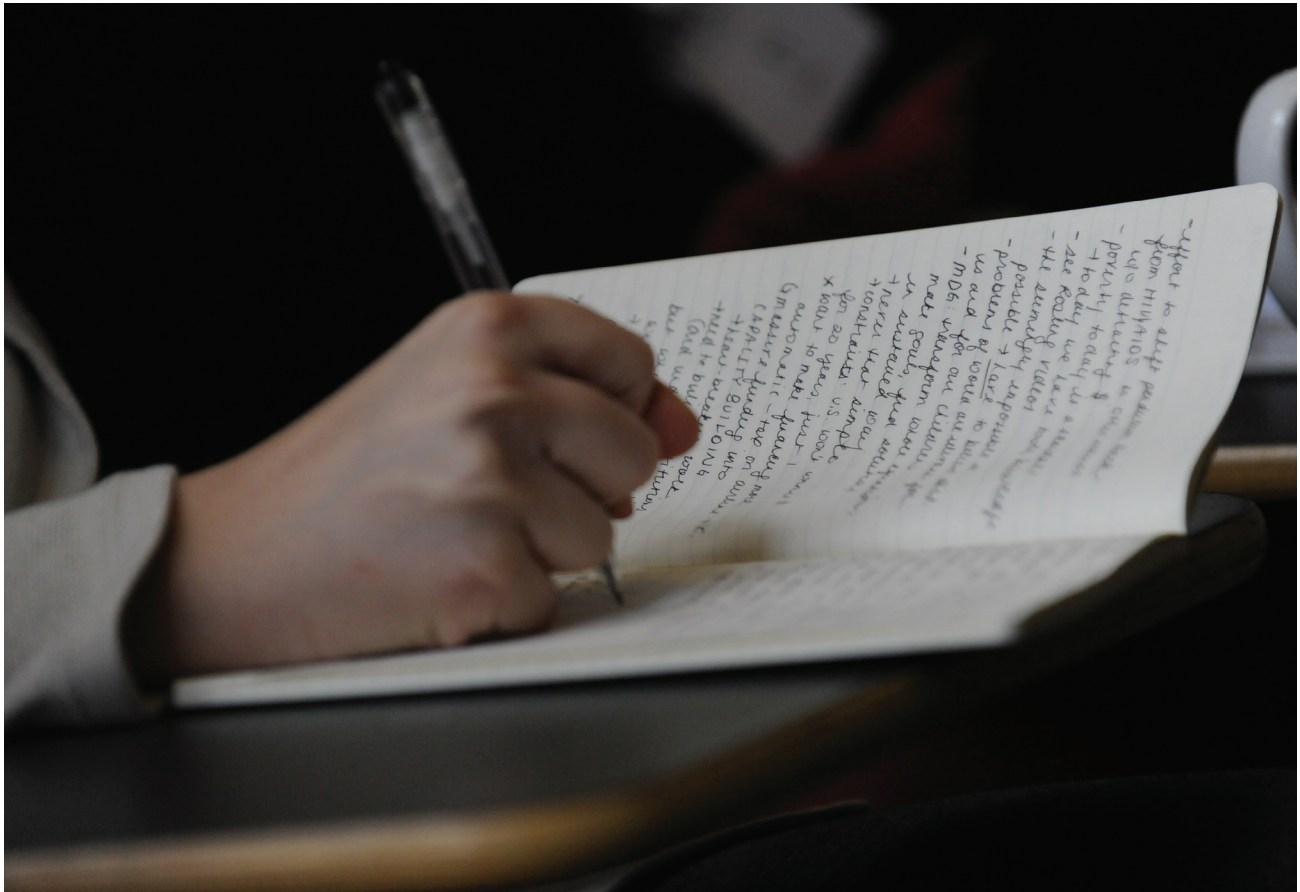


WELLESLEY COLLEGE

ANNUAL REPORT 2009-2010



WELLESLEY COLLEGE ANNUAL REPORT

FOR THE YEAR ENDED JUNE 30, 2010

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REPORT OF THE PRESIDENT

OCTOBER 2010

TO THE BOARD OF TRUSTEES, ALUMNAE, FACULTY, AND FRIENDS OF
WELLESLEY COLLEGE

I am pleased to submit the annual financial report of Wellesley College for the 2009-2010 academic—and fiscal—year, during which we dedicated ourselves to building on changes made the prior year as we adjusted to the new financial reality. This last year, it was more evident than ever that the strength of our institution lies in the individuals who make up our community, and despite the financial problems that have had such a serious effect on our economy, I think Wellesley remains strong and stable, and is prepared for future challenges.

In the letters that follow, Andrew Evans, Vice President for Finance and Treasurer, and Deborah Foye Kuenstner '80, Chief Investment Officer, report in depth on the financial status of the College and the strength of our endowment. We made aggressive budgetary and investment adjustments to accommodate the new financial reality, and enacted organizational and financial changes that not only helped us through the immediate crisis, but positioned us well for continued strength and efficiency in the future. Those accommodations will continue to be refined in order to stabilize the College for the long term and to meet any further challenges following from the recession and global financial crisis.

ORGANIZATIONAL REALIGNMENTS

We began the new academic year with 90 fewer staff positions, resulting from a judicious combination of layoffs, attrition, and retirements. We needed to rethink the way we were organized to support our broader institutional goals.

In consultation with trustees, organizational experts, and others, I made the decision to combine the Division of Administration and Planning with the Division of Finance, eliminating the position of Vice President of Administration and Planning. Andy Evans oversees this newly formed division. Our new structure allows for greater efficiencies, particularly in regard to budgetary planning and implementation, and streamlines the College's financial operations and management.

In addition, I created the position of Dean of Admission and Financial Aid, which has responsibility for integrating the efforts of the College with regard to outreach, enrollment, financial aid and educational financing, and also—importantly—for providing unified and strategic leadership. Jennifer Desjarlais, formerly our Dean of Admission, assumed this new, larger role.

It is critical that Wellesley have a leadership structure that guides academic planning and articulates a vision for the College, while ensuring that resources are mobilized and properly allocated to support college priorities. Therefore, I also established the new position of Provost and Dean of the College, strengthening and

expanding the existing Dean of the College role. Andrew Shennan assumed this position, with my full confidence and support, as well as that of the faculty, senior staff, and trustees.

The new Provost post has responsibility for cross-institutional planning, so as a first step in recognizing this, I eliminated the position of Vice President for Information Services and created in its stead the role of Chief Information Officer. The CIO will be responsible for the library and information technology and reports directly to the Provost.

CONTINUING TO INVEST IN OUR INTELLECTUAL COMMUNITY

Even while making these financial adjustments, we have worked to ensure that Wellesley would be able to build further on its strengths. We did this by articulating our major priorities and instituting planning initiatives for them, via the Academic Planning Committee and a series of dedicated Task Forces.

The College's high academic standing is due almost entirely to the quality of our faculty. Despite financial constraints, we decided to move forward with strategic searches for new faculty, adding twelve remarkable tenure-track members. These new hires are an investment that speaks to our determination to sustain Wellesley's reputation for academic excellence, and reinforce the intellectual depth of our faculty. They also bring us crucial new areas of specialization—all while preserving our impressive student-to-faculty ratio and the close interaction between students and faculty that is such an important part of the Wellesley educational experience.

Moreover, this year the number of federal grants and individual fellowships awarded to our faculty exceeded last year's by a significant margin, with 34 grants awarded to individual faculty members. Wellesley's scholar-teachers focus on integrating their scholarship with their teaching and mentoring—an important element in our ability to create a truly transformative education for our students.

Wellesley students *also* did an exceptional job in this year's competition for fellowships and scholarships, winning four Fulbright Grants, two Barry M. Goldwater Scholarships, a Thomas J. Watson Foundation Fellowship, three Woodrow-Wilson-Rockefeller Brothers Fund Fellowships for Aspiring Teachers of Color, and these are only the highlights. Additionally, nine recent alumnae received National Science Foundation Research Fellowships, and one alumna, Bilin Zhuang, '09, received the prestigious American Physical Society 2009 Leroy Apker Award for outstanding achievement in physics.

The College has continued to pursue its commitment to a vibrant and contemporary liberal arts education. Wellesley launched three groundbreaking initiatives this year—each of which demonstrates the power of Wellesley's liberal arts curriculum: the Madeleine Korbel Albright Institute for Global Affairs; the Three-College Collaboration, an innovative model for academic partnership forged with Olin College and Babson College; and our anchoring role in one of the National Academy of Engineering "Grand Challenges" regional summits. These initiatives have a common theme: solutions to complex modern problems will

increasingly require the insight, leadership and ability to integrate diverse streams of knowledge. And there is arguably no better foundation for integrating knowledge across disciplines than a liberal arts education.

Finally, while we have long known the value of the intercultural model embodied in our Office of Religious and Spiritual Life, I was especially delighted when Victor Kazanjian, Dean of Religious and Spiritual Life, was invited to the White House Forum on Interfaith Community Service. This was a much-deserved recognition of the leadership Dean Kazanjian has demonstrated in developing this model on campus, as well as an affirmation of the particular strength of Wellesley's approach.

THE ONGOING SUPPORT OF OUR COMMUNITY

We have always been fortunate in being able to count on the dedication of our alumnae to Wellesley and its ideals. I am delighted to report that, in the face of the economic downturn, annual giving to the College actually increased. We achieved our \$10 million goal for unrestricted funds—a high-water mark reached only once before in the last 25 years; moreover (and importantly), the percentage of alumnae who made a gift increased for the first time in almost a decade. A significant portion of these unrestricted funds will be dedicated to financial aid, and it is these very generous alumnae contributions that continue to make a difference in sustaining Wellesley and securing its future.

Overall, we were able to raise \$33 million in cash, well surpassing our target of \$29 million. When the value of in-kind gifts of art is included, as well as monies from institutional government grants, total support raised for this last fiscal year came to \$36 million.

There is no doubt that we face a new economic reality, one that is already reshaping the landscape of higher education. Wellesley is in an enviable position of strength, and we know that sustaining that strength requires continuing to make informed, judicious choices that align with and promote our institutional priorities. The shared commitment of the entire Wellesley community is essential, and I remain grateful for the many ways in which this commitment has been demonstrated.

Yours truly,

A handwritten signature in black ink, appearing to read 'H. Kim Bottomly', with a large, sweeping flourish at the end.

H. Kim Bottomly
President

REPORT OF THE VICE PRESIDENT FOR FINANCE AND TREASURER

OCTOBER 2010

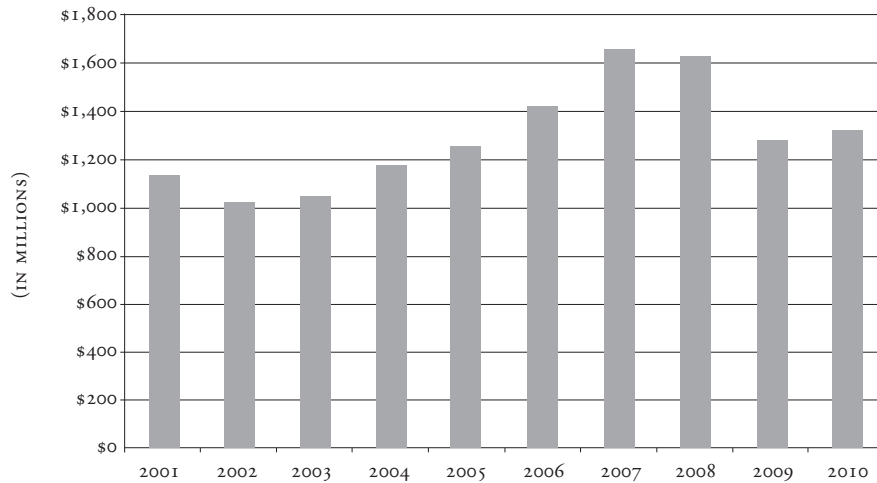
TO THE BOARD OF TRUSTEES OF WELLESLEY COLLEGE

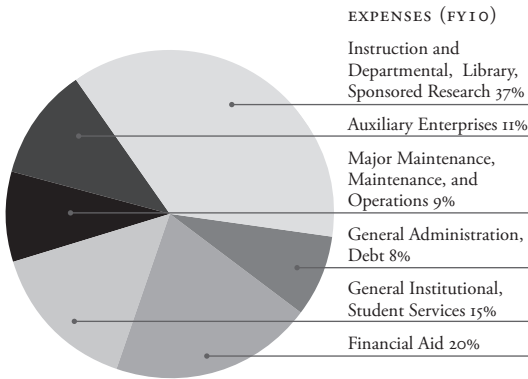
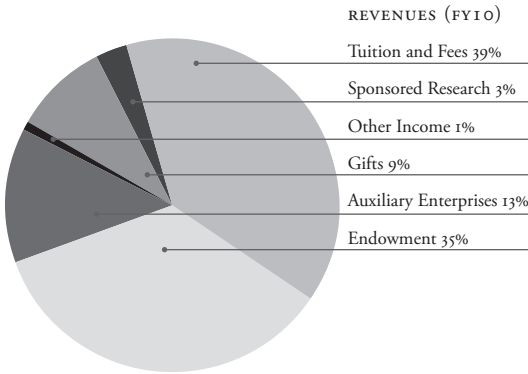
This Annual Report presents the operating and audited results at Wellesley College for the fiscal year ending June 30, 2010. For fiscal year 2009–2010 the College’s net assets increased by \$45.7 million. The College’s endowment increased by \$43.0 million and was valued at \$1.33 billion as of June 30, 2010.

RESULTS OF FISCAL YEAR 2010

Wellesley College is an institution that is strong academically and remains strong financially despite the negative affects that the economy had on most educational institutions last year. **The gain from a positive investment return of 9.34%** offset by the spending from the endowment needed to support the College’s operations resulted in an **increase in endowment value from \$1.29 billion to \$1.33 billion.** (Further details about our endowment are discussed in the Chief Investment Officer’s report.) The funds used during the year to support the operating budget and to fund various capital projects equaled 6.4% and 5.5% 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 3.9% from \$581,955 to \$604,566, and gifts received were \$33.1 million.**

GENERAL ENDOWMENT POOL, 2001–2010





The operating budget (Schedule A) in this fiscal year reflects revenues of \$235.2 million and expenses of \$228.3 million, resulting in an operating surplus of \$6.9 million. This surplus was added to the College’s operating reserves. Increasing reserves is an important part of the College’s planning strategy to address any expected revenue shortfall in fiscal years 2010–2011 and beyond. Reserves will be a source of funding for one-time expenses that will yield longer-term expense reductions.

The revenue base for the operating budget was well diversified, with five primary revenue sources: tuition income (39%); endowment (35%); auxiliary enterprises; including room and board (13%); gifts used for operations (9%); and other sources of revenue, including sponsored research (4%). **Total operating revenues in this fiscal year increased by \$8.4 million over fiscal year 2009.**

Operating expenses had an incremental increase of 0.7% over fiscal year 2009. As might be expected in a labor-intensive institution, about 50% of the operating budget was used for salaries and benefits.

At the end of each fiscal year, the College’s interest rate swap is “marked to market” (which means that the market value of the swap is reflected in the audited financial statements). As of June 30, 2010, the College recorded a liability of \$6.8 million (reflecting the mark to market of the swap) owing to extremely low Treasury rates at June 30, 2010. This is an increase from the value of a \$4.2 million liability as of June 30, 2009 and results in a \$2.6 million reduction to the College’s net assets for fiscal year 2010.

FINANCIAL STRENGTH AND FLEXIBILITY

The College operates under a set of principles for financial strength and flexibility. These principles were established to support Wellesley College’s institutional values and strategic priorities by preserving the purchasing power of the endowment, ensuring that the growth rates of income and expenses are in balance, and creating reserves to mitigate unanticipated shocks to the balanced budget.

The College’s endowment spending policy addresses the need for a strong, stable, and growing income stream from the endowment to support operations, as well as the long-term objective of maintaining its purchasing power. The methodology for setting annual spending from the endowment is based on a combination of the prior year’s spending and the endowment value. In fiscal year 2010, the one-year spending rate was 6.4%. This spending policy is reviewed periodically to ensure that the endowment continues to provide a consistent and healthy income stream to support operations and to maintain its purchasing power. We plan to complete the 2010 review shortly and update the endowment spending policy for fiscal year 2011–2012.

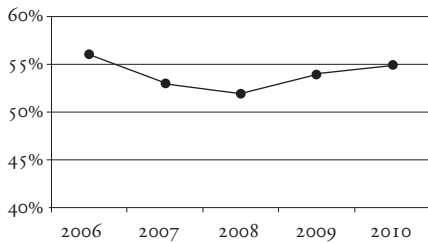
The budget process for the College is multi-year and built around institutional priorities. It allows for inclusiveness and institution-wide input, and that uses all sources of funds including restricted income sources. For fiscal year

2010, the College’s management structure has had the Provost as chairing a Senior Staff Budget Subgroup and in building the budget for this last year, this subgroup’s goal was to ensure that the College’s budget aligned resources to the College’s academic mission.

During fiscal year 2009, the College’s endowment was negatively affected by the downturn in the economy. The College took immediate steps to soften the negative impact of this endowment loss to the operating budget. These steps included reductions in discretionary spending, reorganizing the College to reduce non-faculty positions and a careful review of planned construction projects. The results of the steps taken for fiscal year 2010 reflect the College’s action of reducing approximately 80 non-faculty positions—through attrition, retirement, and layoffs.

During fiscal year 2010, the College continued to take the same approach to investing \$20 million of existing operating cash that we do to investing the endowment. As of June 30, 2010, the cumulative excess investment return over typical short-term interest rates on these funds totaled approximately \$2.7 million. This excess will be reserved and (with extended time for planning) used to fund extraordinary expenses in the future.

PERCENTAGE OF STUDENTS RECEIVING FINANCIAL AID GRANT ASSISTANCE



FUNDING SOURCE FOR FINANCIAL AID



INSTITUTIONAL VALUES AND PRIORITIES

One of the College’s longest-held institutional values is our need-blind admission policy. Wellesley believes that students should be considered for admission only on the basis of their talents and personal qualities, not on their ability to pay.

The College continues to measure the effects of this important policy against other expenses. Over the past five years, there has been an increase in the use of unrestricted resources for financial aid, as shown on the left. While the percentage of students receiving financial aid assistance has remained fairly constant over the past 5 years (52% to 55%), the percentage of student financial aid expenditures supported by restricted revenues has *decreased* from 85% in 2006 to 72% in 2010, resulting in a need to fund more of the expenditure with unrestricted resources in order to continue to support this important value with unrestricted resources.

The maintenance and enhancement of the College’s significant physical plant/infrastructure is an important institutional priority. Therefore, beginning in fiscal year 2010, the College began to build a fund for asset renewal and replacement (ARR). (In the past, the College’s operating budget did not include funding for depreciation or ARR.)

In order to fully fund this new ARR, the College would need to add approximately \$10 million to the operating budget. To accomplish this, the College has implemented a phased-in approach to funding ARR, starting with \$500,000 in fiscal year 2010. At the same time, the College continues to work on some of the projects identified in the Comprehensive Facilities Plan that was completed during fiscal year 2007. This plan established the facilities-planning principles and factors used in setting facilities priorities and documented the College’s use of space—

including future needs. This plan also evaluated the condition of facilities and their ability to meet long-term program demands.

FUTURE CHALLENGES AND OUTLOOK

The College's principles for financial strength and flexibility continue to guide us as we work on addressing the budget issues resulting from the tumultuous economic events during fiscal 2009, and our multi-year budget process remains invaluable for planning; we are already preparing solutions to address projected deficits in the coming years. So I am happy to report that with our present budget-management structure (under the leadership of President Bottomly), the College is well positioned to meet the financial challenges of the future.

Respectfully submitted,

A handwritten signature in black ink that reads "Andrew B. Evans". The signature is written in a cursive style with a long, sweeping tail on the final letter.

Andrew B. Evans
Vice President for Finance and Treasurer

REPORT OF THE CHIEF INVESTMENT OFFICER

OCTOBER 2010

TO THE BOARD OF TRUSTEES OF WELLESLEY COLLEGE

As of the fiscal year ended June 30, 2010, the Wellesley College endowment had a market value of \$1.330 billion, versus \$1.287 billion on June 30, 2009, an increase of approximately \$43 million. The investment return for the year earned by the endowment portfolio, net of investment management fees, was 9.3%.

RECENT DEVELOPMENTS

During the fiscal year ended June 30, 2010, global capital markets enjoyed a partial recovery from the upheaval of the financial crisis. Equity markets continued the rally that began in the spring of 2009, and ran through the end of the year. In the first half of 2010, concerns about the strength of the economic recovery grew, sending equity markets lower. They continued to show considerable volatility, with long-term interest rates ending lower for the fiscal year. In spite of this challenging environment, Wellesley's endowment was able to support current operations *and* earn a return that increased the purchasing power of the endowment.

Investment returns by asset class, and the relative performance versus benchmarks for each asset class, are summarized below.

TOTAL RETURN BY ASSET CLASS, YEAR ENDED JUNE 30, 2010

	WELLESLEY COMPARATIVE INDEX	MARKET BENCHMARK/PORTFOLIO RETURN	
U.S. Equity	19.2%	14.4%	S&P 500
International Equity	14.4	10.4	MSCI AC World Ex-U.S.
Private Equity	8.7	—	Cambridge Associates ⁽¹⁾
Real Assets	-7.5	—	Real Assets Benchmark ⁽²⁾
Semi-marketable ⁽³⁾	11.6	8.0	Cambridge Associates Hedge Fund-of-Funds Index
Fixed Income	15.8	8.9	Fixed Income Benchmark ⁽⁴⁾
Total Portfolio	9.3%		

¹ Private Equity results are measured against the Cambridge Associates Private Equity, Venture Capital and Distressed Indices, with final returns not yet reported at the time of this writing.

² Real Assets Benchmark is a weighted average of the NCREIF Property, NCREIF Timber, Goldman Sachs Commodities Index, and the Cambridge Associates Oil & Gas Index. Final returns had not yet been reported at the time of this writing for the Cambridge Associates Oil & Gas Index.

³ Semi-marketable investments include absolute return and hedge funds.

⁴ Fixed Income Benchmark is a weighted average of the Barclays 5+ Year Treasury Index, Barclays >5 Year TIPS Index and the Citigroup World Government Bond Index.

The majority of Wellesley's investment managers in public equities, fixed income, and semi-marketable strategies delivered strong results in both absolute terms and relative to their benchmarks. The portfolio also benefited from strong results in venture capital and energy. These positives, however, were offset by continued write-downs in our real estate investments.

LONGER-TERM RESULTS

Compound annual returns over the last five and ten years were 5.2% and 4.4% respectively, net of investment management fees. Although these results are disappointing relative to the College's need for returns that cover both spending and inflation, long-term results remain strong relative to alternative strategies; the College's well-diversified endowment has significantly outperformed U.S. equity investments (represented by the S&P 500, as well as the 65% stock/35% bond portfolio, as shown below). These better-than-average longer-term portfolio results are at least partly attributable to our gradual shift over the past several years from traditional asset classes to alternatives with higher long-term return expectations.

TOTAL ANNUALIZED RETURN ON ENDOWMENT, YEAR ENDED JUNE 30, 2010

	1 YEAR	3 YEARS	5 YEARS	10 YEARS
Wellesley Portfolio	9.3%	-2.8%	5.2%	4.4%
S&P 500 Index	14.4	-9.8	-0.8	-1.6
65/35 Stock/Bond Portfolio ⁽⁵⁾	12.9	-3.5	1.8	1.6

⁵ A commonly used measure of portfolio performance is a comparison with a passive portfolio consisting of 65% stocks, as measured by the S&P 500 Index, and 35% bonds, as measured by the Citigroup Broad Investment Grade Index.

POLICY PORTFOLIO AND STRATEGY GOING FORWARD

With the goal of balancing long-term returns and risks, The Wellesley College Investment Committee has established a long-term Policy Portfolio to guide asset allocation. Over time, the endowment has gradually diversified into less-efficient asset classes, such as venture capital, distressed debt, and energy. In addition, the Investment Office focuses on adding value within each asset category through the selection of specific investments and investment managers, with the specific goal of gaining exposure to outstanding investment management teams in each asset class.

The table on the left details the Policy Portfolio and the actual asset allocation as of June 30, 2010. Exposure to total long-term alternative assets was 43% of the portfolio, relative to a long-term target of 50%. Additionally, relative to the long-term Policy Portfolio targets, the endowment portfolio was over-weighted in fixed income and cash at the end of the fiscal year and modestly under-weighted in traditional equities. The portfolio continues to maintain sufficient exposure to liquid investments to maintain the steady level of financial support it provides to the College's operations and to provide for portfolio liquidity needs.

ASSET ALLOCATION AS OF JUNE 30, 2010

ASSET CLASS	POLICY PORTFOLIO	ASSET ALLOCATION
U.S. Equities	19%	19%
International Equities	19	18
Total Equities	38	37
Private Equity	16	19
Real Assets	16	15
Semi-marketable	18	9
Total Alternative Assets	50	43
Fixed Income & Cash	12	20
Total Portfolio	100%	100%

Although it will take some time before long-term returns recover from the damage wrought by the financial crisis, the endowment is positioned to benefit from exposure both to traditional and non-traditional assets, all managed by outstanding investment firms. I believe that through actions taken in the last year we are well-positioned to benefit from excellent investment opportunities and to maintain important investment flexibility.

After a period of such economic turmoil, it is appropriate to examine the soundness of the underpinnings of our long-term strategy. We regularly review our assumptions and expectations with the goal of refining the assets held in the Wellesley portfolio in order to provide optimal risk/return characteristics. Consequently, we have taken actions to increase the endowment's exposure to those areas in which disruptions in markets have created some attractive investment opportunities.

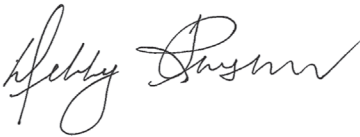
It is not clear that the tough times are behind us, however, so we are fortunate that the success of the College's long-term investment strategy is not predicated on our ability to make accurate short-term assessments of market movements. A thoughtful and disciplined approach to asset allocation and manager selection will continue to be the drivers of investment performance over both the intermediate and long term.

What *is* safe to say is that all college and university endowments face ongoing challenges as a result of the credit crisis, and Wellesley is no exception. The College is fortunate, however, to have a thoughtful Investment Committee, and an endowment portfolio invested with outstanding investment managers. Short-term investment results will undoubtedly vary—sometimes significantly, as they did last year—but the portfolio is positioned to benefit from its exposure to traditional and nontraditional investments, all carefully chosen and monitored for their quality, their contribution to the diversification of risk, and their long-term return potential.

Members of the College community with questions, suggestions, or thoughts about the management of the Wellesley College endowment are invited to contact me at any time.

Thank you.

Sincerely,

A handwritten signature in black ink, appearing to read "Deborah F. Kuenstner". The signature is fluid and cursive, with the first name being the most prominent.

Deborah F. Kuenstner
Chief Investment Officer

FINANCIAL HIGHLIGHTS

(IN \$000S)

	2006	2007	2008	2009	2010
Total College Summary					
Total Revenues	\$331,744	\$491,051	\$182,338	(\$122,136)	\$283,897
Total Expenses	219,273	224,722	225,903	252,458	238,174
Net Surplus (Deficit)	\$112,471	\$266,329	(\$43,565)	(\$374,594)	\$45,723
Current Operations Summary					
Revenues including Trustee approved use of unrestricted bequests	\$195,463	\$213,514	\$221,417	\$226,808	\$235,248
Expenditures including addition to reserves	195,460	213,507	221,416	226,803	235,219
Operating Surplus	\$3	\$7	\$1	\$5	\$29
Resources					
Unrestricted Gifts	\$8,761	\$8,421	\$8,848	\$8,268	\$8,847
Endowment Gifts and Bequests	23,854	19,908	10,266	18,556	18,586
Planned Gifts	2,411	1,389	2,943	3,389	1,219
Facilities Gifts	10,789	22,390	14,341	6,607	3,291
Current-Use Gifts and Grants	10,097	12,071	1,367	1,422	1,174
Total	\$55,912	\$64,179	\$37,765	\$38,242	\$33,117
Endowment					
Market Value	\$1,412,604	\$1,672,473	\$1,629,447	\$1,287,284	\$1,330,045
Total Return (Loss)	\$175,886	\$312,636	\$12,487	(\$291,066)	\$116,294
Total Return Used for Operations	\$69,159	\$74,496	\$76,584	\$81,199	\$86,612
Unit Value (not in \$000s)	\$595.46	\$691.71	\$668.81	\$523.84	\$535.74
Investment Return—Total	14.0%	22.7%	1.2%	(17.0%)	9.3%
Yield	5.9%	8.1%	7.8%	2.8%	4.6%
Appreciation	8.1%	14.6%	(6.6%)	(19.8%)	4.7%
Average Endowment Operating Support (% of Average Market Value)					
One-Year Average	5.0%	4.7%	4.6%	5.4%	6.4%
Three-Year Average	5.1%	4.9%	4.7%	4.9%	5.5%
Assets					
Total College Net Assets	\$1,639,592	\$1,905,921	\$1,862,356	\$1,488,848	\$1,534,571

SCHEDULE A SUMMARY OF OPERATING REVENUES AND EXPENDITURES
YEARS ENDED JUNE 30, 2010 AND 2009 (IN \$000S)

	2010	2009	INCREASE (DECREASE)	%
Revenues from Operations				
Tuition and Fees	\$90,400	\$86,543	\$3,857	4.5%
Endowment Income				
Education and General Support	57,276	54,863	2,413	4.4%
Total Endowment Support	57,276	54,863	2,413	4.4%
Unrestricted Gifts	8,825	8,299	526	6.3%
Unrestricted Bequests	2,000	2,442	(442)	(18.1%)
Restricted Gifts and Use of Reserves	3,623	3,712	(89)	(2.4%)
Other Income	3,308	4,619	(1,311)	(28.4%)
Student Financial Aid				
Endowment Income	25,920	24,292	1,628	6.7%
Federal and State Grants	2,881	2,330	551	23.6%
Restricted Gifts	2,718	3,339	(621)	(18.6%)
Total Student Financial Aid	31,519	29,961	1,558	5.2%
Total Education and General	196,951	190,439	6,512	3.4%
Sponsored Research	7,015	6,237	778	12.5%
Auxiliary Enterprises	31,282	30,132	1,150	3.8%
Total Revenues	235,248	226,808	8,440	3.7%
Operating Expenditures				
Instruction and Departmental	68,114	64,508	3,606	5.6%
Library	5,798	6,632	(834)	(12.6%)
Student Services	10,789	11,322	(533)	(4.7%)
Student Financial Aid	46,568	41,210	5,358	13.0%
General Administration	10,975	15,518	(4,543)	(29.3%)
General Institutional	22,986	24,441	(1,455)	(6.0%)
Maintenance and Operations	14,104	15,970	(1,866)	(11.7%)
Debt Service	6,831	7,163	(332)	(4.6%)
Major Maintenance, Capital Expenditures, and Reserves	6,680	5,280	1,400	26.5%
Total Educational and General Expenditures	192,845	192,044	801	.4%
Sponsored Research	7,015	6,237	778	12.5%
Other Programs	3,339	4,196	(857)	(20.4%)
Auxiliary Enterprises	25,120	24,326	794	3.3%
Total Expenditures	228,319	226,803	1,516	.7%
Operating surplus before reserves	6,929	5	6,924	138480.0%
Addition to reserves	6,900	—	6,900	
Operating surplus after reserves	\$29	\$5	\$24	480.0%

SCHEDULE B TEN-YEAR FINANCIAL SUMMARY 2001-2010

	2001	2002	2003	2004	2005
Financial Statement (in \$000s)					
Total Revenues					
Tuition and Fees	\$55,197	\$57,491	\$59,828	\$62,928	\$66,989
Investment Return	(87,307)	(51,431)	35,449	152,797	131,721
Private Gifts, Grants, Bequests and Contracts	62,234	49,355	52,261	63,101	105,136
Federal Grants and Contracts - Restricted	5,251	6,225	7,448	5,608	4,567
Sales and Services of Auxiliary Enterprises	24,120	24,059	24,493	24,224	25,779
Interest Income	2,910	1,253	747	713	713
Other	2,352	4,155	1,823	3,434	3,461
Total Revenues and Other Additions	\$64,757	\$91,107	\$182,049	\$312,805	\$338,366
Total Expenditures					
Instruction and Departmental	\$40,074	\$42,104	43,650	47,746	51,035
Library	5,195	5,574	5,602	5,556	5,909
Student Services	8,516	9,876	10,056	9,917	10,396
Maintenance and Operations	18,291	15,635	14,312	13,452	14,896
Provision for Depreciation	8,745	8,718	9,429	9,894	10,497
Interest on Indebtedness	5,077	4,237	4,712	6,069	4,930
General Administration	7,626	8,328	9,737	9,412	9,128
General Institutional	21,136	21,137	20,117	19,676	19,472
Student Financial Aid	19,189	20,878	23,479	26,511	29,649
Sponsored Research and Other Programs	10,138	12,681	12,115	12,850	11,079
Auxiliary Enterprise Expenditures	23,364	22,583	22,233	21,617	22,278
Other	—	—	—	—	—
Total Expenditures and Other Deductions	\$167,351	\$171,751	\$175,442	\$182,700	\$189,269
Excess of Revenues over Expenditures	(\$102,594)	(\$80,644)	\$6,607	\$130,105	\$149,097
Excess of Revenues over Expenditures as a Percent of Expenditures	-61.3%	-47.0%	3.8%	71.2%	78.8%
Endowment Total Return Used to Support Current Operations	\$53,520	\$54,931	\$54,333	\$59,639	\$65,219
Endowment End-Of-Year Market Value	\$1,136,426	\$1,032,465	\$1,043,937	\$1,180,405	\$1,275,767
Average Endowment Return Used to Support Current Operations as a Percent of:					
One Year—Beginning and Ending Market Value	4.2%	5.0%	5.3%	5.1%	5.1%
Three Year—Average of Three Years	4.4%	4.5%	4.8%	5.1%	5.2%
Other Financial Information					
Tuition and Fees per Student					
Comprehensive Fee	\$31,654	\$33,394	\$34,944	\$36,513	\$38,998
Tuition	\$23,718	\$25,022	\$26,138	\$27,314	\$29,176
Enrollment (Average FTE)	2,212	2,195	2,191	2,176	2,169
Educational and General Costs per Student	\$60,510	\$62,181	\$64,397	\$68,122	\$71,882
Tuition as a Percent of Educational and General Expenses	39.2%	40.2%	40.6%	40.1%	40.6%
Endowment per Student	\$513,755	\$470,371	\$476,466	\$542,466	\$588,182

ANNUAL REPORT 2010

	2006	2007	2008	2009	2010	AVERAGE ANNUAL PERCENT CHANGE SINCE JUNE 30, 2001	
						NOMINAL %	REAL %
	\$71,431	\$79,298	\$83,447	\$86,543	\$90,400	5.4%	3.0%
	175,886	312,636	12,487	(291,066)	116,294	(257.3%)	(259.7%)
	47,336	58,547	41,631	43,396	35,783	(3.5%)	(5.9%)
	4,560	5,121	4,983	4,800	6,415	4.7%	2.3%
	27,428	29,382	30,100	30,132	31,282	3.1%	.7%
	1,598	2,402	2,207	526	120	(10.2%)	(12.6%)
	3,505	3,665	7,483	3,533	3,603	18.1%	15.7%
	\$331,744	\$491,051	\$182,338	(\$122,136)	\$283,897	(38.4%)	(40.8%)
	54,663	60,474	64,458	63,789	66,622	5.6%	3.2%
	5,818	6,239	6,473	6,576	5,798	2.0%	(.4%)
	10,616	10,872	11,706	11,297	10,796	3.7%	1.3%
	20,954	24,985	19,118	18,178	17,218	3.6%	1.2%
	12,374	12,419	13,527	13,611	14,304	5.4%	3.0%
	5,442	5,588	4,844	3,580	2,788	(4.6%)	(7.0%)
	8,247	10,521	8,121	12,315	6,625	1.2%	(1.2%)
	19,942	22,236	22,807	23,099	22,390	2.1%	(.3%)
	31,590	34,736	36,316	41,237	45,119	9.5%	7.1%
	10,138	10,682	10,672	10,433	10,353	.9%	(1.5%)
	23,632	25,052	26,020	24,291	25,109	1.7%	(.7%)
	15,857	918	1,841	24,052	11,052		
	\$219,273	\$224,722	\$225,903	\$252,458	\$238,174	4.4%	2.0%
	\$112,471	\$266,329	(\$43,565)	(\$374,594)	\$45,723		
	51.3%	118.5%	-19.3%	-148.4%	19.2%		
	\$69,159	\$74,496	\$76,584	\$81,199	\$86,612	4.9% *	
	\$1,412,604	\$1,672,473	\$1,629,447	\$1,287,284	\$1,330,045	1.6% *	
	5.0%	4.7%	4.6%	5.4%	6.4%		
	5.1%	4.9%	4.7%	4.9%	5.5%		
	\$41,030	\$43,288	\$45,820	\$47,976	\$49,794	5.0%	2.6%
	\$30,696	\$32,384	\$34,770	\$36,404	\$37,826	5.2%	2.8%
	2,193	2,196	2,234	2,212	2,200	(.2%)	
	\$77,358	\$85,642	\$83,872	\$87,560	\$87,118	4.7%	2.3%
	39.7%	37.8%	41.5%	41.6%	43.4%	.6%	(1.8%)
	\$644,142	\$761,600	\$729,385	\$581,955	\$604,566	1.4%	(1.0%)

* compound growth

SCHEDULE C KEY STATISTICS

	2006	2007	2008	2009	2010
Faculty / Student FTE Headcount					
Student Enrollment (Average FTE)	2,193	2,196	2,234	2,212	2,200
Faculty Teaching Strength (FTE)	231	236	241	248	246
Student/Faculty Ratio	9.49	9.31	9.27	8.92	8.94
Enrollment					
Number of First-Year Student Applications	4,347	3,974	4,017	4,001	4,156
First-Year Students Admitted as a % of Applicants	33.7%	36.1%	35.7%	36.0%	35.2%
First-Year Students Enrolled as a % of Applicants	13.9%	14.7%	14.7%	14.9%	14.2%
First-Year Students Enrolled as a % of Students Admitted	41.4%	40.9%	41.1%	41.3%	40.3%
Financial Aid					
Percent of Students Receiving Financial Aid Grant Assistance	56.0%	53.0%	52.0%	54.0%	55.0%
Average Financial Aid Grant as % of Comprehensive Fee	59.6%	61.4%	61.9%	65.7%	67.3%
Student Aid Expense as % of Educational and General Expense	18.6%	18.5%	19.4%	19.4%	23.5%
Educational and General Cost per Student	\$77,358	\$85,642	\$83,872	\$87,560	\$87,118
Tuition as % of Educational and General Expense	39.7%	37.8%	41.5%	41.6%	43.4%
Development (\$000s)					
Total Development Fund-Raising	\$55,912	\$64,179	\$37,765	\$38,242	\$33,117
Total Alumnae Giving Including Bequests	\$40,752	\$46,812	\$28,884	\$29,714	\$25,581
Number of Alumnae Donors	15,113	15,160	14,561	13,527	14,177
Percent of Alumnae Contributing	49.7%	49.6%	47.4%	43.6%	45.0%
Total Unrestricted Gifts	\$8,761	\$8,421	\$8,848	\$8,268	\$8,847
Total Planned Gifts	\$2,411	\$1,389	\$2,943	\$3,389	\$1,219
Total Bequests	\$14,305	\$13,017	\$4,210	\$6,349	\$7,555
Unrestricted Gifts and Bequests as % of Educational and General Expense	5.2%	4.5%	4.4%	5.6%	5.6%
Endowment					
Endowment Market Value (\$000s)	\$1,412,604	\$1,672,473	\$1,629,447	\$1,287,284	\$1,330,045
Endowment per Student	\$644,142	\$761,600	\$729,385	\$581,955	\$604,566
Endowment Income as % of Educational and General Expense	40.8%	39.6%	40.9%	41.9%	45.2%
Other					
Gross Square Feet of Buildings	2,643,000	2,600,000	2,598,000	2,594,031	2,587,761
Library Collections in Volumes	1,594,395	1,604,787	1,600,258	1,458,179	1,702,321

SCHEDULE D TOTAL SOURCES OF STUDENT FINANCIAL AID GRANT AND WORK ASSISTANCE (IN \$000S)

	2006	2007	2008	2009	2010
Unrestricted Revenue					
General College Revenues	\$4,822	\$5,890	\$7,826	\$9,249	\$13,049
Total Unrestricted Revenue	4,822	5,890	7,826	9,249	13,049
Restricted Revenue					
Restricted Endowment					
Income	20,178	21,922	22,823	24,292	25,920
Income—Special Supplement	2,000	2,000	2,000	2,000	2,000
Federal Government					
Pell Grants	945	1,110	1,203	1,402	2,018
Supplemental Educational Opportunity Grants	388	358	339	348	337
College Work Study Program— Federal Government Share	331	322	333	342	383
Total Government Grants	1,664	1,790	1,875	2,092	2,738
Commonwealth of Massachusetts	239	268	268	238	143
Restricted Gifts	2,625	3,678	3,478	3,339	2,718
Total Restricted Revenue	26,706	29,658	30,444	31,961	33,519
Total Unrestricted and Restricted Revenues	\$31,528	\$35,548	\$38,270	\$41,210	\$46,568

WELLESEY COLLEGE

SCHEDULE E

INVESTMENT OF ENDOWMENT AND SIMILAR FUNDS AND PLANNED GIVING
FUNDS AS OF JUNE 30, 2010 (IN \$000S)

	MARKET VALUE	% OF TOTAL
Investments Pooled		
Liquid Funds (Net of Payables and Receivables)	\$58,452	4.47%
Fixed Income		
U.S. Bonds	168,057	12.86%
Non-U.S. Bonds	23,056	1.77%
Total Fixed Income	191,113	14.63%
Common Stocks		
U.S. Stocks	247,211	18.92%
Non-U.S. Stocks	240,743	18.42%
Total Common Stocks	487,954	37.34%
Alternative Assets		
Venture Capital	127,705	9.77%
Buyout Funds	68,048	5.21%
Distressed securities	57,080	4.37%
Real Estate	87,831	6.72%
Oil and Gas	73,988	5.66%
Timberland	40,027	3.06%
Semi Marketable	113,710	8.70%
Miscellaneous Other	888	0.07%
Total Alternative Assets	569,277	43.56%
Total General Pooled Investments	1,306,796	100.00%
Faculty Mortgages	23,249	
Total General Pooled Investments and Faculty Mortgages	1,330,045	
Investments Not Pooled	199	
Total Endowment and Similar Funds	1,330,244	
Planned Giving		
Separate Pooled Funds	13,981	
Unitrusts and Funds Not Pooled	50,690	
Total Planned Giving Funds	64,671	
Grand Total	\$1,394,915	

SCHEDULE F

GENERAL ENDOWMENT POOL ANNUAL TOTAL RETURN SINCE INCEPTION

YEAR ENDED	MARKET VALUE (IN \$000S)	ENDING UNIT VALUE	DISTRIBUTION \$100.00	TOTAL RETURN		
				YIELD %	APPRECIATION %	TOTAL %
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)	0.44
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
2006	1,412,410	595.46	28.96	5.84	8.13	13.97
2007*	1,656,565	691.71	30.74	8.12	14.58	22.70
2008	1,611,318	668.81	31.55	7.85	(6.63)	1.22
2009	1,266,437	523.84	33.18	2.81	(19.78)	(16.97)
2010	1,306,796	535.74	35.08	4.62	4.72	9.34

* For reporting purposes, beginning in 2007, market value and all return figures are reported based on the general investment pool excluding faculty mortgages.

REPORT OF INDEPENDENT AUDITORS



PricewaterhouseCoopers LLP
125 High Street
Boston MA 02110-2611
Telephone (617) 530 5000
Facsimile (617) 530 5001

To the Board of Trustees of Wellesley College:

In our opinion, the accompanying statements of financial position and the related statements of activities and cash flows present fairly, in all material respects, the financial position of Wellesley College (the "College") at June 30, 2010 and 2009, and the changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. 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 30, 2010

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2010 AND 2009 (IN \$000S)

	2010	2009
Assets		
Cash and cash equivalents	\$29,425	\$23,929
Cash and cash equivalents, restricted	19,811	26,817
Accounts receivable, net	1,512	372
Loans receivable, net	9,113	9,280
Contributions receivable, net	45,677	47,724
Grants receivable	1,338	1,226
Prepaid, inventory and other assets	2,708	4,930
Investments	1,330,244	1,287,284
Planned giving investments	64,671	63,085
Collateral received for securities lending	3,743	54,233
Land, buildings and equipment, net	302,449	292,180
Total assets	\$1,810,691	\$1,811,060
Liabilities		
Accounts payable and accrued expenses	\$37,482	\$35,097
Student deposits and deferred revenues	3,519	2,678
Advances under grants and contracts	1,792	2,390
Annuities and unitrusts payable	37,585	37,556
Asset retirement obligations	18,529	17,474
Accrued pension liability	19,368	15,866
Liability under securities lending transactions	3,743	54,233
Bonds and notes payable	149,533	152,349
Government loan advances	4,569	4,569
Total liabilities	276,120	322,212
Net Assets		
Unrestricted	517,193	506,452
Temporarily restricted	600,601	573,376
Permanently restricted	416,777	409,020
Total net assets	1,534,571	1,488,848
Total liabilities and net assets	\$1,810,691	\$1,811,060

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

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2010 (IN \$000S)

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	2010 TOTAL
Operating Revenues				
Tuition and Fees	\$90,400	\$—	\$—	\$90,400
Less financial aid				
Donor sponsored	(28,940)	—	—	(28,940)
Institutionally sponsored	(13,729)	—	—	(13,729)
Net tuition and fees	47,731	—	—	47,731
Auxiliary operations	31,282	—	—	31,282
Government grants	4,838	—	—	4,838
Private gifts and grants	17,182	3,623	—	20,805
Investment return designated for operations	41,855	44,757	—	86,612
Other	3,725	—	—	3,725
Net assets released from restrictions	45,460	(45,460)	—	—
Total operating revenues	192,073	2,920	—	194,993
Operating Expenses				
Instruction and departmental research	81,435	—	—	81,435
Sponsored research and other programs	10,353	—	—	10,353
Library	9,191	—	—	9,191
Student services	13,534	—	—	13,534
General administration	12,078	—	—	12,078
General institutional	24,009	—	—	24,009
Auxiliary operations	35,408	—	—	35,408
Total operating expenses	186,008	—	—	186,008
Nonoperating Activities				
Investment return, net of spending allocation	1,680	28,749	710	31,139
Matured planned giving agreements	1,401	(3,040)	1,639	—
Gifts and pledges	3,531	4,559	5,408	13,498
Pension related changes other than net periodic pension cost	(3,501)	—	—	(3,501)
Net realized/unrealized loss on interest swap	(4,398)	—	—	(4,398)
Net assets released from restrictions	5,963	(5,963)	—	—
Total nonoperating revenues	4,676	24,305	7,757	36,738
Net change in net assets	10,741	27,225	7,757	45,723
Net assets at beginning of year	506,452	573,376	409,020	1,488,848
Net assets at end of year	\$517,193	\$600,601	\$416,777	\$1,534,571

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

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2009 (IN \$000S)

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

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

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2010 AND 2009 (IN \$000S)

	2010	2009
Cash Flows from Operating Activities		
Change in net assets	\$45,723	\$(373,508)
Adjustment to reconcile change in net assets to net cash used by operating activities:		
Depreciation and amortization	14,304	13,587
Contributions restricted for investments	(9,716)	(13,992)
Receipt of contributed securities	(2,043)	(1,442)
Realized and unrealized (gains) losses on investments	(120,524)	291,054
Change in discount and allowance for doubtful accounts	(1,727)	(1,392)
Pension related changes other than net periodic pension cost	3,501	12,028
Unrealized loss on interest swap	2,640	4,213
Changes in operating assets and liabilities:		
Accounts receivable, net	(1,140)	315
Contributions receivable, net	3,807	703
Grants receivable	(112)	(50)
Prepaid, inventory and other assets	2,222	988
Accounts payable and accrued expenses	3,783	7,517
Student deposits and deferred revenue	841	(986)
Advances under grants and contracts	(598)	224
Annuities and unitrusts payable	29	(1,024)
Net cash used in operating activities	(59,010)	(61,765)
Cash Flows from Investing Activities		
Purchase of plant and equipment	(27,579)	(20,931)
Proceeds from student loans collections	1,199	976
Student loans issued	(1,065)	(1,480)
Decrease in restricted cash for construction funds	7,014	1,599
(Increase)/decrease in restricted cash for plant and equipment	(8)	11,567
Purchases of investments	(278,426)	(565,665)
Proceeds from sales and maturities of investments	356,447	631,663
Net cash provided by investing activities	57,582	57,729
Cash Flows from Financing Activities		
Proceeds from contributions for:		
Investment in endowment	8,090	7,207
Investment in planned giving	891	2,406
Plant and equipment	735	4,379
Bond and notes payable proceeds received, net	—	—
Payments on bonds and notes payable	(2,792)	(4,565)
Net cash provided by financing activities	6,924	9,427
Net increase in cash and cash equivalents	5,496	5,391
Cash and cash equivalents, beginning of year	23,929	18,538
Cash and cash equivalents, end of year	\$29,425	\$23,929
Contributed securities	\$2,043	\$1,442
Cash paid for interest	\$4,541	\$4,899
Capital additions included in accounts payable and accrued expenses	\$1,145	\$3,662
Net change in securities lending	\$(50,490)	\$(49,013)

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

WELLESLEY COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

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.

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

spending guidelines. Nonoperating activities also include net realized and unrealized gains and losses on the interest rate swap and pension related changes other than net periodic pension costs.

(b) Cash and Cash Equivalents

Cash and cash equivalents include short-term, highly liquid investments with a maturity of three months or less at the time of purchase. Cash and cash equivalents representing endowment assets and planned giving assets are included in endowment investments and planned giving investments, respectively. Restricted cash represents amounts for construction held by trustees in association with the Massachusetts Health and Education Facilities Authority Series I bond issue and amounts restricted by a donor for the Science Center and Power Plant.

(c) Investments

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

Venture capital and buyout limited partnerships include investments in both publicly and privately owned securities. The fair values of private investments are determined by the College and based on estimates and assumptions of the general partners or partnership valuation committees in the absence of readily determinable public market values. These values are audited annually by other auditors, most typically based on calendar year end information. The limited partnership valuations consider variables such as the financial performance of the investments, recent sales prices of similar investments and other pertinent information. The estimated values as determined by the general partners and investment managers may differ significantly from the values that would have been used had a ready market for the investments existed and the differences could be materially higher or lower.

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

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

Net gains on permanently restricted gifts are classified as temporarily restricted until appropriated for spending by the College in accordance with the Massachusetts Management of Institutional Funds Act, as updated in 2009. Future utilization of gains is dependent on market performance.

Deficiencies of \$5,281,000 and \$6,587,000 for donor-restricted endowment funds, resulting from declines in market value, have been offset by an allocation from unrestricted net assets to temporarily restricted net assets for the years ended June 30, 2010 and 2009, respectively. As the market value of the portfolio increases, the deficiency will reverse.

(d) Endowment Investment Return Spending Policy

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

The College's endowment distribution policy determines a payout rate that is based on a methodology that uses a combination of prior year's spending and endowment value with a general rule that the total amount spent needs to be within a 4.5% to 6% range of the prior year market value of the endowment, based on a 3 year average. 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 and are included in prepaid, inventory and other assets on the Statement of Financial Position.

(f) Accounts Receivable and Student Loans Receivable

Accounts receivable include amounts due from students, student organizations and other miscellaneous receivables. Loans to students are carried at net realizable value. Accounts receivable for 2010 and 2009, are reported net of allowances for doubtful accounts of \$434,000 for both years. Loans receivable for 2010 and 2009, are reported net of allowances for doubtful loans of \$752,000 and \$719,000, respectively. The provisions are intended to provide for student accounts and loans that may not be collected.

(g) Grant Revenue

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

(h) Pledges

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

(i) Loans Receivable

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

(j) Land, Buildings, and Equipment

Land, buildings, and equipment are recorded at cost, or if donated, at fair market value at the date of donation. Additions to plant assets are capitalized while scheduled maintenance and minor renovations are charged to operations. Library books

are expensed when purchased. Museum collections are not capitalized. Plant assets are presented net of accumulated depreciation. When assets are retired or disposed of, the cost and accumulated depreciation are removed from the accounts and gains and losses from disposal are included in the Statement of Activities. Depreciation is computed on a straight-line basis over the estimated useful lives of the related assets as follows:

	YEARS
Land improvements	20-40
Buildings and building improvements	20-40
Equipment	4-12

(k) Financial Aid

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

(l) Auxiliary Operations

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

(m) Internal Revenue Code Status

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

(n) Conditional Asset Retirement Obligations

The College recognizes the fair value of a liability for legal obligations associated with asset retirements in the period in which the obligation is incurred. When the liability is initially recorded, the cost of the asset retirement obligation is capitalized by increasing the carrying amount of the related long-lived asset. The liability is accreted to its present value each period, and the capitalized cost associated with the retirement obligation is depreciated over the useful life of the

related asset. Upon settlement of the obligation, any difference between the cost to settle the asset retirement obligation and the liability recorded is recognized as a gain or loss in the Statement of Activities.

(o) Interest Rate Swap

The College has entered into an interest rate swap agreement on the Massachusetts Health and Education Facilities Authority, Variable Rate Revenue Bonds, Series I in order to convert the variable rate debt to fixed rate, thereby economically hedging against changes in the cash flow requirements of the College’s variable rate debt obligations.

Net payments or receipts (difference between variable and fixed rate) under the swap agreement along with the change in fair value of the swap are recorded in nonoperating activities as net realized/unrealized loss on interest swap.

(p) Use of Estimates

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

(q) New Accounting Pronouncements

The College adopted accounting guidance on subsequent events as of June 30, 2010. This establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued and requires disclosure of the date through which an entity has evaluated subsequent events. Subsequent events have been evaluated through October 30, 2010, which is the date financial statements were issued.

The College adopted additional Financial Accounting Standards Board (FASB) guidance related to investments as of June 30, 2010. This establishes enhanced reporting and disclosure on the level of the assets included in investments. Further, the guidance requires disclosure by investment type related to

investments. Such disclosure includes the nature of any restrictions on the investor's ability to redeem the investment at the valuation date as well as any unfunded commitments. The College adopted additional FASB guidance on enhanced disclosure on certain investments as of June 30, 2010. This provides enhanced disclosure on investments for which fair value is estimated through the use of net asset value, or its equivalent, as a practical expedient.

The College adopted FASB guidance on enhanced disclosure of pension assets as of June 30, 2010. The guidance calls for disclosure of how investment allocation decisions are made, the valuation techniques used to measure the fair value of the investments as well as any significant concentration of risk within the assets. This disclosure is required for each major category of plan asset.

The College adopted FASB guidance related to derivative instruments. The College has one such instrument. The guidance requires disclosure of the objective for using the instrument be disclosed including underlying risk and accounting designation. Further disclosure is required of the risk that the College is intending to manage as well as the fair value of the instrument.

2. Contributions Receivable

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

UNCONDITIONAL PROMISES EXPECTED TO BE COLLECTED IN:	2010	2009
Less than one year	\$6,681	\$7,732
One year to five years	43,427	47,160
Over five years	1,377	400
Total	51,485	55,292
Less discounts and allowance for uncollectible accounts	5,808	7,568
Net contributions receivable	\$45,677	\$47,724

Contributions receivable expected to be collected within one year are recorded at their net realizable value. Those expected to be collected in future years are recorded at the present value of estimated future cash flows. The present value of estimated future cash flows has been measured at the time of the contribution using rates indicative of the market and credit risk associated with the contribution. Discount rates used to calculate the present value of contributions receivable ranged from 2.50% to 5.10%, and 1.50% to 4.95% at June 30, 2010 and 2009, respectively.

3. Land, Buildings and Equipment

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

	2010	2009
Land improvements	\$46,560	\$46,224
Buildings and building improvements	394,229	379,807
Equipment	12,440	12,385
Construction in progress	26,040	16,992
	479,269	455,408
Less accumulated depreciation	176,820	163,228
	\$302,449	\$292,180

Depreciation expense was \$14,319,000 and \$13,611,000 for the years ended June 30, 2010 and 2009, respectively.

The College recognized \$783,000 and \$640,000 of operating expenses relating to the accretion of liabilities recorded for the years ended June 30, 2010 and 2009, respectively. Conditional asset retirement obligations of \$18,529,000 and \$17,474,000 at June 30, 2010 and 2009, respectively, are included in the College's asset retirement obligation.

4. Investments

The book and market values of investments at June 30, 2010 and 2009 are shown in Table 4 on page 33.

“Other assets” include long-term and semi-marketable 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 semi-marketable alternative asset investments include equity hedge funds, risk arbitrage, distressed securities and commodity hedge funds. The College’s investments in these strategies use minimal, if any, leverage as part of their strategies.

Included in bonds and equities are alternative investment vehicles including hedge funds with a market value of \$238,950,000 and \$198,118,000 and commingled funds with a market value of \$199,564,000 and \$174,532,000 at June 30, 2010 and 2009, respectively, whose holdings are bonds and equities.

The College’s investment return from endowment and planned giving for the years ended June 30, 2010 and 2009 appear in Table 5 on page 34.

The total return consisting of realized and unrealized gains and losses and dividends and interest net of investment management and custodial fees was 9.34% and -16.97% for the fiscal years ended June 30, 2010 and 2009, respectively.

At June 30, 2010 and 2009 investment securities having a fair value of \$3,639,000 and \$53,046,000, respectively, were loaned to various brokerage firms through a securities lending agent. The loaned securities are returnable on demand and are collateralized by cash deposits. The College has recorded the fair value of the collateral received of \$3,743,000 and \$54,233,000 and an offsetting liability for the return of the collateral on the Statement of Financial Position at June 30, 2010 and 2009, respectively.

5. Fair Value Disclosures

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

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

Table 6 on page 34 presents information about the College’s assets and liabilities measured at fair value on a recurring basis based upon the lowest level of significant input to the valuations at June 30, 2010 and 2009.

Table 7 on page 35 presents the assets and liability carried at fair value as of June 30, 2010 and 2009 that are classified within level 3 of the fair value hierarchy. The table reflects gains and losses for the year, including gains and losses on assets and liabilities that were transferred to level 3 during the year, for all assets and liabilities categorized as level 3. Additionally, both observable and unobservable inputs may be used to determine the fair value of positions that the College has classified within the level 3 category. As a result, the unrealized gains and losses for assets and liabilities within level 3 may include changes in fair value that were attributable to both observable and unobservable inputs.

TABLE 4: BOOK AND MARKET VALUES OF INVESTMENTS

JUNE 30, 2010 AND 2009 (IN \$000S)

	2010 BOOK VALUE	2010 MARKET VALUE	2009 BOOK VALUE	2009 MARKET VALUE
Endowment Investments				
Investments pooled				
Cash and cash equivalents	\$58,452	\$58,452	\$77,438	\$77,438
Bonds	130,841	191,113	130,106	167,098
Equities	420,122	487,954	433,202	420,246
Other assets	573,303	569,277	598,160	601,655
Total pooled investments	1,182,718	1,306,796	1,238,906	1,266,437
Faculty mortgages	23,249	23,249	20,645	20,645
Total pooled investments and faculty mortgages	1,205,967	1,330,045	1,259,551	1,287,082
Investments not pooled				
Cash and cash equivalents	199	199	202	202
Total investments not pooled	199	199	202	202
Total endowment investments	\$1,206,166	\$1,330,244	\$1,259,753	\$1,287,284
Planned Giving Investments				
Separate pooled funds				
Cash and cash equivalents	\$168	\$168	\$143	\$143
Bonds	4,583	4,781	4,054	4,069
Equities	7,739	9,032	8,977	9,314
Total pooled funds	12,490	13,981	13,174	13,526
Unitrusts				
Cash and cash equivalents	848	848	514	514
Bonds	14,025	14,007	15,380	14,900
Equities	30,654	28,365	30,984	25,639
Other assets	887	887	889	889
Assets held by Trustees	6,583	6,583	7,617	7,617
Total funds not pooled	52,997	50,690	55,384	49,559
Total Planned Giving investments	\$65,487	\$64,671	\$68,558	\$63,085

TABLE 5: INVESTMENT RETURNS FROM ENDOWMENT AND PLANNED GIVING

FOR YEARS ENDED JUNE 30, 2010 AND 2009 (IN \$000S)

2010	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
Dividends and interest (net of expenses of \$9,930)	\$(180)	\$(3,303)	\$710	\$(2,773)
Net realized and unrealized gains/losses	43,715	76,809	—	120,524
Total return on endowment and planned giving investments	43,535	73,506	710	117,751
Investment return designated for current operations	(41,855)	(44,757)	—	(86,612)
	\$1,680	\$28,749	\$710	\$31,139
2009				
Dividends and interest (net of expenses of \$8,221)	\$856	\$(281)	\$800	\$1,375
Net realized and unrealized gains/losses	(89,359)	(201,695)	—	(291,054)
Total return on endowment and planned giving investments	(88,503)	(201,976)	800	(289,679)
Investment return designated for current operations	(39,088)	(42,111)	—	(81,199)
	\$(127,591)	\$(244,087)	\$800	\$(370,878)

TABLE 6: ASSETS AND LIABILITIES

MEASURED AT FAIR VALUE (IN \$000S)

2010	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Investments				
Equities	\$153,409	\$314,498	\$20,047	\$487,954
Bonds	64,389	126,724	—	191,113
Private Equity	—	—	252,834	252,834
Real Assets	—	—	201,847	201,847
Semi-marketable	—	31,318	82,390	113,708
Cash and Other Assets	58,651	—	24,137	82,788
Planned giving investments	—	—	64,671	64,671
Total assets at fair value	\$276,449	\$472,540	\$645,926	\$1,394,915
Interest rate swap	\$—	\$—	\$6,816	\$6,816
Total liabilities at fair value	\$—	\$—	\$6,816	\$6,816
2009				
Investments				
Equities	\$135,061	\$261,040	\$24,145	\$420,246
Bonds	60,341	106,757	—	167,098
Private Equity	—	—	275,231	275,231
Real Assets	—	—	197,478	197,478
Semi-marketable	—	—	128,058	128,058
Cash and Other Assets	77,640	—	21,533	99,173
Planned giving investments	—	—	63,085	63,085
Total assets at fair value	\$273,042	\$367,797	\$709,530	\$1,350,369
Interest rate swap	\$—	\$—	\$4,176	\$4,176
Total liabilities at fair value	\$—	\$—	\$4,176	\$4,176

TABLE 7: ASSETS AND LIABILITY

CARRIED AT FAIR VALUE AS OF JUNE 30, 2010 AND 2009 (IN \$000S)

2010	BALANCE JULY 1, 2009	REALIZED AND UNREALIZED GAINS/LOSSES	PURCHASES AND SALES	TRANSFER IN (OUT) OF LEVEL 3	BALANCE JUNE 30, 2010
Equities	\$24,145	\$4,719	\$—	\$(8,817)	\$20,047
Private Equity	275,231	24,435	(46,832)	—	252,834
Real Assets	197,478	(13,806)	18,175	—	201,847
Semi-marketable	128,058	13,969	(28,319)	(31,318)	82,390
Cash and Other Assets	21,533	1,023	1,581	—	24,137
Planned giving investments	63,085	(1,158)	2,744	—	64,671
Interest Rate Swap—Asset/Liability	(4,176)	(2,640)	—	—	(6,816)
Balance, June 30, 2010	\$705,354	\$26,542	\$(52,651)	\$(40,135)	\$639,110

2009	BALANCE JULY 1, 2008	REALIZED AND UNREALIZED GAINS/LOSSES	PURCHASES AND SALES	TRANSFER IN (OUT) OF LEVEL 3	BALANCE JUNE 30, 2009
Equities	\$38,570	\$(9,171)	\$(5,254)	—	\$24,145
Private Equity	297,857	(39,566)	16,940	—	275,231
Real Assets	245,355	(78,857)	30,980	—	197,478
Semi-marketable	230,255	(36,181)	(66,016)	—	128,058
Cash and Other Assets	20,214	954	365	—	21,533
Planned giving investments	76,530	(19,324)	5,879	—	63,085
Interest Rate Swap—Asset/Liability	37	(4,213)	—	—	(4,176)
Balance, June 30, 2009	\$908,818	\$(186,358)	\$(17,106)	—	\$705,354

TABLE 8: INVESTMENTS MEASURED AT NAV

AS OF JUNE 30, 2010 (IN \$000S)

INVESTMENT	NAV IN FUNDS	UNFUNDED COMMITMENTS	REDEMPTION TERMS/RESTRICTIONS
Private Equity	\$252,834	\$95,895	Funds are private equity, no ability to redeem.
Real Assets	201,847	86,724	Funds are private equity, no ability to redeem.
Equities	334,545	—	86% of NAV redeemable within 90 days. 4% of NAV redeemable within one year. Remaining 10% has multi year redemption.
Bonds	126,724	—	45% of NAV is redeemable within 90 days. Remaining 55% has a multi-year redemption.
Semi-marketable	113,708	—	28% of NAV is redeemable within 90 days. 60% is redeemable within one year. 12% of NAV has been redeemed subsequent to year end and prior to October 31, 2010
Total	\$1,029,658	\$182,619	

TABLE 9: POOLED FUNDS

AS OF JUNE 30, 2010 AND 2009

	2010	2009
Investments in pooled funds and faculty mortgages, market value (in \$000s)	\$1,330,045	\$1,287,082
Total number of units	2,482,647	2,457,016
Market value per unit	\$535.74	\$523.84
Distribution per unit	\$35.08	\$33.18

TABLE 10: COMPONENTS OF POOLED AND NONPOOLED ENDOWMENT FUNDS AT MARKET VALUE

AS OF JUNE 30, 2010 AND 2009 (IN \$000S)

	UNITS	POOLED ENDOWMENT	NONPOOLED ENDOWMENT	TOTAL ENDOWMENT
2010 Endowment and similar funds				
Endowment funds	1,568,080	\$840,078	\$—	\$840,078
Term funds	75,959	40,694	199	40,893
Quasi-endowment	838,608	449,273	—	449,273
Total	2,482,647	\$1,330,045	\$199	\$1,330,244
2009 Endowment and similar funds				
Endowment funds	1,553,215	\$813,635	\$—	\$813,635
Term funds	83,296	43,634	202	43,836
Quasi-endowment	820,505	429,813	—	429,813
Total	2,457,016	\$1,287,082	\$202	\$1,287,284

As a result of adopting the new guidance for estimating fair value of investments, certain investments have been reclassified as level 2 assets based on the year end recorded amounts.

The College uses Net Asset Value (NAV) or its equivalent to determine the fair value of certain investments, which may not have a readily determined fair value. These investments also have various redemption restrictions and redemption terms. The investments are measured at NAV as of June 30, 2010. (See Table 8 on page 35.)

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

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

6. Pooled Funds

Endowment and similar fund assets are pooled on a unit market value basis whenever possible. Funds are added to or withdrawn from the pool at the unit market value at the beginning of the fiscal quarter in which the transaction takes place. (See Table 9 above.)

The components of the pooled and nonpooled endowment funds at market value at June 30, 2010 and 2009 are shown in Table 10 on the previous page.

7. Related Parties

The College acts as fiscal agent and investment advisor for the Wellesley College Alumnae Association and a retired president of the College. Endowment investments held on their behalf are included in the College's general pool of investments and are reflected either as part of the College's net assets or a pension liability. The market value of the assets totaled \$12,615,000 and \$12,056,000 at June 30, 2010 and 2009, respectively.

Mortgages due from faculty of \$23,249,000 and \$20,645,000 at June 30, 2010 and 2009, respectively, are included within investments on the Statement of Financial Position.

8. Notes and Bonds Payable

Indebtedness at June 30, 2010 and 2009 includes various bonds issued through the Massachusetts Health and Education Facilities Authority (MHEFA). Interest payments on debt totaled \$2,787,000 and \$3,580,000 during fiscal years 2010 and 2009, respectively.

During January 2008, the College issued \$57,385,000 in Series I tax-exempt variable rate demand bonds. The proceeds will be used for major asset preservation and modernization projects and were used to retire the Series F bonds, with \$30.0 million outstanding,

on July 1, 2009, the earliest possible call date. The refunding allows the College to realize the present value savings through a restructuring of the College's debt. At June 30, 2010 and 2009, restricted cash includes \$13,006,000 and \$20,021,000, respectively of construction funds held by trustees that will be drawn down to fund various construction projects.

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

The College has a line of credit with a bank. The College may borrow up to \$40 million with various terms and interest rates at LIBOR plus 1/5 of 1%. There is no amount outstanding on the line of credit as of June 30, 2010.

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

	2010	2009
MHEFA, Series I, Variable Rate Demand Bonds, bearing interest at a daily rate, maturing July 2039. The rate at June 30, 2010 was 0.08%.	\$57,385	\$57,385
MHEFA, Series H, Revenue Bonds issued at an interest rate of 4.0% to 5.0% maturing July 2033.	52,650	53,400
MHEFA, Series G, Variable Rate Demand Bonds, bearing interest at a daily rate, maturing July 2039. The rate at June 30, 2010 was 0.08%.	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.	—	722
MHEFA, Series E, Variable Rate Demand Bonds, bearing interest at a daily rate, maturing July 2022. The rate at June 30, 2010 was 0.18%.	11,900	12,600
Notes Payable Promissory Note, principal maturing July 2010. The rate at June 30, 2010 was 1.80%.	7,483	8,103
Total debt	149,418	152,210
Less unamortized bond issue costs	(838)	(879)
Add unamortized original issue premium	953	1,018
	\$149,533	\$152,349

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

2011	\$8,963
2012	1,705
2013	1,725
2014	1,940
2015	2,260
Thereafter	132,825
Total bonds and notes payable	\$149,418

In order to reduce exposure to floating interest rates on variable rate debt, in January 2008, the College entered into an interest rate swap agreement, with a term through 2039. This swap effectively locks in a fixed rate of 3.239% per annum. The agreement has a notional amount of \$57,385,000. At June 30, 2010 and 2009, the market value of the swap agreement amounted to a liability of \$6,816,000 and \$4,176,000, respectively. The fair value of the swaps is the estimated amount that the College would receive or pay to terminate the agreement at the reporting date, taking into account current interest rates and the current credit worthiness of the swap counterparties. The value of the interest rate swap is reflected within accounts payable and accrued expenses on the Statement of Financial Position. The change in fair value resulted in a loss of \$2,640,000 in 2010 and a loss of \$4,213,000 in 2009 reflected in nonoperating activities on the Statement of Activities. Additionally, the College paid net interest expense in association with the swap agreement of \$1,758,000 and \$1,308,000 which is reflected as part of the net realized/unrealized loss on interest swap for the years ended June 30, 2010 and 2009, respectively. This financial instrument necessarily involves counterparty credit exposure and the College's own nonperformance risk. The counterparty for this swap agreement is a major financial institution that meets the College's criteria for financial stability and credit-worthiness.

The College has outstanding at June 30, 2010 fixed rate debt of \$52,650,000 and variable rate debt of \$96,768,000. Included in variable rate debt is \$57,385,000 of synthetic fixed debt which is debt that has an underlying variable rate but has an interest rate swap agreement that effectively locks in a fixed rate.

The fair market value of the College's fixed rate debt at June 30, 2010 approximates \$57,297,000. The College's variable rate debt approximates fair value. Fair value for fixed and variable rate debt is based on estimates using current interest rates available for debt with equivalent maturities.

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

9. Annuities and Unitrusts Payable

The College has split-interest agreements consisting primarily of annuities, pooled life income funds, and charitable remainder unitrusts for which the College may or may not serve as trustee. All split-interest agreements are included in planned giving investments. Contributions are recognized at the date the trusts are established net of a liability for the present value of the estimated future cash outflows to beneficiaries. The present value of payments is discounted at a rate of return that ranges from 4% to 6%. The liability of \$37,585,000 and \$37,556,000 at June 30, 2010 and 2009, respectively, is adjusted during the term of the agreement for changes in actuarial assumptions. Payments of income to beneficiaries are principally funded by the investment income of the related gift annuity and unitrust investments.

10. Pension Plans

The College has a defined contribution, noncontributory annuity pension plan for faculty and administrative personnel administered by the Teachers Insurance and Annuity Association and College Retirement Equities Fund ("TIAA/CREF"). Under this Plan, the College contributed \$7,121,000 and \$7,786,000 respectively, for the years ended June 30, 2010 and 2009.

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 cost was June 30, 2010 and 2009 (in \$000s).

	2010	2009
Assumptions used to determine benefit obligations:		
Discount rate	5.375%	6.250%
Rate of compensation increase	4.000%	4.000%
Assumptions used to determine net periodic benefit cost:		
Discount rate	6.250%	6.875%
Expected return on plan assets	7.800%	7.800%
Rate of compensation increase	4.000%	4.000%
Change in projected benefit obligation		
Benefit obligation at end of prior year	\$39,107	\$32,821
Service cost (including expense load)	1,306	1,162
Interest cost	2,393	2,212
Actuarial loss	5,649	3,469
Benefits paid	(1,827)	(1,241)
Administrative expenses paid	(7)	(10)
Curtailments	—	112
Termination benefits	—	582
Benefit obligation at end of year	\$46,621	\$39,107
Accumulated benefit obligation	\$37,324	\$31,470
Change in plan assets		
Fair value of plan assets at end of prior year	\$23,241	\$30,765
Actual return on plan assets	2,673	(6,273)
Employer contributions	3,173	—
Benefits paid	(1,827)	(1,241)
Administrative expenses paid	(7)	(10)
Fair value of plan assets at end of year	\$27,253	\$23,241

	2010	2009
Funded status		
Funded status	\$(19,368)	\$(15,866)
Components of net periodic benefit cost		
Service cost	\$1,306	\$1,162
Interest cost	2,393	2,212
Expected return on plan assets	(1,767)	(2,358)
Amortization of prior service cost	64	67
Cost of prior events/net loss on amortization	590	699
Net periodic benefit cost	\$2,586	\$1,782

Other changes in plan assets and benefit recognized obligations in unrestricted net assets		
New net actuarial loss	\$4,744	\$12,099
Net loss on benefit costs	(1,179)	
Amortization of prior service cost	(64)	(71)
Total	\$3,501	\$12,028

Amounts recognized in the Statement of Financial Position consist of a liability		
	\$(19,368)	\$(15,866)

Amounts recognized in unrestricted net assets		
Net prior service cost	\$410	\$474
Net actuarial loss	3,091	11,554
Total unrestricted net asset	\$3,501	\$12,028

The amount expected to be recognized as amortization of prior net service cost and a component of net periodic cost in the upcoming year is \$64,000.

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

2011	\$1,507
2012	1,556
2013	1,650
2014	1,770
2015	1,952
2016–2020	13,395

The College expects to make employer contributions into the plan of \$3,000,000 in the 2011 fiscal year.

In selecting the long-term rate of return on assets, the College considered the average rate of earnings expected on the funds invested or to be invested to

provide for the benefit of the Plan. This included considering asset allocation and the expected returns likely to be earned over the life of the Plan as well as assessing current valuation measures, income, economic growth and inflation forecasts, and historical risk premiums. This basis is consistent with prior years.

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

ASSET CATEGORY	TARGET ALLOCATION
Equity securities	60%
Real estate investment trust	5%
Commodities	5%
Fixed income	27%
Cash and equivalents	3%
Total	100%

The following lists the Plan's asset allocation at June 30, 2010 and 2009 (in \$000s):

ASSET CATEGORY	VALUE AT		
	JUNE 30, 2010	2010	2009
Equity securities	\$17,169	63%	63%
Real estate investment trust	818	3%	4%
Commodities	1,363	5%	5%
Fixed income	7,358	27%	24%
Cash and equivalents	545	2%	4%
Total	\$27,253	100%	100%

All pension plan assets are level 2 assets and all plan assets are in commingled funds.

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

11. Net Assets

Net assets consist of the following at June 30, 2010 and 2009 (in \$000s):

	2010	2009
Unrestricted		
Designated for specific purposes and plant	\$116,242	\$111,150
Quasi-endowment	406,232	401,889
Deficiencies in donor-restricted endowments	(5,281)	(6,587)
	517,193	506,452
Temporarily restricted		
Endowment and similar funds including pledges	503,990	482,453
Annuity, life income and unitrusts including pledges	26,613	24,681
Deficiencies in donor-restricted endowments	5,281	6,587
Other restricted	64,717	59,655
	600,601	573,376
Permanently restricted		
Endowment including pledges	416,777	409,020
	416,777	409,020
	\$1,534,571	\$1,488,848

12. Endowment

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

The College's endowment consists of approximately 3,000 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designed by

TABLE 19: ENDOWMENT NET ASSET COMPOSITION BY TYPE OF FUND
AS OF JUNE 30, 2010 (IN \$000S)

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
Donor-restricted funds	\$—	\$482,983	\$397,988	\$880,971
Board-designated and other unrestricted funds	449,273	—	—	449,273
	\$449,273	\$482,983	\$397,988	\$1,330,244

TABLE 20: ENDOWMENT NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2010 (IN \$000S)

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
Endowment net assets, beginning of year	\$429,813	\$467,002	\$390,469	\$1,287,284
Investment income, net of expenses	(180)	(268)	—	(448)
Net appreciation (realized and unrealized)	44,251	72,606	—	116,857
Subtotal	473,884	539,340	390,469	1,403,693
Contributions and transfers to endowment	4,645	999	7,519	13,163
Appropriation of endowment assets for expenditure	(29,256)	(57,356)	—	(86,612)
Endowment net assets, end of year	\$449,273	\$482,983	\$397,988	\$1,330,244

TABLE 21: ENDOWMENT NET ASSET COMPOSITION BY TYPE OF FUND
AS OF JUNE 30, 2009 (IN \$000S)

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
Donor-restricted funds	\$—	\$467,002	\$390,469	\$857,471
Board-designated and other unrestricted funds	429,813	—	—	429,813
	\$429,813	\$467,002	\$390,469	\$1,287,284

TABLE 22: ENDOWMENT NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2009 (IN \$000S)

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
Endowment net assets, beginning of year	\$542,302	\$702,183	\$384,962	\$1,629,447
Investment income, net of expenses	856	1,665	—	2,521
Net depreciation (realized and unrealized)	(91,411)	(183,600)	—	(275,011)
Subtotal	451,747	520,248	384,962	1,356,957
Contributions and transfers to endowment	5,186	833	5,507	11,526
Appropriation of endowment assets for expenditure	(27,120)	(54,079)	—	(81,199)
Endowment net assets, end of year	\$429,813	\$467,002	\$390,469	\$1,287,284

the Board of Trustees to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

See Table 19 on page 41 for the endowment net asset composition by type of fund at June 30, 2010.

See Table 20 on page 41 for changes in endowment net assets for the year ended June 30, 2010.

See Table 21 on page 41 for the endowment net asset composition by type of fund at June 30, 2009.

See Table 22 on page 41 for changes in endowment net assets for the year ended June 30, 2009.

13. Commitments and Contingencies

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

After the contaminated material was removed, the area was capped and seeded. These actions were undertaken in accordance with plans approved by the Department of Environmental Protection (DEP) on July 5, 1991. The College has continued to work with the DEP and has completed the process of remediating and restoring approximately 30 acres of land referred to as the Upland site. The College began in April 2001 excavating and consolidating contaminated soils from the upland, wetland, and pond (“Upland/Wetland/Pond”) portions of the site. The soils have been treated and consolidated on site under a permanent engineered barrier. The capped area has been developed into three playing fields, an eight lane all weather track, and a softball field and was completed in October 2002. The cost of this project was \$32.8 million; \$10 million has been funded from a HEFA bond issuance and the remainder from unrestricted endowment. Costs associated with the campus improvement project are capital-

ized 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 \$112,000 and \$200,000, respectively for the years ended June 30, 2010 and 2009. The College has purchased an insurance policy to cover cost overruns associated with the Upland/Wetland/Pond project as well as the assessment, monitoring, and, if necessary, remediation of contaminated groundwater located under the Uplands/Wetlands/Pond area. In September 2004, the College submitted a report to DEP recommending that no remedial action be taken in respect of the groundwater portion of the site beyond periodic monitoring of hexavalent chromium concentrations. DEP has not yet responded to this report.

In 2001, the Commonwealth of Massachusetts and the College entered an agreement pursuant to which the Commonwealth agreed to share in the cost of dredging the Northern Shoreline and Western Cove portion of Lake Waban, with the Commonwealth’s share capped at \$1.4 million. The dredging project was completed in 2002 at a total cost of approximately \$1.2 million. Additional reimbursable costs of approximately \$100,000 were incurred after the completion of dredging. In three payments made in 2005 and 2006, the Commonwealth reimbursed the College a total of approximately \$1.06 million, fully satisfying the Commonwealth’s reimbursement obligations under the 2001 cost-sharing agreement. In a report filed with DEP in May 2005, the College recommended that no remedial action be taken in portions of Lake Waban beyond the Northern Shoreline and Western Cove, apart from periodic monitoring of water quality and fish-growth patterns. DEP responded favorably to this report in a letter dated October 2005. The periodic monitoring program was initiated in 2008. The cost of this program is insignificant. The Lower Waban Brook remedial project was originally anticipated to be undertaken in 2009 and was estimated to cost \$3,600,000. Early project designs based upon risk assessments and feasibility studies performed prior to 2000 were not embraced by all constituents as satisfactory. Additional hydrological data gathering

has been undertaken in keeping with proposals still under review with DEP, with the intent to develop an updated feasibility study and remedy selection process. It is desirable but not yet clear whether a new process will result in material increases to previous project cost estimates. For the years ending June 30, 2010 and 2009, total expenses to the Lower Waban Brook remedial project were \$100,000 and \$339,000, respectively. A liability of \$2,825,000 and \$2,914,000 has been recorded as of June 30, 2010 and 2009, respectively and is included in the Statement of Financial Position within accounts payable and accrued expenses.

Outstanding commitments amounted to approximately \$191,549,000 and \$257,244,000 as of June 30, 2010 and 2009, respectively for the following:

	2010	2009
Alternative investments	\$182,619,000	\$242,706,000
Construction contracts	8,930,000	14,538,000
	<u>\$191,549,000</u>	<u>\$257,244,000</u>

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

The College built a gas-fired cogeneration plant capable of producing 7.5 megawatts of electricity. The plant supplies electricity for the entire campus. The College pays the Town \$111,000 annually as a guarantee for back-up power, at cost, to the College. This contract is in force until May 2013.

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.

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