,000 of operating expenses relating to the accretion of environmental liabilities associated with the asset retirement obligations for the years ended June 30, 2019 and 2018, respectively. Conditional asset retirement obligations of \$21,850,000 and \$24,348,000 at June 30, 2019 and 2018, respectively, are presented in the liabilities section of the Statement of Financial Position.

**WELLESLEY COLLEGE**

## Notes to Financial Statements

June 30, 2019

(with summarized comparative information for June 30, 2018)

**(5) Investments and Fair Value Measurements**

The fair values of investments at June 30, 2019 and 2018 were as follows (\$000s):

	<u>2019</u>	<u>2018</u>
Investments:		
Investments pooled:		
Cash and cash equivalents	\$ 142,674	120,825
Bonds	90,621	63,039
Equities	642,010	675,252
Private equity	596,981	487,045
Real assets	160,706	179,325
Absolute return	524,457	564,641
Other assets	851	851
Total pooled investments	<u>2,158,300</u>	<u>2,090,978</u>
Faculty mortgages	<u>23,056</u>	<u>22,011</u>
Total pooled investments and faculty mortgages	<u>2,181,356</u>	<u>2,112,989</u>
Investments not pooled:		
Cash and cash equivalents	<u>218</u>	<u>215</u>
Total investments	<u>\$ 2,181,574</u>	<u>2,113,204</u>
	<u>2019</u>	<u>2018</u>
Planned giving investments:		
Pooled income funds and annuities:		
Cash and cash equivalents	\$ 1,138	874
Bonds	11,266	10,493
Equities	27,782	29,535
Total pooled income and annuities	<u>40,186</u>	<u>40,902</u>
Charitable remainder trusts:		
Cash and cash equivalents	454	294
Bonds	3,866	3,797
Equities	9,482	9,386
Other assets	2,281	1,887
Assets held by external trustee	1,495	1,296
Total charitable remainder trusts	<u>17,578</u>	<u>16,660</u>
Total planned giving investments	<u>\$ 57,764</u>	<u>57,562</u>

**WELLESLEY COLLEGE**

Notes to Financial Statements

June 30, 2019

(with summarized comparative information for June 30, 2018)

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

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

Under the terms of certain limited partnership agreements, the College is obliged to periodically advance additional funding for private equity investments. Such commitments generally have fixed expiration dates or other termination clauses. The College maintains sufficient liquidity in its investment portfolio to cover such calls. Outstanding commitments amounted to approximately \$357,601,000 and \$343,425,000 as of June 30, 2019 and 2018, respectively.

*Fair Value Disclosures*

The following fair value hierarchy tables present information about the College's assets and liabilities measured at fair value on a recurring basis valued at June 30, 2019 and 2018 (in thousands):

Assets	2019				
	NAV Practical expedient	Level 1	Level 2	Level 3	Total
Investments:					
Equities	\$ 594,748	47,263	—	—	642,011
Bonds	90,621	—	—	—	90,621
Private equity	596,981	—	—	—	596,981
Real assets	160,706	—	—	—	160,706
Absolute return	498,493	25,963	—	—	524,456
Cash and other assets	851	142,892	—	23,056	166,799
Total investments at fair value	1,942,400	216,118	—	23,056	2,181,574
Planned giving investments	—	—	—	57,764	57,764
Total investments at fair value	\$ 1,942,400	216,118	—	80,820	2,239,338
<b>Liabilities</b>					
Interest rate swap agreements	\$ —	—	(16,708)	—	(16,708)
Total	\$ —	—	(16,708)	—	(16,708)

**WELLESLEY COLLEGE**

Notes to Financial Statements

June 30, 2019

(with summarized comparative information for June 30, 2018)

Assets	2018				
	NAV Practical expedient	Level 1	Level 2	Level 3	Total
Investments:					
Equities	\$ 621,606	53,646	—	—	675,252
Bonds	63,039	—	—	—	63,039
Private equity	487,045	—	—	—	487,045
Real assets	179,325	—	—	—	179,325
Absolute return	540,307	24,334	—	—	564,641
Cash and other assets	49,616	72,275	—	22,011	143,902
Total investments at fair value	1,940,938	150,255	—	22,011	2,113,204
Planned giving investments	—	—	—	57,562	57,562
Total investments at fair value	\$ 1,940,938	150,255	—	79,573	2,170,766
<b>Liabilities</b>					
Interest rate swap agreements	\$ —	—	(11,371)	—	(11,371)
Total	\$ —	—	(11,371)	—	(11,371)

Interest rate swaps are valued at the present value of the series of net cash flows resulting from the exchange of fixed-rate payments for floating rate payments over the remaining life of the contract from balance sheet date. Each floating rate payment is calculated based on forward market rates at valuation date for each respective payment date. Inputs to determine discount factors and forward rates include market prices for reference securities, yield curves, credit curves, measures of volatility, prepayment rates, assumptions for nonperformance risk, and correlations of such inputs. Certain inputs are unobservable; therefore the fair value is categorized as Level 3.

The following tables present planned giving investment assets and faculty mortgages carried at fair value as of June 30, 2019 and 2018 that are classified within Level 3 of the fair value hierarchy (in thousands):

	2019	
	Planned giving assets	Faculty mortgages
Balance June 30, 2018	\$ 57,562	22,011
Realized and unrealized gains	3,394	525
Purchases	2,064	666
Sales	(5,256)	(146)
Balance June 30, 2019	\$ 57,764	23,056

**WELLESLEY COLLEGE**

Notes to Financial Statements

June 30, 2019

(with summarized comparative information for June 30, 2018)

	<b>2018</b>	
	<b>Planned giving assets</b>	<b>Faculty mortgages</b>
Balance June 30, 2017	\$ 55,530	20,491
Realized and unrealized gains	3,553	359
Purchases	2,900	1,200
Sales	(4,421)	(39)
Balance June 30, 2017	\$ 57,562	22,011

Detailed liquidity of the College's investments as of June 30, 2019 and 2018 is as follows (in thousands):

	<b>2019</b>					
	<b>Daily/Monthly</b>	<b>Quarterly</b>	<b>Greater than quarterly and less than one year</b>	<b>Greater than one year</b>	<b>Illiquid</b>	<b>Total</b>
Investments:						
Equities	\$ 326,652	315,359	—	—	—	642,011
Bonds	46,271	11,087	33,263	—	—	90,621
Private equity	—	—	—	—	596,981	596,981
Real assets	—	—	—	—	160,706	160,706
Absolute return	86,341	100,575	302,940	—	34,600	524,456
Cash and other assets	142,892	—	—	—	23,907	166,799
Total investments at fair value	\$ 602,156	427,021	336,203	—	816,194	2,181,574
	<b>2018</b>					
	<b>Daily/Monthly</b>	<b>Quarterly</b>	<b>Greater than quarterly and less than one year</b>	<b>Greater than one year</b>	<b>Illiquid</b>	<b>Total</b>
Investments:						
Equities	\$ 334,236	321,529	19,487	—	—	675,252
Bonds	43,945	4,773	14,321	—	—	63,039
Private equity	—	—	—	—	487,045	487,045
Real assets	—	—	—	—	179,325	179,325
Absolute return	81,896	138,185	302,464	14,955	27,141	564,641
Cash and other assets	72,275	—	48,765	—	22,862	143,902
Total investments at fair value	\$ 532,352	464,487	385,037	14,955	716,373	2,113,204

## WELLESLEY COLLEGE

### Notes to Financial Statements

June 30, 2019

(with summarized comparative information for June 30, 2018)

#### **(6) Related Parties**

The Wellesley College Alumnae Association is a separate 501(c)(3) organization whose mission is to support the institutional priorities of Wellesley College. Endowment investments held on its behalf are included in the College's long term investment pool and are reflected as part of the College's assets and liabilities. Assets at fair value totaled \$9,001,000 and \$8,753,000 at June 30, 2019 and 2018, respectively and are included within investments on the Statement of Financial Position.

Mortgages due from faculty of \$23,056,000 and \$22,011,000 at June 30, 2019 and 2018, respectively, are included within investments on the Statement of Financial Position.

The College had Charitable Remainder Trusts, where the College is the trustee, invested alongside the endowment with a market value of \$8,140,000 and \$7,777,000 at June 30, 2019 and June 30, 2018, respectively. These assets are included within the investments total on the Statement of Financial Position.

#### **(7) Bonds Payable and Lines of Credit**

Indebtedness at June 30, 2019 and 2018 includes various bonds issued through the Massachusetts Development Finance Agency (MDFA). Interest payments on debt totaled \$11,979,000 and \$7,290,000 during fiscal years 2019 and 2018, respectively.

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

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

The College has an available line of credit with a bank. The line of credit allows the College to borrow up to \$60 million, with various terms and an interest rate at LIBOR. This line of credit can be used for varying purposes and expires on March 01, 2023. As of June 30, 2019 and 2018, there were no amounts drawn or outstanding under this line of credit.

**WELLESLEY COLLEGE**

Notes to Financial Statements

June 30, 2019

(with summarized comparative information for June 30, 2018)

Balances of outstanding bonds payable at June 30 consisted of the following (in thousands):

	<b>2019</b>	<b>2018</b>
M DFA, Series I, Variable Rate Demand Bonds, bearing interest at a weekly rate, maturing July 2039. The rate at June 30, 2019 was 2.424%.	\$ 57,385	57,385
M DFA, Series G, Variable Rate Demand Bonds, bearing interest at a weekly rate, maturing July 2039. The rate at June 30, 2019 was 1.944%.	20,000	20,000
M DFA, Series J, Revenue Bonds, issued at an interest rate of 5.0%, maturing 2042.	49,800	49,800
Wellesley College, Series K, Taxable Bonds, bearing interest at a rate of 2.421% to 4.196%, maturing 2042.	87,625	89,850
M DFA, Series L, Revenue Bonds, issued at an interest rate of 3.000% to 5.000%, maturing 2048.	95,480	96,500
Total bonds payable	310,290	313,535
Less unamortized bond issue costs	(1,932)	(2,030)
Add unamortized original issue premium	12,860	13,556
	\$ 321,218	325,061

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

2020	\$	1,140
2021		2,685
2022		3,790
2023		4,555
2024		3,620
Thereafter		294,500
Total bonds payable	\$	310,290

In order to reduce exposure to floating interest rates on variable rate debt, in January 2008, the College entered into an interest rate swap agreement, with a term through 2039. This swap effectively locks in a fixed rate of 3.239% per annum. The agreement has a notional amount of \$57,385,000. At June 30, 2019 and 2018, the market value of the swap agreement amounted to a liability of \$16,708,000 and \$11,371,000, respectively. The fair value of the swaps is the estimated amount that the College would receive or pay to terminate the agreement at the reporting date, taking into account current interest rates and the current credit worthiness of the swap counterparties. The value of the interest rate swap is reflected within other liabilities on the Statement of Financial Position. The change in fair value of the swap is recorded in the nonoperating section of the Statement of Activities as net unrealized gain or loss on

## WELLESLEY COLLEGE

### Notes to Financial Statements

June 30, 2019

(with summarized comparative information for June 30, 2018)

interest swap. This financial instrument necessarily involves counterparty credit exposure and the College's own nonperformance risk. The counterparty for this swap agreement is a major financial institution that meets the College's criteria for financial stability and credit-worthiness. The change in fair value resulted in a loss of \$5,337,000 in 2019 and a gain of \$3,759,000 in 2018. Additionally, the College paid net interest expense in association with the swap agreement of \$877,000 and \$1,385,000 for the years ended June 30, 2019 and 2018, respectively, which are recorded in the operating section of the Statement of Activities as an allocation to the functional expense categories.

Restricted cash represents amounts for construction held by trustees in association with the Massachusetts Development Finance Agency Series L bond issue. The College had cash on deposit with bond trustees of \$28,383,000 and \$95,190,000 as of June 30, 2019 and 2018, respectively.

In the event that the College receives notice of any optional tender on its variable-rate bonds, or if the bonds become subject to mandatory tender, the purchase price of the bonds will be paid from the remarketing of such bonds. However, if the remarketing proceeds are insufficient, the College will be obligated to purchase the bonds tendered with internal liquidity.

#### **(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. Split-interest agreements are included in planned giving investments, and at June 30, 2019 and 2018, there is approximately \$8,140,000 and \$7,777,000, respectively, invested alongside the endowment, which are included within the investments total on the Statement of Financial Position. Contributions are recognized at the date the trusts are established net of a liability for the present value of the estimated future cash outflows to beneficiaries. The present value of payments is discounted at a rate of return that ranges from 3.5% to 4%. The liability of \$29,101,000 and \$30,735,000 at June 30, 2019 and 2018, 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) Retirement Plans**

The College has a defined contribution, noncontributory annuity pension plan for faculty and administrative personnel administered by the Teachers Insurance and Annuity Association and College Retirement Equities Fund (TIAA/CREF). Under this Plan, the College contributed \$8,515,000 and \$8,887,000, respectively, for the years ended June 30, 2019 and 2018.

The College also has a defined benefit pension plan for certain classified office and service employees. The Plan provides retirement and death benefits based on the highest thirty-six months of consecutive earnings. Contributions to the plan are made in amounts sufficient to meet the minimum funding requirements set forth in the Employee Retirement Income Security Act of 1974. As of December 2012, this plan is no longer accepting new participants.

The measurement date of determining the benefit obligations and net periodic benefit cost for the defined benefit plan were June 30, 2019 and 2018.

**WELLESLEY COLLEGE**

## Notes to Financial Statements

June 30, 2019

(with summarized comparative information for June 30, 2018)

The significant assumptions underlying the actuarial computations at June 30 were as follows (in thousands):

	<u>2019</u>	<u>2018</u>
Assumptions used to determine benefit obligations:		
Discount rate	3.450 %	4.150 %
Rate of compensation increase	3.000	3.000
Assumptions used to determine net periodic benefit cost:		
Discount rate	4.150 %	3.800 %
Expected return on plan assets	7.000	7.000
Rate of compensation increase	3.000	3.000
Change in projected benefit obligation:		
Benefit obligation at end of prior year	\$ 74,393	74,773
Service cost	2,057	2,182
Interest cost	3,018	2,783
Actuarial loss (gain), net of administrative expenses paid	5,527	(2,017)
Benefits paid	<u>(4,727)</u>	<u>(3,328)</u>
Benefit obligation at end of year	<u>\$ 80,268</u>	<u>74,393</u>
Accumulated benefit obligation	\$ 71,172	65,496
Change in plan assets:		
Fair value of plan assets at end of prior year	\$ 50,939	48,373
Actual return on plan assets, net of administrative expenses	3,061	3,644
Employer contributions	3,846	2,250
Benefits paid	<u>(4,727)</u>	<u>(3,328)</u>
Fair value of plan assets at end of year	<u>\$ 53,119</u>	<u>50,939</u>

**WELLESLEY COLLEGE**

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June 30, 2019

(with summarized comparative information for June 30, 2018)

	<b>2019</b>	<b>2018</b>
Funded status:		
Funded status	\$ (27,150)	(23,453)
Components of net periodic benefit cost:		
Service cost	\$ 2,057	2,182
Interest cost	3,018	2,783
Expected return on plan assets	(3,066)	(3,189)
Net loss on amortization	641	907
Net periodic benefit cost	\$ 2,650	2,683
New net actuarial loss (gain)	\$ 5,535	(2,472)
Net loss on amortization	(641)	(907)
	\$ 4,894	(3,379)

Estimated future benefit payments reflecting anticipated service, as appropriate, are expected to be paid as shown below (in thousands):

2020	\$ 3,324
2021	4,317
2022	3,915
2023	4,385
2024	5,082
2025–2028	23,050
	\$ 44,073

The College expects to make an employer contribution into the defined benefit plan of \$2,000,000 in the 2020 fiscal year.

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

**WELLESLEY COLLEGE**

Notes to Financial Statements

June 30, 2019

(with summarized comparative information for June 30, 2018)

The following lists the Plan's asset allocation at June 30, 2019 and 2018 (in thousands):

<u>Asset category</u>	<u>Value at June 30, 2019</u>	<u>Value at June 30, 2018</u>
Equity securities	\$ 34,723	35,181
Real estate investment trust	3,622	1,069
Commodities	2,690	3,542
Fixed income	12,270	9,859
Cash and cash equivalents	(186)	1,288
	<u>\$ 53,119</u>	<u>50,939</u>

All pension plan assets are categorized in Level 1 of the fair value hierarchy and are in commingled funds.

The investment strategy for the pension assets is consistent with the approach to all other investment assets. The policies and strategies governing all investments for the College are designed to achieve targeted investment objectives while managing risk prudently. Risk management strategies include maintaining a diversified portfolio based on asset class, investment approach and security holdings. For the pension plan assets, an additional strategy is to maintain sufficient liquidity to meet benefit obligations as they become current.

**(10) Net Assets**

Net assets consist of the following at June 30, 2019 and 2018 (in thousands):

	<u>2019</u>	<u>2018</u>
Without donor restrictions:		
Board designated endowments:		
Student financial aid	\$ 40,722	42,821
Professorships	112,648	107,537
Other programming	510,386	497,394
Total board designated endowments	663,756	647,752
Undesignated	(64,859)	(74,807)
Accrued pension liability	(27,150)	(23,453)
Net investment in plant	89,490	88,009
Total without donor restrictions	<u>661,237</u>	<u>637,501</u>

**WELLESLEY COLLEGE**

Notes to Financial Statements

June 30, 2019

(with summarized comparative information for June 30, 2018)

	<u>2019</u>	<u>2018</u>
With donor restrictions:		
Donor restricted endowments:		
Student financial aid	\$ 585,702	567,724
Professorships	430,173	430,400
Other programming	<u>493,784</u>	<u>459,336</u>
Total donor restricted endowments	1,509,659	1,457,460
Purpose restricted and other:		
Student financial aid and loans	1,079	1,542
Gifts and plant	171,457	188,614
Research	2,753	2,563
Unexpended endowment income	10,528	27,927
Other	<u>19,872</u>	<u>17,163</u>
Total with donor restrictions	<u>1,715,348</u>	<u>1,695,269</u>
Total net assets	\$ <u><u>2,376,585</u></u>	<u><u>2,332,770</u></u>

**(11) Endowment**

The College's endowment consists of approximately 2,000 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments (quasi funds). Net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

At June 30, 2019, endowment net assets consisted of the following:

	<u>2019</u>		
	<u>Without donor</u>	<u>With donor</u>	<u>Total</u>
	<u>restrictions</u>	<u>restrictions</u>	
Board designated endowment funds	\$ 663,756	—	663,756
Donor-restricted endowment funds:			
Historical cost	—	595,206	595,206
Appreciation	<u>—</u>	<u>914,453</u>	<u>914,453</u>
Total endowment net assets	\$ <u><u>663,756</u></u>	<u><u>1,509,659</u></u>	<u><u>2,173,415</u></u>

**WELLESLEY COLLEGE**

Notes to Financial Statements

June 30, 2019

(with summarized comparative information for June 30, 2018)

	<b>2018</b>		
	<b>Without donor restrictions</b>	<b>With donor restrictions</b>	<b>Total</b>
Board designated endowment funds	\$ 647,752	—	647,752
Donor-restricted endowment funds:			
Historical cost	—	579,409	579,409
Appreciation	—	878,051	878,051
Total endowment net assets	<u>\$ 647,752</u>	<u>1,457,460</u>	<u>2,105,212</u>

Changes in endowment net assets for the year ended June 30, 2019 and 2018 were as follows (in thousands):

	<b>Without donor restrictions</b>	<b>With donor restrictions</b>	<b>Total</b>
Balance June 30, 2018	\$ 647,752	1,457,460	2,105,212
Net investment return	44,409	92,640	137,049
Contributions and transfers	7,086	18,528	25,614
Distributions	(35,491)	(58,969)	(94,460)
Balance June 30, 2019	<u>\$ 663,756</u>	<u>1,509,659</u>	<u>2,173,415</u>

	<b>Without donor restrictions</b>	<b>With donor restrictions</b>	<b>Total</b>
Balance June 30, 2017	\$ 591,477	1,339,275	1,930,752
Net investment return	67,910	137,877	205,787
Contributions and transfers	15,793	42,913	58,706
Distributions	(27,428)	(62,605)	(90,033)
Balance June 30, 2018	<u>\$ 647,752</u>	<u>1,457,460</u>	<u>2,105,212</u>

The College had no underwater donor-restricted endowment funds for the years ended June 30, 2019 and 2018.

## WELLESLEY COLLEGE

### Notes to Financial Statements

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#### (12) Expenses

The statement of activities presents expenses by functional classification. The College also summarizes its expenses by natural classification. The composition of expenses for the years ended June 30, 2019 and 2018 in natural classification are as follows (in thousands):

	Salaries and wages	Employee benefits	Supplies and services	Other expenses	Depreciation, amortization and interest	Total expenses	
						2019	2018
Instruction	\$ 48,984	16,555	3,699	13,506	10,731	93,475	95,679
Sponsored research	5,719	1,691	902	4,189	—	12,501	11,530
Student services	18,513	6,090	8,715	6,811	13,098	53,227	51,084
Academic support	6,234	3,200	4,138	7,892	3,037	24,501	22,955
Institutional support	22,512	6,914	4,597	2,068	3,738	39,829	38,488
Auxiliary operations	3,440	1,094	1,430	4,109	2,077	12,150	11,013
Total operating expenses for 2019	\$ 105,402	35,544	23,481	38,575	32,681	235,683	230,749
Net periodic postretirement cost other than service cost	\$ —	593	—	—	—	593	456
Total operating expenses for 2018	\$ 98,879	34,323	18,977	47,675	30,895	—	230,749

#### (13) Commitments and Contingencies

In 1975, the College identified the presence of soil tainted with various hazardous materials on the site of an abandoned 19th century paint factory acquired by the College in 1932. After the passage of federal and state "superfund" laws in the early 1980's, under which the College had liability for the legacy paint factory contamination as the property's current owner, and after the promulgation in the late 1980s of state regulations governing the process for responding to the public health and ecological risks posed by contaminated land, the College undertook a lengthy process of investigation, remediation and monitoring. This process was substantially completed by 2014, but the College remains responsible for the periodic monitoring of conditions at the paint factory site.

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

## WELLESLEY COLLEGE

### Notes to Financial Statements

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

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

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

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

In 2018, the College offered a voluntary retirement program to eligible faculty and staff. Total expenses related to the program, recorded in the nonoperating section of the Statement of Activities, was \$9,832,000. The future payment obligations of \$4,811,000 and \$6,092,000 at June 30, 2019 and 2018, respectively, are included in the accounts payable and accrued expenses section of the Statement of Financial Position.

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

#### **(14) Subsequent Events**

The College has assessed the impact of subsequent events through October 25, 2019, the date the audited financial statements were issued, and has concluded that there are no such events that require adjustment to the audited financial statements or disclosure in the notes of the audited financial statements.

