

W E L L E S L E Y C O L L E G E



Annual Report
2002–2003

Wellesley College

Fiscal Year 2002–2003

Diana Chapman Walsh
President

Finance and Investments

Susan Vogt
*Vice President
for Finance and Treasurer*

Jane Mendillo
Chief Investment Officer

Linda Murphy Church
*Assistant Vice President
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Controller

Wellesley College

Annual Report for the Year Ended June 30, 2003

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Report of the President

October 2003

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

With this letter, I am glad to transmit the annual financial report of Wellesley College for the 2002–2003 academic year and to report that the College is strong across all dimensions. Although the year did present significant external challenges – geopolitical conflict, economic uncertainty, talk of more terrorist attacks, new legal requirements related to national security, debates about affirmative action, skirmishes over academic freedom, anguish leading up to and following the decision to wage war in Iraq, a winter that just wouldn't end, and then, suddenly, SARS – the College maintained its equilibrium and rose to meet each new challenge with ingenuity and resolve. I am grateful for the many acts of thoughtful leadership that produced a year in which we overcame obstacles, explored important questions together, and continued to advance several of our long-term goals.

In the letters that follow, Susan Vogt, Vice President for Finance and Treasurer, and Jane Mendillo, Chief Investment Officer, report on the financial status of the College and on our endowment performance during this period of economic uncertainty. Below I provide a thumbnail sketch of our successful efforts to keep The Wellesley Campaign on track and to implement the innovative new programs made possible by generous gifts, while managing the College's resources with care and overseeing an academic year that was, as always, rich with opportunities for making new connections.

Year Three of The Wellesley Campaign

On June 30, 2003 we completed the third public year of The Wellesley Campaign with pledges and gifts totaling \$319 million. Annual giving totaled \$9.8 million, setting a College record. These numbers are impressive in any case, even more so in light of the economic and political context in which they were posted. David Blinder, Vice President of Resources and Public Affairs, and his team of professionals and volunteers, did a masterful job keeping the momentum alive in difficult times. All of us are ever grateful to our many loyal donors for continuing to display their faith in the College through their unstinting generosity. This year, members of the campus community joined their ranks and established a permanent faculty-staff-union scholarship fund.

The campaign again provided festive opportunities for alumnae and friends to gather at regional celebrations. In September, we toasted Wellesley one night at an event in Chicago's elegant Shakespeare Theatre against the backdrop of a pastoral set for *A Midsummer Night's Dream* and, the next night, moved our traveling road show to Cleveland where the Rock and Roll Hall of Fame provided an altogether different cultural frame but one equally moving, with a special exhibition on John Lennon's lyrical advocacy for world peace. In October, we brought the campaign back home to the site of our official launch two years earlier. Alumnae and guests from throughout New England gathered in the Keohane Sports Center for a gala dinner following a day of lectures and cultural events across the campus. In the spring we took to the road again with celebrations in Dallas, at the Museum of Modern Art, and Houston, at the Space Center Houston, hosted, graciously in her first public appearance following the tragic loss of the space shuttle Columbia, by our own extraordinary astronaut, Col. Pamela A. Melroy '83.

In addition to assembling capacity crowds for celebration and inspiration, the campaign is continually transforming the College and expanding our field of vision. The academic program is far deeper and richer already as a consequence of innovations funded by generous donors to the campaign, and the landscape and facilities are more beautiful and more functional as well.

This year's most exciting new announcement came when Susan and Donald Newhouse committed \$10 million to The Wellesley Campaign to bring to fruition a dream our exceptionally strong humanities faculty have long been discussing. The Susan and Donald Newhouse Center for the Humanities will enable Wellesley College to play an important role in shaping and making the case for humanistic study in the twenty-first century – in the arts, classics, culture, history, languages, literature, and philosophy. Fully half of Wellesley students major or minor in one of these disciplines, and our long and distinguished record of faculty excellence in the humanities is honored, and will be extended, through this magnificent gift.

Implementing Campaign Initiatives

We broke ground this year, on schedule, for the dramatic new complex in the western sector of the campus: the 11-acre site which we have named Alumnae Valley. By the spring of 2005 this reclaimed area will bring new energy to community life at Wellesley through the Wang Campus Center, connected to the Davis Parking Facility, both surrounded by a painstakingly restored natural landscape. The parking garage will enable us to remove all cars along roadsides in the historic core of the campus and reclaim it for pedestrians. As the first step in that cascading project, we built and occupied an intriguing new service building at the far west end of the campus after demolishing the old skilled trades shop to clear the site for the campus center. Meanwhile, in the heart of the campus, we completed the final phase of a several-year renovation of Clapp Library, in this case involving substantial improvements throughout the entry level of that historic and treasured building.

Global education has been another of our ambitious campaign goals, an intellectual centerpiece of the campaign, much as the campus center anchors the physical priorities. The global initiative has three principal components:

- First, we are assembling resources to bring the best international students to Wellesley through enhanced financial aid (a \$24-million goal for which we have raised \$9 million so far). In addition, Shelby M. C. Davis has made a total of more than \$2.5 million in current-use gifts over the past three years to meet the financial needs of graduates of the United World Colleges who are accepted at Wellesley, 52 students in all to date, with more in prospect. These women from all over the world have infused the campus with their idealism and energy and their eloquent advocacy of a sophisticated and inclusive internationalism as the pathway to world peace.
- Second, we are raising funds to connect Wellesley students to a wider world. We are seeking new endowment for financial aid for study abroad (we have almost \$6 million in commitments toward an \$8-million goal), and funds for support of international internships and January Wintersession programs abroad (for which we now have \$10 million in new endowment support). We hope ultimately to be able to support every Wellesley student in one significant off-campus learning experience during her academic career.
- Third, we are expanding the curriculum and supporting faculty development for international scholarship and teaching. We have raised significant funds to support Asian Studies, faculty development seminars and travel abroad, and to endow a chair in Latin American studies. We are still seeking funds to endow chairs to cover areas of the world and languages where we have had gaps or temporary arrangements: South Asian history and Middle Eastern politics, and Arabic and Korean language programs, for example.

This year we took concrete steps to strengthen our offerings in East Asian languages and literature, following recommendations of a visiting committee last year. In addition, we benefited from the insights of a new Advisory Forum on Global Education, a small group of alumnae with extensive professional experience in international fields.

The Administration

We began the year with interim leaders in the two deanships responsible for overseeing our academic program (the Dean of the College and the Dean of Students). Andrew Shennan and Andrea G. Levitt, our two very capable associate deans of the College, ably filled in for Dean Lee Cuba during his one-semester sabbatical leave in the fall. Michelle Lepore, associate dean of students, led her division all year with consummate skill while Micheline E. Jedrey, Vice President for Information Services and College Librarian, chaired a national search, involving input from all constituencies, which resulted in the selection, in late May, of a new dean of students, Kimberly Goff-Crews.

We have made considerable progress in the Student Life Division in recent years, gathering our professional resources to recognize the growing complexity of our students' lives. We had moments of conflict this year, as we do and will, but we did convert them into meaningful learning encounters across the deeply felt differences around which today's college students organize and make sense of their evolving identities. This work that Wellesley is doing – exploring our differences with honesty, diligence, and mutual respect – is the work of the world right now. It will continue to be our work for many years to come, I predict, and we can take satisfaction in the integrity with which we are engaging it.

This year we modernized and strengthened managerial structures and practices in other essential departments as well, notably the Controller's Office. We negotiated a new union contract and absorbed the loss of our chief of police even as we responded to a variety of entirely novel security questions and alerts. Lisa J. Barbin did an outstanding job managing the transition and took up her responsibilities as our new chief in May.

Patricia M. Byrne, Vice President for Administration and Planning, led her team in developing a long-term plan for capital maintenance of our campus and, to help support it, Susan Vogt, Vice President for Finance and Treasurer and her team went to the money markets for a new bond issue that took advantage of low interest rates and yielded \$19 million in new funds and \$37 million in refinanced debt for capital projects without increasing our debt service costs or affecting our credit rating. Working with a consulting firm, we conducted an internal audit review to identify areas for modernization and strengthening of our internal controls; we are implementing many of the recommendations.

Micheline Jedrey and her team in Information Services completed a number of projects that will strengthen our technology infrastructure and expand our use of technology in teaching and learning. We significantly increased the capacity of our campus network and our connection to the Internet, supporting the ever-growing volume of electronic communication while implementing strategies to reduce spam and quickly halt the spread of computer viruses. We implemented a variety of Web-based administrative applications, providing students and employees "self-service" access to their own tailored information, for example, on employee benefits.

The administration worked all year on a Collegewide staffing plan. This plan improves our understanding of how we are deploying our human resources and provides for a reduction, over the next five years, of about five percent of the nonfaculty workforce, principally through attrition. We are continuing to improve our systems for managing staff performance while alerting members of the campus community to the reality that we are going to have to lower our high expectations for rapid and responsive service from the administration as we reduce its size.

The dedication in October of elegant new playing fields and wetlands on the 30-acre "Paint Shop Pond" site adjacent to Lake Waban brought some closure to the lengthy, expensive and exceedingly complex process of negotiating with the Commonwealth the terms and implications of our shared responsibility for cleaning up the contaminated land and wetlands surrounding the abandoned paint factory the trustees acquired in 1932.

Academic Life This Year

We ended the year confident that our students had many rich and rewarding learning experiences, in the classroom and beyond. This is our first priority every year.

Faculty involved with the international relations program discussed a new and stronger structure for that popular major and will continue to work out the details next year. The Academic Council approved the creation of a major in Middle Eastern Studies, building on the recent addition of Arabic language teaching. We hosted a planning conference for the Asian University for Women.

Also in the academic area, we strengthened the administration of the Summer School, improved our system of advising students interested in enrolling in MIT courses, and reached out to our new neighbor, the Franklin W. Olin College of Engineering in Needham. About 20 students from Olin's first class of 75 took courses at Wellesley this year, and members of our science faculty are working with Olin faculty to design an introductory engineering course at Olin for Wellesley students.

The trustees held a thought-provoking and collegial retreat in October with the academic department chairs. Participants generated and explored forward-looking questions about the quality of our educational offerings, what we want our students to learn, and how we can ensure that every student has full access to that which we understand to be the essence of a Wellesley education. Through the course of the year, several committees of Academic Council took up meaty questions related to academic standards and to procedures for evaluating the work of both students and faculty. Academic Council itself emerged this year as a lively forum for consequential debate.

At their January Board meeting, the trustees discussed the University of Michigan affirmative action cases then pending before the United States Supreme Court and their possible implications for the College. To reiterate their commitment to diversity as an essential element of an excellent liberal education, the trustees unanimously voted a resolution stipulating the basis for that commitment and reaffirming their support of the College's admissions policies. In addition, they authorized the College to join with a group of peer institutions to file an *amicus curiae* brief in support of the University of Michigan, which we did.

FY03 was a stellar admissions year for Wellesley; we increased our applicant pool by a full 20 percent over last year with a yield of 43 percent. The Class of 2007 is correspondingly strong. And the senior class garnered another successful year in the competition for national fellowships, surpassing last year's record-setting 12 Fulbright Scholarships with 14 winners this year. Again this year two of our seniors won the prestigious Watson Fellowship and we had one recipient each of the Beckman Scholarship, the Carnegie Juniors Fellowship, the Mellon Minority Undergraduate Fellowship, George J. Mitchell Scholarship, the National Science Foundation Graduate Research Fellowship, the Rockefeller Brothers Fund Fellowship, and the Morris K. Udall Scholarship. Two of our students were finalists for the Rhodes Scholarship, itself an accomplishment.

As always we hosted many insightful speakers on campus. Just to name a few, this year's Dean Lecture was delivered by Dr. Bonnie Bassler, Professor of Molecular Biology at Princeton University and recipient of the prestigious John D. and Catherine T. MacArthur Foundation award. Kay Redfield Jamison, a 2001 winner of the MacArthur award and Professor of Psychiatry at Johns Hopkins University School of Medicine, delivered the annual Pinanski Lecture. Barbara Lee, U.S. Congresswoman for the Ninth Congressional District of California, delivered the Rankin Lecture on World Peace. This year's Goldman Lecturer was *The New York Times* columnist Paul Krugman, and Professor Robert Keohane, of Duke University, was our Wilson Lecturer this year. He spoke on "Unilateralism and Multilateralism in American Foreign Policy." Political Science Professor Robert Paarlberg delivered

Wellesley's distinguished faculty lecture this year at Parent/Family Weekend. His fascinating topic was: "African Drama: Can the Nations of Africa Escape Hunger in the Years Ahead?"

We took advantage of the opportunity provided by this year's Ruhlman Conference in April to assemble a panel of alumnae from the 1950s for an inter-generational exchange about ethnic and racial diversity. This was a response to questions that were occasioned by the filming on campus in September and January of the major motion picture, *Mona Lisa Smile*, which is set in the 1950s.

In May, faculty from our sociology and English departments hosted a conference to celebrate George Orwell's centenary, assembling over a three-day period an impressive lineup of the world's eminent scholars and writers on Orwell: biographers and interpreters, literary scholars from the U.S., Europe, the former Soviet Union, leading public intellectuals and writers.

The graduation speaker selected by the Class of 2003, Linda Werthheimer '65, and our student speaker, Dana Weekes (the outgoing College government president), made this year's commencement exercises particularly memorable.

Retirements and Other Significant Departures and Arrivals

Each year we bid farewell to departing members of the community who have served the College with dedication and distinction. This year four members of the faculty retired: James W. Rayen, Elizabeth Christy Kopf Professor of Art, who served for 42 years, Alan H. Schechter, Professor of Political Science, after 41 years, Susan S. Silbey, Professor of Sociology, 29 years, and Sharon E. Soltzberg, Senior Instructor in Biological Sciences, 17 years. We thanked these colleagues for their service and wished them well in the next phases of their lives.

Janet Lavin Rapelye left Wellesley at the end of the year after 12 years leading our admissions effort, as Dean of Admission from 1994 to 2003, and Director of Admission from 1991 to 1994. With our admiration for the wisdom and constancy she brought to her work, and for the many ways in which she strengthened our admission program, we wished her continued success in her new role as Dean of Admission at Princeton University.

In addition, two members of the Board of Trustees completed their service this year in special slots on the board, Christine Grimstad Franklin '61, President of the Wellesley College Alumnae Association (WCAA), and Harvard Professor Richard Light, the faculty trustee. We are grateful for their loyal and thoughtful service. Ellen Goldberg Luger '83 succeeded Chris Franklin as president of the WCAA. She and Patricia J. Williams '73 have been elected members of the Board of Trustees.

As I complete this, my tenth annual report to the Wellesley College community, I am especially conscious of the privilege it is to be serving my alma mater as president. I am conscious, too, of the extent to which both the pleasure and the progress I am able to enjoy in this demanding role are a function of the partnerships on which I daily rely. Victoria Herget '73, chair of the Board of Trustees, and Edward J. Lawrence, vice chair, provided wise, generous, and caring support this year as they have done consistently through my presidency. I am grateful to them, always, and to all the trustees, who render the College exceptionally vital service. I am grateful, as well, to my senior colleagues – the remarkably conscientious and creative deans and vice presidents who do such excellent work day in and day out – and to the many people on whom they rely. I am grateful for the many ways in which our faculty give all they can, and then more, to the education of all our students and to the advancement of knowledge. And I am grateful for the energy and promise our students always bring to the mix.

And all of us here on the campus are very much aware of how much we owe the alumnae and friends of the College who express your confidence in what we are doing, and inspire us to do it as well as we possibly can, with your generous support. You provide that support and inspiration in so many and such gracious and diverse gestures, and you never let us down. Thank you, again and always.

Yours very truly,



Diana Chapman Walsh
President

Special Message from the President

It is with deep sadness that I announce that Susan Vogt '63, Vice President for Finance and Treasurer, died October 30, 2003 after a brief illness. Wellesley has lost not only a consummate professional – whose legacy is manifest in this annual report – but a treasured friend and colleague who brought freshness, directness and generosity of spirit to her work, and who taught us about courage and grace in the face of adversity. She was so happy to be back at her alma mater for the capstone of her career. We are grateful for the many ways in which she touched and inspired many of us, and we will miss her very much.

Diana Chapman Walsh

Report of the Vice President for Finance and Treasurer

October 2003

To the Board of Trustees of Wellesley College

During fiscal year 2002–2003, progress continued in reducing actual expense to slightly above the CPI rate of inflation. The review of administrative positions, begun in spring 2002, produced a campuswide plan for overall reduction over the next five years and an ongoing rigorous hiring monitoring system. Stock market concerns caused those institutions of higher education fortunate enough to have substantial endowments like Wellesley College to moderate their expectations of future growth. A successful bond refinancing with interest rates near historic lows allowed borrowing for major maintenance needs with no growth in annual interest payments. This Annual Report presents the results for the 2002–2003 fiscal year and discusses the prospects for the College's financial future.

Results for the 2002–2003 Fiscal Year

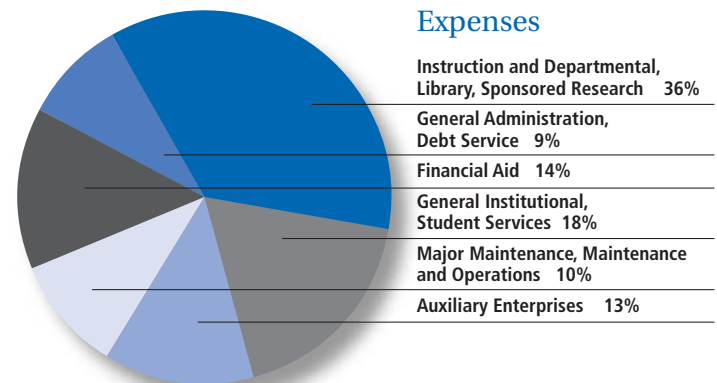
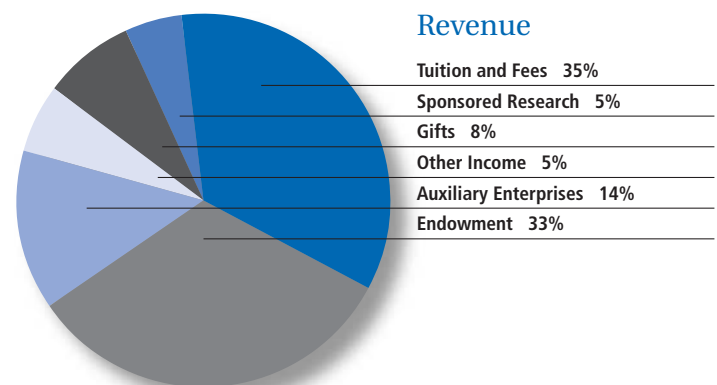
Financially, Wellesley College remains one of the strongest educational institutions in the country. Endowment returns, discussed in the Chief Investment Officer's report, and new gifts resulted in the endowment growing to \$1.04 billion. The funds used during the year to support the operating budget and to fund various capital projects equaled 5.3% of the endowment value for the one-year average and 4.8% of the three-year rolling average. During the course of the year, the endowment per student increased slightly from \$470,371 to \$476,466. Total gift receipts were \$51.7 million, which is the third highest total in Wellesley's history. Annual Giving receipts were the highest ever.

The operating budget was in balance in this fiscal year, with a slight surplus of \$14,000 and revenues and expenses totaling \$169.8 million. The revenue base for the operating budget was well diversified with five principal revenue sources: tuition income 35%, endowment 33%, auxiliary enterprises including room and board 14%, gifts used for operations 8% and other sources of revenue including sponsored research 10%. Operating expenses had an incremental increase of 2.6%, up slightly from 2.4% in FY02 and down from 6.8% in FY01. As might be expected in a labor-intensive institution, about 54% of the operating budget was used for salaries and benefits.

Wellesley continues to attract talented students and the number of applications for admission reached an all-time high in spring 2003.

Operating in Financial Equilibrium

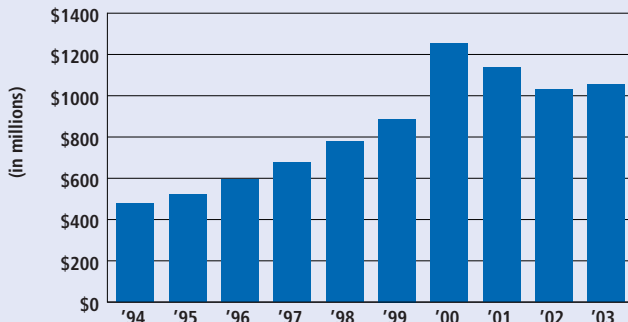
The requirements for achieving a state of financial equilibrium are (1) to balance revenues and expenses in the operating budget; (2) to preserve the purchasing power of the endowment; (3) to maintain the physical assets of the College; and (4) to sustain and support the human assets of the College.



1. Balancing Revenues and Expenses

The Budget Advisory Committee, which includes faculty, staff and students, worked with the Budget Office during the fiscal year to maintain balance in the FY03 and FY04 budgets. In FY03, careful attention paid to lowering expenses and the staffing review monitoring process helped constrain budget growth. In developing the FY04 budget, particular attention was paid to increasing financial aid support both because of the difficult economic times and because of more liberal changes in financial aid calculations resulting from decisions reached by a set of peer institutions.

General Endowment Pool, 1994–2003



2. Preserving the Purchasing Power of the Endowment

A primary responsibility of the Board of Trustees and the senior management of the College is to balance the equity between current and future generations of students. A key component of this responsibility is to preserve the long-term purchasing power of the endowment through a prudent endowment spending policy. Wellesley’s spending policy is to use the actual amount taken from the endowment in the prior year and add 5% of new gifts and increase this new total each year by 3% above the rate of inflation. The spending ranges between 4.5%–6% of the trailing three-year market average. In FY01 and FY02, the spending rate was at the low point of the range; in FY03, it increased to 4.8%. The 39% support of the educational and general budget derived from the endowment highlights the College’s reliance on this funding source.

3. Maintaining the Physical Assets of the College

With careful planning for major maintenance including \$5 million in each year’s operating budget, Wellesley took advantage of the low interest rate environment to refinance existing debt and, without increasing annual costs, to bring in almost \$19 million of funds for major maintenance over the next three years.

The campus center and alumnae valley projects are under construction. The Paint Shop Pond project is complete in this phase.

4. Maintaining the Human Assets of the College

During this fiscal year, the first annual five-year Staffing Review plan was completed and the ongoing system for monitoring new administrative hires was put into place. In addition, the decision was made to maintain or improve the market position of faculty and staff salaries in accord with the recommendations of the Task Force on Plans, Priorities and Fiscal Policies. This necessitated a significant increase in faculty salaries in order to meet the Task Force’s recommended goals.

Future Challenges

Revenues

The College’s fund-raising campaign enters the fourth of its five years still on course to meet the \$400-million goal. The College appreciates greatly the continued support of its friends and alumnae. For long-term financial equilibrium, it is clear now that tuition revenues, net of financial aid, will have to play a somewhat larger part in the funding of the educational and general budget. Tuition as a percent of educational and general costs has dropped from 45% to 41% over the last five years, so appropriate tuition increases are being considered. Greater emphasis on enrollment management will be implemented over the next several years as well.

Expenses

While net revenues are expected to increase, the College should continue to moderate expense growth. Consideration should be given to retaining any operating surplus for unanticipated expenses in the future. In today’s uncertain environment, maintaining such a surplus is a useful strategy.

Respectfully submitted,

Susan Vogt
Vice President for Finance and Treasurer

Report of the Chief Investment Officer

October 2003

To the Board of Trustees of Wellesley College

It is my pleasure to report to you that as of the fiscal year ended June 30, 2003 the Wellesley endowment had a market value of \$1.044 billion, versus \$1.032 billion as of June 30, 2002, an increase of \$12 million. The investment return for the year in the endowment portfolio was 4.9%. This return is well above the median return of 3.7% earned by the average endowment (according to Cambridge Associates' survey of endowment returns) and also exceeds the median return of 4.0% reported by TUCS (the Trust Universe Comparison Service) for endowments valued \$1 billion or more.

Recent Progress

After several years of punishing markets and two years of declining endowment values, we are gratified to have finally seen a positive return in the last year and an increase in the market value of our fund.

The 4.9% return Wellesley experienced for the year, while below our long term expectations, was a significantly better result than the return on the broad stock market (the S&P 500 returned 0.3% for the same time period) – testimony to the benefit of a diversified portfolio. Asset classes that contributed to our positive performance during fiscal year 2003 were fixed income, hedge/absolute return funds, and emerging markets equities. U.S. equities, developed international equities, and private equity/venture capital were detractors from performance. Wellesley's investment returns by asset class, and the relative performance versus benchmarks for each asset class, are summarized below. For all asset classes

where the index return is known, returns within the Wellesley portfolio exceeded the returns on the comparative broad market index.

Longer term investment results for the Wellesley endowment have been nominally better than recent returns, due in large part to rapidly rising public and private equities prior to the market peak in the year 2000. The total return on Wellesley's portfolio was equal to 8.8% per year over the last five years, and 11.9% per year over the last ten years.

Strategy

We have made significant progress over the past year in reviewing and re-affirming the College's investment strategy and goals. Our investment strategy focuses on long-term returns and proper diversification, reflecting the College's goals of maintaining the inflation-adjusted financial support provided by the endowment while controlling financial risk and volatility.

The Policy Portfolio, developed by the Investment Committee in 2002, provides us with a guide for allocating assets which is consistent with the College's need for both a growing and fairly steady stream of financial support. Given that certain asset classes where we are targeting incremental exposure (such as real assets – including real estate, energy, and other commodity and resource-related investments) are not areas that can or should be entered into overnight, we expect that it will be at least three to five years before we approach our targeted allocation.

Total Return – Year Ended 6/30/03	Wellesley Portfolio Return	Market Benchmark/Comparative Index	
Equities			
U.S. equities	0.7%	0.3%	S&P 500
International equities	-2.6%	-6.5%	MSCI EAFE
Emerging markets	10.0%	8.2%	IFC Investable
Fixed Income	10.8%	10.5%	Citicorp Broad
Private Equity	0.3%	-0.6%	Cambridge Associates
Hedge Funds/Absolute Return	9.0%	5.5%	Cambridge Associates
Total Portfolio	4.9%		

Asset Class	Policy Portfolio	Current Allocation
U.S. Equities	24%	29%
International Equities	14%	16%
Total Equities	38%	45%
Private Equity	12%	9%
Absolute Return	13%	13%
Real Assets/Other	13%	2%
Total Alternatives	38%	24%
Total Fixed Income	24%	26%
Cash	—	5%
Total Portfolio	100%	100%

For each of the asset categories in the Policy Portfolio, we are continuously evaluating our actual exposure, rebalancing, and analyzing our allocation to imbedded subcategories (e.g., small cap and mid cap equities, emerging markets, oil and gas, international bonds) and specific investments and investment managers. We will only increase our exposure to an asset class when exceptional opportunities for returns are found. Our goal is always to maintain a “best in class” set of investments within each of our targeted categories.

Future Activity

As we move forward, our goals are to continuously do the following:

1. Explore new ideas, new strategies, asset classes, investment types, managers, subcategories of assets – for possible investment opportunities with qualities that will add value to the portfolio, through diversification and incremental return.
2. Review and reassess our previous conclusions – about our Policy Portfolio, about benchmarks, and about managers we have in place and those we are considering.
3. Take action to improve and upgrade our portfolio, our selection criteria, our cost/benefit tradeoffs, and our risk/return relationship in each segment and across the portfolio.

4. Work with our counterparts in the College administration, to ensure that we incorporate any changes in Wellesley’s needs and goals into our long-term strategy for the endowment.

The investment and oversight of the Wellesley College endowment is a large and complicated task, as well as a great opportunity. All of us in the Investment Office are grateful to have a network of Trustees, Investment Committee members, colleagues and alumnae who provide us with ideas, perspective, and support.

I would especially like to thank our Investment Committee Chair, Lulu Chow Wang, who generously provides input and advice, and Wellesley’s Vice President for Finance and Treasurer, Susan Vogt, who has been an invaluable source of insight into the College’s financial matters and long-term goals and challenges during my first full year as Chief Investment Officer. We are very fortunate to have both of these individuals on Wellesley’s team.

We are optimistic about the future of Wellesley’s endowment and the anticipated long-term results of the investment strategy we have adopted. Trustees and alumnae with questions or thoughts about the management of the endowment are invited to contact me at any time.

Thank you.

Sincerely,

Jane L. Mendillo
Chief Investment Officer

Wellesley College Financial Highlights

(in \$000s)

	1999	2000	2001	2002	2003
Total College Summary					
Total Revenues	\$252,447	\$542,558	\$ 64,757	\$ 91,107	\$182,049
Total Expenses	143,014	157,192	167,351	171,751	175,442
Net Surplus/(Deficit)	\$109,433	\$385,366	(\$102,594)	(\$ 80,644)	\$ 6,607
Current Operations Summary					
Revenues including Trustee Approved Use of Unrestricted Bequests	\$140,928	\$151,664	\$161,708	\$165,546	\$169,771
Expenditures	140,547	151,458	161,708	165,519	169,757
Operating Surplus	\$ 381	\$ 206	\$ 0	\$ 27	\$ 14
Resources					
Unrestricted Gifts	\$ 7,270	\$ 7,476	\$ 8,068	\$ 7,847	\$ 7,668
Endowment Gifts and Bequests	30,210	31,733	18,314	23,482	28,191
Planned Gifts	10,038	10,733	2,276	2,544	3,468
Facilities Gifts	1,938	2,792	8,089	4,572	5,502
Current-Use Gifts and Grants	4,564	6,776	8,934	10,335	6,892
Total	\$54,020	\$59,510	\$45,681	\$48,780	\$51,721
Endowment					
Market Value	\$887,489	\$1,253,385	\$1,136,426	\$1,032,465	\$1,043,937
Total Return	\$112,520	\$373,890	(\$87,307)	(\$51,431)	\$35,449
Total Return Used for Operations	\$41,516	\$47,546	\$53,520	\$54,932	\$54,333
Unit Value	\$446.73	\$610.15	\$543.88	\$484.59	\$479.33
Investment Return - Total	15.0%	42.8%	(6.6%)	(5.2%)	4.9%
Yield	3.9%	4.4%	3.7%	3.8%	4.1%
Appreciation	11.1%	38.4%	(10.3%)	(9.0%)	.7%
Average Endowment Operating Support (% of Average Market Value)					
One-Year Average	4.8%	4.2%	4.2%	5.0%	5.3%
Three-Year Average	5.1%	4.7%	4.4%	4.5%	4.8%
Assets					
Total College Net Assets	\$1,039,186	\$1,424,551	\$1,321,957	\$1,241,312	\$1,247,919

Wellesley College

Summary of Operating Revenues and Expenditures

Years ended June 30, 2003 and 2002

(in \$000s)

	2003	2002	Increase (Decrease)	%
Revenues from Operations				
Tuition and Fees	\$ 59,828	\$ 57,491	\$2,337	4.1%
Endowment Income				
Education and General Support	29,968	27,423	2,545	9.3%
Endowment Income - Prior Year	1,776	1,444	332	23.0%
Special Purposes	1,319	3,189	(1,870)	-58.6%
Debt Service Support	3,912	3,730	182	4.9%
Total Endowment Support	36,975	35,786	1,189	3.3%
Unrestricted Gifts	8,887	7,847	1,040	13.3%
Comprehensive Campaign Funding	1,578	1,635	(57)	-3.5%
Restricted and Capital Gifts and Use of Reserves	2,310	2,069	241	11.6%
Other Income	3,590	3,825	(235)	-6.1%
Student Financial Aid				
Endowment Income	19,134	17,477	1,657	9.5%
Federal and State Grants	2,114	2,015	99	4.9%
Restricted Gifts	2,305	1,386	919	66.3%
Total Student Financial Aid	23,553	20,878	2,675	12.8%
Total Education and General	136,721	129,531	7,190	5.6%
Sponsored Research	8,557	11,956	(3,399)	-28.4%
Auxiliary Enterprises	24,493	24,059	434	1.8%
Total Revenues	169,771	165,546	4,225	2.6%
Operating Expenditures				
Instruction and Departmental	43,665	42,104	1,561	3.7%
Library	5,602	5,574	28	0.5%
Student Services	10,056	9,876	180	1.8%
Student Financial Aid	23,843	20,878	2,965	14.2%
General Administration	8,865	8,329	536	6.4%
General Institutional	18,897	19,477	(580)	-3.0%
Comprehensive Campaign Costs	1,577	1,660	(83)	-5.0%
Maintenance and Operations	11,156	8,654	2,502	28.9%
Debt Service	6,449	6,532	(83)	-1.3%
Major Maintenance, Capital Expenditures, and Reserves	5,237	7,171	(1,934)	-27.0%
Total Educational and General Expenditures	135,347	130,255	5,092	3.9%
Sponsored Research and Other Programs	12,115	12,681	(566)	-4.5%
Auxiliary Enterprises	22,295	22,583	(288)	-1.3%
Total Expenditures	169,757	165,519	4,238	2.6%
Operating Surplus	\$ 14	\$ 27	\$ (13)	-48.1%

Wellesley College

Ten-Year Financial Summary 1994–2003

	1994	1995	1996	1997
Financial Statement (in \$000s)				
Total Revenues				
Tuition and Fees	\$ 40,205	\$ 41,846	\$ 44,109	\$ 46,645
Investment Return	15,137	73,205	100,670	103,473
Private Gifts, Grants, Bequests and Contracts	24,064	24,610	31,043	36,531
Federal Grants and Contracts – Restricted	4,642	3,984	3,425	4,021
Sales and Services of Auxiliary Enterprises	19,972	20,649	20,438	21,432
Interest Income	885	937	845	1,208
Other	731	1,148	1,409	1,912
Total Revenues and Other Additions	\$105,636	\$166,379	\$201,939	\$215,222
Total Expenditures				
Instruction and Departmental	\$ 27,734	\$ 31,338	\$ 34,078	\$ 31,406
Library	3,729	4,023	4,322	4,585
Student Services	5,068	5,131	5,367	5,789
Maintenance and Operations	6,895	8,433	7,876	10,288
Provision for Depreciation	6,864	6,930	7,115	7,234
Interest on Indebtedness	1,559	4,046	3,438	3,141
General Administration	3,824	4,425	6,038	5,787
General Institutional	11,260	11,669	13,151	13,584
Student Financial Aid	13,846	14,449	14,102	14,941
Sponsored Research and Other Programs	6,726	6,316	6,014	8,282
Auxiliary Enterprise Expenditures	18,068	18,988	19,272	19,033
Other	301	1,517	—	—
Changes in Accounting Policies	—	2,366	—	—
Total Expenditures and Other Deductions	\$105,874	\$119,631	\$120,773	\$124,070
Excess of Revenue over Expenditures	(\$238)	\$46,748	\$81,166	\$91,152
Excess of Revenues over Expenditures as a Percent of Expenditures	–0.2%	39.1%	67.2%	73.5%
Endowment Total Return Used to Support Current Operations	\$25,679	\$31,250	\$32,771	\$35,861
Endowment End-of-Year Market Value	\$484,126	\$528,405	\$605,509	\$691,088
Average Endowment Return Used to Support Current Operations as a Percent of:				
One Year – Beginning and Ending Market Value	4.9%	5.6%	5.6%	5.3%
Three Year – Average of Three Years	4.5%	5.0%	5.4%	5.5%
Other Financial Information				
Tuition and Fees per Student				
Comprehensive Fee	\$23,815	\$24,860	\$25,810	\$26,970
Tuition	\$17,390	\$18,345	\$19,610	\$20,174
Enrollment (Average FTE)	2,245	2,179	2,201	2,227
Educational and General Costs per Student	\$35,982	\$41,507	\$43,383	\$43,446
Tuition as a Percent of Educational and General Expenses	48.3%	44.2%	45.2%	46.4%
Endowment per Student	\$215,646	\$242,499	\$275,106	\$310,322

Wellesley College

Ten-Year Financial Summary 1994–2003

1998	1999	2000	2001	2002	2003	Average Annual Percent Change Since 6-30-94	
						Nominal %	Real %
\$ 49,150	\$ 51,469	\$ 53,669	\$ 55,197	\$ 57,491	\$ 59,828	4.5%	2.2%
105,908	111,934	361,536	(87,307)	(51,431)	35,449	35.6%	33.3%
51,744	57,906	94,098	62,234	49,355	52,261	12.6%	10.3%
3,865	4,092	4,641	5,251	6,225	7,448	6.2%	3.9%
21,310	22,317	23,180	24,120	24,059	24,493	2.3%	0.0%
1,153	1,929	3,333	2,910	1,253	747	7.2%	4.9%
1,900	2,800	2,101	2,352	4,155	1,823	18.9%	16.6%
\$235,030	\$252,447	\$542,558	\$ 64,757	\$ 91,107	\$182,049	29.9%	27.6%
\$ 34,994	\$ 35,983	\$ 38,815	\$ 40,074	\$ 42,104	\$ 43,650	5.3%	3.0%
4,934	4,819	4,849	5,195	5,574	5,602	4.7%	2.4%
6,236	7,001	7,670	8,516	9,876	10,056	8.0%	5.7%
11,686	14,632	14,330	18,291	15,635	14,312	9.7%	7.4%
7,338	7,468	8,527	8,745	8,718	9,429	3.7%	1.4%
3,093	3,888	5,194	5,077	4,237	4,712	20.7%	18.4%
6,598	7,827	8,336	7,626	8,328	9,737	11.6%	9.3%
14,880	15,859	18,445	21,136	21,137	20,117	6.9%	4.6%
15,174	15,843	18,281	19,189	20,878	23,479	6.2%	3.9%
8,371	9,077	9,932	10,138	12,681	12,115	7.6%	5.3%
19,575	20,617	21,523	23,364	22,583	22,233	2.4%	0.1%
—	—	1,290	—	—	—		
—	—	—	—	—	—		
\$132,879	\$143,014	\$157,192	\$167,351	\$171,751	\$175,442	5.8%	3.5%
\$102,151	\$109,433	\$385,366	(\$102,594)	(\$80,644)	\$6,607		
76.9%	76.5%	245.2%	-61.3%	-47.0%	3.8%		
\$39,161	\$41,516	\$47,546	\$53,520	\$54,931	\$54,333	8.7%*	
\$780,872	\$887,489	\$1,253,385	\$1,136,426	\$1,032,465	\$1,043,937	8.9%*	
5.1%	4.8%	4.2%	4.2%	5.0%	5.3%		
5.3%	5.1%	4.7%	4.4%	4.5%	4.8%		
\$28,330	\$29,520	\$30,554	\$31,654	\$33,394	\$34,944	4.4%	2.1%
\$21,254	\$22,114	\$22,894	\$23,718	\$25,022	\$26,138	4.6%	2.3%
2,224	2,222	2,248	2,212	2,195	2,191		-0.3%
\$47,182	\$50,999	\$55,359	\$60,510	\$62,181	\$64,397	6.8%	4.5%
45.0%	43.4%	41.4%	39.2%	40.2%	40.6%	-1.8%	-4.1%
\$351,112	\$399,410	\$557,556	\$513,755	\$470,371	\$476,466	10.0%	7.7%

*compound growth

Wellesley College

Key Statistics

Years ended June 30, 1993, 1998, and 2003

	1993	1998	2003
Faculty / Student FTE Headcount			
Student Enrollment (Average FTE)	2,241	2,224	2,191
Faculty Teaching Strength (FTE)	222	227	224
Student/Faculty Ratio	10.09	9.80	9.78
Enrollment			
Number of First-Year Student Applications	2,894	3,227	2,877
First-Year Students Admitted as a % of Applicants	42.4%	43.4%	47.1%
First-Year Students Enrolled as a % of Applicants	20.1%	18.5%	20.7%
First-Year Students Enrolled as a % of Students Admitted	49.7%	42.7%	43.9%
Financial Aid			
Percent of Students Receiving Financial Aid Grant Assistance	49.7%	45.9%	51.0%
Average Financial Aid Grant as % of Comprehensive Fee	49.3%	47.9%	55.7%
Student Aid Expense as % of Educational and General Expense	18.0%	14.5%	16.6%
Educational & General Cost per Student	\$31,767	\$47,182	\$64,397
Tuition as % of Educational and General Expense	52.5%	45.0%	40.6%
Development (in \$000s)			
Total Development Fund-Raising	\$22,898	\$43,740	\$51,721
Total Alumnae Giving Including Bequests	\$16,461	\$34,145	\$42,445
Number of Alumnae Donors	14,183	13,928	15,600
Percent of Alumnae Contributing	50.9%	48.9%	51.7%
Total Unrestricted Gifts	\$4,594	\$6,384	\$7,668
Total Planned Gifts	\$2,694	\$7,432	\$3,468
Total Bequests	\$3,338	\$13,533	\$12,053
Unrestricted Gifts as % of Educational and General Expenditures	6.5%	6.3%	6.3%
Endowment			
Endowment Market Value (in \$000s)	\$485,115	\$780,872	\$1,043,937
Endowment per Student	\$216,473	\$351,112	\$476,466
Endowment Income as % of Educational and General Expense	30.4%	37.3%	38.5%
Physical Plant			
Plant Replacement Value (in \$000s)	\$365,120	\$511,675	\$703,250
Gross Square Feet of Buildings	2,282,000	2,425,000	2,425,000
Replacement Cost per Square Foot	\$160.00	\$211.00	\$290.00
Library			
Library Collections in Volumes	1,179,382	1,344,732	1,529,737

Wellesley College

Development Fund Report

Years ended June 30, 2003 and 2002

(in \$000s)

	2003	2002	% Change
By Type			
Outright Gifts	\$36,200	\$36,409	-0.6%
Deferred Gifts	3,468	2,544	36.3%
Subtotal	39,668	38,953	1.8%
Bequests			
Restricted	8,109	6,211	30.6%
Unrestricted	3,944	3,615	9.1%
Subtotal	12,053	9,826	22.7%
Total	\$51,721	\$48,779	6.0%
By Source			
Alumnae			
Gifts	\$32,098	\$30,986	3.6%
Bequests	10,347	6,341	63.2%
Parents	1,139	813	40.1%
Other Individuals and Clubs	4,244	5,881	-27.8%
Corporate			
Grants	159	192	-17.2%
Matching Gifts	674	682	-1.2%
Foundations	3,060	3,884	-21.2%
Total	\$51,721	\$48,779	6.0%
Notes			
Unrestricted Gifts	\$7,668	\$7,847	-2.3%
Current-Use Financial Aid	2,129	1,426	49.3%
	\$9,797	\$9,273	5.7%
Pledges Outstanding	\$78,726	\$80,088	-1.7%
Alumnae Solicited	30,147	28,971	4.1%
Alumnae Donors	15,600	15,510	0.6%
Participation	51.7%	53.5%	-3.3%
Durant Society Membership	2,990	3,072	-2.7%

Wellesley College

Total Sources of Student Financial Aid

Grant and Work Assistance

Years ended June 30, 2003 and 2002
(in \$000s)

	2003	2002	Increase/ (Decrease)
Unrestricted Revenue			
General College Revenues	\$ 290	\$ —	\$ 290
Total Unrestricted Revenue	\$ 290	\$ —	\$ 290
Restricted Revenue			
Restricted Endowment			
Income	\$17,134	\$15,898	\$1,236
Income – Special Supplement	2,000	1,579	421
Federal Government			
Pell Grants	1,029	885	144
Supplemental Educational Opportunity Grants	418	391	27
College Work Study Program – Federal Government Share	427	444	(17)
Total Government Grants	\$ 1,874	\$ 1,720	\$ 154
Commonwealth of Massachusetts	240	295	(55)
Restricted Gifts	2,305	1,386	919
Total Restricted Revenue	23,553	20,878	2,675
Total Unrestricted and Restricted Revenues	\$23,843	\$20,878	\$2,965

Wellesley College

Five-Year Endowment Summary 1999–2003

	1999	2000	2001	2002	2003
Total Endowment (in \$000s)					
General Endowment Pool	\$887,036	\$1,253,008	\$1,135,925	\$1,031,991	\$1,043,476
Nonpooled Endowment	\$453	\$377	\$501	\$474	\$461
Total Endowment	\$887,489	\$1,253,385	\$1,136,426	\$1,032,465	\$1,043,937
General Endowment Pool					
Market Value (in \$000s)	\$887,036	\$1,253,008	\$1,135,925	\$1,031,991	\$1,043,476
Unit Value	\$446.73	\$610.15	\$543.88	\$484.59	\$479.33
Unit Distribution	\$22.00	\$23.50	\$24.75	\$26.04	\$26.88
Total Return Comparison					
Yield	3.9%	4.4%	3.7%	3.8%	4.1%
Appreciation	11.1%	38.4%	-10.3%	-9.0%	0.7%
Total Nominal Return	15.0%	42.8%	-6.6%	-5.2%	4.9%
Real Return	12.7%	37.8%	-9.6%	-6.2%	2.7%
Market Indices (Nominal)					
S&P 500	22.8%	7.2%	-14.8%	-18.0%	0.3%
Citigroup Broad Investment Grade Bond Index	3.1%	4.5%	11.3%	8.5%	10.5%
Composite Index	16.2%	6.5%	-6.1%	-9.1%	4.3%
Consumer Price Index	2.0%	3.7%	3.3%	1.5%	2.1%
Annual Compound Returns					
Period Ending	5	4	3	2	1
Wellesley: Nominal	8.8%	7.3%	-2.4%	-0.3%	4.9%
Real	6.2%	4.7%	-4.5%	-1.9%	2.7%
S&P 500	-1.6%	-6.9%	-11.2%	-9.3%	0.3%
Citigroup Broad Investment Grade Bond Index	7.5%	8.7%	10.1%	9.5%	10.5%
Composite Index	2.0%	-1.3%	-3.8%	-2.6%	4.3%
Consumer Price Index	2.5%	2.6%	2.3%	1.8%	2.1%
General Endowment Pool Asset Allocation					
Liquid Funds	12.8%	12.0%	14.0%	5.6%	5.4%
Fixed Income Investments	19.9%	20.1%	24.9%	29.8%	26.6%
Equities	47.9%	43.8%	42.2%	43.2%	44.6%
Other	19.4%	24.1%	18.9%	21.4%	23.4%
Total	100.0%	100.0%	100.0%	100.0%	100.0%
Endowment/Student	\$399,410	\$557,556	\$513,755	\$470,371	\$476,466
Enrollment (Average FTE)	2,222	2,248	2,212	2,195	2,191
Endowment Income Support for Current Operations					
Average Operating Support/Average Endowment Market Value					
One-Year Average	4.8%	4.2%	4.2%	5.0%	5.3%
Three-Year Average	5.1%	4.7%	4.4%	4.5%	4.8%

Wellesley College

Investment of Endowment and Similar Funds and Planned Giving Funds

Year ended June 30, 2003

(in \$000s)

	Market Value	% of Total
Investments Pooled		
Liquid Funds (Net of Payables and Receivables)	\$ 56,026	5.37%
Fixed Income		
U.S. Bonds	245,627	23.54%
High-Yield Bonds	13,086	1.25%
Faculty Mortgages	18,661	1.79%
Total Fixed Income	277,374	26.58%
Common Stocks		
U.S. Stocks	305,672	29.29%
Non-U.S. Stocks	160,367	15.37%
Total Common Stocks	466,039	44.66%
Alternative Assets		
Venture Capital	26,044	2.50%
Buyout Funds	35,296	3.38%
Hedge and Arbitrage Funds	134,735	12.91%
Oil and Gas	6,243	0.60%
Distressed Securities	31,326	3.00%
Real Estate	8,973	0.86%
Miscellaneous Other	1,420	0.14%
Total Alternative Assets	244,037	23.39%
Total General Pooled Investments	1,043,476	100.00%
Investments Not Pooled		
Total Endowment and Similar Funds	461	
	1,043,937	
Planned Giving		
Separate Pooled Funds	41,034	
Unitrusts and Other Not Pooled Funds	23,837	
Total Planned Giving Funds	64,871	
Grand Total	\$1,108,808	

Wellesley College

Quarterly Market Value per Unit of Funds
Participating in Various Investment Pools

Year ended June 30, 2003

	Number of Units	Market Value (in \$000s)	Market Value Per Unit
General Investment Pool			
June 30, 2002	2,129,629	\$1,031,991	\$484.587
September 30, 2002	2,140,085	957,370	447.352
December 31, 2002	2,160,132	975,270	451.487
March 31, 2003	2,173,950	954,254	438.949
June 30, 2003	2,176,958	1,043,476	479.328
Annuity Pool			
June 30, 2002	126,204	\$22,426	\$177.696
September 30, 2002	125,778	20,186	160.486
December 31, 2002	133,933	21,952	163.901
March 31, 2003	135,828	21,729	159.976
June 30, 2003	139,446	23,837	170.943
Life Income Pool (Pre 1970)			
June 30, 2002	1,522	\$347	\$227.880
September 30, 2002	1,522	325	213.678
December 31, 2002	1,522	330	217.033
March 31, 2003	1,522	325	213.500
June 30, 2003	1,522	353	232.268
Life Income Pool			
June 30, 2002	24,269	\$5,196	\$214.093
September 30, 2002	24,176	5,044	208.631
December 31, 2002	24,176	5,079	210.087
March 31, 2003	23,678	4,953	209.177
June 30, 2003	20,137	4,461	221.542
Growth Fund Pool			
June 30, 2002	5,652	\$2,579	\$456.273
September 30, 2002	5,652	2,303	407.391
December 31, 2002	5,663	2,389	421.837
March 31, 2003	5,663	2,328	411.156
June 30, 2003	5,773	2,650	459.122
Balanced Fund Pool			
June 30, 2002	15,588	\$2,649	\$169.924
September 30, 2002	15,588	2,536	162.712
December 31, 2002	15,547	2,557	164.459
March 31, 2003	15,563	2,528	162.472
June 30, 2003	15,641	2,726	174.316
High Yield Pool			
June 30, 2002	49,622	\$5,240	\$105.596
September 30, 2002	49,138	5,329	108.444
December 31, 2002	49,176	5,305	107.885
March 31, 2003	49,062	5,319	108.415
June 30, 2003	49,674	5,476	110.245

Schedule I

Wellesley College
 General Endowment Pool
 Annual Total Return Since Inception

Year Ended	Market Value (in \$000s)	Ending Unit Value	Distribution	Total Return		
				Yield %	Appreciation %	Total %
		\$100.00				
1970	\$92,600	107.13	\$5.50	5.13	7.13	12.26
1971	121,050	138.68	5.70	4.11	29.46	33.57
1972	136,273	154.80	5.90	3.81	11.63	15.44
1973	126,928	139.30	6.00	4.31	(10.01)	(5.70)
1974	109,672	116.43	7.30	6.27	(16.42)	(10.15)
1975	111,340	116.82	7.05	6.03	0.33	6.36
1976	115,922	119.77	7.00	5.84	2.52	8.36
1977	119,152	122.86	7.30	5.94	2.58	8.52
1978	111,852	116.54	7.68	6.59	(6.15)	1.44
1979	119,151	119.70	8.05	6.73	2.72	9.45
1980	133,168	119.32	9.30	7.79	(0.03)	7.76
1981	134,871	121.64	9.11	7.49	2.71	10.20
1982	127,842	110.90	10.72	9.67	(8.77)	0.90
1983	167,556	135.78	10.40	7.66	21.94	29.60
1984	156,258	123.60	9.00	7.28	(9.69)	(2.41)
1985	201,793	149.44	9.09	6.36	21.62	27.98
1986	260,481	188.93	8.41	5.50	26.90	32.40
1987	294,574	207.66	8.90	4.34	10.38	14.72
1988	290,270	198.53	10.25	5.20	(4.30)	0.90
1989	319,235	211.06	11.10	5.50	7.28	12.78
1990	352,537	222.70	11.30	5.20	6.00	11.20
1991	371,464	231.81	11.30	5.15	4.08	9.23
1992	409,082	252.95	11.02	4.50	10.00	14.50
1993	475,797	281.83	11.37	4.00	11.50	15.50
1994	475,961	278.97	14.00	3.50	0.50	4.00
1995	520,108	305.01	16.15	3.20	12.00	15.20
1996	595,950	336.88	17.02	3.21	15.03	18.24
1997	677,932	371.67	19.60	2.89	14.28	17.17
1998	780,203	410.41	21.00	3.24	11.98	15.22
1999	887,036	446.73	22.00	3.91	11.05	14.96
2000	1,253,008	610.15	23.50	4.41	38.44	42.85
2001	1,135,925	543.88	24.75	3.72	(10.34)	(6.62)
2002	1,031,991	484.59	26.04	3.81	(9.00)	(5.19)
2003	1,043,476	479.33	26.88	4.12	0.73	4.85

Report of Independent Auditors



To the Board of Trustees of Wellesley College:

In our opinion, the accompanying statements of financial position and the related statements of activities and cash flows present fairly, in all material respects, the financial position of Wellesley College at June 30, 2003 and 2002, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Wellesley College's management; our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America,

which require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

October 10, 2003

Wellesley College
Statements of Financial Position

June 30, 2003 and 2002
(in \$000s)

	2003	2002
Assets		
Cash and cash equivalents	\$ 36,104	\$ 46,893
Cash, restricted	56,875	—
Accounts receivable, net	1,895	2,057
Loans receivable, net	5,920	5,416
Contributions receivable, net	57,218	61,669
Grants receivable	2,369	2,403
Prepaid, inventory and other assets	1,437	1,673
Investments	1,043,937	1,032,465
Planned giving investments	64,871	63,178
Land, buildings and equipment, net	212,284	187,133
Total assets	\$1,482,910	\$1,402,887
Liabilities		
Accounts payable and accrued expenses	\$ 19,739	\$ 15,414
Student deposits and deferred revenues	3,371	2,448
Advances under grants and contracts	6,584	6,155
Annuities and unitrusts payable	34,577	26,404
Bonds payable	166,356	106,877
Government loan advances	4,364	4,277
Total liabilities	234,991	161,575
Net Assets		
Unrestricted	408,572	449,249
Temporarily restricted	524,987	514,410
Permanently restricted	314,360	277,653
Total net assets	1,247,919	1,241,312
Total liabilities and net assets	\$1,482,910	\$1,402,887

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

Wellesley College

Statement of Activities

For the year ended June 30, 2003
(in \$000s)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2003 Total
Operating Revenues				
Tuition and Fees	\$ 59,828			\$ 59,828
Less financial aid				
Donor sponsored	(20,524)			(20,524)
Institutionally sponsored	(2,537)			(2,537)
Net tuition and fees	36,767			36,767
Auxiliary operations	24,493			24,493
Government grants	6,167			6,167
Private gifts and grants	17,055	556		17,611
Investment return designated for operations	22,851	31,482		54,333
Other	3,851			3,851
Net assets released from restrictions	33,425	(33,425)		—
Total operating revenues	144,609	(1,387)		143,222
Operating Expenses				
Instruction and departmental research	55,952			55,952
Sponsored research and other programs	12,115			12,115
Library	8,416			8,416
Student services	12,327			12,327
General administration	10,151			10,151
General institutional	21,460			21,460
Auxiliary operations	30,775			30,775
Total operating expense	151,196			151,196
Nonoperating Activities				
Investment return, net of spending allocation	(10,697)	(9,124)	937	(18,884)
Matured planned giving agreements	1,006	(2,869)	1,863	—
Gifts and pledges	213	15,872	17,536	33,621
Minimum pension liability adjustment	(156)			(156)
Net assets released from restrictions	10,565	(10,565)		—
Transfer between restriction categories	(35,021)	18,650	16,371	—
Total nonoperating revenues	(34,090)	11,964	36,707	14,581
Net change in net assets	(40,677)	10,577	36,707	6,607
Net assets at beginning of year	449,249	514,410	277,653	1,241,312
Net assets at end of year	\$408,572	\$524,987	\$314,360	\$1,247,919

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

Wellesley College

Statement of Activities

For the year ended June 30, 2002
(in \$000s)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2002 Total
Operating Revenues				
Tuition and Fees	\$ 57,491			\$ 57,491
Less financial aid				
Donor sponsored	(19,994)			(19,994)
Institutionally sponsored				
Net tuition and fees	37,497			37,497
Auxiliary operations	24,059			24,059
Government grants	5,341			5,341
Private gifts and grants	14,119	55		14,174
Investment return designated for operations	19,604	35,328		54,932
Other	5,408			5,408
Net assets released from restrictions	35,021	(35,021)		—
Total operating revenues	141,049	362		141,411
Operating Expenses				
Instruction and departmental research	54,466			54,466
Sponsored research and other programs	12,681			12,681
Library	8,402			8,402
Student services	12,157			12,157
General administration	9,515			9,515
General institutional	22,487			22,487
Auxiliary operations	31,166			31,166
Total operating expense	150,874			150,874
Nonoperating Activities				
Investment return, net of spending allocation	(45,540)	(60,970)	147	(106,363)
Matured planned giving agreements	2,938	(3,097)	159	—
Gifts and pledges	18,564	26,399	(9,782)	35,181
Net assets released from restrictions	3,378	(3,378)		—
Total nonoperating revenues	(20,660)	(41,046)	(9,476)	(71,182)
Net change in net assets	(30,485)	(40,684)	(9,476)	(80,645)
Net assets at beginning of year	479,734	555,094	287,129	1,321,957
Net assets at end of year	\$449,249	\$514,410	\$277,653	\$1,241,312

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

Wellesley College

Statements of Cash Flows

For the years ended June 30, 2003 and 2002
(in \$000s)

	2003	2002
Cash Flows from Operating Activities		
Change in net assets	\$ 6,607	\$ (80,645)
Adjustment to reconcile change in net assets to net cash used by operating activities:		
Depreciation and amortization	9,419	8,718
Contributions restricted for investments	(37,127)	(36,279)
Investment income (loss) on planned giving agreements	1,498	(2,780)
Matured annuity and life income contracts	2,869	(3,097)
Realized and unrealized (gains) losses on investments	(25,608)	79,016
Changes in operating assets and liabilities:		
Accounts receivable, net	162	(502)
Contributions receivable, net	4,451	14
Grants receivable	34	(471)
Other	236	704
Accounts payable and accrued expenses	4,325	2,554
Student deposits and deferred revenue	923	(813)
Advances under grants and contracts	429	117
Net cash used by operating activities	(31,782)	(33,464)
Cash Flows from Investing Activities		
Purchase of plant and equipment	(34,580)	(28,387)
Proceeds from student loans collections	896	989
Student loans issued	(1,400)	(899)
Purchases of investments	(1,357,177)	(1,395,462)
Proceeds from sales and maturities of investments	1,369,620	1,423,317
Net cash used by investing activities	(22,641)	(442)
Cash Flows from Financing Activities		
Proceeds from contributions for:		
Investment in endowment	28,251	26,261
Investment in planned giving	3,461	2,544
Plant and equipment	5,415	7,474
Investment income (loss) on planned giving agreements	(1,498)	2,780
Annuities and unitrusts payable	8,173	(6,455)
Matured planned giving agreements	(2,869)	3,097
Increase in federal student loan funds	87	117
Increase in restricted cash	(56,875)	—
Bond proceeds received, net	62,167	10,941
Payments on bonds payable	(2,678)	(2,294)
Net cash provided by financing activities	43,634	44,465
Net increase (decrease) in cash and cash equivalents	(10,789)	10,559
Cash and cash equivalents, beginning of year	46,893	36,334
Cash and cash equivalents, end of year	\$ 36,104	\$ 46,893

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

Wellesley College

Notes to the Financial Statements

June 30, 2003 and 2002

1. Summary of Significant Accounting Policies

(a) Basis of Presentation

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

Resources are reported for accounting purposes in separate classes of net assets based on the existence or absence of donor-imposed restrictions. In the accompanying financial statements, net assets that have similar characteristics have been combined into similar categories as follows:

Unrestricted — Net assets that are not subject to donor-imposed stipulations. These include all revenues, expenses, gains and losses that are not changes in permanently or temporarily restricted net assets. This category includes realized and unrealized gains on unrestricted endowment. Unrestricted net assets may be designated for specific purposes by action of the Board of Trustees or may otherwise be limited by contractual agreements with outside parties. Unrestricted net assets generally result from revenues derived from providing services, receiving unrestricted contributions, unrealized and realized gains and losses on unrestricted endowment, and receiving dividends and interest from investing in income producing assets, less expenses incurred in providing services, raising contributions, and performing administrative functions.

Temporarily restricted — Net assets that are subject to donor-imposed stipulations that can be fulfilled by actions of the College pursuant to those stipulations or that expire by the passage of time. This category includes realized and unrealized gains and losses on permanent endowment. Temporarily restricted net assets generally result from contributions and other inflows of assets whose use by the organization is limited by donor-imposed stipulations or by law that either expire by passage of time or can be fulfilled and removed by actions of the College pursuant to those stipulations.

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

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

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

Non-operating activities reflect transactions of a long-term investment or capital nature including contributions to be invested by the College to generate a return that will support future operations, contributions to be received in the future, contributions to be used for facilities and equipment, appropriation of previous years gains, and investment return beyond what the College has appropriated for current operational support in accordance with the College's investment return spending guidelines.

(b) Cash Equivalents

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

(c) Investments

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

Venture capital and buyout limited partnerships include investments in both publicly and privately owned securities. The fair values of private investments are 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, most typically based on calendar year end information. The values of public investments not yet distributed generally reflect discounts for illiquidity. The limited partnership valuations consider variables such as the financial performance of the investments, recent sales prices of similar investments and other pertinent information. The estimated values as determined by the general partners

Wellesley College

Notes to the Financial Statements

June 30, 2003 and 2002

and investment managers may differ significantly from the values that would have been used had a ready market for the investments existed and the differences could be materially higher or lower.

Derivative investments in the College's portfolio may include currency forward contracts, currency and interest rate swaps, call and put options, debt futures contracts and other vehicles that may be appropriate in certain circumstances as permitted within the managers' investment guidelines. The College's external managers use investments in derivative securities predominantly to reduce interest rate risk and risk in the foreign fixed income market. The College applies SFAS 133, Accounting for Derivative Instruments and Hedging Activities and carries derivative instruments at market value.

The College's split-interest agreements with donors consist of irrevocable charitable gift annuities, pooled life income funds and charitable remainder unitrusts. Unitrusts, in which the College has a remainder interest, but that are held in trust and administered by outside agents, have been recorded as gifts that are temporarily restricted. Unitrusts, in which the College has a remainder interest, and which are managed by the College, periodically pay income earned on the assets to designated beneficiaries. The College adjusts unitrusts for both the estimated return on the invested assets and the contractual payment obligations during the expected term of the agreement. For planned giving contracts, the contributed assets are included at fair value on the planned giving investments on the Statement of Financial Position. Contribution revenues are recognized as of the date the donated assets are transferred to the College and liabilities are recorded for the present value of the estimated future payments to the donors or other beneficiaries. The liabilities are adjusted during the term of the planned giving contracts consistent with changes in the value of the assets and actuarial assumptions.

Net gains on permanently restricted gifts are classified as temporarily restricted until appropriated for spending by the College in accordance with the Massachusetts Management of Institutional Funds Act and guidance from the Massachusetts Attorney General. Future utilization of gains is dependent on market performance.

Deficiencies of \$4,363,000 and \$4,239,000 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, 2003 and 2002, respectively. As the market value of the portfolio increases, the deficiency will reverse. The allocation of deficiencies is recorded in accordance with FAS 124, "Accounting for Certain Investments Held by Not-for-Profit Organizations".

(d) Endowment Investment Return Spending Policy

The College uses a "total return" approach to managing endowment assets. Funds are invested to maximize total return consistent with prudent risk without regard to the mix of current investment income and realized and unrealized gains or losses. The College's endowment distribution policy determines a payout rate that is based on total investment value over a rolling twelve quarter average within a range of 4.5% to 6%. The sources of the payout are endowment earned income (interest and dividends), both current and previously reinvested income and a portion of realized gains. Any income earned in excess of the spending limit is reinvested while funds may be withdrawn from investment return earned in prior years if income is less than the spending limit. The spending policy is designed to insulate investment policy from budgetary pressures, and to insulate program spending from fluctuations in capital markets.

(e) Inventories

Inventories are stated at the lower of cost (first-in, first-out method) or market.

(f) Accounts Receivable and Student Loans Receivable

Accounts receivable include amounts due from students, student organizations and other miscellaneous receivables. Loans to students are carried at cost. Accounts receivable for 2003 and 2002, are reported net of allowances for doubtful accounts of \$772,000 and \$798,000, respectively. Loans receivable are reported net of allowances for doubtful loans of \$549,000 and \$940,000, respectively. The provisions are intended to provide for student accounts and loans that may not be collected.

(g) Grant Revenue

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

(h) Pledges

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

(i) Loans Receivable

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

Wellesley College

Notes to the Financial Statements

June 30, 2003 and 2002

(j) Land, Buildings, and Equipment

Land, buildings, and equipment are recorded at cost, or if donated, at fair market value at the date of donation. Additions to plant assets are capitalized while scheduled maintenance and minor renovations are charged to operations. Library books are expensed when purchased. Museum collections are not capitalized. Plant assets are presented net of accumulated depreciation. When assets are retired or disposed of, the cost and accumulated depreciation are removed from the accounts and gains and losses from disposal are included in the statement of activities.

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

	Years
Land improvements	60
Buildings and improvements	10–50
Equipment	4–20

The College performed a review of its capitalization policy for capital renewal and modified the policy effective as of July 1, 2002. The impact of this change resulted in approximately \$1.2 million of additional capital projects being capitalized and reducing expenses by the same amount in fiscal year 2003.

(k) Financial Aid

The statement of activities reflects financial aid as an offset to tuition revenues. The College's financial aid is primarily funded through private gifts, grants and endowment income with the remainder, if needed, representing unrestricted institutional resources for scholarships.

(l) Auxiliary Operations

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

(m) Internal Revenue Code Status

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

(n) Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(o) Reclassifications

Certain June 30, 2002 balances previously reported have been reclassified to conform to June 30, 2003 presentation.

2. Contributions Receivable

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

Unconditional Promises Expected to be Collected in:	2003	2002
Less than one year	\$15,550	\$11,407
One year to five years	32,716	62,995
Over five years	30,460	5,686
Total	78,726	80,088
Less discounts and allowance for uncollectible accounts	21,508	18,419
Net contributions receivable	\$57,218	\$61,669

During 2003, expected pay periods for certain long-term pledges were modified to reflect current collection expectations.

3. Land, Buildings, and Equipment

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

	2003	2002
Land and land improvements	\$ 35,856	\$ 3,008
Buildings and building improvements	240,024	227,314
Equipment	28,321	27,661
Construction in progress	16,326	27,964
	320,527	285,947
Less: accumulated depreciation	108,243	98,814
	\$212,284	\$187,133

Depreciation expense was \$9,429,000 and \$8,718,000 for the years ended June 30, 2003 and 2002, respectively.

Wellesley College

Notes to the Financial Statements

June 30, 2003 and 2002

4. Investments

The book and market values of investments at June 30, 2003 and 2002 were as follows (in \$000s):

	2003 Book Value	2003 Market Value	2002 Book Value	2002 Market Value
Endowment Investments				
Investments pooled				
Cash and cash equivalents	\$ 56,026	\$ 56,026	\$ 76,440	\$ 76,440
Bonds	267,238	277,374	319,449	304,800
Equities	432,050	466,039	433,615	433,904
Other assets	231,399	244,037	213,907	216,847
Total pooled investments	986,713	1,043,476	1,043,411	1,031,991
Investments not pooled				
Cash and cash equivalents	461	461	479	474
Total investments not pooled	461	461	479	474
Total endowment investments	\$987,174	\$1,043,937	\$1,043,890	\$1,032,465
Planned Giving Investments				
Separate pooled funds				
Cash and cash equivalents	\$ 641	\$ 641	\$ 408	\$ 408
Bonds	18,229	19,160	18,995	19,972
Equities	26,286	21,233	18,591	19,568
Total pooled funds	45,156	41,034	37,994	39,948
Unitrusts				
Cash and cash equivalents	1,299	1,299	1,051	1,051
Bonds	6,393	6,319	6,825	7,177
Equities	8,485	9,998	6,457	7,341
Other assets	833	833	1,094	1,094
Assets held by Trustees	4,892	5,388	3,463	6,567
Total not pooled funds	21,902	23,837	18,890	23,230
Total Planned Giving Investments	\$67,058	\$64,871	\$56,884	\$63,178

“Other assets” include long-term and semimarketable alternative investments. Long-term alternative assets include private equity funds such as venture capital and buyout funds, as well as more traditional investments in oil and gas and real estate properties.

The semimarketable alternative asset investments include equity hedge funds, risk arbitrage, distressed securities and commodity hedge funds. Wellesley’s investments in these strategies use minimal, if any, leverage as part of their strategies.

The College’s investment return from endowment and planned giving was as follows for the years ended June 30, 2003 and 2002 (in \$000s):

2003	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Dividends and interest (net of expenses of \$5,789)	\$ 3,965	\$ 4,939	\$937	\$ 9,841
Net realized and unrealized gains	8,189	17,419	—	25,608
Total return on endowment and planned giving investments	12,154	22,358	937	35,449
Investment return designated for current operations	(22,851)	(31,482)	—	(54,333)
	\$(10,697)	\$ (9,124)	\$937	\$(18,884)

Wellesley College
Notes to the Financial Statements

June 30, 2003 and 2002

2002	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Dividends and interest (net of expenses of \$5,180)	\$ 8,822	\$ 18,616	\$147	\$ 27,585
Net realized and unrealized losses	(34,758)	(44,258)	—	(79,016)
Total return on endowment and planned giving investments	(25,936)	(25,642)	147	(51,431)
Investment return designated for current operations	(19,604)	(35,328)	—	(54,932)
	\$(45,540)	\$(60,970)	\$147	\$(106,363)

The total return consisting of realized and unrealized gains and losses and dividends and interest net of investment management and custodial fees was 4.9% and -5.2% for the fiscal years ended June 30, 2003 and 2002, respectively.

5. Pooled Funds

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

Pooled funds were as follows as of June 30:

	2003	2002
Investments in pooled funds, market value (in \$000s)	\$1,043,476	\$1,031,991
Total number of units	2,176,958	2,129,629
Market value per unit	\$479.33	\$484.59
Distribution per unit	\$26.88	\$26.04

The following two schedules list the components of the pooled and nonpooled endowment funds at market value at June 30, 2003 and 2002 (in \$000s, except for units):

2003 Funds	Units	Pooled Endowment	Nonpooled Endowment	Total Endowment
Endowment and similar funds:				
Endowment funds	1,376,756	\$ 659,917	\$—	\$ 659,917
Term funds	67,178	32,200	461	32,661
Quasi-endowment	733,024	351,359	—	351,359
Total	2,176,958	\$1,043,476	\$461	\$1,043,937

2002 Funds	Units	Pooled Endowment	Nonpooled Endowment	Total Endowment
Endowment and similar funds:				
Endowment funds	1,317,978	\$ 638,675	\$—	\$ 638,675
Term funds	42,217	20,458	474	20,932
Quasi-endowment	769,434	372,858	—	372,858
Total	2,129,629	\$1,031,991	\$474	\$1,032,465

Wellesley College

Notes to the Financial Statements

June 30, 2003 and 2002

6. Related Parties

The College acts as fiscal agent and investment advisor for the Wellesley College Alumnae Association and a retired president of the College. Endowment investments held on their behalf are included in the College's general pool of investments and are reflected either as part of the College's net assets or a pension liability. The market value of the assets totaled \$9,463,000 and \$9,250,000 at June 30, 2003 and 2002, respectively.

7. Notes and Bonds Payable

Indebtedness at June 30, 2003 and 2002 includes various bonds issued through the Massachusetts Health and Education Facilities Authority (MHEFA). Interest payments on debt totaled \$4,641,000 and \$4,171,000 during fiscal years 2003 and 2002, respectively.

During May 2003, the College issued \$56.75 million in Series H tax-exempt fixed rate bonds. The proceeds will be used for major infrastructure projects, major maintenance and renovations projects in dormitories, and modernization projects and will be used to retire the Series D bonds, with \$36.6 million outstanding, on November 24, 2003, 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 H bonds, which mature in 2033, currently bear fixed interest rates from 2% to 5% payable on July 1, 2003 and on each January 1 and July 1 thereafter. 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 D bonds, proceeds of the Series H bonds were deposited into a refunding account established under the indenture and held by the Trustee, were invested in authorized investments as directed by the College, and are included as Restricted Cash on the Statement of Financial Position.

Balance of outstanding bonds payable at June 30 consisted of the following (in \$000s):

	2003	2002
MHEFA, Series H, Revenue Bonds issued at an interest rate of 2.0% – 5.0% maturing July 2033.	\$ 56,465	\$ —
MHEFA, Series E, Revenue Bonds issued at an interest rate of 5.125% maturing July 2039.	30,000	30,000
MHEFA, Series G, Variable Rate Revenue Bonds, bearing interest at a daily rate, maturing July 2039. The rate at June 30, 2002 was 1.30%.	20,000	20,000

	2003	2002
MHEFA Capital Asset Program, Series B & C, Variable Rate Demand Bonds, monthly amortization of principal with final payment due June 2010. Interest rate reset semi-annually. The rate at June 30, 2003 was 1.0%.	6,183	2,577
MHEFA, Series E, Variable Rate Demand Bonds, scheduled amortization of principal with final maturity July 2022. Interest adjusted weekly. The rate at June 30, 2003 was .95%	16,200	16,700
MHEFA, Series D, Revenue Bonds, Periodic Auction Reset Securities (PARS) converted to term bonds November 1993 with annual scheduled amortization of principal maturing July 2019. Interest rates range from 3.2% to 5.3%.	36,600	37,600
Total debt	165,448	106,877
Less unamortized bond issue costs	(510)	—
Add unamortized original issue premium	1,418	—
	\$166,356	\$106,877

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

2004	\$ 3,523
2005	3,708
2006	2,887
2007	3,280
2008	3,472
Thereafter	148,578
Total bonds payable	\$165,448

8. Annuities and Unitrusts Payable

Annuities, life income plans and unitrusts payable of \$34,577,000 and \$26,404,000 at June 30, 2003 and 2002, respectively, represent actuarially determined liabilities for contractual obligations of gift annuities and unitrusts. Payments of income to beneficiaries are principally funded by the investment income of the related gift annuity and unitrust investments.

9. Pension Plans

The College has a defined contribution, noncontributory annuity pension plan for faculty and administrative personnel administered by the Teachers Insurance and Annuity Association and College Retirement Equities Fund ("TIAA/CREF"). Under this

Wellesley College

Notes to the Financial Statements

June 30, 2003 and 2002

Plan, the College contributed \$4,364,000 and \$4,129,000 respectively, for the years ended June 30, 2003 and 2002.

The College also has a defined benefit pension plan for classified office and service employees. The Plan provides retirement and death benefits based on the highest of the last four years of consecutive earnings. Contributions to the plan are made in amounts sufficient to meet the minimum funding requirements set forth in the Employee Retirement Income Security Act of 1974. Plan assets include equity and fixed income securities.

	2003	2002
Weighted average assumptions as of		
Discount rate	6.0%	7.0%
Expected return on plan assets	8.0%	8.0%
Rate of compensation increase	4.0%	4.5%

Change in projected benefit obligation (in \$000s)		
Benefit obligation at end of prior year	\$22,463	\$21,535
Service cost	894	895
Interest cost	1,528	1,488
Actuarial loss/(gain)	2,694	(679)
Benefits paid	(824)	(776)
Administrative expenses paid	(6)	—
Benefit obligation at end of year	\$26,749	\$22,463

Change in plan assets (in \$000s)		
Fair value of plan assets at end of prior year	\$18,005	\$19,279
Actual return on plan assets	604	(1,015)
Employer contributions	543	518
Benefits paid	(824)	(777)
Administrative expenses paid	(6)	—
Fair value of plan assets at end of year	\$18,322	\$18,005

Funded status (in \$000s)		
Funded status	\$(8,427)	\$(4,458)
Unrecognized transition obligation/(asset)	(24)	(226)
Unrecognized prior service cost	1,243	1,418
Unrecognized net actuarial loss/(gain)	6,611	3,159
Prepaid (accrued) benefit cost (Additional minimum liability)	(597)	(107)
	(1,399)	—
Prepaid benefit cost/ (accrued benefit liability)	(1,996)	(107)
Intangible asset	1,243	—
Net liability	(753)	(107)
Minimum pension liability	156	—
Net amount recognized	\$ (597)	\$ (107)

	2003	2002
Components of net periodic benefit cost (in \$000s)		
Service cost	\$ 894	\$ 895
Interest cost	1,528	1,488
Expected return on plan assets	(1,408)	(1,513)
Amortization of transition obligation/ (asset)	(202)	(202)
Amortization of prior service cost	175	174
Recognized net actuarial loss/(gain)	45	—
Net periodic benefit cost	\$1,032	\$ 842

10. Net Assets

Net assets consist of the following at June 30, 2003 and 2002 (in \$000s):

	2003	2002
Unrestricted:		
Designated for specific purposes and plant	\$ 72,483	\$ 80,630
Quasi-endowment	340,452	372,858
Deficiencies in donor-restricted endowments	(4,363)	(4,239)
	408,572	449,249
Temporarily restricted:		
Endowment and similar funds including pledges	410,236	406,399
Annuity, life income and unitrusts including pledges	30,260	35,675
Deficiencies in donor-restricted endowments	4,363	4,239
Other restricted	80,128	68,097
	524,987	514,410
Permanently restricted:		
Endowment including pledges	314,360	277,653
	314,360	277,653
	\$1,247,919	\$1,241,312

During fiscal year 2003, the College reviewed its classification, for financial accounting purposes, of gifts received from its donors and made certain adjustments, the net effect of which is reflected in the fiscal year 2003 ended statement of activities and statement of financial position. Such reclassifications are not material to the treatment of the funds.

Wellesley College

Notes to the Financial Statements

June 30, 2003 and 2002

11. Commitments and Contingencies

In 1975 the College identified the presence of soil tainted with various hazardous materials on the site of an abandoned 19th century paint factory acquired by the College in 1932. In 1991, the College arranged for the excavation of contaminated soils from two waste piles and a wastewater settling basin formerly associated with the paint factory.

After the contaminated material was removed, the area was capped and seeded. These actions were undertaken in accordance with plans approved by the Department of Environmental Protection (DEP) on July 5, 1991. The College has continued to work with the DEP and has completed the process of remediating and restoring approximately 30 acres of land referred to as the Upland site. The College began in April 2001 excavating contaminated soils and sediments from the upland and wetland portions of the site and along the Northern Shoreline and West Cove of Lake Waban. 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 monitoring expenses are charged to operations. Total expenses for this project were \$192,000 and \$1,438,000 respectively for the years ended June 30, 2003 and 2002. The College has purchased an insurance policy to cover cost overruns and ground water remediation.

The Commonwealth of Massachusetts has agreed to pay up to \$1.2 million toward the clean up of the Northern Shoreline and Western Cove. This clean up was completed during the year, subject to DEP confirmation and the College has recorded a receivable of \$900,000 from the Commonwealth. In July 2003, the Commonwealth paid \$400,000 to the College. The balance of \$500,000 is expected to be paid in fiscal year 2004. The College is in process of submitting to the Commonwealth the required documentation, which is subject to the Commonwealth's approval, that the dredging project eliminated "significant risks" to human health and the environment in the Northern Shoreline and West Cove of Lake Waban. The College and the Commonwealth continue to explore the steps needed to resolve the remediation issues of Lake Waban and Lower Waban Brook.

Outstanding commitments under alternative investment and construction contracts amounted to approximately \$161,070,000 and \$113,237,000 as of June 30, 2003 and 2002, respectively.

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

The College built a gas-fired cogeneration plant capable of producing 7.5 megawatts of electricity. The plant supplies electricity for the entire campus. Prior to June 2003, the College had a contractual obligation to provide the Town of Wellesley with 1,350 kilowatts for up to 800 hours annually. In the event the College is unable to provide power to the Town, the College must pay a fee approximately equal to the Town's cost of purchasing the power. In fiscal 2002, the College paid \$129,000 in penalty fees. This obligation terminated and under a new contract, the College is not obligated to provide power to the Town. Under the new contract, the College pays the Town \$111,000 annually as a guarantee for back-up power to the College. This contract is in force until May 2004.

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