

Wellesley College

**Report on Federal Awards in Accordance
with OMB Circular A-133**

June 30, 2009

EIN # 042103637

Wellesley College

Report on Federal Awards in Accordance with OMB Circular A-133

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**PART I - FINANCIAL STATEMENTS AND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Report of Independent Auditors

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, 2009 and 2008 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 described in Notes 1 and 5 to the financial statements, in 2009 the College adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurements*.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2009, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters for the year ended June 30, 2009. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards for the year ended June 30, 2009 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

PricewaterhouseCoopers LLP

October 30, 2009

Wellesley College
Statements of Financial Position
June 30, 2009 and 2008
(\$000s)

	<u>2009</u>	<u>2008</u>
Assets		
Cash and cash equivalents	\$ 23,929	\$ 18,538
Cash and cash equivalents, restricted	26,817	39,985
Accounts receivable, net	372	747
Loans receivable, net	9,280	8,801
Contributions receivable, net	47,724	46,950
Grants receivable	1,226	1,176
Prepaid, inventory and other assets	4,930	5,918
Investments	1,287,284	1,629,447
Planned giving investments	63,085	76,530
Collateral received for securities lending	54,233	103,246
Land, buildings and equipment, net	<u>292,180</u>	<u>285,785</u>
 Total assets	 <u><u>\$1,811,060</u></u>	 <u><u>\$2,217,123</u></u>
 Liabilities		
Accounts payable and accrued expenses	\$ 35,097	\$ 26,665
Student deposits and deferred revenues	2,678	3,664
Advances under grants and contracts	2,390	2,166
Annuities and unitrusts payable	37,556	38,580
Asset retirement obligation	17,474	16,883
Accrued pension liability	15,866	2,056
Liability under securities lending transactions	54,233	103,246
Bonds and notes payable	152,349	156,938
Government loan advances	<u>4,569</u>	<u>4,569</u>
 Total liabilities	 <u>322,212</u>	 <u>354,767</u>
 Net Assets		
Unrestricted	506,452	649,079
Temporarily restricted	573,376	812,235
Permanently restricted	<u>409,020</u>	<u>401,042</u>
 Total net assets	 <u>1,488,848</u>	 <u>1,862,356</u>
 Total liabilities and net assets	 <u><u>\$1,811,060</u></u>	 <u><u>\$2,217,123</u></u>

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

Wellesley College
Statement of Activities
For the year ended June 30, 2009
(\$000s)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2009 Total
Operating Revenues				
Tuition and Fees	\$ 86,543	\$ -	\$ -	\$ 86,543
Less financial aid				
Donor sponsored	(28,854)	-	-	(28,854)
Institutionally sponsored	(10,959)	-	-	(10,959)
Net tuition and fees	46,730	-	-	46,730
Auxiliary operations	30,132	-	-	30,132
Government grants	3,657	-	-	3,657
Private gifts and grants	18,588	3,712	-	22,300
Investment return designated for operations	39,088	42,111	-	81,199
Other	4,060	-	-	4,060
Net assets released from restrictions	44,871	(44,871)	-	-
Total operating revenues	187,126	952	-	188,078
Operating Expenses				
Instruction and departmental research	79,149	-	-	79,149
Sponsored research and other programs	10,433	-	-	10,433
Library	10,089	-	-	10,089
Student services	14,131	-	-	14,131
General administration	20,313	-	-	20,313
General institutional	24,776	-	-	24,776
Auxiliary operations	34,954	-	-	34,954
Total operating expenses	193,845	-	-	193,845
Nonoperating Activities				
Investment return, net of spending allocation	(127,591)	(244,087)	800	(370,878)
Matured planned giving agreements	1,830	(2,567)	737	-
Gifts and pledges	2,991	11,254	6,441	20,686
Pension related changes other than net periodic pension cost	(12,028)	-	-	(12,028)
Net realized/unrealized loss on interest swap	(5,521)	-	-	(5,521)
Net assets released from restrictions	4,411	(4,411)	-	-
Total nonoperating revenues	(135,908)	(239,811)	7,978	(367,741)
Net change in net assets	(142,627)	(238,859)	7,978	(373,508)
Net assets at beginning of year	649,079	812,235	401,042	1,862,356
Net assets at end of year	\$ 506,452	\$ 573,376	\$ 409,020	\$ 1,488,848

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

Wellesley College
Statement of Activities
For the year ended June 30, 2008
(\$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.

Wellesley College
Statements of Cash Flows
For the years ended June 30, 2009 and 2008
(\$000s)

	<u>2009</u>	<u>2008</u>
Cash Flows from Operating Activities		
Change in net assets	\$ (373,508)	\$ (43,565)
Adjustment to reconcile change in net assets to net cash used by operating activities:		
Depreciation and amortization	13,587	13,504
Contributions restricted for investments	(13,992)	(12,098)
Receipt of contributed securities	(1,442)	(5,898)
Realized and unrealized (gains) losses on investments	291,054	(7,141)
Change in discount and allowance for doubtful accounts	(1,392)	(1,311)
Pension related changes other than net periodic pension cost	12,028	(301)
Debt extinguishment charge	-	1,540
Unrealized loss (gain) on interest swap	4,213	(37)
Changes in operating assets and liabilities:		
Accounts receivable, net	315	802
Contributions receivable, net	703	2,126
Grants receivable	(50)	134
Prepaid, inventory and other assets	988	(261)
Accounts payable and accrued expenses	7,517	(7,168)
Student deposits and deferred revenue	(986)	(27)
Advances under grants and contracts	224	(147)
Annuities and unitrusts payable	(1,024)	(461)
Net cash used in operating activities	<u>(61,765)</u>	<u>(60,309)</u>
Cash Flows from Investing Activities		
Purchase of plant and equipment	(20,931)	(17,247)
Proceeds from student loans collections	976	1,168
Student loans issued	(1,480)	(1,779)
Decrease (increase) in restricted cash for construction funds	1,599	(21,620)
Decrease (increase) in restricted cash for plant and equipment	11,567	(582)
Purchases of investments	(565,665)	(811,163)
Proceeds from sales and maturities of investments	631,663	874,256
Net cash provided by investing activities	<u>57,729</u>	<u>23,033</u>
Cash Flows from Financing Activities		
Proceeds from contributions for:		
Investment in endowment	7,207	7,186
Investment in planned giving	2,406	670
Plant and equipment	4,379	4,242
Bond and notes payable proceeds received, net	-	55,303
Payments on bonds and notes payable	(4,565)	(36,170)
Net cash provided by financing activities	<u>9,427</u>	<u>31,231</u>
Net increase/(decrease) in cash and cash equivalents	5,391	(6,045)
Cash and cash equivalents, beginning of year	<u>18,538</u>	<u>24,583</u>
Cash and cash equivalents, end of year	<u>\$ 23,929</u>	<u>\$ 18,538</u>
 Contributed securities	 \$ 1,442	 \$ 5,898
Cash paid for interest	\$ 3,591	\$ 4,996
Capital additions included in accounts payable and accrued expenses	\$ 3,662	\$ 4,587
Net change in securities lending	\$ (49,013)	\$ 15,426

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

Wellesley College
Notes to the Financial Statements
June 30, 2009 and 2008

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.

Wellesley College
Notes to the Financial Statements
June 30, 2009 and 2008

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

(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

Wellesley College
Notes to the Financial Statements
June 30, 2009 and 2008

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 as updated in 2009 and guidance from the Massachusetts Attorney General. Future utilization of gains is dependent on market performance.

Deficiencies of \$6,587,000 and \$52,000 for donor-restricted endowment funds, resulting from declines in market value, have been offset by an allocation from unrestricted net assets to temporarily restricted net assets for the years ended June 30, 2009 and 2008, respectively. As the market value of the portfolio increases, the deficiency will reverse. The allocation of deficiencies is recorded in accordance with FAS 124, "Accounting for Certain Investments Held by Not-for-Profit Organizations".

(d) 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.

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.

Wellesley College
Notes to the Financial Statements
June 30, 2009 and 2008

(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 2009 and 2008, are reported net of allowances for doubtful accounts of \$434,000 and \$374,000, respectively. Loans receivable for 2009 and 2008, are reported net of allowances for doubtful loans of \$719,000 and \$694,000, 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:

	<u>Years</u>
Land improvements	20
Buildings and improvements	20-40
Equipment	4-12

Wellesley College
Notes to the Financial Statements
June 30, 2009 and 2008

(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 non-profit organization under Section 501(c)(3) of the Internal Revenue Code.

(n) Conditional Asset Retirement Obligations

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

(o) 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.

Wellesley College
Notes to the Financial Statements
June 30, 2009 and 2008

(q) New Accounting Pronouncements

Effective July 1, 2008, the College adopted Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and enhances disclosures about fair value measurements. Footnote #5 further describes the College's implementation of SFAS No. 157.

The College adopted the FASB issued FASB Staff position No. 117-1, Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds (FSP FAS 117-1), which, among other things, provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Act of 2006 (UPMIFA) and additional disclosures about an organization's endowment funds. Footnote #12 further describes the College's implementation of FAS 117-1.

The College adopted SFAS No. 165, "Subsequent Events," as of June 30, 2009. SFAS 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued and requires disclosure of the date through which an entity has evaluated subsequent events. Subsequent events have been evaluated through October 30, 2009, which is the date financial statements became available to be issued.

Effective July 1, 2007, the College adopted Financial Accounting Standards Board (FASB) Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes – An Interpretation of SFAS No. 109, Accounting for Income Taxes. FIN 48 addresses the accounting for uncertainty 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) Reclassifications

Certain amounts have been reclassified in the prior year financial statements to conform with current year classification.

Wellesley College
Notes to the Financial Statements
June 30, 2009 and 2008

2. Contributions Receivable

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

Unconditional Promises Expected to be Collected in:	2009	2008
Less than one year	\$ 7,732	\$ 6,298
One year to five years	47,160	48,477
Over five years	400	1,220
Total	55,292	55,995
Less discounts and allowance for uncollectible account	7,568	9,045
Net contributions receivable	<u>\$ 47,724</u>	<u>\$ 46,950</u>

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 1.50% to 4.95% at June 30, 2009 and 2008.

3. Land, Buildings and Equipment

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

	2009	2008
Land and land improvements	\$ 46,224	\$ 46,015
Buildings and building improvements	379,807	376,245
Equipment	12,385	12,696
Construction in progress	16,992	1,707
	455,408	436,663
Less: accumulated depreciation	163,228	150,878
	<u>\$ 292,180</u>	<u>\$ 285,785</u>

Depreciation expense was \$13,611,000 and \$13,527,000 for the years ended June 30, 2009 and 2008, respectively.

The College recognized \$640,000 and \$620,000 of operating expenses relating to the accretion of liabilities recorded under FIN No. 47 for the years ended June 30, 2009 and 2008, respectively. Conditional asset retirement obligations of \$17,474,000 and \$16,883,000 at June 30, 2009 and 2008, 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.

Wellesley College
Notes to the Financial Statements
June 30, 2009 and 2008

4. Investments

The book and market values of investments at June 30, 2009 and 2008 were as follows (\$000s):

	2009 Book Value	2009 Market Value	2008 Book Value	2008 Market Value
Endowment Investments				
Investments pooled				
Cash and cash equivalents	\$ 77,438	\$ 77,438	\$ 60,329	\$ 60,329
Bonds	130,106	167,098	212,188	260,992
Equities	414,182	400,973	357,880	482,451
Other assets	617,180	620,928	644,559	807,546
Total pooled investments	<u>1,238,906</u>	<u>1,266,437</u>	<u>1,274,956</u>	<u>1,611,318</u>
Faculty mortgages	20,645	20,645	17,913	17,913
Total pooled investments and faculty	<u>1,259,551</u>	<u>1,287,082</u>	<u>1,292,869</u>	<u>1,629,231</u>
Investments not pooled				
Cash and cash equivalents	202	202	216	216
Total investments not pooled	<u>202</u>	<u>202</u>	<u>216</u>	<u>216</u>
Total endowment investments	<u>\$1,259,753</u>	<u>\$ 1,287,284</u>	<u>\$ 1,293,085</u>	<u>\$ 1,629,447</u>
Planned Giving Investments				
Separate pooled funds				
Cash and cash equivalents	\$ 143	\$ 143	\$ 266	\$ 266
Bonds	4,054	4,069	5,750	5,730
Equities	8,977	9,314	7,632	11,498
Total pooled funds	<u>13,174</u>	<u>13,526</u>	<u>13,648</u>	<u>17,494</u>
Unitrusts				
Cash and cash equivalents	514	514	1,065	1,065
Bonds	15,380	14,900	19,329	18,667
Equities	30,984	25,639	26,439	30,706
Other assets	889	889	889	889
Assets held by Trustees	7,617	7,617	7,248	7,709
Total funds not pooled	<u>55,384</u>	<u>49,559</u>	<u>54,970</u>	<u>59,036</u>
Total Planned Giving Investments	<u>\$ 68,558</u>	<u>\$ 63,085</u>	<u>\$ 68,618</u>	<u>\$ 76,530</u>

“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.

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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 \$198,118,000 and \$261,349,000 and commingled funds with a market value of \$174,532,000 and \$225,132,000 at June 30, 2009 and 2008, respectively, whose holdings are bonds and equities.

The College's investment return from endowment and planned giving was as follows for the years ended June 30, 2009 and 2008 (\$000s):

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>2009</u>				
Dividends and interest (net of expenses of \$8,221)	\$ 856	\$ (281)	\$ 800	\$ 1,375
Net realized and unrealized gains/losses	<u>(89,359)</u>	<u>(201,695)</u>	<u>-</u>	<u>(291,054)</u>
Total return on endowment and planned giving investments	(88,503)	(201,976)	800	(289,679)
Investment return designated for current operations	(39,088)	(42,111)	-	(81,199)
	<u><u>\$ (127,591)</u></u>	<u><u>\$ (244,087)</u></u>	<u><u>\$ 800</u></u>	<u><u>\$ (370,878)</u></u>
<u>2008</u>				
Dividends and interest (net of expenses of \$7,216)	\$ 2,338	\$ 2,857	\$ 505	\$ 5,700
Net realized and unrealized gains/losses	<u>33,482</u>	<u>(26,341)</u>	<u>-</u>	<u>7,141</u>
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)
	<u><u>\$ (765)</u></u>	<u><u>\$ (63,483)</u></u>	<u><u>\$ 505</u></u>	<u><u>\$ (63,743)</u></u>

The total return consisting of realized and unrealized gains and losses and dividends and interest net of investment management and custodial fees was -16.97% and 1.22% for the fiscal years ended June 30, 2009 and 2008, respectively.

At June 30, 2009 and 2008 investment securities having a fair value of \$53,046,000 and \$100,808,000, 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 \$54,233,000 and

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\$103,246,000 and an offsetting liability for the return of the collateral on the Statement of Financial Position at June 30, 2009 and 2008, respectively.

5. Fair Value Disclosures

On July 1, 2008, the College adopted Financial Accounting Standards Board ("FASB") Statement No. 157, Fair Value Measurements, which establishes a framework for measuring fair value under generally accepted accounting principles ("GAAP") and expands disclosures about fair value measurements. FASB Statement No. 157 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering assumptions, FASB Statement No. 157 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- Level 1 – Observable inputs such as quoted prices in active markets;
- Level 2 – Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and
- Level 3 – Unobservable inputs in which there is little or no market data.

The following fair value hierarchy tables present information about the Institution's assets and liabilities measured at fair value on a recurring basis based upon the lowest level of significant input to the valuations.

(\$000s)	Level 1	Level 2	Level 3	Total
Investments	\$ 273,042	\$ 367,797	\$ 646,445	\$ 1,287,284
Planned giving investments	-	-	63,085	\$ 63,085
Total assets at fair value	\$ 273,042	\$ 367,797	\$ 709,530	\$ 1,350,369
Interest rate swap	\$ -	\$ -	\$ 4,176	\$ 4,176
Total liabilities at fair value	\$ -	\$ -	\$ 4,176	\$ 4,176

The following table presents the assets and liability carried at fair value as of June 30, 2009 that are classified within level 3 of the fair value hierarchy. The table reflects gains and losses for the year, including gains and losses on assets and liabilities that were transferred to level 3 during the year, for all assets and liabilities categorized as level 3 as of June 30, 2009. Additionally, both observable and unobservable inputs may be used to determine the fair value of positions that the Institution has classified within the level 3 category. As a result, the unrealized gains and losses for assets and liabilities within level 3 may include changes in fair value that were attributable to both observable and unobservable inputs.

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(\$000s)	Investments	Planned giving investments	Interest rate swap-asset/(liability)
Balance, July 1, 2008	\$ 832,251	\$ 76,530	\$ 37
Realized and unrealized gains/losses	(134,007)	(19,324)	(4,213)
Purchases and sales	(19,342)	5,879	-
Transfers in and/or out of level 3	(32,457)	-	-
Balance, June 30, 2009	<u>\$ 646,445</u>	<u>\$ 63,085</u>	<u>\$ (4,176)</u>

Beneficial interests in perpetual trusts and outside trusts held by third parties are valued at the present value of distributions expected to be received over the term of the agreement. Inputs used to value the College's interest in these trust are considered unobservable and are categorized as Level 3.

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.

6. Pooled Funds

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

Pooled funds were as follows as of June 30:

	<u>2009</u>	<u>2008</u>
Investments in pooled funds and faculty mortgages, market value (\$000s)	\$1,287,082	\$1,629,231
Total number of units	2,457,016	2,436,021
Market value per unit	\$523.84	\$668.81
Distribution per unit	\$33.18	\$31.55

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The following are the components of the pooled and nonpooled endowment funds at market value at June 30, 2009 and 2008 (\$000s):

	<u>Units</u>	<u>Pooled Endowment</u>	<u>Nonpooled Endowment</u>	<u>Total Endowment</u>
<u>2009 Funds:</u>				
Endowment and similar funds:				
Endowment funds	1,553,215	\$ 813,635	\$ -	\$ 813,635
Term funds	83,296	43,634	202	43,836
Quasi-endowment	820,505	429,813	-	429,813
Total	<u>2,457,016</u>	<u>\$ 1,287,082</u>	<u>\$ 202</u>	<u>\$ 1,287,284</u>
<u>2008 Funds:</u>				
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	<u>2,436,021</u>	<u>\$ 1,629,231</u>	<u>\$ 216</u>	<u>\$ 1,629,447</u>

7. Related Parties

The College acts as fiscal agent and investment advisor for the Wellesley College Alumnae Association and a retired president of the College. Endowment investments held on their behalf are included in the College's general pool of investments and are reflected either as part of the College's net assets or a pension liability. The market value of the assets totaled \$12,056,000 and \$14,893,000 at June 30, 2009 and 2008, respectively.

Mortgages due from faculty of \$20,645,000 and \$17,913,000 at June 30, 2009 and 2008, respectively, are included within investments on the Statement of Financial Position.

8. Notes and Bonds Payable

Indebtedness at June 30, 2009 and 2008 includes various bonds issued through the Massachusetts Health and Education Facilities Authority (MHEFA). Interest payments on debt totaled \$3,580,000 and \$4,844,000 during fiscal years 2009 and 2008, respectively.

During January 2008, the College issued \$57,385,000 in Series I tax-exempt variable rate demand 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, 2009 and 2008, restricted cash includes \$20,021,000 and \$21,620,000, respectively of construction funds held by trustees that will be drawn down to fund various construction projects.

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The Series I bonds, which mature in 2039, currently bear variable interest rates payable monthly. Interest on the bonds is calculated on the basis of twelve thirty-day months for a 360-day year. Pending the redemption of the Series F bonds, proceeds of the Series I bonds were deposited into a refunding account established under the indenture and held by the Trustee and were invested in authorized investments as directed by the College. At June 30, 2009, the trust fund of \$31,069,000 is available to service principal and interest obligations, which was fully repaid on July 1, 2009. Since the refunded bonds are no longer deemed to be outstanding for financial reporting purposes, neither the debt nor the irrevocable trust assets are included in the Statement of Financial Position.

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 (\$000s):

	2009	2008
MHEFA, Series I, Variable Rate Demand Bonds, bearing interest at a daily rate, maturing July 2039. The rate at June 30, 2009 was 0.15%.	\$ 57,385	\$ 57,385
MHEFA, Series H, Revenue Bonds issued at an interest rate of 2.0% - 5.0% maturing July 2033.	53,400	54,120
MHEFA, Series G, Variable Rate Demand Bonds, bearing interest at a daily rate, maturing July 2039. The rate at June 30, 2009 was 0.15%.	20,000	20,000
MHEFA Capital Asset Program, Series B & C, Variable Rate Demand Bonds, monthly amortization of principal with final payment due June 2010. Interest rate reset semi-annually. The rate at June 30, 2009 was 0.00%.	722	1,458
MHEFA, Series E, Variable Rate Demand Bonds, bearing interest at a daily rate, maturing July 2022. The rate at June 30, 2009 was 0.17%.	12,600	13,300
Notes Payable Promissory Note, principal maturing July 2009. The rate at June 30, 2009 was 1.80%.	8,103	10,512
Total debt	152,210	156,775
Less unamortized bond issue costs	(879)	(920)
Add unamortized original issue premium	1,018	1,083
	<u>\$ 152,349</u>	<u>\$ 156,938</u>

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

2010	10,275
2011	1,480
2012	1,705
2013	1,725
2014	1,940
Thereafter	135,085
Total bonds and notes payable	<u>\$ 152,210</u>

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, 2009 and 2008, the market value of the swap agreement amounted to a liability of \$4,176,000 and an asset of \$37,000, respectively. The value of the interest rate swap is reflected within accounts payable and accrued expenses or 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 and \$1,308,000 and \$338,000 which is reflected as part of the net realized/unrealized loss on interest swap for the year ended June 30, 2009 and 2008, respectively.

The College has outstanding at June 30, 2009 fixed rate debt of \$53,400,000 and variable rate debt of \$98,810,000. 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, 2009 approximates \$56,653,000. 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.

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 and/or draw down on a secured standby liquidity support agreement for an amount up to \$37 million.

9. Annuities and Unitrusts Payable

The College has split-interest agreements consisting primarily of annuities, pooled life income funds, and charitable remainder unitrusts for which the College may or may not serve as trustee. 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 rate of return that ranges from 4% to 6%. The liability of \$37,556,000 and \$38,580,000 at June 30, 2009 and 2008, 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.

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10. 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 \$7,786,000 and \$7,546,000 respectively, for the years ended June 30, 2009 and 2008.

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, 2009 and 2008.

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

	<u>2009</u>	<u>2008</u>
Assumptions used to determine benefit obligations:		
Discount rate	6.250%	6.875%
Rate of compensation increase	4.000%	4.000%

Assumptions used to determine net periodic benefit (income) cost:

Discount rate	6.875%	6.250%
Expected return on plan assets	7.800%	7.800%
Rate of compensation increase	4.000%	4.000%

Change in projected benefit obligation (\$000s)

Benefit obligation at end of prior year	\$ 32,821	\$ 34,346
Service cost	1,162	1,230
Interest cost	2,212	2,076
Actuarial loss/(gain)	3,469	(3,639)
Benefits paid	(1,241)	(1,189)
Administrative expenses paid	(10)	(3)
Curtailments	112	-
Termination benefits	582	-
Benefit obligation at end of year	<u>\$ 39,107</u>	<u>\$ 32,821</u>

Accumulated benefit obligation	<u>\$ 31,470</u>	<u>\$ 26,338</u>
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	<u>2009</u>	<u>2008</u>
Change in plan assets (\$000s)		
Fair value of plan assets at end of prior year	\$ 30,765	\$ 31,989
Actual return on plan assets	(6,273)	(1,311)
Employer contributions	-	1,279
Benefits paid	(1,241)	(1,189)
Administrative expenses paid	(10)	(3)
Fair value of plan assets at end of year	<u>\$ 23,241</u>	<u>\$ 30,765</u>
 Funded status (\$000s)		
Funded status	<u>\$ (15,866)</u>	<u>\$ (2,056)</u>
 Components of net periodic benefit cost (\$000s)		
Service cost	\$ 1,162	\$ 1,230
Interest cost	2,212	2,076
Expected return on plan assets	(2,358)	(2,488)
Amortization of prior service cost	67	75
Cost of SFAS 88 events	699	-
Net periodic benefit cost	<u>\$ 1,782</u>	<u>\$ 893</u>
 Other changes in plan assets and benefit obligations recognized in unrestricted net assets		
New net actuarial loss	\$ 12,099	\$ 160
Amortization of prior service cost	(71)	(75)
Total	<u>\$ 12,028</u>	<u>\$ 85</u>
 Amounts recognized in unrestricted net assets		
Net prior service cost	\$ 474	\$ 546
Net actuarial loss	\$ 12,577	\$ 457

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 \$645,000.

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

2010	\$ 1,551
2011	1,545
2012	1,611
2013	1,702
2014	1,841
2015-2019	12,330

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The College expects to make employer contributions into the plan of \$2,300,000 in the 2010 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:

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

The following lists the Plan's asset allocation at June 30, 2009 and 2008:

<u>Asset Category</u>	<u>2009</u>	<u>2008</u>
Equity Securities	63%	58%
Real Estate Investment Trust	4%	3%
Commodities	5%	5%
Fixed Income	24%	28%
Cash and Equivalents	<u>4%</u>	<u>6%</u>
Total	<u>100%</u>	<u>100%</u>

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11. Net Assets

Net assets consist of the following at June 30, 2009 and 2008:

(\$000s)	2009	2008
Unrestricted:		
Designated for specific purposes and plant	\$ 111,150	\$ 116,431
Quasi-endowment	401,889	532,700
Deficiencies in donor-restricted endowments	(6,587)	(52)
	<u>506,452</u>	<u>649,079</u>
Temporarily restricted:		
Endowment and similar funds including pledges	482,453	716,105
Annuity, life income and unitrusts including pledges	24,681	37,908
Deficiencies in donor-restricted endowments	6,587	52
Other restricted	59,655	58,170
	<u>573,376</u>	<u>812,235</u>
Permanently restricted:		
Endowment including pledges	409,020	401,042
	<u>409,020</u>	<u>401,042</u>
	<u><u>\$1,488,848</u></u>	<u><u>\$1,862,356</u></u>

12. Endowment

In August 2008, the FASB issued FASB Staff position No. 117-1, Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds (FSP FAS 117-1), which, among other things, provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Act of 2006 (UPMIFA) and additional disclosures about an organization's endowment funds. The following disclosures are made as required by FSP FAS 117-1.

The College's endowment consists of approximately 3,000 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designed by the Board of Trustees to function as endowments. 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.

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At June 30, 2009, the endowment net asset composition by type of fund consisted of the following:

(\$000s)	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted funds	\$ -	\$ 467,002	\$ 390,469	\$ 857,471
Board-designated and other unrestricted funds	429,813	-	-	429,813
	<u>\$ 429,813</u>	<u>\$ 467,002</u>	<u>\$ 390,469</u>	<u>\$ 1,287,284</u>

Changes in endowment net assets for the year ended June 30, 2009, consisted of the following:

(\$000s)	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 542,302	\$ 702,183	\$ 384,962	\$ 1,629,447
Investment income	856	1,665	-	2,521
Net depreciation (realized and unrealized)	(91,411)	(183,600)	-	(275,011)
Subtotal	451,747	520,248	384,962	1,356,957
Contributions and transfers to endowment	5,186	833	5,507	11,526
Appropriation of endowment assets for expenditure	(27,120)	(54,079)	-	(81,199)
Endowment net assets, end of year	<u>\$ 429,813</u>	<u>\$ 467,002</u>	<u>\$ 390,469</u>	<u>\$ 1,287,284</u>

At June 30, 2008, the endowment net asset composition by type of fund consisted of the following:

(\$000s)	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted funds	\$ -	\$ 702,183	\$ 384,962	\$ 1,087,145
Board-designated and other unrestricted funds	542,302	-	-	\$ 542,302
	<u>\$ 542,302</u>	<u>\$ 702,183</u>	<u>\$ 384,962</u>	<u>\$ 1,629,447</u>

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Changes in endowment net assets for the year ended June 30, 2008, consisted of the following:

(\$000s)	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 555,285	\$ 738,755	\$ 378,433	\$1,672,473
Investment income	2,338	4,381	-	6,719
Net appreciation (realized and unrealized)	5,248	9,477	-	14,725
Subtotal	562,871	752,613	378,433	1,693,917
Contributions and transfers to endowment	4,923	662	6,529	12,114
Appropriation of endowment assets for expenditure	(25,492)	(51,092)	-	(76,584)
Endowment net assets, end of year	<u>\$ 542,302</u>	<u>\$ 702,183</u>	<u>\$ 384,962</u>	<u>\$1,629,447</u>

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. 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 \$200,000 and \$254,000, respectively for the years ended June 30, 2009 and 2008. 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

Wellesley College
Notes to the Financial Statements
June 30, 2009 and 2008

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 periodic monitoring program was initiated in 2008. The cost of this program is insignificant. The Lower Waban Brook remedial project was originally anticipated to be undertaken in 2009 and was estimated to cost \$3,600,000. Early project designs based upon risk assessments and feasibility studies performed prior to 2000 were not embraced by all constituents as satisfactory. Modified proposals currently under review by DEP would gather additional risk assessment and hydrologic data in support of an updated feasibility study and remedy selection process. It is not anticipated that this process could result in material increases to the previous cost estimates. For the years ending June 30, 2009 and 2008, total expenses to the Lower Waban Brook remedial project were \$339,000 and \$347,000, respectively. A liability of \$2,914,000 and \$3,253,000 has been recorded as of June 30, 2009 and 2008, respectively and is included in the Statements of Financial Position within accounts payable and accrued expenses.

Outstanding commitments amounted to approximately \$257,244,000 and \$329,528,000 as of June 30, 2009 and 2008, respectively for the following:

	2009	2008
Alternative investments	\$ 242,706,000	\$ 321,500,000
Construction contracts	14,538,000	8,028,000
	<u>\$ 257,244,000</u>	<u>\$ 329,528,000</u>

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.

Wellesley College
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2009

Federal Grantor, Pass-Through Grantor / Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Research and Development Cluster			
Direct Awards			
Department of Agriculture			
Miscellaneous USDA	10		\$ 31,134
Total Department of Agriculture			<u>31,134</u>
National Aeronautics and Space Administration (NASA)			
NASA-Miscellaneous	43		223,801
Total NASA			<u>223,801</u>
National Endowment for the Humanities			
Promotion of the Humanities - Research	45.161		36,910
Total National Endowment for the Humanities			<u>36,910</u>
National Science Foundation			
Mathematical and Physical Sciences	47.049		144,347
Biological Sciences	47.074		304,537
Social, Behavioral, and Economic Sciences	47.075		14,340
Education and Human Resources	47.076		160,943
Total National Science Foundation			<u>624,167</u>
Department of Education			
Undergraduate International Studies and Foreign Language Program	84.016		68,491
Total Department of Education			<u>68,491</u>
Department of Health and Human Services			
Mental Health Research Grants	93.242		263,722
Occupational Safety and Health Program	93.262		17,600
Child Care and Development Block Grant	93.575		274,895
Diabetes, Digestive, and Kidney Disease Extramural Research	93.847		21,866
Biomedical Research and Research Training	93.859		54,869
Child Health and Human Development Extramural Research	93.865		246,552
Medical Library Assistance	93.879		267
Total Department of Health and Human Services			<u>879,771</u>
Research and Development Direct Awards Subtotal			<u>1,864,274</u>
Pass-Through Awards			
Department of Agriculture			
University of California-Davis	10.250	981834-22	25,250
Total Department of Agriculture			<u>25,250</u>
National Institute of Justice			
Police Executive Research Forum	16.560	Letter dated 10/30/2008	44,875
Total National Institute of Justice			<u>44,875</u>
National Aeronautics and Space Administration (NASA)			
Jet Propulsion Laboratory	43	1280033	122,288
Jet Propulsion Laboratory	43	1352477	135,916
Jet Propulsion Laboratory	43	1337028	23,943
Southwest Research Institute	43	599787Q	5,888
Total NASA			<u>288,035</u>
National Science Foundation			
Massachusetts Institute of Technology	47.049	5710002553	10,001
Cornell University	47.074	46222-7764	25,017
Education Development Ctr., Inc.	47.076	5214	1,023
Northeastern University	47.076	533990P0901718	7,390
Total National Science Foundation			<u>43,431</u>
Environmental Protection Agency			
The Food Project	66.110	Letter dated 9/11/2008	5,000
Total Environmental Protection Agency			<u>5,000</u>
Department of Education			
University of Massachusetts-Boston	84.349	S0000604200000	227,219
Synergy Enterprises, Inc.	84	1036	12,507
Total Department of Education			<u>239,726</u>

The accompanying notes are an integral part of the schedule.

Wellesley College
Schedule of Expenditures of Federal Awards, Continued
Year Ended June 30, 2009

Federal Grantor, Pass-Through Grantor / Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Department of Health and Human Services			
Harvard University School of Public Health	93.113	111945	\$ 11,108
University of Illinois at Urbana-Champaign	93.136	2007-04267-01	57,153
The McLean Hospital	93.242	No Sub #/2 R01 MH51290-09A2	53,619
Judge Baker Children's Center	93.242	Letter dated 5/4/2009	11,900
Dartmouth College	93.243	Letter dated 12/6/2007	2,035
Salem State College	93.865	3119	33,453
Total Department of Health and Human Services			<u>169,268</u>
Total Research and Development Pass-Through Awards			<u>815,585</u>
Total Research and Development Cluster			<u>2,679,859</u>
Student Financial Aid Cluster			
Department of Education			
Federal Supplemental Educational Opportunity Grants	84.007		348,381
Federal Work Study Program	84.033		341,514
Federal Pell Grant Program	84.063		1,244,266
Academic Competitiveness Grants	84.375		102,000
National Science and Mathematic Access to Retain Talent Grants	84.376		56,000
Total Student Financial Aid Cluster			<u>2,092,161</u>
Other Programs			
Institute of Museum and Library Services	45.301		20,215
National Institute of Standards and Technology	11.609		7,315
Total Other Programs			<u>27,530</u>
Total Expenditures of Federal Awards			<u>\$ 4,799,550</u>

The accompanying notes are an integral part of the schedule.

Wellesley College
Notes to Schedule of Expenditures of Federal Awards
June 30, 2009

1. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") summarizes the expenditures of Wellesley College (the "College") under programs of the federal government for the year ended June 30, 2009 recorded on the accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of the U.S. Office of Management and Budget ("OMB") Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the activities of the College, it is not intended to, and does not, present the financial position, changes in net assets or cash flows of the College and may differ from amounts presented in, or used in preparation of the basic financial statements.

For purposes of the Schedule, federal awards include all grants, contracts and similar agreements entered into directly between the College and agencies and departments of the federal government and all subawards to the College by nonfederal organizations pursuant to federal grants, contracts and similar agreements. CFDA numbers and pass through numbers are provided when available.

Expenditures consist of direct and facility and administrative costs which are recognized as incurred using the accrual method of accounting and the cost accounting principles contained in the OMB Circular A-21, *Cost Principles for Educational Institutions*. Under those cost principles, certain types of expenditures are not allowable or are limited as to reimbursement.

2. Facility and Administrative Costs

Facility and administrative costs allocated to certain awards for the year ended June 30, 2009 were based on predetermined rates negotiated with the College's federal oversight agency, the Department of Health and Human Services. The College negotiated three-year predetermined indirect cost rates of 77% for on-campus and 15% for off-campus activity based on salaries and wages. These rates are effective from July 1, 2007 through June 30, 2010.

3. Subrecipients

The College passed through federal awards to subgrantee organizations in the Research and Development cluster totaling \$122,851.

Wellesley College
Notes to Schedule of Expenditures of Federal Awards
June 30, 2009

4. Federal Student Loan Programs

Loans made by the College to eligible students under the Perkins loan program and federally guaranteed loans under the Federal Family Education Loan Program ("FFEL") issued to students of the College by financial institutions during the year ended June 30, 2009 are summarized as follows:

	CFDA Number	Amount
Perkins loans issued	84.038	\$ 519,891
Total Perkins loans issued		<u>519,891</u>
FFEL - guaranteed loan programs		
Stafford loans	84.032	2,154,096
Parent Loans for Undergraduate Students	84.032	<u>3,352,302</u>
Total FFEL - guaranteed loans issued		<u>5,506,398</u>
Total federal loans issued		<u>\$ 6,026,289</u>

The Perkins Loan Program is administered directly by the College, except for functions performed by University Accounting Services, Inc. Balances and transactions relating to this program are included in the College's financial statements. The total outstanding loan balance under the Perkins program was \$5,555,836 at June 30, 2009, and the College recovered an administrative cost allowance from the Perkins program of \$81,403 for the year ending June 30, 2009.

PART II - REPORTS ON INTERNAL CONTROL AND COMPLIANCE

**Report of Independent Auditors on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

To the Board of Trustees of
Wellesley College

We have audited the financial statements of Wellesley College (the "College") as of and for the year ended June 30, 2009, and have issued our report thereon dated October 30, 2009, which includes an additional paragraph regarding the College's adoption of Statement of Financial Accounting Standards No. 157, *Fair Value Measurements*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the College in a separate letter dated October 8, 2009.

This report is intended solely for the information and use of the College's Board of Trustees, audit committee, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

PricewaterhouseCoopers LLP

October 30, 2009

**Report of Independent Auditors on Compliance with Requirements
Applicable to Each Major Program and on Internal Control over Compliance
in Accordance with OMB Circular A-133**

To the Board of Trustees of
Wellesley College

Compliance

We have audited the compliance of Wellesley College (the "College") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2009, except as described in the second paragraph of this report. The College's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the College's management. Our responsibility is to express an opinion on the College's compliance based on our audit.

We did not audit the College's compliance with the billing, collections and due diligence compliance requirements specified by the Federal Perkins Loan Program, and described in the OMB *Circular A-133 Compliance Supplement*. Compliance with these requirements was audited by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the College's compliance with those requirements, is based solely on the report of the other auditors.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB *Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the College's compliance with those requirements.

In our opinion, based on our audit and the report of other auditors, the College complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2009. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 09-1.

Internal Control over Compliance

The management of the College is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, except as noted in the following paragraph, we considered the College's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over compliance.

We did not consider internal control over compliance with the billing, collections and due diligence compliance requirements specified by the Federal Perkins Loan Program and described in the OMB *Circular A-133 Compliance Supplement*. Internal control over these compliance requirements was considered by the other auditors referred to above; and our report, insofar as it relates to the College's internal control over those compliance requirements, is based solely upon the report of the other auditors.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Our consideration and the other auditors' consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. Also, the report of the other auditors did not identify any deficiencies in internal control over compliance that they consider to be material weaknesses, as defined above.

The College's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the College's response and accordingly, we express no opinion on it.

This report is intended solely for the information and use of the College's Board of Trustees, audit committee, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

PricewaterhouseCoopers LLP

March 19, 2010

PART III – SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Wellesley College
Schedule of Findings and Questioned Costs
June 30, 2009

I. Summary of Auditor's Results

Financial statements

Type of auditor's report issued

Unqualified

Internal control over financial reporting

Material weakness(es) identified

☐ Yes ☒ No

Significant deficiency (ies) identified that are not considered to be material weaknesses?

☐ Yes ☒ None Reported

Noncompliance material to financial statements noted?

☐ Yes ☒ No

Federal awards

Internal control over major programs

Material weakness (es) identified

☐ Yes ☒ No

Significant deficiency(ies) identified that are not considered to be material weaknesses?

☐ Yes ☒ None Reported

Type of auditor's report issued on compliance for major programs

Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?

☒ Yes ☐ No

Identification of major programs

CFDA Number

Various

Name of Federal Program or Cluster

Student Financial Aid Cluster

Dollar threshold used to distinguish between type A and type B programs

\$478,296

Auditee qualifies as a low-risk auditee?

Yes

Wellesley College
Schedule of Findings and Questioned Costs
June 30, 2009

II. Financial Statement Findings

No matters are reported.

III. Federal Award Findings and Questioned Costs

09-1 Student Status Changes

Grantor: Department of Education
Award Year: July 1, 2008 - June 30, 2009
CFDA #84.032
CFDA Title: Federal Family Education Loans

Condition

In a sample of five students, out of a total population of 48 withdrawn students tested for compliance in fiscal year 2009, there were two students for which the College did not comply with the student status changes reporting requirement. For the two students, the change of status was submitted to the National Student Loan Data System ("NSLDS") 103 days after the deadline.

Criteria

The Code of Federal Regulations ("CFR") section 682.610 (c) states that "unless the College expects to complete its next SSCR within 60 days, the College must notify the lender or the guaranty agency within 30 days, if it discovers that a student who received a loan either did not enroll or ceased to be enrolled on at least a half-time basis."

Cause

The College does not have a policy in place for manually reporting student status changes to NSLDS which occur after the last scheduled Spring/Fall submission of the SSCR. Therefore, changes to student status are not necessarily reported in a timely manner.

Effect

The federal agency is not made aware of changes in student eligibility in a timely manner.

Questioned Cost

None.

Recommendation

Management should implement procedures to ensure that all changes in student status are tracked and communicated on a timely basis including those student status changes that occur after the last scheduled student status confirmation report for each semester is sent.

Management's Views and Corrective Action Plan

Following this finding is management's views and corrective action plan.

Wellesley College
Summary Schedule of Prior Audit Findings
June 30, 2009

08-1 Student Status Changes

Grantor: Department of Education
Award Year: July 1, 2007 - June 30, 2008
CFDA #84.032
CFDA Title: Federal Family Education Loans

Condition

In a sample of five students, out of a total population of 37 withdrawn students tested for compliance in fiscal year 2008, there were two students for which the College did not comply with the student status changes reporting requirement. For the two students, the change of status was submitted to the National Student Loan Data System ("NSLDS") 103 and 23 days, respectively, after the deadline.

Current Year Status

Refer to management's 2009 views and corrective action plan for an update on the prior year finding.



Wellesley College

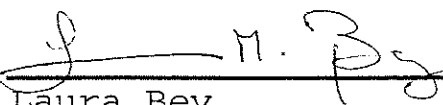
106 Central Street
Wellesley, Massachusetts 02481-8203
(781) 283-2307 FAX (781) 283-3680

Management's Views and Corrective Action Plan For the Fiscal Year Ended 6/30/09

We have determined that changes to enrollment data must be reported to the National Student Clearinghouse (NSC) and, therefore, the National Student Loan Data System, every 60 days. The Registrar's Office is responsible for submitting the file to the NSC.

Previously, the June enrollment submission only included graduates and should have included all students. The period between the June enrollment submission and the first of fall term enrollment submission exceeded 60 days. It was expected that any enrollment changes would be updated manually during this time.

Laura Bey, Acting Registrar, is responsible for overseeing and implementing the corrective action plan. A revised file submission schedule has already been submitted to the NSC.



Laura Bey
Acting Registrar

2.17.10

Date