

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



Annual Report
2004–2005

Wellesley College

Fiscal Year 2004–2005

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Finance and Investments

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Wellesley College

Annual Report for the Year Ended June 30, 2005

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Report of the President

October 2005

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

I am pleased to submit with this letter the annual financial report of Wellesley College for fiscal year 2004–2005. The year ended on June 30 with the culmination of The Wellesley Campaign, which met and substantially exceeded the ambitious goal set by the Board of Trustees in 1998.

In the letters that follow, Andrew B. Evans, vice president for finance and treasurer, and Jane L. Mendillo, chief investment officer, report, respectively, on the College's financial position and endowment performance. I provide, below, a brief overview of highlights of another eventful and satisfying year, enriched by the innovative new programs made possible by generous gifts to the campaign.

Academic Life in and out of the Classroom

We opened the academic year with a strong new leadership team in the Office of the Dean of the College. Professor of History Andrew Shennan stepped into the role of Dean of the College, having served a five-year term as associate dean. He was joined by two new associate deans, Joanne Berger-Sweeney and Adele Wolfson, both distinguished scientists. Carrying forward the recommendations of last year's Committee on Academic Excellence, the three deans continued to focus sharply on academic standards.

The Committee on Curriculum and Instruction (CCI), chaired by Adele Wolfson, developed and brought a resolution, adopted by the Academic Council, to reduce from eight to four the number of Advanced Placement credits eligible to be counted toward a Wellesley degree. In addition, the CCI reviewed the College's senior honors program and oversaw the implementation of the tighter grading policy approved last year by the Academic Council. The CCI has documented steady progress toward the goal of lowering average grades and reducing disparities in grading practices across divisions and departments.

Another important priority that occupied the deans' attention this year was to forge a unified strategy on faculty diversity, building on lessons learned during the hiring season through the course of the year. This is a pressing issue for the College in light of anticipated faculty retirements over the next several years.

The deans also initiated what will be an ongoing exploration within the faculty and with the trustees of the College's proliferating interdisciplinary programs, in response to the growth of knowledge in the interstices between established disciplines and to student and faculty interest in cross-disciplinary scholarship, teaching, and study. More than one-third of Wellesley students now major in one of the 25 interdepartmental majors Wellesley currently offers (in addition to 30 departmental majors). The College has significantly enriched its curriculum over the past several decades without modifying the overall size or appointment structure of the faculty. The administrative, curricular, and intellectual challenges attending this expansion of opportunity are increasingly apparent and will continue to be a focus of discussion in the years ahead.

Meanwhile, Dean of Students Kimberly Goff-Crews, who joined Wellesley last year, announced plans to conduct a systematic assessment of her entire division, department by department, involving departmental self-studies followed by external peer review. This assessment, which will take several years to complete, began this year with visiting committees to the religious and spiritual life program and the class dean system, the latter undertaken in especially close collaboration with the academic deans. Informed by the review, and widespread consultation across the campus, Dean Goff-Crews reorganized her division's academic support services to address students' changing needs and, importantly, to strengthen the structures in place to address varieties of academic preparation and experience across the student body.

The honor code review committee completed its two-year commission this year. It began in April 2003 when I appointed a multiconstituency committee, cochaired by former Dean of the College, Lee Cuba and Joanne Murray, director of the Center for Work and Service, to lead a detailed study of our honor code and judiciary system and to recommend strategies to strengthen it at a time when changing social mores and advances in information technology are threatening to undermine the social contract at the heart of the academic enterprise. Last year the committee recommended and I approved major changes in adjudicatory procedures. This

year the committee tackled two remaining tasks: (1) writing an honor code statement that would vividly capture the community's collective aspirations, and (2) creating a larger context that would support academic integrity.

After much consultation, the committee drafted new wording and convened a "constitutional convention," involving students, faculty and staff who met on two separate occasions to debate and ultimately approve a final draft statement. This was placed on the ballot for an all-student referendum during the annual election of College Government officers and officially adopted by the student body on April 7, 2005. The full code, with a prologue and an enumeration of underlying principles, fills less than a page. The core statement comprises just two sentences: *As a Wellesley College student, I will act with honesty, integrity, and respect. In making this commitment, I am accountable to the community and dedicate myself to a life of honor.* Every year at orientation, incoming first-year students will sign a ledger, donated by the Wellesley College Alumnae Association, signifying their adherence to the code. The whole student body will reexamine and reaffirm the honor code once every four years so that every student will have a chance to participate in shaping it. The faculty is currently discussing steps they can take to mentor students in the use of rapidly changing information sources and to uphold standards of intellectual integrity. Additional measures are planned to continue stimulating widespread awareness of the importance of the honor system.

In the fall, we inaugurated a promising new study-abroad program in Puebla, Mexico, a consortium with Oberlin, Smith and Wheaton colleges. During Wintersession, Wellesley students took advantage of a variety of opportunities, including off-campus programs led by faculty in Washington D.C., India, Costa Rica, Ghana, Italy and the Republic of Georgia.

The Faculty

This year, as every year, our faculty received many prestigious grants and awards. They are too numerous to list in full, but the following sampling suggests their range: Martin Brody, Catherine Mills Davis Professor of Music was awarded a commission from the Fromm Music Foundation for an Orchestral Composition for the Boston Modern Orchestra Project and was also selected as the recipient of the Roger Sessions

Memorial Bogliasco Fellowship in Music. Glenn Stark, Professor of Physics, received a grant from the National Aeronautics and Space Administration for a project on planetary atmospheres applications. Barbara Beltz, Susan M. Hollowell and Ruby Frances Howe Farwell Professor of Biological Sciences, received a grant from the National Institutes of Health for her project "Environmental Regulation of Neurogenesis." The National Science Foundation awarded a grant to professors Sally Merry, Marion Butler McLean Professor in the History of Ideas and Professor of Anthropology, and Peggy Levitt, Associate Professor of Sociology, for their joint study "Localizing the Global: A Comparative Study of Women's Human Rights." Salem Mekuria, Associate Professor of Art, was awarded a fellowship from the Radcliffe Institute for Advanced Study. Richard French, Louise Sherwood McDowell and Sarah Frances Whiting Professor of Astrophysics and Professor of Astronomy, received a grant from the Space Telescope Science Institute for his continued work on Saturn.

Professor French has been a team member of NASA's Cassini Mission to Saturn since 1990 and the entire Wellesley community had the opportunity to share the beauty and wonder of his work when he delivered this year's distinguished faculty lecture titled "Celestial Worlds Discover'd: Exploration of the Solar System."

Books published by Wellesley faculty this year include *Alexander: The Ambiguity of Greatness*, by Guy MacLean Rogers, Professor of Classical Studies and History. Ifeanyi Menkiti, Professor of Philosophy, published a new book of poetry *Of Altair, the Bright Light*. Alicia Erian, the first Newhouse Visiting Assistant Professor of Creative Writing, attracted wide attention with her novel *Towelhead*. Joel Krieger, Norma Wilentz Hess Professor of Political Science, published *Globalization and State Power: Who Wins When America Rules?* Jens Kruse, Professor of German, published a new book, *Tortured Enlightenment: Writing and Reading in Kafka's 'In the Penal Colony.'* Craig Murphy, M. Margaret Ball Professor of International Relations and Professor of Political Science, published a new book, *Global Institutions, Marginalization, and Development*.

The inaugural public event of the Susan and Donald Newhouse Center for the Humanities featured a lecture on the art of translation by distinguished poet, literary critic and Sophie Chantal Hart Professor of English (Emeritus) David

Ferry. In a second major event of the Center, Frank Bidart, Professor of English, led a reading and discussion of Robert Lowell's poem, "For the Union Dead."

Three members of the Wellesley faculty were awarded tenure this year: Eve Zimmerman, East Asian Languages and Literatures, Anjali Prabhu, French, and Tracy Gleason, Psychology.

Year Five of The Wellesley Campaign

On June 30, 2005, amid much excitement, we completed The Wellesley Campaign. Despite a challenging economic and geopolitical environment, we surpassed our \$400 million campaign goal with gifts and pledges totaling \$472.3 million. We set records not only for campaign totals, but also for fiscal year totals. Total giving to the College in FY05 was \$88.6 million, the first time in Wellesley's history that private gifts exceeded \$60 million in a single year.

Annual Giving this year totaled \$11.1 million, an increase of 5% over last year and another significant achievement in reaching our goal of strengthening our Annual Giving program, on which we depend for unrestricted and current-use gifts that are an essential element in balancing our budget every year. The Shelby Davis United World College Fund was a major factor again this year, providing more than \$2.16 million in current-use financial aid in FY05 for the 63 Davis UWC scholars, extraordinarily talented young women from around the world.

Wellesley trustee Sidney Knafel made a generous and innovative \$8 million gift to establish four new assistant professorships to enable Wellesley to attract promising young scholars, at the early stages of their careers, who are committed to teaching and mentoring undergraduate students. He created three new assistant professorships, one each in the humanities, the social sciences and the natural sciences and a fourth, the Diana Chapman Walsh Assistant Professorship, to be filled at the discretion of the president.

Midway through the year, it was evident that we would meet the campaign's dollar goal six months before the closing date for the campaign but with a serious funding gap remaining for some of the capital projects. This was principally because in a comprehensive campaign every gift, including those not specified as campaign priorities, counts toward the dollar total. Determined to close this gap, the Board of Trustees,

which had already given generously, rapidly raised an additional \$10 million trustee challenge fund, which motivated many donors to make additional commitments. This effort resulted in an extraordinary accomplishment: a total of \$35 million in additional pledges in the last six months of the campaign.

Also in the closing months of the campaign, the estate of Léonie Faroll released a stunning \$27 million bequest. A member of the Wellesley College Class of 1949, Léonie Faroll, who died in 2003, left most of her estate to Wellesley. Her bequest is the largest in the College's history and the largest ever to a women's college. In keeping with intentions Léonie Faroll stated clearly in her will, this extraordinary gift will underwrite capital improvements to the power plant and, in the science center, infrastructure improvements, structural renovations, and new equipment.

Again this year, I had the privilege of traveling across the country to join alumnae at regional campaign gatherings. The celebrations in the fall included memorable evenings in Seattle at McGaw Hall, and at the High Art Museum in Atlanta. In March we made our final two campaign trips to St. Louis and Kansas City, bringing to 21 the total number of celebrations held during the five years of The Wellesley Campaign.

We will issue a complete accounting of The Wellesley Campaign in a separate report. As that report will document, the generosity, vision, and energy of our loyal alumnae and friends have transformed the College in countless concrete ways. With your help we have strengthened our core academic programs and extended them in enlivening new directions. We have reclaimed whole sectors of our irreplaceable campus and have refreshed and restored much of it. We have created intriguing new interior spaces for exciting learning encounters. We have enlarged access to a Wellesley degree with expanded scholarship support, and we have extended our reach around the country and across the globe.

Administrative Initiatives

Under the leadership of Micheline E. Jedrey, vice president for information services and college librarian, we strengthened college-wide policies this year on the responsible use of technology resources. We continue to refine our understand-

ing of how to shape a virtual online community that supports the College's educational purpose, and strikes an appropriate balance between competing values: on the one hand, freedom to express passionate commitments to causes or ideas and, on the other, the tolerance, compassion, and openness to divergent perspectives that define a successful learning community. Another complex technology project was the development and implementation this year of a web-accessible, campus-wide calendar of events that provides an integrated and searchable database of activities being held on campus. We also installed a speech recognition system to direct telephone calls, and took steps to enhance the security of our campus-wide information systems following a distressing intrusion into one of the College's servers, which required considerable effort to investigate and correct.

The Administration and Planning Division, led by Vice President Patricia M. Byrne, had a particularly busy year. Much of the division was occupied with intricate planning for the opening of the Lulu Chow Wang Campus Center, including continuing to oversee all aspects of the construction and landscaping, planning the services and staffing needed to run the building, orchestrating the move into it, and recruiting a facility manager. Several other construction projects moved forward as well, including the renovation of Nehoiden House for the Investment Office, and the beginning of work to transform Oakwoods, the former residence of the Dean of Students, into Weaver House, a welcoming admission center.

In his first year as Vice President for Finance and Treasurer, Andrew B. Evans led the senior staff and the budget advisory committee through one full budget cycle at the College, having led similar cycles at peer institutions. His fresh perspective reinforced what was already becoming evident to us: that while the guidelines established by the 1997 Task Force on Plans, Priorities and Fiscal Policies have served us well, they need to be revisited and updated in a new financial framework. As in the recent past, the Budget Advisory Committee struggled over the guidelines for establishing both the faculty and staff salary pools as well as for setting tuition. The financial aid picture continues to shift, with stunning competitive moves by the wealthiest universities, and our financial aid costs are increasing rapidly. And we need to revisit our endowment spending formula to be confident that we are

adequately preserving the value of the endowment for future generations and to ask whether our comparatively high cost per student is producing a comparably higher quality education.

Student and Campus Life

The quality of student leadership this year was especially impressive. In what they knew would be a contentious presidential election season, the student leaders were determined to organize interesting and respectful forums for engaging the issues in depth. They did an exceptional job of building coalitions across party lines and organizing lively events designed to arouse interest in the elections, increase voter participation, and unpack the central policy debates, critically and intelligently. Faculty supported these efforts, as did the administration, and they enabled us to experience ourselves at our best, as a diverse inquiring community in which widely ranging perspectives and insights can help each of us refine our understanding of complex and consequential issues.

On the eve of the election and for a few days afterward, however, passions were running high and a few students engaged in angry name-calling and made other intemperate comments on the electronic conferences. Staff in the student life division worked with students to understand what had happened and why and to emphasize that civility and respect for difference, a spirit of constant inquiry, and keen awareness of our human fallibility are essential to the learning project in which we are all engaged.

After the tragic tsunami over the Christmas break, students mobilized a variety of fund-raising activities to support the relief efforts. The Wellesley College Tsunami Relief Committee was formed to determine ways in which the College could most effectively respond, and developed a new internship program entitled Wellesley in the World: Responding to World Crises. Structured, financially supported internships have been created for students volunteering in relief efforts in the affected areas and are being administered by the Center for Work and Service.

Once again this year Wellesley did exceptionally well in the competition for prestigious national fellowships. The Class of 2005 garnered a remarkable 15 Fulbright Scholarships, which, according to a compilation by *The Chronicle of Higher*

Education, ranks Wellesley first among all U.S. baccalaureate colleges in the number of Fulbright Awards in 2004–2005. Wellesley was also delighted to have one recipient of the Luce Scholarship, a Rhodes Scholar and, for the fourth consecutive year, two Watson Fellowships. In addition, we had two recipients each of the Rockefeller Brothers Fund Fellowship, the Barry M. Goldwater Scholarship and the Andrew W. Mellon Fellowship – an impressive showing altogether.

Dr. Paul Farmer, a world-renowned infectious disease specialist delivered an inspiring Carolyn Wilson Lecture in April. The lecture, “Global Health Equity and the Future of Public Health,” was attended by more than 300 people. Law professor, author, and trustee Patricia J. Williams ’73 addressed the Class of 2005 at Wellesley’s 127th commencement exercises in a speech that many considered among the very best ever.

Retirements and Other Noteworthy Departures and Arrivals

This year we welcomed five new tenure-track professors, one each in chemistry, English, classical studies, sociology and psychology. We bade farewell to six retiring faculty members who served the College with distinction: Frances E. Shawcross, Senior Laboratory Instructor in Chemistry, 12 years; Gerdes Fleurant, Associate Professor of Music, 20 years; Nancy Cirillo, Codirector of Chamber Music Society and Instructor of Violin, 32 years; Sonja E. Hicks, Professor of Chemistry, 37 years; Judith C. Brown, Professor of Physics, 41 years; and Mary R. Lefkowitz, Andrew W. Mellon Professor in the Humanities and Professor of Classical Studies, 46 years.

Two members of the Board of Trustees completed their service in June. Dorothy Collins Weaver ’68, served for 17 years and was elected trustee emerita, and William Mitchell completed a six-year term. The Board welcomed five new trustees: Douglas Bennet, Mahnaz Ispahani ’79, Lynn Dixon Johnston ’64, Heather Long ’04 and Joan Wallace-Benjamin ’75.

Following a national search, Alison Greer ’87 was named as the new Executive Director of the Alumnae Association. She brings experience in the management of executive programs at the Harvard Business School and, before that, in admissions at the Garrison Forest School in Maryland, an independent boarding and day school for girls.

A Few Concluding Thoughts

The late E. B. White once wrote “I predict a bright future for complexity. Have you ever considered how complex things can get, what with one thing always leading to another?” None of the several complexities I have alluded to in this letter is surprising or new. But we are in a position now to take them up anew, as we celebrate the completion of an extraordinarily successful campaign that has literally transformed the Wellesley educational experience and the campus in which that experience is so deeply rooted.

The program of innovation and revitalization enabled by the campaign has created a wealth of new opportunities for our students and has unleashed a spirit of creative initiative. New directions bring new budgetary constraints, inevitably, and this is the time to be asking, for the long-term future, what we need to do to maintain our competitive position and support our commitments, while also freeing up resources to attempt new things.

We are a wealthy institution, by any standard, yet we often feel strapped for cash. And we know that after raising all this money, we are going to have to be even more disciplined in order to reap the full benefit of what has been an enormous effort, and a major accomplishment. As Andy Evans indicates in the letter that follows mine, we are focused on that task.

Meanwhile – thanks to everyone who has given so unstintingly to the College – we have the luxury of time to frame our options and choices without feeling pressed to make sudden decisions that might be disruptive or misguided. We have time now to imagine new possibilities, to clarify our aspirations, explore our options, and solidify our commitments. We are deeply grateful to all who have done so much to propel Wellesley College from strength to strength, and to position our College for even greater achievements in the future.

Yours very truly,



Diana Chapman Walsh

Report of the Vice President for Finance and Treasurer

October 2005

To the Board of Trustees of Wellesley College

Wellesley College's financial statements for fiscal year 2004–2005 reflect a strong, financially sound educational institution. During the year, the College's net assets increased by \$149 million; the College's endowment grew by 8.1% to \$1.28 billion; and total gifts to the College were \$88.6 million. Another highlight of this fiscal year included a \$27 million bequest from alumna Léonie Faroll. While the College has always been fortunate to have generous alumnae, this particular bequest deserves special mention because it is the largest in the College's history and the largest bequest ever to a women's college. This Annual Report presents the results for the fiscal year ending June 30, 2005 and discusses the prospects for the College's financial future.

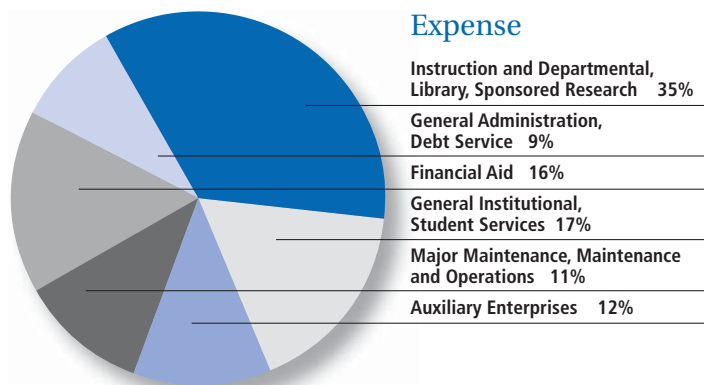
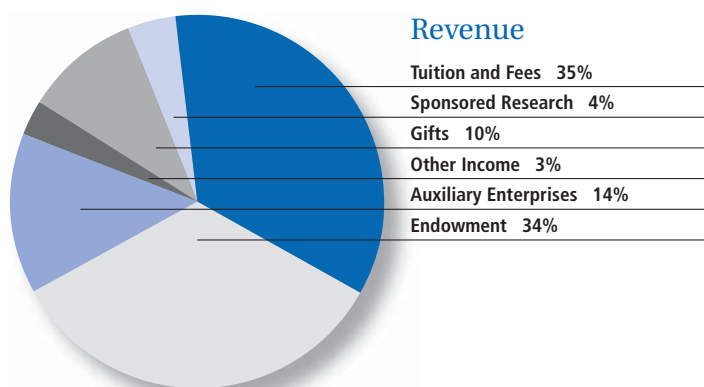
Results of Fiscal Year 2005

Academically and financially, Wellesley College remains one of the strongest educational institutions in the country. Augmented by new gifts and a positive investment return of 11.5%, as discussed in the Chief Investment Officer's report, the market value of the endowment increased from \$1.18 billion to \$1.28 billion. The funds used during the year to support the operating budget and to fund various capital projects equaled 5.1% and 5.2% of the endowment market value for the one-year and the three-year rolling average, respectively. During the course of the year, the endowment per student increased by 13.9% from \$542,466 to \$588,182. At \$88.6 million, a record-high year during this comprehensive campaign period, total gifts increased 62% over the prior year.

The operating budget was in balance in this fiscal year with revenues and expenses totaling \$189.4 million. The revenue base for the operating budget was well diversified with five principal revenue sources: tuition income 35%, endowment 34%, auxiliary enterprises, including room and board 14%, gifts used for operations 10% and other sources of revenue, including sponsored research 7%. Operating expenses had an incremental increase of 5.4%. As might be expected in a labor-intensive institution, about 51% of the operating budget was used for salaries and benefits. In addition, with the ever increasing price for fuel as well as added building square footage, overall utility expenses increased by 12%.

Operating in Financial Equilibrium

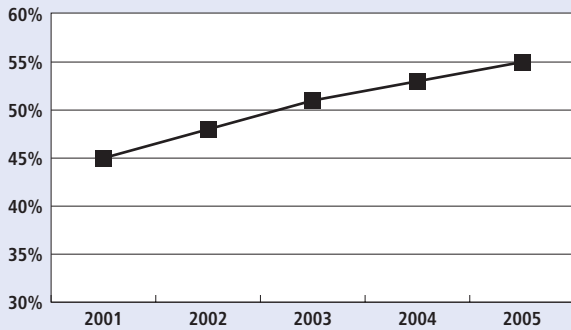
The requirements for achieving a state of financial equilibrium are (1) to balance revenues and expenses in the operating budget; (2) to preserve the purchasing power of the endowment; (3) to maintain the physical assets of the College; and (4) to sustain and support the human assets of the College.



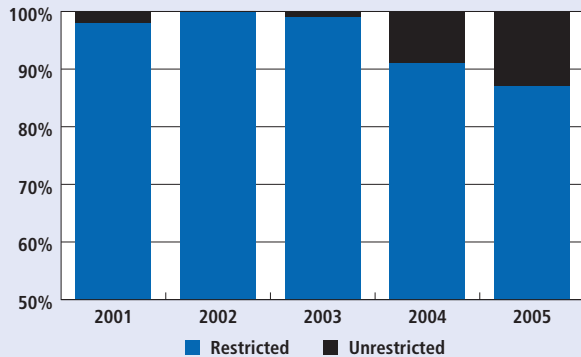
1. Balancing Revenues and Expenses

The Budget Advisory Committee, which includes faculty, staff and students, worked with the Budget Office during the fiscal year to achieve budget equilibrium in the fiscal year 2005 budget. In developing the fiscal year 2005 budget, particular attention was paid to utilities expense and increasing financial aid support funded by operations.

Percent of Students Receiving Financial Grant Assistance



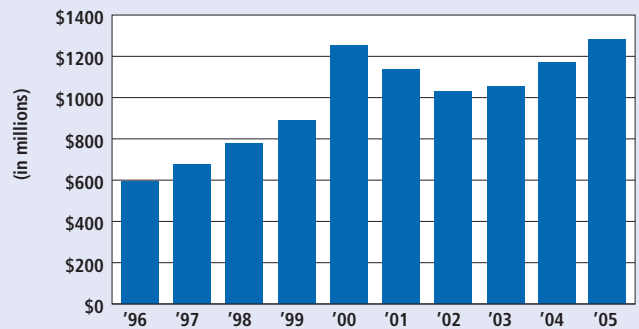
Funding Sources for Financial Aid



The College's need-blind admission policy ensures that students will be considered for admission only on the basis of their talents and personal qualities, not on their ability to pay. The College works hard to balance the effects of this important policy with other expenses. Over the past five years, there has been an increase in all financial aid indicators as shown above. The percent of students receiving financial aid assistance has increased from 45% in 2001 to 55% in 2005. In fiscal year 2001, 98% of the student financial aid expenditures were supported by restricted revenues with the 2% balance supported by unrestricted operating funds. The percentage of student financial aid expenditures supported by restricted revenues in 2005 decreased to 87% causing the percentage supported by unrestricted revenues to increase to 13%.

During the year, the College began investing \$15 million of existing operating cash in a manner consistent with how we invest the endowment. For fiscal year 2005, excess investment return over typical short-term interest rates totaled \$432,000. This excess will be maintained and used to fund extraordinary items in the future.

General Endowment Pool, 1996–2005



2. Preserving the Purchasing Power of the Endowment

A primary responsibility of the Board of Trustees and of senior management of the College is to ensure 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. We then monitor the amount actually available to ensure that it does not fall below 4.5% or exceed 6% of the trailing three-year market average. In fiscal year 2005, the one-year spending rate was 5.1%. The 42% 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

During the past year, the College has been continuing to enhance its physical assets. A major landscape restoration and renovation project that includes the restoration of Alumnae Valley, the land on the west campus that frames views of Lake Waban, will be complete in fiscal year 2006.

The Lulu Chow Wang Campus Center with its spectacular views opened at the beginning of the fall 2005 semester. With the \$27 million bequest from Léonie Faroll, the College has begun plans to make capital improvements to the power plant and the Science Center.

With careful planning over the past few years, the budget for major maintenance now includes \$5 to \$6 million in each year's operating budget. In fiscal year 2003, Wellesley took advantage of the low interest rate environment to refinance existing debt, and without increasing annual interest costs, yielded \$19 million of funds for major maintenance which will be used over two years. As of June 30, 2005, the College had spent about \$17.5 million of these funds on major maintenance projects.

As with most capital projects funded with gifts, the College has temporary cash shortfalls due to timing differences between the receipt of the full amount pledged and the cash expenditure for goods and services. Rather than using operating cash to fund these temporary cash shortfalls, the College entered into a flexible loan program with JP Morgan in fiscal year 2004. This loan program allows the College to borrow an amount up to \$40 million with flexible terms at a rate of $\frac{1}{8}$ of 1% above LIBOR. As of June 30, 2005, the College had \$17 million outstanding from this loan. Approximately 70% of this balance will be repaid by the end of 2005 from cash collection of pledges.

4. Maintaining the Human Assets of the College

The faculty, administrative, and union staff at the College are critical to its educational mission. It is imperative that the workforce be deployed in ways that continue to support this mission. Faculty and staff salaries and benefits remain very competitive and among the strongest in higher education. The College's compensation policies have helped Wellesley to retain an outstanding, dedicated faculty and staff.

Future Challenges

Continuing to balance revenues and expenses will be a major challenge in the upcoming fiscal year. The increase in fuel cost for fiscal year 2005 will be even greater in fiscal year 2006 with projections of significant fuel price increases throughout the country. Also, student financial aid expenditures are likely to increase similar to the trends seen from 2001 to 2005. Financial resources will need to be reallocated to cover utility expenses and financial aid in order to maintain a balanced operating budget.

A financial planning working group has been formed as part of the President's planning initiative known as the 2015 Commission. This group has been charged with the important task of reviewing the College's budget and planning processes, ensuring that there is financial equilibrium in our revenues and expenses and proper balance of financial responsibilities to both present and future generations, and assessing the proper levels for physical plant, equipment, and technological resources. As part of the planning effort with the financial planning working group, the College will initiate a facilities needs assessment. Among other outputs, this assessment will provide a prioritized list of major capital improvement needs. With this new planning information about its facilities, the College can decide which projects have the highest priority, and then research the financing options best suited for each of these projects.

I am pleased to chair the financial planning working group and look forward to working with the trustees, faculty, and staff who have generously given their time to participate in this process.

Respectfully submitted,



Andrew B. Evans
Vice President for Finance and Treasurer

Report of the Chief Investment Officer

October 2005

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, 2005 the Wellesley College endowment had a market value of \$1.276 billion, versus \$1.180 billion as of June 30, 2004. The investment return for the year on the endowment portfolio, after investment management fees and expenses, was 11.5%. The fiscal year ended with solid positive returns in all asset classes, and was the third consecutive positive return year, in both nominal and real (after inflation) terms. We also added modest value, for the third year in a row, relative to our benchmark Policy Portfolio.

Recent Progress

The value of the Wellesley endowment, as of June 2005, has exceeded its previous reported peak value, which was attained at the end of fiscal year 2000. As readers of this report will recall, the two years following the year 2000 were punishing to most financial markets, and difficult, even for well-diversified investment portfolios, Wellesley's included. As of this year, we have reached a new peak and are well positioned for future long-term positive returns.

Over the past year, the endowment's growth was fueled by solid returns in public equity markets, with international equity showing particular strength, and by our growing investments in alternative assets, including areas such as semimarketable hedge funds, private real estate and commodities.

Wellesley's investment returns by asset class, and the relative performance versus benchmarks for each asset class, are summarized below. Wellesley's returns versus the relevant broad market indices were quite strong in public equity markets, especially International Equity, and in our Semimarketable portfolio. The Real Assets segment (which includes real estate, energy and commodities) delivered positive returns but lagged its benchmark, due to the new nature of most of our investments in the area, versus the more mature investments held in the benchmark.

Long-Term Results

Over the ten-year period the endowment has grown from \$520 million in 1995 to \$1.276 billion, an increase in value of approximately \$756 million, and has achieved an average annual investment return, after fees and expenses, of 12.1%. Wellesley has achieved significant value-added over this time, through portfolio diversification and manager selection. The long-term investment results for the endowment portfolio are compared below with the stock and bond market indices and with a 65% Stock / 35% Bond passive portfolio. Wellesley's investment results exceeded the passive portfolio by an average of 290 basis points per year over the last ten years. This excess return provides significant increased financial strength and flexibility for the College.

Total Return –

Year Ended June 30, 2005

	Wellesley Portfolio Return	Market Benchmark/Comparative Index	
U.S. Equity	8.3%	6.3%	S&P 500
International Equity	20.1%	16.5%	MSCI AC World ex-U.S.
Private Equity	20.2%	—	Cambridge Associates ¹
Real Assets	12.2%	18.0%	NCREIF Property Index
Semimarketable ²	11.1%	7.8%	Cambridge Associates Fund-of-Funds Index
Fixed Income	6.2%	7.0%	Citigroup BIG ³
Total Portfolio	11.5%		

¹ Private Equity Results are measured against Cambridge Associates Private Equity, Venture Capital and Distressed Indices, which, as of 9/20/05, have not yet been reported for the period ended 6/30/05.

² Semimarketable investments include absolute return and hedge funds.

³ Broad Investment Grade U.S. bond index

	1 Year	3 Years	5 Years	10 Years
Wellesley Portfolio	11.5%	10.4%	3.6%	12.1%
S&P 500 Index	6.3%	8.3%	-2.4%	9.9%
Citigroup BIG ³	7.0%	5.9%	7.5%	6.8%
65/35 Stock/ Bond Portfolio	6.7%	7.7%	1.3%	9.2%

Strategy Going Forward

We have continued to implement our long-term plan for reshaping the endowment portfolio to reflect the College's long-term investment strategy and goals. Our aim is to balance long-term returns and risks by increasing our diversification and our allocation to less-efficient markets. This will enable the endowment to support the College's goals of maintaining the inflation-adjusted financial support provided by the endowment while controlling volatility in spending.

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 goals. Because we are increasing our exposure to some of the less-liquid asset classes gradually (including real estate, energy, and other commodity and resource-related investments), and only when top-quality opportunities are found, we are currently overallocated to public equities and underallocated to Alternatives, versus our long-term goal.

Asset Class	Policy Portfolio	June 30, 2005 Allocation
U.S. Equity	24%	26%
International Equity	14%	21%
Total Equities	38%	47%
Private Equity	12%	11%
Real Assets	13%	7%
Semimarketable	13%	14%
Total Alternatives	38%	32%
Fixed Income & Cash	24%	21%
Total Portfolio	100%	100%

Within 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 capitalization 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 to always maintain a "best in class" set of investments within each of our targeted categories.

We, in the Investment Office, are enormously grateful to have a network of Trustees, Investment Committee members, colleagues and alumnae who provide us with ideas, perspective, and support in the management of the College's endowment. I would especially like to express my appreciation for the valuable and continuous contributions made by Lulu Chow Wang, our Investment Committee Chair, and by Victoria Herget, Wellesley's Chair of the Board of Trustees, both of whom have been tremendous sources of advice and insight into how to position the endowment to best support Wellesley's long-term needs and priorities.

We are very optimistic about the future of Wellesley's endowment and its potential for long-term growth. While year-to-year returns will vary, the investment commitments we are making today position Wellesley to benefit from a powerful mix of traditional and nontraditional investments, chosen and monitored for their quality, their long-term return potential and their risk control qualities.

Trustees and alumnae with questions, suggestions, or thoughts about the management of Wellesley's endowment are invited to contact me at any time.

Thank you.

Sincerely,

Jane L. Mendillo
Chief Investment Officer

Wellesley College Financial Highlights

(in \$000s)

	2001	2002	2003	2004	2005
Total College Summary					
Total Revenues	\$ 64,757	\$ 91,107	\$182,049	\$312,805	\$338,366
Total Expenses	167,351	171,751	175,442	182,700	189,269
Net Surplus/(Deficit)	(\$102,594)	(\$ 80,644)	\$ 6,607	\$130,105	\$149,097
Current Operations Summary					
Revenues including Trustee approved use of unrestricted bequests	\$161,708	\$165,546	\$169,771	\$179,714	\$189,422
Expenditures	161,708	165,519	169,757	179,714	189,420
Operating Surplus	\$ 0	\$ 27	\$ 14	\$ 0	\$ 2
Resources					
Unrestricted Gifts	\$ 8,068	\$ 7,847	\$ 7,668	\$ 7,857	\$ 8,024
Endowment Gifts and Bequests	18,314	23,482	28,191	28,367	36,943
Planned Gifts	2,276	2,544	3,468	2,670	1,626
Facilities Gifts	8,089	4,572	5,502	11,327	31,667
Current-Use Gifts and Grants	8,934	10,335	6,892	4,498	10,358
Total	\$45,681	\$48,780	\$51,721	\$54,719	\$88,618
Endowment					
Market Value	\$1,136,426	\$1,032,465	\$1,043,937	\$1,180,405	\$1,275,767
Total Return	(\$87,307)	(\$51,431)	\$35,449	\$152,797	\$131,721
Total Return Used for Operations	\$53,520	\$54,931	\$54,333	\$59,639	\$65,219
Unit Value	\$543.88	\$484.59	\$479.33	\$521.95	\$550.55
Investment Return – Total	(6.6%)	(5.2%)	4.9%	15.2%	11.5%
Yield	3.7%	3.8%	4.1%	5.8%	5.5%
Appreciation	(10.3%)	(9.0%)	0.8%	9.4%	6.0%
Average Endowment Operating Support (% of Average Market Value)					
One-Year Average	4.2%	5.0%	5.3%	5.1%	5.1%
Three-Year Average	4.4%	4.5%	4.8%	5.1%	5.2%
Assets					
Total College Net Assets	\$1,321,957	\$1,241,312	\$1,247,919	\$1,378,024	\$1,527,121

Wellesley College

Summary of Operating Revenues and Expenditures

Years ended June 30, 2005 and 2004

(in \$000s)

	2005	2004	Increase (Decrease)	%
Revenues from Operations				
Tuition and Fees	\$ 66,989	\$ 62,928	\$ 4,061	6.5%
Endowment Income				
Education and General Support	35,705	33,416	2,289	6.9%
Endowment Income – Prior Year	1,486	1,006	480	47.7%
Special Purposes	4,827	4,242	585	13.8%
Debt Service Support	5,020	4,765	255	5.4%
Total Endowment Support	47,038	43,429	3,609	8.3%
Unrestricted Gifts and Bequests	12,024	10,589	1,435	13.6%
Comprehensive Campaign Funding	1,177	1,323	(146)	(11.0%)
Restricted Gifts and Use of Reserves	1,886	2,860	(974)	(34.1%)
Other Income	3,661	3,556	105	3.0%
Student Financial Aid				
Endowment Income	18,881	17,093	1,788	10.5%
Federal and State Grants	2,045	2,155	(110)	(5.1%)
Restricted Gifts	3,008	2,747	261	9.5%
Total Student Financial Aid	23,934	21,995	1,939	8.8%
Total Education and General	156,709	146,680	10,029	6.8%
Sponsored Research	6,934	8,810	(1,876)	(21.3%)
Auxiliary Enterprises	25,779	24,224	1,555	6.4%
Total Revenues	189,422	179,714	9,708	5.4%
Operating Expenditures				
Instruction and Departmental	51,503	48,802	2,701	5.5%
Library	5,922	5,602	320	5.7%
Student Services	10,422	9,932	490	4.9%
Student Financial Aid	29,684	26,499	3,185	12.0%
General Administration	8,358	7,791	567	7.3%
General Institutional	20,381	19,914	467	2.3%
Comprehensive Campaign Costs	1,177	1,323	(146)	(11.0%)
Maintenance and Operations	13,089	11,746	1,343	11.4%
Debt Service	7,513	7,082	431	6.1%
Major Maintenance, Capital Expenditures, & Reserves	7,678	6,416	1,262	19.7%
Total Educational and General Expenditures	155,727	145,107	10,620	7.3%
Sponsored Research	6,934	8,810	(1,876)	(21.3%)
Other Programs	4,170	4,063	107	2.6%
Auxiliary Enterprises	22,589	21,734	855	3.9%
Total Expenditures	189,420	179,714	9,706	5.4%
Operating Surplus	\$ 2	\$ —	\$ 2	0.0%

Wellesley College

Ten-Year Financial Summary 1996–2005

	1996	1997	1998	1999
Financial Statement (in \$000s)				
Total Revenues				
Tuition and Fees	\$ 44,109	\$ 46,645	\$ 49,150	\$ 51,469
Investment Return	100,670	103,473	105,908	111,934
Private Gifts, Grants, Bequests and Contracts	31,043	36,531	51,744	57,906
Federal Grants and Contracts – Restricted	3,425	4,021	3,865	4,092
Sales and Services of Auxiliary Enterprises	20,438	21,432	21,310	22,317
Interest Income	845	1,208	1,153	1,929
Other	1,409	1,912	1,900	2,800
Total Revenues and Other Additions	\$201,939	\$215,222	\$235,030	\$252,447
Total Expenditures				
Instruction and Departmental	\$ 34,078	\$ 31,406	\$ 34,994	\$ 35,983
Library	4,322	4,585	4,934	4,819
Student Services	5,367	5,789	6,236	7,001
Maintenance and Operations	7,876	10,288	11,686	14,632
Provision for Depreciation	7,115	7,234	7,338	7,468
Interest on Indebtedness	3,438	3,141	3,093	3,888
General Administration	6,038	5,787	6,598	7,827
General Institutional	13,151	13,584	14,880	15,859
Student Financial Aid	14,102	14,941	15,174	15,843
Sponsored Research and Other Programs	6,014	8,282	8,371	9,077
Auxiliary Enterprise Expenditures	19,272	19,033	19,575	20,617
Other	—	—	—	—
Total Expenditures and Other Deductions	\$120,773	\$124,070	\$132,879	\$143,014
Excess of Revenue over Expenditures	\$81,166	\$91,152	\$102,151	\$109,433
Excess of Revenues over Expenditures as a Percent of Expenditures	67.2%	73.5%	76.9%	76.5%
Endowment Total Return Used to Support Current Operations	\$32,771	\$35,861	\$39,161	\$41,516
Endowment End-of-Year Market Value	\$605,509	\$691,088	\$780,872	\$887,489
Average Endowment Return Used to Support Current Operations as a Percent of:				
One Year – Beginning and Ending Market Value	5.6%	5.3%	5.1%	4.8%
Three Year – Average of Three Years	5.4%	5.5%	5.3%	5.1%
Other Financial Information				
Tuition and Fees per Student				
Comprehensive Fee	\$25,810	\$26,970	\$28,330	\$29,520
Tuition	\$19,610	\$20,174	\$21,254	\$22,114
Enrollment (Average FTE)	2,201	2,227	2,224	2,222
Educational and General Costs per Student	\$43,383	\$43,446	\$47,182	\$50,999
Tuition as a Percent of Educational and General Expenses	45.2%	46.4%	45.0%	43.4%
Endowment per Student	\$275,106	\$310,322	\$351,112	\$399,410

Wellesley College

Ten-Year Financial Summary 1996–2005

2000	2001	2002	2003	2004	2005	Average Annual Percent Change Since 6-30-96	
						Nominal %	Real %
\$ 53,669	\$ 55,197	\$ 57,491	\$ 59,828	\$ 62,928	\$ 66,989	4.8%	2.6%
361,536	(87,307)	(51,431)	35,449	152,797	131,721	25.4%	23.2%
94,098	62,234	49,355	52,261	63,101	105,136	19.9%	17.7%
4,641	5,251	6,225	7,448	5,608	4,567	2.7%	0.5%
23,180	24,120	24,059	24,493	24,224	25,779	2.3%	0.1%
3,333	2,910	1,253	747	713	713	5.4%	3.2%
2,101	2,352	4,155	1,823	3,434	3,461	20.2%	18.0%
\$542,558	\$ 64,757	\$ 91,107	\$182,049	\$312,805	\$338,366	29.2%	27.0%
\$ 38,815	\$ 40,074	\$ 42,104	\$ 43,650	\$ 47,746	\$ 51,035	5.1%	2.9%
4,849	5,195	5,574	5,602	5,556	5,909	4.0%	1.8%
7,670	8,516	9,876	10,056	9,917	10,396	7.4%	5.2%
14,330	18,291	15,635	14,312	13,452	14,896	7.0%	4.8%
8,527	8,745	8,718	9,429	9,894	10,497	4.3%	2.1%
5,194	5,077	4,237	4,712	6,069	4,930	3.7%	1.5%
8,336	7,626	8,328	9,737	9,412	9,128	8.3%	6.1%
18,445	21,136	21,137	20,117	19,676	19,472	5.5%	3.3%
18,281	19,189	20,878	23,479	26,511	29,649	7.6%	5.4%
9,932	10,138	12,681	12,115	12,850	11,079	6.7%	4.5%
21,523	23,364	22,583	22,233	21,617	22,278	1.7%	(0.5%)
1,290	—	—	—	—	—		
\$157,192	\$167,351	\$171,751	\$175,442	\$182,700	\$189,269	5.1%	2.9%
\$385,366	(\$102,594)	(\$80,644)	\$6,607	\$130,105	\$149,097		
245.2%	(61.3%)	(47.0%)	3.8%	71.2%	78.8%		
\$47,546	\$53,520	\$54,931	\$54,333	\$59,639	\$65,219	7.9%*	
\$1,253,385	\$1,136,426	\$1,032,465	\$1,043,937	\$1,180,405	\$1,275,767	8.6%*	
4.2%	4.2%	5.0%	5.3%	5.1%	5.1%		
4.7%	4.4%	4.5%	4.8%	5.1%	5.2%		
\$30,554	\$31,654	\$33,394	\$34,944	\$36,513	\$38,998	4.4%	1.8%
\$22,894	\$23,718	\$25,022	\$26,138	\$27,314	\$29,176	4.5%	1.9%
2,248	2,212	2,195	2,191	2,176	2,169	0.0%	
\$55,359	\$60,510	\$62,181	\$64,397	\$68,122	\$71,882	5.7%	3.5%
41.4%	39.2%	40.2%	40.6%	40.1%	40.6%	(0.8%)	(3.0%)
\$557,556	\$513,755	\$470,371	\$476,466	\$542,466	\$588,182	10.0%	7.8%

*compound growth

Wellesley College

Key Statistics

	2001	2002	2003	2004	2005
Faculty/Student FTE Headcount					
Student Enrollment (Average FTE)	2,212	2,195	2,191	2,176	2,169
Faculty Teaching Strength (FTE)	223	228	224	224	224
Student/Faculty Ratio	9.92	9.63	9.78	9.71	9.68
Enrollment					
Number of First-Year Student Applications	3,071	3,049	2,877	3,434	3,944
First-Year Students Admitted as a % of Applicants	42.7%	42.6%	47.1%	40.6%	37.5%
First-Year Students Enrolled as a % of Applicants	19.0%	19.0%	20.7%	17.2%	15.6%
First-Year Students Enrolled as a % of Students Admitted	45.1%	44.5%	43.9%	42.4%	41.7%
Financial Aid					
Percent of Students Receiving Financial Aid Grant Assistance	45.0%	48.0%	51.0%	53.0%	55.0%
Average Financial Aid Grant as % of Comprehensive Fee	54.0%	55.2%	55.7%	57.6%	63.5%
Student Aid Expense as % of Educational and General Expense	14.3%	15.3%	16.6%	17.9%	19.0%
Educational & General Cost per Student	\$60,510	\$62,181	\$64,397	\$68,122	\$71,882
Tuition as % of Educational and General Expense	39.2%	40.2%	40.6%	40.1%	40.6%
Development (in \$000s)					
Total Development Fundraising	\$45,681	\$48,780	\$51,721	\$54,719	\$88,618
Total Alumnae Giving Including Bequests	\$31,135	\$37,327	\$42,445	\$45,030	\$65,665
Number of Alumnae Donors	15,672	15,510	15,600	16,019	15,450
Percent of Alumnae Contributing	53.5%	53.5%	51.7%	52.5%	51.0%
Total Unrestricted Gifts	\$8,068	\$7,847	\$7,668	\$7,857	\$8,024
Total Planned Gifts	\$2,239	\$2,544	\$3,468	\$2,670	\$1,626
Total Bequests	\$4,869	\$9,827	\$12,053	\$10,573	\$36,295
Unrestricted Gifts and Bequests as % of Educational and General Expense	6.0%	5.9%	6.3%	7.1%	8.1%
Endowment					
Endowment Market Value (in \$000s)	\$1,136,426	\$1,032,465	\$1,043,937	\$1,180,405	\$1,275,767
Endowment per Student	\$513,755	\$470,371	\$476,466	\$542,466	\$588,182
Endowment Income as % of Educational and General Expense	40.0%	39.0%	38.5%	40.2%	41.8%
Other					
Gross Square Feet of Buildings	2,425,000	2,425,000	2,425,000	2,583,000	2,643,000
Library Collections in Volumes	1,473,972	1,500,587	1,529,737	1,558,607	1,571,517

Wellesley College Development Fund Report

(in \$000s)

	2001	2002	2003	2004	2005
By Type					
Outright Gifts	\$38,473	\$36,410	\$36,200	\$41,476	\$50,697
Deferred Gifts	2,339	2,544	3,468	2,670	1,626
Subtotal	40,812	38,954	39,668	44,146	52,323
Bequests:					
Restricted	3,458	6,211	8,109	6,942	32,404
Unrestricted	1,411	3,615	3,944	3,631	3,891
Subtotal	4,869	9,826	12,053	10,573	36,295
Total	\$45,681	\$48,780	\$51,721	\$54,719	\$88,618

By Source

Alumnae:					
Gifts	\$28,622	\$30,987	\$32,098	\$35,107	\$29,810
Bequests	2,513	6,341	10,347	9,923	35,855
Parents	427	813	1,139	397	741
Other Individuals and Clubs	5,004	5,881	4,244	4,646	17,231
Corporate:					
Grants	324	192	159	82	192
Matching Gifts	728	682	674	658	641
Foundations	8,063	3,884	3,060	3,906	4,148
Total	\$45,681	\$48,780	\$51,721	\$54,719	\$88,618

Notes

Unrestricted Gifts	\$8,073	\$7,847	\$7,668	\$ 7,857	\$ 8,024
Current-Use Financial Aid	934	1,426	2,129	2,746	3,104
	\$9,007	\$9,273	\$9,797	\$10,603	\$11,128
Pledges Outstanding	\$84,202	\$80,088	\$78,726	\$75,744	\$84,605
Alumnae Solicited	29,276	28,971	30,147	30,537	30,279
Alumnae Donors	15,672	15,510	15,600	16,019	15,450
Participation	53.5%	53.5%	51.7%	52.5%	51.0%
Durant Society Membership	3,132	3,072	2,990	3,208	2,983

Wellesley College
Total Sources of Student Financial Aid
Grant and Work Assistance

(in \$000s)

	2001	2002	2003	2004	2005
Unrestricted Revenue					
General College Revenues	\$ 354	\$ —	\$ 290	\$ 2,504	\$ 3,751
Total Unrestricted Revenue	354	—	290	2,504	3,751
Restricted Revenue					
Restricted Endowment					
Income	14,100	15,898	17,134	17,093	18,881
Income – Special Supplement	2,000	1,579	2,000	2,000	2,000
Federal Government					
Pell Grants	800	885	1,029	1,124	1,046
Supplemental Educational Opportunity Grants	393	391	418	405	401
College Work Study Program – Federal Government Share	381	444	427	381	359
Total Government Grants	1,574	1,720	1,874	1,910	1,806
Commonwealth of Massachusetts	263	295	240	245	238
Restricted Gifts					
Total Restricted Revenue	18,834	20,878	23,553	23,995	25,933
Total Unrestricted and Restricted Revenues	\$19,188	\$20,878	\$23,843	\$26,499	\$29,684

Wellesley College

Five-Year Endowment Summary

	2001	2002	2003	2004	2005
Total Endowment (in \$000s)					
General Endowment Pool	\$1,135,925	\$1,031,991	\$1,043,476	\$1,179,988	\$1,275,529
Nonpooled Endowment	501	474	461	417	238
Total Endowment	\$1,136,426	\$1,032,465	\$1,043,937	\$1,180,405	\$1,275,767
General Endowment Pool					
Market Value (in \$000s)	\$1,135,925	\$1,031,991	\$1,043,476	\$1,179,988	\$1,275,529
Unit Value	\$543.88	\$484.59	\$479.33	\$521.95	\$550.55
Unit Distribution	\$24.75	\$26.04	\$26.88	\$26.16	\$27.88
Total Return Comparison					
Yield	3.7%	3.8%	4.1%	5.8%	5.5%
Appreciation	(10.3%)	(9.0%)	0.8%	9.4%	6.0%
Total Nominal Return	(6.6%)	(5.2%)	4.9%	15.2%	11.5%
Real Return	(9.6%)	(6.2%)	2.7%	12.7%	8.2%
Market Indices (Nominal)					
S&P 500	(14.8%)	(18.0%)	0.3%	19.1%	6.3%
Citigroup Broad Investment Grade Bond Index	11.3%	8.5%	10.5%	0.4%	7.0%
Composite Index	(6.1%)	(9.1%)	4.3%	12.3%	6.7%
Consumer Price Index	3.3%	1.5%	2.1%	2.2%	3.0%
Annual Compound Returns					
Period Ending	5	4	3	2	1
Wellesley: Nominal	3.6%	6.3%	10.5%	13.3%	11.5%
Real	1.2%	4.1%	7.8%	10.4%	8.2%
S&P 500	(2.4%)	1.0%	8.3%	12.5%	6.3%
Citigroup Broad Investment Grade Bond Index	7.5%	6.5%	5.9%	3.6%	7.0%
Composite Index	1.3%	3.2%	7.7%	9.5%	6.7%
Consumer Price Index	2.4%	2.2%	2.4%	2.6%	3.0%
General Endowment Pool Asset Allocation					
Liquid Funds	14.0%	5.6%	5.4%	5.4%	1.1%
Fixed Income Investments	24.9%	29.8%	26.6%	23.7%	19.6%
Equities	42.2%	43.2%	44.6%	44.3%	47.0%
Other	18.9%	21.4%	23.4%	26.6%	32.3%
Total	100.0%	100.0%	100.0%	100.0%	100.0%
Endowment/Student	\$513,755	\$470,371	\$476,466	\$542,466	\$588,182
Enrollment (Average FTE)	2,212	2,195	2,191	2,176	2,169
Endowment Income Support for Current Operations					
Average Operating Support / Average Endowment Market Value					
One-Year Average	4.2%	5.0%	5.3%	5.1%	5.1%
Three-Year Average	4.4%	4.5%	4.8%	5.1%	5.2%

Wellesley College

Investment of Endowment and Similar Funds and Planned Giving Funds

Year ended June 30, 2005

(in \$000s)

	Market Value	% of Total
Investments Pooled		
Liquid Funds (Net of Payables and Receivables)	\$ 13,646	1.07%
Fixed Income		
U.S. Bonds	179,414	14.07%
Non-U.S. Bonds	42,164	3.31%
High-Yield Bonds	14,828	1.16%
Faculty Mortgages	13,454	1.05%
Total Fixed Income	249,860	19.59%
Common Stocks		
U.S. Stocks	334,982	26.26%
Non-U.S. Stocks	264,198	20.71%
Total Common Stocks	599,180	46.97%
Alternative Assets		
Venture Capital	42,213	3.31%
Buyout Funds	62,612	4.91%
Hedge and Arbitrage Funds	185,647	14.55%
Oil and Gas	18,735	1.47%
Distressed Securities	33,772	2.65%
Real Estate	33,211	2.60%
Commodities	35,311	2.77%
Miscellaneous Other	1,342	0.11%
Total Alternative Assets	412,843	32.37%
Total General Pooled Investments	1,275,529	100.00%
Investments Not Pooled		
Total Endowment and Similar Funds	238	
	1,275,767	
Planned Giving		
Separate Pooled Funds	19,725	
Unitrusts and Funds Not Pooled	56,744	
Total Planned Giving Funds	76,469	
Grand Total	\$1,352,236	

Wellesley College

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

Year ended June 30, 2005

	Number of Units	Market Value (in \$000s)	Market Value Per Unit
General Investment Pool			
June 30, 2004	2,260,709	\$1,179,988	\$521.955
September 30, 2004	2,277,794	1,186,724	520.997
December 31, 2004	2,311,446	1,267,571	548.389
March 31, 2005	2,322,815	1,267,112	545.507
June 30, 2005	2,316,827	1,275,529	550.550
Annuity Pool			
June 30, 2004	172,082	\$30,815	\$179.072
September 30, 2004	171,515	30,479	177.705
December 31, 2004	177,916	33,280	187.052
March 31, 2005	179,082	32,777	183.029
June 30, 2005	180,430	33,178	183.886
Life Income Pool			
June 30, 2004	16,191	\$3,647	\$225.234
September 30, 2004	15,796	3,575	226.307
December 31, 2004	15,546	3,616	232.580
March 31, 2005	15,448	3,519	227.786
June 30, 2005	15,546	3,513	225.999
Growth Fund Pool			
June 30, 2004	5,784	\$3,062	\$529.373
September 30, 2004	5,784	3,050	527.282
December 31, 2004	5,794	3,293	568.373
March 31, 2005	5,794	3,239	559.019
June 30, 2005	5,794	3,293	568.434
Balanced Fund Pool			
June 30, 2004	15,550	\$2,848	\$183.155
September 30, 2004	14,474	2,657	183.552
December 31, 2004	14,491	2,765	190.784
March 31, 2005	14,491	2,705	186.686
June 30, 2005	15,040	2,853	189.713
High Yield Pool			
June 30, 2004	48,976	\$5,081	\$103.749
September 30, 2004	48,976	5,148	105.113
December 31, 2004	49,164	5,130	104.337
March 31, 2005	49,065	5,026	102.445
June 30, 2005	49,114	5,084	103.515

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
2004	1,179,988	521.95	26.16	5.74	9.44	15.18
2005	1,275,529	550.55	27.88	5.52	5.94	11.46



PricewaterhouseCoopers LLP

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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, 2005 and 2004 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 Wellesley College's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

October 5, 2005

Wellesley College

Statements of Financial Position

June 30, 2005 and 2004

(in \$000s)

	2005	2004
Assets		
Cash and cash equivalents	\$ 23,826	\$ 12,949
Cash, restricted	15,900	12,464
Accounts receivable, net	575	2,372
Loans receivable, net	7,228	6,363
Contributions receivable, net	67,659	55,698
Grants receivable	1,240	1,540
Prepaid, inventory and other assets	1,219	2,486
Investments	1,275,767	1,180,405
Planned giving investments	76,469	71,650
Land, buildings and equipment, net	271,602	240,178
Total assets	\$1,741,485	\$1,586,105
Liabilities		
Accounts payable and accrued expenses	\$ 20,668	\$ 19,889
Student deposits and deferred revenues	4,112	3,742
Advances under grants and contracts	2,712	3,737
Annuities and unitrusts payable	40,372	38,879
Bonds and notes payable	141,931	137,382
Government loan advances	4,569	4,452
Total liabilities	214,364	208,081
Net Assets		
Unrestricted	473,769	450,726
Temporarily restricted	678,833	585,671
Permanently restricted	374,519	341,627
Total net assets	1,527,121	1,378,024
Total liabilities and net assets	\$1,741,485	\$1,586,105

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

Wellesley College

Statement of Activities

For the year ended June 30, 2005
(in \$000s)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2005 Total
Operating Revenues				
Tuition and Fees	\$ 66,989	\$ —	\$ —	\$ 66,989
Less financial aid				
Donor sponsored	(22,882)	—	—	(22,882)
Institutionally sponsored	(5,804)	—	—	(5,804)
Net tuition and fees	38,303			38,303
Auxiliary operations	25,779	—	—	25,779
Government grants	3,874	—	—	3,874
Private gifts and grants	17,499	11,099	—	28,598
Investment return designated for operations	28,678	36,541	—	65,219
Other	4,175	—	—	4,175
Net assets released from restrictions	36,191	(36,191)	—	—
Total operating revenues	154,499	11,449		165,948
Operating Expenses				
Instruction and departmental research	64,142	—	—	64,142
Sponsored research and other programs	11,060	—	—	11,060
Library	8,907	—	—	8,907
Student services	12,791	—	—	12,791
General administration	8,946	—	—	8,946
General institutional	22,080	—	—	22,080
Auxiliary operations	31,381	—	—	31,381
Total operating expense	159,307			159,307
Nonoperating Activities				
Investment return, net of spending allocation	18,291	47,557	654	66,502
Matured planned giving agreements	828	(1,148)	320	—
Gifts and pledges	1,953	42,374	31,857	76,184
Other	(2,971)	2,680	61	(230)
Net assets released from restrictions	9,750	(9,750)	—	—
Total nonoperating revenues	27,851	81,713	32,892	142,456
Net change in net assets	23,043	93,162	32,892	149,097
Net assets at beginning of year	450,726	585,671	341,627	1,378,024
Net assets at end of year	\$473,769	\$678,833	\$374,519	\$1,527,121

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

Wellesley College

Statement of Activities

For the year ended June 30, 2004
(in \$000s)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2004 Total
Operating Revenues				
Tuition and Fees	\$ 62,928	\$ —	\$ —	\$ 62,928
Less financial aid				
Donor sponsored	(20,871)	—	—	(20,871)
Institutionally sponsored	(4,762)	—	—	(4,762)
Net tuition and fees	37,295			37,295
Auxiliary operations	24,224	—	—	24,224
Government grants	4,782	—	—	4,782
Private gifts and grants	19,718	3,828	—	23,546
Investment return designated for operations	28,048	31,591	—	59,639
Other	4,148	—	—	4,148
Net assets released from restrictions	33,226	(33,226)	—	—
Total operating revenues	151,441	2,193		153,634
Operating Expenses				
Instruction and departmental research	60,466	—	—	60,466
Sponsored research and other programs	12,802	—	—	12,802
Library	8,465	—	—	8,465
Student services	12,179	—	—	12,179
General administration	9,354	—	—	9,354
General institutional	22,387	—	—	22,387
Auxiliary operations	30,448	—	—	30,448
Total operating expense	156,101			156,101
Nonoperating Activities				
Investment return, net of spending allocation	36,960	53,284	2,914	93,158
Matured planned giving agreements	3,742	(4,710)	968	—
Gifts and pledges	2,177	15,748	21,333	39,258
Other	(2,092)	196	2,052	156
Net assets released from restrictions	6,027	(6,027)	—	—
Total nonoperating revenues	46,814	58,491	27,267	132,572
Net change in net assets	42,154	60,684	27,267	130,105
Net assets at beginning of year	408,572	524,987	314,360	1,247,919
Net assets at end of year	\$450,726	\$585,671	\$341,627	\$1,378,024

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

Wellesley College

Statements of Cash Flows

For the years ended June 30, 2005 and 2004
(in \$000s)

	2005	2004
Cash Flows from Operating Activities		
Change in net assets	\$ 149,097	\$130,105
Adjustment to reconcile change in net assets to net cash used by operating activities:		
Depreciation and amortization, net	10,455	9,851
Contributions restricted for investments	(71,303)	(38,013)
Realized and unrealized (gains) losses on investments	(119,964)	(139,696)
Change in discount and allowance for doubtful accounts	(3,180)	(1,684)
Changes in operating assets and liabilities:		
Accounts receivable, net	1,877	(255)
Contributions receivable, net	(8,861)	2,982
Grants receivable	300	829
Prepaid, inventory and other assets	1,267	(1,049)
Accounts payable and accrued expenses	2,131	(3,879)
Student deposits and deferred revenue	370	371
Advances under grants and contracts	(1,025)	(2,847)
Annuities and unitrusts payable	1,493	4,302
Net cash used by operating activities	(37,343)	(38,983)
Cash Flows from Investing Activities		
Purchase of plant and equipment	(43,275)	(27,271)
Proceeds from student loans collections	1,056	1,246
Student loans issued	(1,921)	(1,689)
Purchases of investments	(1,141,731)	(948,695)
Proceeds from sales and maturities of investments	1,161,515	945,144
Net cash used by investing activities	(24,356)	(31,265)
Cash Flows from Financing Activities		
Proceeds from contributions for:		
Investment in endowment	29,997	21,479
Investment in planned giving	3,891	7,790
Plant and equipment	37,415	8,744
Increase in federal student loan funds	117	88
Decrease in restricted cash for debt service	9,168	37,915
Increase in restricted cash for plant and equipment	(12,604)	—
Bond and notes payable proceeds received, net	7,000	10,000
Payments on bonds payable	(2,408)	(38,923)
Net cash provided by financing activities	72,576	47,093
Net increase (decrease) in cash and cash equivalents	10,877	(23,155)
Cash and cash equivalents, beginning of year	12,949	36,104
Cash and cash equivalents, end of year	\$ 23,826	\$ 12,949
Cash paid for interest	\$ 4,901	\$ 6,121
Capital additions included in accounts payable and accrued expenses	\$ 3,895	\$ 5,247

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

Wellesley College

Notes to the Financial Statements

June 30, 2005 and 2004

1. Summary of Significant Accounting Policies

(a) Basis of Presentation

The financial statements of Wellesley College (the “College”) have been prepared in accordance with accounting principles generally accepted in the United States of America using the accrual basis of accounting.

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

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

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

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

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

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

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

(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 determined by the College and based on estimates and assumptions of the general partners or partnership valuation committees in the absence of readily determinable public market values. These values are audited annually by other auditors, most typically based on calendar year end information. The values of public investments not yet distributed generally reflect discounts for illiquidity. The limited partnership valuations consider variables such as the financial performance of the investments, recent sales prices of similar

Wellesley College

Notes to the Financial Statements

June 30, 2005 and 2004

investments and other pertinent information. The estimated values as determined by the general partners and investment managers may differ significantly from the values that would have been used had a ready market for the investments existed and the differences could be materially higher or lower.

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

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

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

(d) Endowment Investment Return Spending Policy

The College uses a "total return" approach to managing endowment assets. Funds are invested to maximize total return consistent with prudent risk without regard to the mix of current investment income and realized and unrealized gains or losses. The College's endowment distribution policy determines a payout rate that is based on 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. 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 2005 and 2004, are reported net of allowances for doubtful accounts of \$470,000 and \$550,000, respectively. Loans receivable for 2005 and 2004, are reported net of allowances for doubtful loans of \$549,000. 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, 2005 and 2004

(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

(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 and use of the campus during the summer by internal and external groups. Related expenses include direct expenses of running these operations as well as an allocation for depreciation, debt service and physical plant maintenance and operation.

(m) Internal Revenue Code Status

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

(n) 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.

(o) Reclassifications

Certain June 30, 2004 balances previously reported have been reclassified to conform to June 30, 2005 presentation.

2. Contributions Receivable

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

Unconditional Promises Expected to be Collected in:	2005	2004
Less than one year	\$33,936	\$13,454
One year to five years	22,355	30,098
Over five years	28,314	32,192
Total	84,605	75,744
Less discounts and allowance for uncollectible accounts	16,946	20,046
Net contributions receivable	\$67,659	\$55,698

Discount rates used to calculate the present value of contributions receivable ranged from 3.75% to 5% at June 30, 2005 and ranged from 4% to 5% at June 30, 2004.

3. Land, Buildings and Equipment

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

	2005	2004
Land and land improvements	\$ 36,978	\$ 36,978
Buildings and building improvements	282,621	263,262
Equipment	30,413	29,899
Construction in progress	50,225	28,176
	400,237	358,315
Less: accumulated depreciation	128,635	118,137
	\$271,602	\$240,178

Depreciation expense was \$10,498,000 and \$9,894,000 for the years ended June 30, 2005 and 2004, respectively.

Wellesley College

Notes to the Financial Statements

June 30, 2005 and 2004

4. Investments

The book and market values of investments at June 30, 2005 and 2004 were as follows (in \$000s):

	2005 Book Value	2005 Market Value	2004 Book Value	2004 Market Value
Endowment Investments				
Investments pooled				
Cash and cash equivalents	\$ 13,646	\$ 13,646	\$ 63,309	\$ 63,309
Bonds	250,860	249,860	281,604	280,266
Equities	457,137	599,180	403,922	522,532
Other assets	385,735	412,843	285,836	313,881
Total pooled investments	1,107,378	1,275,529	1,034,671	1,179,988
Investments not pooled				
Cash and cash equivalents	238	238	417	417
Total investments not pooled	238	238	417	417
Total endowment investments	\$1,107,616	\$1,275,767	\$1,035,088	\$1,180,405
Planned Giving Investments				
Separate pooled funds				
Cash and cash equivalents	\$ 259	\$ 259	\$ 729	\$ 729
Bonds	7,863	8,013	18,005	17,637
Equities	7,900	11,453	25,967	27,928
Total pooled funds	16,022	19,725	44,701	46,294
Unitrusts				
Cash and cash equivalents	601	601	314	314
Bonds	19,481	19,348	7,633	7,251
Equities	24,585	28,761	7,851	11,017
Other assets	902	902	1,058	1,058
Assets held by Trustees	6,703	7,132	5,284	5,716
Total funds not pooled	52,272	56,744	22,140	25,356
Total Planned Giving Investments	\$68,294	\$76,469	\$66,841	\$71,650

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

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

The College’s investment return from endowment and planned giving was as follows for the years ended June 30, 2005 and 2004 (in \$000s):

2005	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Dividends and interest (net of expenses of \$7,371)	\$ 4,360	\$ 6,743	\$654	\$ 11,757
Net realized and unrealized gains	42,609	77,355	—	119,964
Total return on endowment and planned giving investments	46,969	84,098	654	131,721
Investment return designated for current operations	(28,678)	(36,541)		(65,219)
	\$ 18,291	\$ 47,557	\$654	\$ 66,502

Wellesley College
Notes to the Financial Statements

June 30, 2005 and 2004

2004	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Dividends and interest (net of expenses of \$6,561)	\$ 5,037	\$ 5,150	\$2,914	\$ 13,101
Net realized and unrealized gains	59,971	79,725	—	139,696
Total return on endowment and planned giving investments	65,008	84,875	2,914	152,797
Investment return designated for current operations	(28,048)	(31,591)		(59,639)
	\$ 36,960	\$53,284	\$2,914	\$ 93,158

The total return consisting of realized and unrealized gains and losses and dividends and interest net of investment management and custodial fees was 11.5% and 15.2% for the fiscal years ended June 30, 2005 and 2004, 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:

	2005	2004
Investments in pooled funds, market value (in 000s)	\$1,275,529	\$1,179,988
Total number of units	2,316,827	2,260,709
Market value per unit	\$550.55	\$521.96
Distribution per unit	\$27.88	\$26.16

The following two schedules list the components of the pooled and nonpooled endowment funds at market value at June 30, 2005 and 2004 (in \$000s, except for units):

2005 Funds:	Units	Pooled Endowment	Nonpooled Endowment	Total Endowment
Endowment and similar funds:				
Endowment funds	1,486,077	\$ 818,160	\$ —	\$ 818,160
Term funds	70,468	38,796	238	39,034
Quasi-endowment	760,282	418,573	—	418,573
Total	2,316,827	\$1,275,529	\$238	\$1,275,767

2004 Funds:	Units	Pooled Endowment	Nonpooled Endowment	Total Endowment
Endowment and similar funds:				
Endowment funds	1,427,228	\$ 744,949	\$ —	\$ 744,949
Term funds	67,370	35,164	417	35,581
Quasi-endowment	766,111	399,875	—	399,875
Total	2,260,709	\$1,179,988	\$417	\$1,180,405

Wellesley College

Notes to the Financial Statements

June 30, 2005 and 2004

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 \$11,388,000 and \$10,318,000 at June 30, 2005 and 2004, respectively.

Mortgages due from faculty of \$13,454,000 and \$11,801,000 at June 30, 2005 and 2004, respectively are included within Investments on the Statement of Financial Position.

7. Notes and Bonds Payable

Indebtedness at June 30, 2005 and 2004 includes various bonds issued through the Massachusetts Health and Education Facilities Authority (MHEFA). Interest payments on debt totaled \$5,030,000 and \$6,145,000 during fiscal years 2005 and 2004, 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 renovation projects in dormitories, and modernization projects and was used to retire the Series D bonds, with \$36.6 million outstanding, on November 24, 2003, the earliest possible call date. The refunding allowed 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.

During March, 2004, the College executed a fixed rate promissory note with a bank. The College may borrow up to \$40 million with various terms and interest rates at LIBOR plus $\frac{1}{8}$ of 1%.

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

	2005	2004
MHEFA, Series H, Revenue Bonds issued at an interest rate of 2.0%–5.0% maturing July 2033.	\$ 55,635	\$ 56,075
MHEFA, Series F, 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, 2005 was 2.23%.	20,000	20,000
MHEFA Capital Asset Program, Series B & C, Variable Rate Demand Bonds, monthly amortization of principal with final payment due June 2010. Interest rate reset semi-annually. The rate at June 30, 2005 was 6.00%.	3,382	4,750
MHEFA, Series E, Variable Rate Demand Bonds, scheduled amortization of principal with final maturity July 2022. Interest adjusted weekly. The rate at June 30, 2005 was 2.17%.	15,100	15,700
Notes Payable Promissory Note, principal maturing July 2005. The rate at June 30, 2005 was 3.30%.	17,000	10,000
Total debt	141,117	136,525
Less unamortized bond issue costs	(469)	(493)
Add unamortized original issue premium	1,283	1,350
	\$141,931	\$137,382

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

2006	\$ 18,587
2007	1,780
2008	1,872
2009	2,156
2010	2,172
Thereafter	114,550
Total bonds and notes payable	\$141,117

Wellesley College

Notes to the Financial Statements

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The College has outstanding at June 30, 2005 fixed rate debt of \$85,635,000 and variable rate debt of \$55,482,000. The fair market value of the College's fixed rate debt at June 30, 2005 approximates \$95,165,000. The College's variable rate debt approximates fair value. Fair value for fixed and variable rate debt is based on estimates using current interest rates available for debt with equivalent maturities.

8. Annuities and Unitrusts Payable

Annuities, life income plans and unitrusts payable of \$40,372,000 and \$38,879,000 at June 30, 2005 and 2004, 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 Plan, the College contributed \$4,918,000 and \$4,599,000 respectively, for the years ended June 30, 2005 and 2004.

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

The measurement date of determining the benefit obligations and net periodic benefit (income) cost was June 30, 2005 and 2004.

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

	2005	2004
Assumptions used to determine benefit obligations:		
Discount rate	5.13%	6.25%
Rate of compensation increase	4.00%	4.00%

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

Discount rate	6.25%	6.00%
Expected return on plan assets	7.80%	8.00%
Rate of compensation increase	4.00%	4.00%

(in \$000s)	2005	2004
Change in projected benefit obligation		
Benefit obligation at end of prior year	\$27,577	\$26,749
Service cost	1,010	1,055
Interest cost	1,680	1,586
Actuarial loss/(gain)	5,475	(974)
Benefits paid	(782)	(833)
Administrative expenses paid	(6)	(6)
Benefit obligation at end of year	\$34,954	\$27,577

Change in plan assets		
Fair value of plan assets at end of prior year	\$21,084	\$18,322
Actual return on plan assets	2,400	2,823
Employer contributions	1,113	778
Benefits paid	(782)	(833)
Administrative expenses paid	(6)	(6)
Fair value of plan assets at end of year	\$23,809	\$21,084

Funded status		
Funded status	\$(11,145)	\$(6,493)
Unrecognized prior service cost	894	1,069
Unrecognized net actuarial loss	8,602	3,987
Accrued benefit cost	(1,649)	(1,437)
Additional minimum liability	(1,124)	—
Accrued benefit liability	(2,773)	(1,437)
Intangible asset	894	—
Net liability	(1,879)	(1,437)
Accumulated other income adjustments	230	—
Net amount recognized	\$(1,649)	\$(1,437)

Components of net periodic benefit cost		
Service cost	\$1,010	\$1,055
Interest cost	1,680	1,586
Expected return on plan assets	(1,606)	(1,431)
Amortization of transition asset	0	(24)
Amortization of prior service cost	174	174
Recognized net actuarial loss	66	258
Net periodic benefit cost	\$1,324	\$1,618

Wellesley College

Notes to the Financial Statements

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

2006	\$1,004
2007	1,015
2008	1,113
2009	1,102
2010	1,210
2011–2014	8,188

The College expects to make employer contributions into the plan of \$1,500,000 in the 2006 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	55%
Real Estate Investment Trust	5%
Commodities	5%
Fixed Income	32%
Cash and Equivalents	3%
Total	100%

The following lists the Plan's asset allocation at June 30, 2005 and 2004:

Asset Category	2005	2004
Equity Securities	61%	57%
Real Estate Investment Trust	4%	6%
Commodities	5%	0%
Fixed Income	24%	35%
Cash and Equivalents	6%	2%
Total	100%	100%

10. Net Assets

Net assets consist of the following at June 30, 2005 and 2004:

(in \$000s)	2005	2004
Unrestricted:		
Designated for specific purposes and plant	\$ 84,104	\$ 76,048
Quasi-endowment	390,737	376,872
Deficiencies in donor-restricted endowments	(1,072)	(2,194)
	473,769	450,726
Temporarily restricted:		
Endowment and similar funds including pledges	541,948	469,900
Annuity, life income and unitrusts including pledges	36,156	32,586
Deficiencies in donor-restricted endowments	1,072	2,194
Other restricted	99,657	80,991
	678,833	585,671
Permanently restricted:		
Endowment including pledges	374,519	341,627
	374,519	341,627
	\$1,527,121	\$1,378,024

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 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

Wellesley College

Notes to the Financial Statements

June 30, 2005 and 2004

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 \$757,000 and \$662,000 respectively for the years ended June 30, 2005 and 2004. 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 2004 and 2005, 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 has not yet responded to this report. The College anticipates submitting proposals for the remediation of certain segments of Lower Waban Brook after the remaining Lake Waban issues are resolved.

Outstanding commitments amounted to approximately \$301,113,000 and \$252,601,000 as of June 30, 2005 and 2004, respectively for the following:

	2005	2004
Alternative investments	\$293,900,000	\$219,200,000
Construction contracts	7,213,000	33,401,000
	<u>\$301,113,000</u>	<u>\$252,601,000</u>

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

The College built a gas-fired cogeneration plant capable of producing 7.5 megawatts of electricity. The plant supplies electricity for the entire campus. The College pays the Town \$111,000 annually as a guarantee for back-up power, at cost, to the College. This contract is in force until September 2007.

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.

Senior
Administration
2004–2005

Diana Chapman Walsh
President

Andrew Shennan
Dean of the College

Kimberly Goff-Crews
Dean of Students

Jennifer C. Desjarlais
Dean of Admission

David Blinder
*Vice President for Resources
and Public Affairs*

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

Patricia M. Byrne
*Vice President for
Administration and Planning*

Andrew B. Evans
*Vice President for Finance
and Treasurer*

Jane L. Mendillo
Chief Investment Officer

Joanne Berger-Sweeney
Associate Dean of the College

Adele Wolfson
Associate Dean of the College

Michelle Lepore
Associate Dean of Students

Linda M. Brothers
Director of Equal Opportunity

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2004–2005

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