Wellesley College

Report on Federal Awards in Accordance With OMB Circular A-133
June 30, 2013
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

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Independent Auditor's Report

To the Board of Trustees of
Wellesley College

We have audited the accompanying financial statements of Wellesley College (the "College") which comprise the statements of financial position as of June 30, 2013 and 2012 and the related statements of activities and cash flows for the years 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 the financial statements in accordance with accounting principles generally accepted in the United States of America; 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.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits 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 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 our 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, we consider internal control relevant to the College'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 College'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, 2013 and 2012 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards for the year ended June 30, 2013 is presented for purposes of additional analysis as required by 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 financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2013 on our consideration of Wellesley 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, 2013. 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Wellesley College's internal control over financial reporting and compliance.

PricewaterhouseCoopers LLP

October 31, 2013

Wellesley College
Statements of Financial Position
June 30, 2013 and 2012
($000s)

	2013	2012
Assets		
Cash and cash equivalents	$ 31,674	$ 40,541
Cash and cash equivalents, restricted	55,001	57,591
Accounts receivable, net	1,282	876
Loans receivable, net	8,714	8,615
Contributions receivable, net	54,593	48,484
Grants receivable	1,675	1,827
Prepaid, inventory and other assets	5,266	3,169
Operating investments	44,892	45,566
Investments	1,580,403	1,468,582
Planned giving investments	67,178	70,342
Collateral received for securities lending	984	963
Land, buildings and equipment, net	296,272	299,704
Total assets	$ 2,147,934	$ 2,046,260
Liabilities		
Accounts payable and accrued expenses	$ 32,779	$ 41,882
Student deposits and deferred revenues	2,560	3,761
Advances under grants and contracts	6,470	5,233
Annuities and unitrusts payable	33,317	36,134
Asset retirement and environmental obligations	20,427	19,781
Accrued pension liability	16,120	25,472
Liability under securities lending transactions	984	963
Bonds and notes payable	247,215	249,020
Government loan advances	4,569	4,569
Total liabilities	364,441	386,815
Net Assets		
Unrestricted	583,366	547,240
Temporarily restricted	745,062	668,932
Permanently restricted	455,065	443,273
Total net assets	1,783,493	1,659,445
Total liabilities and net assets	$ 2,147,934	$ 2,046,260

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

Wellesley College
Statement of Activities
Year Ended June 30, 2013
($000s)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2013 Total
Operating revenues				
Tuition and fees	$ 100,075	$ -	$ -	$ 100,075
Room and board	28,224	-	-	28,224
Less: Financial aid				
Donor sponsored	(26,388)	-	-	(26,388)
Institutionally sponsored	(24,173)	-	-	(24,173)
Net tuition and fees	77,738	-	-	77,738
Auxiliary operations	5,206	-	-	5,206
Government grants	4,448	-	-	4,448
Private gifts and grants	17,253	7,205	-	24,458
Investment return designated for operations	38,739	41,185	-	79,924
Other	3,736	-	-	3,736
Net assets released from restrictions	45,463	(45,463)	-	-
Total operating revenues	192,583	2,927	-	195,510
Operating expenses				
Instruction and departmental research	87,157	-	-	87,157
Sponsored research and other programs	11,071	-	-	11,071
Library	9,767	-	-	9,767
Student services	42,819	-	-	42,819
General administration	15,243	-	-	15,243
General institutional	28,334	-	-	28,334
Auxiliary operations	11,841	-	-	11,841
Total operating expenses	206,232	-	-	206,232
Change in net assets from operating activities	(13,649)	2,927	-	(10,722)
Nonoperating activities				
Investment return, net of spending allocation	30,054	66,985	58	97,097
Matured planned giving agreements	2,138	(4,619)	2,481	-
Gifts and pledges	1,734	11,802	9,253	22,789
Pension related changes other than net periodic pension cost	9,952	-	-	9,952
Net realized/unrealized gain on interest swap	4,932	-	-	4,932
Net assets released from restrictions	965	(965)	-	-
Total nonoperating revenues	49,775	73,203	11,792	134,770
Net change in net assets	36,126	76,130	11,792	124,048
Net assets				
Beginning of year	547,240	668,932	443,273	1,659,445
End of year	$ 583,366	$ 745,062	$ 455,065	$ 1,783,493

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

Wellesley College
Statement of Activities
Year Ended June 30, 2012
($000s)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2012 Total
Operating revenues				
Tuition and fees	$ 96,702	$ -	$ -	$ 96,702
Room and board	27,436			27,436
Less: Financial aid				
Donor sponsored	(25,693)	-	-	(25,693)
Institutionally sponsored	(22,196)	-	-	(22,196)
Net tuition and fees	76,249	-	-	76,249
Auxiliary operations	6,440	-	-	6,440
Government grants	4,148	-	-	4,148
Private gifts and grants	17,289	4,848	-	22,137
Investment return designated for operations	38,003	40,389	-	78,392
Other	4,336	-	-	4,336
Net assets released from restrictions	40,426	(40,426)	-	-
Total operating revenues	186,891	4,811	-	191,702
Operating expenses				
Instruction and departmental research	85,225	-	-	85,225
Sponsored research and other programs	10,493	-	-	10,493
Library	9,479	-	-	9,479
Student services	40,627	-	-	40,627
General administration	10,225	-	-	10,225
General institutional	28,175	-	-	28,175
Auxiliary operations	12,016	-	-	12,016
Total operating expenses	196,240	-	-	196,240
Change in net assets from operating activities	(9,349)	4,811	-	(4,538)
Nonoperating activities				
Investment return, net of spending allocation	(25,182)	(46,745)	130	(71,797)
Matured planned giving agreements	2,520	(6,510)	3,990	-
Gifts and pledges	1,613	10,677	5,186	17,476
Pension related changes other than net periodic pension cost	(15,057)	-	-	(15,057)
Net realized/unrealized gain on interest swap	(13,085)	-	-	(13,085)
Loss on early extinguishment of debt	(2,430)	-	-	(2,430)
Net assets released from restrictions	3,508	(3,508)	-	-
Total nonoperating revenues	(48,113)	(46,086)	9,306	(84,893)
Net change in net assets	(57,462)	(41,275)	9,306	(89,431)
Net assets				
Beginning of year	604,702	710,207	433,967	1,748,876
End of year	$ 547,240	$ 668,932	$ 443,273	$ 1,659,445

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

Wellesley College
Statements of Cash Flows
Years Ended June 30, 2013 and 2012
($000s)

	2013	2012
Cash flows from operating activities		
Change in net assets	$ 124,048	$ (89,431)
Adjustment to reconcile change in net assets		
to net cash used in operating activities		
Depreciation and amortization	15,636	15,891
Contributions restricted for investments	(18,629)	(17,543)
Receipt of contributed securities	(1,135)	(1,636)
Realized and unrealized losses (gains) on investments	(171,341)	8,711
Change in discount and allowance for doubtful accounts	563	1,131
Unrealized loss (gain) on interest swap	(6,709)	11,320
Debt extinguishment charge	-	(533)
Bond premium	-	5,697
Changes in operating assets and liabilities		
Accounts receivable, net	(425)	(141)
Contributions receivable, net	(6,672)	(1,734)
Grants receivable	152	(607)
Prepaid, inventory and other assets	(2,097)	1,199
Accounts payable and accrued expenses	(1,055)	(1,990)
Student deposits and deferred revenue	(1,201)	(713)
Advances under grants and contracts	1,237	1,567
Annuities and unitrusts payable	(2,817)	(2,543)
Accrued pension liability	(9,952)	15,057
Net cash used in operating activities	(80,397)	(56,298)
Cash flows from investing activities		
Purchase of plant and equipment	(12,453)	(7,249)
Proceeds from student loans collections	393	704
Student loans issued	(473)	(632)
Decrease (increase) in restricted cash for construction funds	161	(53,356)
Decrease (increase) in restricted cash for plant and equipment	2,428	(4)
Purchases of investments	(489,986)	(347,993)
Proceeds from sales and maturities of investments	554,479	352,961
Net cash provided by (used in) investing activities	54,549	(55,569)
Cash flows from financing activities		
Proceeds from contributions for		
Investment in endowment	8,130	8,863
Investment in planned giving	3,608	5,689
Plant and equipment	6,891	2,991
Proceeds from bonds	-	149,010
Payments on bonds and notes payable	(1,648)	(52,808)
Net cash provided by financing activities	16,981	113,745
Net (decrease) increase in cash and cash equivalents	(8,867)	1,878
Cash and cash equivalents		
Beginning of year	40,541	38,663
End of year	$ 31,674	$ 40,541
Contributed securities	$ 1,135	$ 1,636
Cash paid for interest	8,129	5,339
Capital additions included in accounts payable and accrued expenses	938	845
Net change in securities lending	21	(254)

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

1. Summary of Significant Accounting Policies

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 and losses 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 the permanent endowment. Temporarily restricted net assets generally result from contributions and other inflows of assets whose use by the College is limited by donor-imposed stipulations or by law that either expire by passage of time or can be fulfilled and removed by actions of the College pursuant to those stipulations.

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

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

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

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

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. Restricted cash represents amounts for construction held by trustees in association with the Massachusetts Development Finance Agency Series J bond issue and amounts restricted by a donor for the Science Center and Power Plant.

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 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, 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 agents, have been recorded as gifts that are temporarily restricted. Unitrusts, in which the College has a remainder interest, and which are managed by the College, periodically pay income earned on the assets to designated beneficiaries. The College adjusts unitrusts for both the estimated return on the invested assets and the contractual payment obligations during the expected term of the agreement. For planned giving contracts, the contributed assets are included at fair value within planned giving investments 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.

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. Future utilization of gains is dependent on market performance.

Deficiencies of $352,000 and $1,535,000 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, 2013 and 2012, respectively. As the market value of the portfolio increases, the deficiency will decrease.

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.

In October 2010, the Board of Trustees approved a revised Endowment Spending Policy effective for the year ended June 30, 2012. Wellesley's revised Endowment Spending Policy is based on a combination of the prior year's spending and prior year's endowment value with a weighting of 80% and 20%, respectively. The amount of allowable spending will be capped at 5.5% or no less than 4.0% of the average of the last three endowment values adjusted for inflation, with a target of approximately 4.5% of the prior year endowment market value. 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.

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.

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 2013 and 2012, are reported net of allowances for doubtful accounts of $253,000 and $272,000, respectively. Loans receivable for 2013 and 2012, are reported net of allowances for doubtful loans of $713,000 and $694,000, respectively. The provisions are intended to provide for student accounts and loans that may not be collected.

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.

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.

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.

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

	Years
Land improvements	20–40
Buildings and building improvements	20–40
Equipment	4–12

Financial Aid

The Statement of Activities reflects financial aid as an offset to tuition and fee revenues. The College's financial aid is funded through private gifts, grants and endowment income. Additional grants, when necessary, are funded through unrestricted institutional resources.

Auxiliary Operations

Auxiliary operations include 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.

Room and board revenue, previously reported as part of auxiliary operations, is reported independently as a separate line item in the current fiscal year. The correlating room and board expenses are included in the student services functional line item on the Statement of Activities.

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.

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 for the legal obligations associated with environmental asset retirements in the period in which the obligation is incurred. 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.

Interest Rate Swap

In fiscal year 2008, the College has entered into an interest rate swap agreement on 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.

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 the nonoperating section of the statement of activities as net realized/unrealized gain on interest swap for the year ended June 30, 2013.

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.

New Accounting Pronouncements

On July 1, 2010, the College adopted new guidance enhancing the Fair Value Measurement standard. This standard requires further disclosure of significant transfers in and out of Level 1 and Level 2 fair value measurements, including the reasons for the transfers, and requires discussions of their fair value measurement disclosures on a disaggregated basis. On July 1, 2011, the College adopted the remaining enhancement of this standard. This standard required disclosure on the activity in the Level 3 rollforward to be reported gross, rather than net, basis.

On July 1, 2010, the College adopted the accounting standard, Credit Quality. This standard requires the disclosure about the credit quality of financing receivables and the related allowance for credit losses. See section (f) of this note for additional information.

Reclassifications
Certain amounts from the 2012 financial statements have been reclassified to conform to the 2013 presentation.

2. Contributions Receivable

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

	2013	2012
Unconditional promises expected to be collected in		
Less than one year	$ 25,623	$ 3,943
One year to five years	32,407	47,668
Over five years	247	1,120
	58,277	52,731
Less: Discounts and allowance for uncollectible accounts	3,684	4,247
Net contributions receivable	$ 54,593	$ 48,484

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 2.6% to 5.10% at June 30, 2013 and 2012.

3. Land, Buildings and Equipment

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

	2013	2012
Land and land improvements	$ 50,226	$ 50,226
Buildings and building improvements	450,997	439,023
Equipment	8,676	8,395
Construction in progress	5,157	5,635
	515,056	503,279
Less: Accumulated depreciation	218,784	203,575
	$ 296,272	$ 299,704

Depreciation expense was $15,792,000 and $15,959,000 for the years ended June 30, 2013 and 2012, respectively.

The College recognized $865,000 and $830,000 of operating expenses relating to the accretion of environmental liabilities associated with the asset retirement obligations for the years ended June 30, 2013 and 2012, respectively. Conditional asset retirement obligations of $20,427,000 and $19,781,000 at June 30, 2013 and 2012, respectively, are presented in the Statement of Financial Position.

4. Investments

The book and market values of investments at June 30, 2013 and 2012 were as follows:

	2013		2012	
($000s)	**Book Value**	**Market Value**	**Book Value**	**Market Value**
Endowment investments				
Investments pooled				
Cash and cash equivalents	$ 59,432	$ 59,432	$ 36,856	$ 36,856
Bonds	40,940	68,493	65,613	110,701
Equities	315,220	523,009	361,071	505,644
Private equity	255,993	295,908	249,679	291,083
Real assets	297,436	242,670	301,652	241,828
Absolute return	280,362	363,757	197,300	257,645
Other assets	851	851	852	852
Total pooled investments	1,250,234	1,554,120	1,213,023	1,444,609
Faculty mortgages	26,070	26,070	23,761	23,761
Total pooled investments and faculty mortgages	1,276,304	1,580,190	1,236,784	1,468,370
Investments not pooled				
Cash and cash equivalents	213	213	212	212
Total investments not pooled	213	213	212	212
Total endowment investments	1,276,517	1,580,403	1,236,996	1,468,582
Other investments				
Restricted construction funds	45,000	44,892	45,000	45,566
Total other investments	45,000	44,892	45,000	45,566
Total investments	$ 1,321,517	$ 1,625,295	$ 1,281,996	$ 1,514,148
Planned giving investments				
Separate Pooled Funds				
Cash and cash equivalents	$ 579	$ 579	$ 1,937	$ 1,937
Bonds	10,109	10,015	10,495	10,667
Equities	27,004	32,787	29,160	31,723
Total pooled funds	37,692	43,381	41,592	44,327
Unitrusts				
Cash and cash equivalents	265	265	252	252
Bonds	3,891	3,983	4,686	4,944
Equities	5,823	9,027	8,241	10,806
Other assets	1,887	1,887	2,022	2,022
Assets held by trustees	8,635	8,635	7,991	7,991
Total funds not pooled	20,501	23,797	23,192	26,015
Total planned giving investments	$ 58,193	$ 67,178	$ 64,784	$ 70,342

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, if any, leverage as part of their strategies.

Included in cash, bonds and equities are alternative investment vehicles including hedge funds with a market value of $315,352,000 and $258,593,000 and commingled funds with a market value of $196,080,000 and $189,961,000 at June 30, 2013 and 2012, respectively.

The College is currently invested in exchange-traded futures contracts. The College uses these instruments to maintain target exposures to certain equity markets. The College had long futures exposures with a net ending fair value of $9,666,000 and $9,698,000, at June 30, 2013 and 2012, respectively. The net loss from these derivative instruments for the fiscal years ended June 30, 2013 and 2012 were $334,000 and $7,659,000, respectively, and are included in the investment return on the Statement of Activities.

The College's investment return from endowment and planned giving investments was as follows for the years ended June 30, 2013 and 2012 ($000s):

	2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Dividends and interest (net of expenses of $12,568)	$ 2,707	$ 2,298	$ 58	$ 5,063
Net realized and unrealized gains/losses	53,722	118,236	-	171,958
Total return on endowment and planned giving investments	56,429	120,534	58	177,021
Investment return designated for current operations	(26,375)	(53,549)	-	(79,924)
	$ 30,054	$ 66,985	$ 58	$ 97,097
	2012			
Dividends and interest (net of expenses of $11,439)	$ 545	$ (2,095)	$ 130	$ (1,420)
Net realized and unrealized gains/losses	142	7,873	-	8,015
Total return on endowment and planned giving investments	687	5,778	130	6,595
Investment return designated for current operations	(25,869)	(52,523)	-	(78,392)
	$ (25,182)	$ (46,745)	$ 130	$ (71,797)

The total return consisting of realized and unrealized gains and losses and dividends and interest net of investment management and custodial fees was 12.47% and 0.75% for the fiscal years ended June 30, 2013 and 2012, respectively.

At June 30, 2013 and 2012 investment securities having a fair value of $946,000 and $937,000, 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 $984,000 and $963,000 and an offsetting liability for the return of the collateral on the Statement of Financial Position at June 30, 2013 and 2012, respectively.

5. Fair Value Disclosures

The College has established a framework for measuring fair value under generally accepted accounting principles (GAAP). 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, the College follows 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 College's assets and liabilities measured at fair value on a recurring basis based upon the lowest level of significant input to the valuations at June 30, 2013 and 2012.

	2013			
($000s)	**Level 1**	**Level 2**	**Level 3**	**Total**
Investments				
Equities	$ 124,679	$ 379,392	$ 18,938	$ 523,009
Bonds	-	68,493	-	68,493
Private equity	946	-	294,962	295,908
Real assets	-	13,836	228,834	242,670
Absolute return	61,585	70,917	231,255	363,757
Cash and other assets	59,645	44,892	851	105,388
Planned giving investments	4,440	52,216	10,522	67,178
Total assets at fair value	$ 251,295	$ 629,746	$ 785,362	$ 1,666,403
Interest rate swap	-	-	9,544	9,544
Total liabilities at fair value	$ -	$ -	$ 9,544	$ 9,544

	2012			
($000s)	**Level 1**	**Level 2**	**Level 3**	**Total**
Investments				
Equities	$ 146,884	$ 339,770	$ 18,990	$ 505,644
Bonds	16,603	94,098	-	110,701
Private equity	-	-	291,083	291,083
Real assets	-	13,831	227,997	241,828
Absolute return	-	79,510	178,135	257,645
Cash and other assets	37,068	45,566	852	83,486
Planned giving investments	5,629	54,835	9,878	70,342
Total assets at fair value	$ 206,184	$ 627,610	$ 726,935	$ 1,560,729
Interest rate swap	-	-	16,253	16,253
Total liabilities at fair value	$ -	$ -	$ 16,253	$ 16,253

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 the assets and liability carried at fair value as of June 30, 2013 and 2012 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. Additionally, both observable and unobservable inputs may be used to determine the fair value of positions that the College 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.

As a result of the FASB accounting standards reissued in May 2011, related to estimating fair value of investments, $5,057,000 and $13,831,000, has been reclassified from Level 3 to Level 2, for the years ended June 30, 2013 and 2012, respectively. The College had no reclassifications from Level 3 to Level 1 in the current year, and reclassified $47,335,000 from Level 3 to Level 1 for the year ended June 30, 2012. The College had no transfers from Level 2 to Level 1 for the years ended June 30, 2013 and 2012.

	2013					
($000s)	**Balance at July 1, 2012**	**Realized and Unrealized Gains/Losses**	**Purchases**	**Sales**	**Transfer in/ (out) of Level 3**	**Balance at June 30, 2013**
Equities	$ 18,990	$ (204)	$ 152	$ -	$ -	$ 18,938
Private equity	291,083	38,856	50,035	(85,012)	-	294,962
Real assets	227,997	17,898	19,183	(36,245)		228,833
Absolute return	178,135	25,028	38,045	(4,896)	(5,057)	231,255
Cash and other assets	852	6,796	-	(6,797)	-	851
Planned giving investments	9,878	(4,363)	2,465	(1,267)	3,809	10,522
Interest rate swap - asset/liability	(16,253)	6,709	-	-	-	(9,544)
Balances at June 30, 2013	$ 710,682	$ 90,720	$ 109,880	$ (134,217)	$ (1,248)	$ 775,817

	2012					
($000s)	**Balance at July 1, 2011**	**Realized and Unrealized Gains/Losses**	**Purchases**	**Sales**	**Transfer in/ (out) of Level 3**	**Balance at June 30, 2012**
Equities	$ 22,986	$ (5,592)	$ 1,596	$ -	$ -	$ 18,990
Private equity	302,276	18,290	64,168	(93,651)	-	291,083
Real assets	245,188	(3,185)	22,187	(17,233)	(18,960)	227,997
Absolute return	124,796	1,357	68,520	(16,538)	-	178,135
Cash and other assets	881	2,771	-	(2,800)	-	852
Planned giving investments	59,722	(1,017)	3,628	(5,120)	(47,335)	9,878
Interest rate swap - asset/liability	(4,933)	(11,320)	-	-	-	(16,253)
Balances at June 30, 2012	$ 750,916	$ 1,304	$ 160,099	$ (135,342)	$ (66,295)	$ 710,682

The amount of total gains or losses for the year included in Investment Return in the Statement of Activities attributed to the change in unrealized gains or losses relating to assets still held at June 30, 2013 and 2012 are $75,239,000 and ($83,710,000), respectively.

The College uses Net Asset Value (NAV) or its equivalent to determine the fair value of certain investments, which may not have a readily determined fair value. These investments also have various redemption restrictions and redemption terms. The following investments are measured at NAV as of June 30, 2013 and 2012.

	2013			
($000s)	**NAV in Funds**	**Unfunded Commitments**	**Timing to Draw Commitments**	**Redemption Terms/Restrictions**
Investment				
Private equity	$ 294,962	$ 87,295	1 to 10 years	Funds are private equity, no ability to redeem.
Real assets	242,669	98,797	1 to 10 years	Funds are private equity, no ability to redeem.
Equities	398,330		1 to 10 years	89% of NAV is redeemable within 90 days; 3% of NAV is redeemable within a year; remaining 8% has a multi-year redemption period.
Bonds	68,492	-		93% of NAV is redeemable within 90 days; remaining 7% has a multi-year redemption period.
Absolute return	363,756	9,238	1 to 4 years	38% of NAV is redeemable within 90 days; 46% of NAV is redeemable within a year; remaining 16% has a multi-year redemption period.
Other assets	45,743	-		22% of NAV is redeemable within 90 days: 16% is redeemable within a year; 62% of NAV has a multi-year redemption period.
	$ 1,413,952	$ 195,330		

	2012			
($000s)	**NAV in Funds**	**Unfunded Commitments**	**Timing to Draw Commitments**	**Redemption Terms/Restrictions**
Investment				
Private equity	$ 291,083	$ 99,352	1 to 10 years	Funds are private equity, no ability to redeem.
Real assets	241,828	53,286	1 to 10 years	Funds are private equity, no ability to redeem.
Equities	358,760	152	1 to 10 years	80% of NAV is redeemable within 90 days; 10% of NAV is redeemable within a year; remaining 10% has a multi-year redemption period.
Bonds	94,098	-		76% of NAV is redeemable within 90 days; 16% of NAV is redeemable within a year; remaining 8% has a multi-year redemption period.
Absolute return	257,645	12,862	1 to 4 years	15% of NAV is redeemable within 90 days: 43% is redeemable within a year; 42% of NAV has a multi-year redemption period.
Other assets	46,418	-		
	$ 1,289,832	$ 165,652		No ability to redeem

Beneficial interests in 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.

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:

	2013	2012
Investments in pooled funds and faculty mortgages, market value ($000s)	$ 1,580,190	$ 1,468,370
Total number of units	2,563,627	2,533,983
Market value per unit	616.39	579.48
Distribution per unit	31.36	31.11

The following are the components of the pooled and nonpooled endowment funds at market value at June 30, 2013 and 2012 ($000s):

	Units	Pooled Endowment	Nonpooled Endowment	Total Endowment
2013 Funds				
Endowment and similar funds				
Endowment funds	1,625,532	$ 1,001,961	$ -	$ 1,001,961
Term funds	96,705	59,607	213	59,820
Quasi-endowment	841,390	518,622	-	518,622
	2,563,627	$ 1,580,190	$ 213	$ 1,580,403
2012 Funds				
Endowment and similar funds				
Endowment funds	1,610,607	$ 933,316	$ -	$ 933,316
Term funds	89,553	51,895	212	52,107
Quasi-endowment	833,778	483,159	-	483,159
	2,533,938	$ 1,468,370	$ 212	$ 1,468,582

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 $15,129,000 and $13,854,000 at June 30, 2013 and 2012, respectively.

Mortgages due from faculty of $26,070,000 and $23,761,000 at June 30, 2013 and 2012, respectively, are included within investments on the Statement of Financial Position.

At June 30, 2013, the College had thirteen Charitable Gift Annuities invested alongside the endowment with a market value of $3,846,000. These assets are included within the investments total on the Statement of Financial Position.

8. Notes and Bonds Payable

Indebtedness at June 30, 2013 and 2012 includes various bonds issued through the former Massachusetts Health and Education Facilities Authority (the Authority). On October 1, 2010, pursuant to certain provisions of Chapter 240 of the Acts of 2010 of the Massachusetts Legislature, signed into law by the Massachusetts governor on August 5, 2010, the Authority was merged into the Massachusetts Development Finance Agency (MDFA). Interest payments on debt totaled $6,352,000 and $3,574,000 during fiscal years 2013 and 2012, respectively.

During January 2008, the College issued $57,385,000 in Series I tax-exempt variable rate demand bonds. The proceeds have been used for major asset preservation and modernization projects and were 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 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 was 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.

During April 2012, the College issued $49,800,000 in Series J tax-exempt bonds. The bonds mature in 2042. The proceeds will be used for major asset preservation and modernization projects. The College incurred bond issue costs of $499,000 associated with the issue which have been capitalized and are being amortized over the life of the bonds. At June 30, 2013 and 2012, restricted cash included $55,001,000 of construction funds held by trustees that will be drawn down to fund various construction projects.

During April 2012, the College issued $99,210,000 in Series K taxable bonds. The bonds mature in 2042. The proceeds will be used for major asset preservation and modernization projects and were used to retire $50,040,000 of Series H bond debt. The College recognized a debt extinguishment charge of $2,430,000 at June 30, 2012, which has been reflected in the Statement of Activities. The refunding allows the College to realize the present value savings in restructuring of the College’s debt. The College incurred costs of $525,000 associated with the issue which have been capitalized and are being amortized over the life of the bonds. At June 30, 2013 and 2012, operating investments included $44,892,000 and $45,566,000, respectively, of construction funds that will be drawn down to fund various construction projects.

The College has two lines of credit with different banks. The College may borrow up to $40 million with various terms and interest rates at LIBOR plus 1/5 of 1%. There were no amounts outstanding under this line of credit as of June 30, 2013 and 2012. The second line of credit was entered into in February, 2013. The College may borrow up to $50 million with various terms and interest rates. This line of credit expires on February 10, 2015. There were no amounts outstanding as of June 30, 2013.

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

	2013	2012
MDFA, Series I, Variable Rate Demand Bonds, bearing interest at a daily rate, maturing July 2039. The rate at June 30, 2013 was 0.05%.	$ 57,385	$ 57,385
MDFA, Series H, Revenue Bonds issued at an interest rate of 4.0% to 5.0% maturing July 2033.	-	925
MDFA, Series G, Variable Rate Demand Bonds, bearing interest at a daily rate, maturing July 2039. The rate at June 30, 2013 was 0.05%.	20,000	20,000
MDFA, Series E, Variable Rate Demand Bonds, bearing interest at a daily rate, maturing July 2022. The rate at June 30, 2013 was 0.04%.	9,600	10,400
MDFA, 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 0.782% to 4.046%, maturing 2042.	99,210	99,210
Notes Payable Promissory Note, principal maturing monthly. The rate at June 30, 2013 was 0.94%.	7,240	7,135
Total debt	243,235	244,855
Less unamortized bond issue costs	(1,484)	(1,489)
Add unamortized original issue premium	5,464	5,654
	$ 247,215	$ 249,020

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

2014	$ 9,655
2015	2,695
2016	2,855
2017	3,020
2018	3,175
Thereafter	221,835
Total bonds and notes payable	$ 243,235

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, 2013 and 2012, the market value of the swap agreement amounted to a liability of $9,544,000 and $16,253,000, 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 accounts payable and accrued expenses on the Statement of Financial Position. The change in fair value resulted in a gain of $6,709,000 in 2013 and a loss of $11,320,000 in 2012 which is reflected in the nonoperating activities section of the Statement of Activities. Additionally, the College paid net interest expense in association with the swap agreement of $1,777,000 and $1,765,000 which is reflected as part of the net realized/unrealized loss/gain on interest swap for the years ended June 30, 2013 and 2012, respectively. 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 College has outstanding debt at June 30, 2013 fixed rate debt of $149,935,000 and variable rate debt of $87,785,000. 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, 2013 approximates $145,859,000. 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.

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. Split-interest agreements are included in planned giving investments, and at June 30, 2013, there is approximately $3,846,000 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 of 6%. The liability of $33,317,000 and $36,134,000 at June 30, 2013 and 2012, 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.

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 $8,331,000 and $7,900,000, respectively, for the years ended June 30, 2013 and 2012.

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 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.

The measurement date of determining the benefit obligations and net periodic benefit cost was June 30, 2013 and 2012.

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

	2013	2012
Assumptions used to determine benefit obligations		
Discount rate	4.700%	4.000%
Rate of compensation increase	3.000%	3.500%
Assumptions used to determine net periodic benefit cost		
Discount rate	4.000%	5.500%
Expected return on plan assets	7.200%	7.200%
Rate of compensation increase	3.500%	3.500%
Change in projected benefit obligation ($000s)		
Benefit obligation at end of prior year	$ 62,928	$ 46,908
Service cost	2,275	1,533
Interest cost	2,542	2,505
Actuarial (gain) loss, net of administrative expenses paid	(6,820)	13,439
Benefits paid	(1,806)	(1,457)
Benefit obligation at end of year	$ 59,119	$ 62,928
Accumulated benefit obligation	$ 50,675	$ 52,229
Change in plan assets ($000s)		
Fair value of plan assets at end of prior year	$ 37,456	$ 35,298
Actual return on plan assets, net of administrative expenses	4,348	615
Employer contributions	3,000	3,000
Benefits paid	(1,806)	(1,457)
Fair value of plan assets at end of year	$ 42,998	$ 37,456
Funded status ($000s)		
Funded status	$ (16,120)	$ (25,472)
Components of net periodic benefit cost ($000s)		
Service cost	$ 2,275	$ 1,533
Interest cost	2,542	2,505
Expected return on plan assets	(2,745)	(2,588)
Amortization of prior service cost	64	64
Net loss (gain) on amortization	1,463	291
Net periodic benefit cost	$ 3,599	$ 1,805

		2013		2012
New net actuarial (gain) loss	$	(8,424)	$	15,412
Net (loss) gain on amortization		(1,464)		(291)
Amortization of prior service cost		(64)		(64)
	$	(9,952)	$	15,057
Amounts recognized in the statement of financial position consist of a liability	$	(16,120)	$	(25,472)
Other changes in plan assets and benefit obligations recognized in unrestricted net assets				
Net prior service cost		216		281
Net actuarial loss		14,399		24,286
	$	14,615	$	24,567

The amount expected to be recognized as amortization of prior net service and the (gain)/loss to be recognized both as components of net periodic cost in both years are $64,500.

2014	$	2,246
2015		2,436
2016		2,842
2017		3,117
2018		3,500
2019-2023		20,309

The College expects to make employer contributions into the plan of $2,000,000 in the 2014 fiscal year.

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

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

Asset Category	**Target Allocation**
Equity securities	60 %
Real estate investment trust	5
Commodities	5
Fixed income	27
Cash and cash equivalents	3
	100 %

The following lists the Plan's asset allocation at June 30, 2013 and 2012:

Asset Category		Value at June 30, 2013	2013	2012
Equity securities	$	26,650	62 %	63 %
Real estate investment trust		1,727	4	4
Commodities		1,668	4	5
Fixed income		11,194	26	27
Cash and cash equivalents		1,760	4	1
	$	42,999	100 %	100 %

All pension plan assets are Level 2 assets, and all plan assets 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.

11. Net Assets

Net assets consist of the following at June 30, 2013 and 2012:

($000s)		2013		2012
Unrestricted				
Designated for specific purposes and plant	$	97,586	$	106,804
Quasi-endowment		486,132		441,971
Deficiencies in donor-restricted endowments		(352)		(1,535)
		583,366		547,240
Temporarily restricted				
Endowment and similar funds including pledges		646,205		583,004
Annuity, life income and unitrusts including pledges		36,975		33,584
Deficiencies in donor-restricted endowments		352		1,535
Other restricted		61,530		50,809
		745,062		668,932
Permanently restricted				
Endowment including pledges		455,065		443,273
		455,065		443,273
	$	1,783,493	$	1,659,445

12. Endowment

In August 2008, guidance was issued on endowments of not-for-profit organizations related to net asset classification of funds subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act, and additional guidance was issued on enhanced disclosures for all endowment funds, 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 Funds Act of 2006 (UPMIFA) and additional disclosures about an organization's endowment funds.

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 designated 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.

At June 30, 2013, the endowment net asset composition by type of fund consisted of the following:

($000s)	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted funds	$ -	$ 625,935	$ 431,772	$ 1,057,707
Board-designated and other unrestricted funds	518,630	-	-	518,630
	$ 518,630	$ 625,935	$ 431,772	$ 1,576,337

Changes in endowment net assets for the year ended June 30, 2013, consisted of the following:

($000s)	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at beginning of year	$ 483,161	$ 562,710	$ 422,711	$ 1,468,582
Investment income, net of expenses	2,931	5,951	-	8,882
Net appreciation (realized and unrealized)	54,471	110,592	-	165,063
	540,563	679,253	422,711	1,642,527
Contributions and transfers to endowment	4,442	231	9,061	13,734
Appropriation of endowment assets for expenditure	(26,375)	(53,549)	-	(79,924)
Endowment net assets at end of year	$ 518,630	$ 625,935	$ 431,772	$ 1,576,337

At June 30, 2012, the endowment net asset composition by type of fund consisted of the following:

($000s)	**Unrestricted**	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Donor-restricted funds	$ -	$ 562,710	$ 422,711	$ 985,421
Board-designated and other unrestricted funds	483,161	-	-	483,161
	$ 483,161	$ 562,710	$ 422,711	$ 1,468,582

Changes in endowment net assets for the year ended June 30, 2012, consisted of the following:

($000s)	**Unrestricted**	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Endowment net assets at beginning of year	$ 502,013	$ 609,751	$ 411,919	$ 1,523,683
Investment income, net of expenses	698	1,417	-	2,115
Net appreciation (realized and unrealized)	1,775	3,186	-	4,961
	504,486	614,354	411,919	1,530,759
Contributions and transfers to endowment	4,544	879	10,792	16,215
Appropriation of endowment assets for expenditure	(25,869)	(52,523)	-	(78,392)
Endowment net assets at end of year	$ 483,161	$ 562,710	$ 422,711	$ 1,468,582

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. For the purposes of investigation and potential cleanup, the site has been segmented into various sub-areas, as follows: (1) the “Upper/Wetland/Pond” portion consisting of the former upland site of the paint factory, Paint Shop Pond, adjacent wetlands and Upper Waban Brook; (2) Lake Waban; and (3) Lower Waban Brook.

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 $144,000 and $171,000, respectively, for the years ended June 30, 2013 and 2012. The College has purchased an insurance policy to cover cost overruns associated with the Upland/Wetland/Pond project as well as the assessment, monitoring, and, if necessary, remediation of contaminated groundwater located under the Uplands/Wetlands/Pond area. In September 2004, the College submitted a report to DEP recommending that no remedial action be taken in respect of the groundwater portion of the site beyond periodic monitoring of hexavalent chromium concentrations. DEP has not yet responded to this report.

In 2001, the Commonwealth of Massachusetts and the College entered an agreement pursuant to which the Commonwealth agreed to share in the cost of dredging the Northern Shoreline and Western Cove portion of Lake Waban, with the Commonwealth's share capped at $1.4 million. The dredging project was completed in 2002 at a total cost of approximately $1.2 million. Additional reimbursable costs of approximately $100,000 were incurred after the completion of dredging. In three payments made in 2005 and 2006, the Commonwealth reimbursed the College a total of approximately $1.06 million, fully satisfying the Commonwealth's reimbursement obligations under the 2001 cost-sharing agreement. In a report filed with DEP in May 2005, the College recommended that no remedial action be taken in portions of Lake Waban beyond the Northern Shoreline and Western Cove, apart from periodic monitoring of water quality and fish-growth patterns. DEP responded favorably to this report in a letter dated October 2005. The 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. Additional hydrological data gathering has been undertaken in keeping with proposals still under review with DEP, with the intent to develop an updated feasibility study and remedy selection process. It is desirable but not yet clear whether a new process will result in material increases to previous project cost estimates. For the years ending June 30, 2013 and 2012 total expenses to the Lower Waban Brook remedial project were $188,000 and $22,000, respectively. A liability of $2,589,000 and $2,777,000 has been recorded as of June 30, 2013 and 2012, respectively, and is included in the Statement of Financial Position within accounts payable and accrued expenses.

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 $195,947,000 and $169,863,000 as of June 30, 2013 and 2012, respectively, for the following:

($000s)	**2013**	**2012**
Alternative investments	$ 195,330,000	$ 165,652,000
Construction contracts	617,000	4,211,000
	$ 195,947,000	$ 169,863,000

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 of Wellesley $111,000 annually as a guarantee for back-up power, at cost, to the College. This contract is in force until May 2014.

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 31, 2013, the date the audited financial statements were available for issuance, 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.

Wellesley College
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2013

Federal Grantor/Program Title	Federal Catalog Number	Pass-Through Entity Identifying Number	2013 Expenditures
Research and Development Cluster			
Direct Awards			
National Aeronautics and Space Administration (NASA)			
Aerospace Education Service Program	43.001		$ 38,731
NASA-Miscellaneous	43.unknown		320,295
Total NASA			359,026
National Science Foundation			
Mathematical and Physical Sciences	47.049		274,891
Computer and Information Science and Engineering	47.070		295,569
Biological Sciences	47.074		839,813
Social Behavior and Economic Sciences	47.075		11,091
Education and Human Resources	47.076		30,590
ARRA - Trans-NSF Recovery Act Research Support	47.082		66,687
Total National Science Foundation			1,518,641
Department of Health and Human Services			
Cancer Detection and Diagnosis Research	93.394		26,141
Cancer Biology Research	93.396		123,260
Diabetes Endocrinology and Metabolism Research	93.847		413,047
Allergy, Immunology and Transplantation Research	93.855		77,433
Research for Mothers and Children	93.865		5,725
Total Department of Health and Human Services			645,607
Research and Development Direct Awards Subtotal			2,523,273
Pass-Through Awards (R&D)			
National Institute of Justice			
University of Chicago	16.560	5788-Wellesley-01	46,604
Total National Institute of Justice Pass-Through			46,604
National Aeronautics and Space Administration (NASA)			
Jet Propulsion Laboratory	43.unknown	1415721	97,228
University of California Los Angeles	43.unknown	2090 G NA860	29,705
Total NASA Pass-Through			126,933
National Science Foundation			
Cornell University	47.074	61468-9523	50,372
Wesleyan University	47.049	Memo dtd 5/20/2011	4,110
Bowdoin College	47.076	Email dated 7/10/2012	1,050
Computer Research Association	47.unknown	Agrmnt dtd 6/13/2011	716
Total National Science Foundation Pass-Through			56,249
Department of Education			
The Providence Plan	84.359	Sub dtd 12/15/2009	30,758
Total DOED Pass-Through			30,758
Pass-Through Awards			
Department of Health and Human Services			
Brandeis University	93.111	Sub dtd 1/3/2011	4,169
Harvard University School of Public Health	93.142	23515.1121	12,870
University of Illinois at Chicago	93.242	2011-06805-02-00	265,035
Judge Baker Children's Center	93.242	Ltr dtd 5/4/2009	65,674
Zero to Three	93.unknown	2012090213	1,498
Zero to Three	93.unknown	2012020023	2,379
Total DHHS Pass-Through			351,625
Agency for International Development			
Tetra Tech ARD, Inc.	98.unknown	1699-Wellesley-001	(140)
Total Agency for International Development			(140)
Total Research and Development Pass-Through Awards			612,029
Total Research and Development Cluster			3,135,302

The accompanying notes are an integral part of the schedule.

Wellesley College
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2013

Federal Grantor, Pass-Through/Program or Cluster Title	Federal Catalog Number	Pass-Through Entity Identifying Number	2013 Expenditures
Student Financial Aid Cluster			
Department of Education			
Federal Supplemental Educational Opportunity Grants Program	84.007		307,427
Federal Work Study Program	84.033		321,945
Federal Pell Grant Program	84.063		2,054,557
Total Student Financial Aid Cluster			2,683,929
Total Expenditures of Federal Awards			$ 5,819,232

The accompanying notes are an integral part of the schedule.

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, 2013 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.

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. Catalog of Federal Domestic Assistance ("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, 2013 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 79.0% for on-campus and 17.6% for off-campus activity based on salaries and wages. These rates are effective from July 1, 2010 through June 30, 2013.

3. Subrecipients

The College passed through federal awards to subgrantee organizations in the Research and Development cluster totaling $254,935.

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 Direct Loan ("FDL") issued to students of the College by financial institutions during the year ended June 30, 2013 are summarized as follows:

	CFDA Number	Amount
Perkins loans issued	84.038	$ 757,111
Total Perkins loans issued		757,111
FDL - guaranteed loan programs		
Stafford loans	84.268	1,867,023
Parent Loans for Undergraduate Students	84.268	2,060,510
Total FDL - guaranteed loans issued		3,927,533
Total federal loans issued		$ 4,684,644

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 $5,041,769 at June 30, 2013, and the College recovered an administrative cost allowance from the Perkins program of $0 for the year ending June 30, 2013. Perkins loan cancellations (CFDA 84.037) amounted to $10,769 for the year ending June 30, 2013.

Part II - Reports on Internal Control and Compliance

Independent Auditor's Report 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, in accordance with the 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, the financial statements of Wellesley College (the "College"), which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities and statements of cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated October 31, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the College's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we do not express an opinion on the effectiveness of the College's internal control.

A *deficiency in internal control* 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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

PricewaterhouseCoopers LLP

October 31, 2013

Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

To the Board of Trustees of
Wellesley College

Report on Compliance for Each Major Federal Program

We have audited Wellesley College's (the "College") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the College's major federal programs for the year ended June 30, 2013. The College's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the College's major federal programs based on our audit of the types of compliance requirements referred to above. 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 has been furnished to us, and our opinion, 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the College's compliance.

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Opinion on Each Major Federal Program

In our opinion, based on our audit and the report of other auditors, the College complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2013-1. Our opinion on each major federal program is not modified with respect to this matter.

The College's response to the noncompliance finding identified in our audit is described in the accompanying management's view and corrective action plan. The College's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the College is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, except as noted in the following paragraph, we considered the College's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration and the other auditors' consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. Also, the report of the other auditors did not identify and deficiencies in internal control over compliance that they consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

PricewaterhouseCoopers LLP

January 21, 2014

Part III – Findings and Questioned Costs

Wellesley College
Schedule of Findings and Questioned Costs
June 30, 2013

I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued	Unmodified	
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	Unmodified	
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	Name of Federal Program or Cluster
Various	Student Financial Aid Cluster Research and Development Cluster

Dollar threshold used to distinguish between type A and type B programs	$443,656
Auditee qualifies as a low-risk auditee?	Yes

II. Financial Statement Findings

No matters are reported.

III. Federal Award Findings and Questioned Costs

2013-1 Compliance Requirement: Student Status Changes
Grantor: Department of Education
Award Year: July 1, 2012 - June 30, 2013
CFDA Number: 84.268
CFDA Title: Federal Direct Loan

Criteria
The Code of Federal Regulations ("CFR") section 682.10 (c) states that "unless the College expects to complete its Student Status Confirmations Report ("SSCR") in 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."

Condition
In a sample of 25 students, out of a total population of greater than 250 students tested for compliance in fiscal year 2013, there were ten students for which the College did not comply with the student status changes reporting requirement. For these students, the change of status submitted to the National Student Loan Data System ("NSLDS") ranged from 63 to 169 days late.

Cause
The lack of an effective workflow to monitor enrollment reporting changes in a timely manner has resulted in late reporting to the National Student Loan Data System.

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

Questioned Costs
None.

Recommendation
Management should implement procedures to ensure all staff is made aware of policies and procedures in place to ensure 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.

Management's Views and Corrective Action Plan
Following the finding is management's views and corrective action plan.

2012-1 Compliance Requirement: Student Status Changes

Grantor: Department of Education
Award Year: July 1, 2011 - June 30, 2012
CFDA Number: 84.268
CFDA Title: Federal Direct Loan

Condition
In a sample of 25 students, out of a total population of greater than 250 students tested for compliance in fiscal year 2012, there were nine students for which the College did not comply with the student status changes reporting requirement. For these students, the change of status submitted to the National Student Loan Data System ("NSLDS") ranged from 68 to 136 days late. For 4 of the nine students no SSCR notifications of the student's status change had occurred as of June 30, 2012.

Current Year Status
The College received a letter from the U.S. Department of Education with respect to the enrollment reporting finding from fiscal year 2012. In order to respond appropriately to this letter, the College completed a review of all students with enrollment status changes from July 1, 2011 through June 30, 2012. Based on this internal audit and review, we reported to the Federal Student Aid office of the U.S. Department of Education (New York/Boston School Participation Division) our findings that 17 student status changes were not reported timely to the NSLDS. All student enrollment statues were validated and correct as of that reporting date. As a direct response to our findings, a number of procedures have been reviewed and revised to ensure that student status changes are reported in a timely manner, however, due to the timeframe in which the 2012 finding was identified, the College has a similar finding in fiscal year 2013.

A campus working group consisting of department heads from the offices who share responsibility for any part of the reporting process, was convened to review concerns and will continue to exist to monitor and enforce Wellesley's compliance with federal reporting requirements. This group has also established a regular, monthly reporting schedule, that requires all involved to receive reporting updates. This calendar includes both report submission and update files.

The Office of Student Financial Services has also begun random sampling of students, who have an enrollment status change during a given academic year, to ensure the status change has been reported within the required timeframe. This random sampling of status changes will be outside of any required federal review of enrollment reporting rosters.

2012-2 Compliance Requirement: Study Abroad Programs

Grantor: Department of Education
Award Year: July 1, 2011 - June 30, 2012
CFDA Number: 84.063, 84.007, 84.033 and 84.038
CFDA Title: Federal Pell Grant, Federal Supplemental Educational Opportunity Grant, Federal Work Study and Federal Perkins Loan Program

Condition

The College has all of its students enrolled in study abroad programs sign a study abroad participation agreement and assumption of risk and release form (the "agreement") with the College to ensure students are participating in an eligible program. In a sample of 25 students, out of a total population of greater than 250 students tested for compliance in fiscal year 2012, there was one student for which no agreement was signed and one student for which the agreement was signed after the study abroad semester ended.

Current Year Status

The College has implemented procedures to ensure all program participation agreements for its study abroad programs are signed and returned to the Office of International Studies prior to the student leaving for the program abroad.

WELLESLEY COLLEGE

OFFICE OF THE REGISTRAR

Corrective Action Plan
For the Fiscal Year ended 06/30/13

2013-1 Student Status Changes

Management View

Management recognizes the importance of timely reporting under all federal regulations related to the student status changes reporting compliance requirements, and agrees that this reporting was not done within the required timeframe for ten students in fiscal year 2013.

Corrective Action

Wellesley College received a letter from the U.S. Department of Education with respect to the enrollment reporting finding from fiscal year 2012, and performed and internal audit and review of all students enrollment status reporting from July 1, 2011 through June 30, 2012 to ensure accurate and timely reporting. As a direct response to our findings, a number of procedures have been reviewed and revised to ensure that student status changes are reported in a timely manner.

A campus working group consisting of department heads from the offices who share responsibility for any part of the reporting process, was convened to review concerns and will continue to exist to monitor and enforce Wellesley's compliance with federal reporting requirements. This group has also established a regular, monthly record review and reporting schedule, that requires all involved to receive reporting updates. This calendar includes both report submission and update files.

The Office of Student Financial Services has also begun random sampling of students, who have an enrollment status change during a given academic year, to ensure the status change has been reported within the required timeframe. This random sampling of status changes will be outside of any required federal review of enrollment reporting rosters.

Carol Shanmugaratnam 1/13/2014

Carol Shanmugaratnam Date

Registrar and Assistant Dean of the College

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