

Wellesley College

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

June 30, 2007

EIN # 042103637

Wellesley College
Report on Federal Awards in Accordance with OMB Circular A-133
Index
June 30, 2007

	Page(s)
Part I - Financial Statements and Schedule of Expenditures of Federal Awards	
Report of Independent Auditors	
Financial Statements and Notes to Financial Statements	1-18
Schedule of Expenditures of Federal Awards	19-20
Notes to Schedule of Expenditures of Federal Awards	21-22
Part II - Reports on Internal Control and Compliance	
Report of Independent Auditors on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	23-24
Report of Independent Auditors on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	25-26
Part III - Schedule of Findings and Questioned Costs	
Schedule of Findings and Questioned Costs	27-28
Summary Schedule of Prior Year Findings	29
Management's Views and Corrective Action Plan	30

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

Report of Independent Auditors

To the Board of Trustees of
Wellesley College

In our opinion, the accompanying statements of financial position and the related statements of activities and cash flows present fairly, in all material respects, the financial position of Wellesley College (the "College") as of June 30, 2007 and 2006 and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1 to the accompanying financial statements, the College changed the manner in which it accounts for conditional asset retirement obligations in 2006 and the manner in which it reports the funded status of its defined benefit plan in 2007.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2007, except for Note 12 for which the date is February 4, 2008, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters for the year ended June 30, 2007. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards for the year ended June 30, 2007 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

PricewaterhouseCoopers LLP

October 20, 2007, except for Note 12, for which
the date is February 4, 2008

Wellesley College
Statements of Financial Position
June 30, 2007 and 2006
(\$000s)

	2007	2006
Assets		
Cash and cash equivalents	\$ 24,583	\$ 17,718
Cash, restricted	17,783	16,885
Accounts receivable, net	1,549	686
Loans receivable, net	8,120	7,530
Contributions receivable, net	47,835	55,502
Grants receivable	1,310	1,171
Prepaid, inventory and other assets	2,509	3,072
Investments	1,672,473	1,412,604
Planned giving investments	83,558	76,863
Land, buildings and equipment, net	278,582	281,620
	<u>\$2,138,302</u>	<u>\$1,873,651</u>
Liabilities		
Accounts payable and accrued expenses	\$ 30,083	\$ 18,871
Student deposits and deferred revenues	3,691	3,958
Advances under grants and contracts	2,313	2,091
Annuities and unitrusts payable	39,041	39,911
Asset retirement obligation	16,395	15,857
Bonds and notes payable	136,289	148,802
Government loan advances	4,569	4,569
	<u>232,381</u>	<u>234,059</u>
Net Assets		
Unrestricted	624,644	552,649
Temporarily restricted	886,231	702,718
Permanently restricted	395,046	384,225
	<u>1,905,921</u>	<u>1,639,592</u>
Total liabilities and net assets	<u>\$2,138,302</u>	<u>\$1,873,651</u>

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

Wellesley College
Statement of Activities
For the year ended June 30, 2007
(\$000s)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2007 Total
Operating Revenues				
Tuition and Fees	\$ 79,298	\$ -	\$ -	\$ 79,298
Less financial aid				
Donor sponsored	(26,384)	-	-	(26,384)
Institutionally sponsored	(7,260)	-	-	(7,260)
Net tuition and fees	45,654			45,654
Auxiliary operations	29,382	-	-	29,382
Government grants	4,278	-	-	4,278
Private gifts and grants	15,854	9,013	-	24,867
Investment return designated for operations	35,751	38,745	-	74,496
Other	6,070	-	-	6,070
Net assets released from restrictions	41,964	(41,964)	-	-
Total operating revenues	178,953	5,794		184,747
Operating Expenses				
Instruction and departmental research	77,610	-	-	77,610
Sponsored research and other programs	10,662	-	-	10,662
Library	10,158	-	-	10,158
Student services	14,034	-	-	14,034
General administration	12,196	-	-	12,196
General institutional	24,077	-	-	24,077
Auxiliary operations	36,950	-	-	36,950
Total operating expenses	185,687			185,687
Nonoperating Activities				
Investment return, net of spending allocation	78,157	159,912	307	238,376
Matured planned giving agreements	1,915	(1,986)	71	-
Gifts and pledges	2,284	20,684	10,443	33,411
Other	(3,600)	-	-	(3,600)
Net assets released from restrictions	891	(891)	-	-
Total nonoperating revenues	79,647	177,719	10,821	268,187
Change in net assets before cumulative effect of change in accounting principle	72,913	183,513	10,821	267,247
Cumulative effect of a change in accounting principle	(918)	-	-	(918)
Net change in net assets	71,995	183,513	10,821	266,329
Net assets at beginning of year	552,649	702,718	384,225	1,639,592
Net assets at end of year	\$ 624,644	\$ 886,231	\$ 395,046	\$ 1,905,921

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

Wellesley College
Statement of Activities
For the year ended June 30, 2006
(\$000s)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2006 Total
Operating Revenues				
Tuition and Fees	\$ 71,431	\$ -	\$ -	\$ 71,431
Less financial aid				
Donor sponsored	(23,542)	-	-	(23,542)
Institutionally sponsored	(7,331)	-	-	(7,331)
Net tuition and fees	40,558			40,558
Auxiliary operations	27,428	-	-	27,428
Government grants	3,881	-	-	3,881
Private gifts and grants	16,397	7,804	-	24,201
Investment return designated for operations	32,946	36,213	-	69,159
Other	5,102	-	-	5,102
Net assets released from restrictions	40,214	(40,214)	-	-
Total operating revenues	166,526	3,803		170,329
Operating Expenses				
Instruction and departmental research	71,457	-	-	71,457
Sponsored research and other programs	10,107	-	-	10,107
Library	9,659	-	-	9,659
Student services	13,510	-	-	13,510
General administration	9,830	-	-	9,830
General institutional	21,814	-	-	21,814
Auxiliary operations	35,293	-	-	35,293
Total operating expenses	171,670			171,670
Nonoperating Activities				
Investment return, net of spending allocation	36,162	70,294	271	106,727
Matured planned giving agreements	2,319	(4,851)	2,532	-
Gifts and pledges	1,464	14,502	6,903	22,869
Net assets released from restrictions	59,863	(59,863)	-	-
Total nonoperating revenues	99,808	20,082	9,706	129,596
Change in net assets before cumulative effect of change in accounting principle	94,664	23,885	9,706	128,255
Cumulative effect of a change in accounting principle	(15,784)	-	-	(15,784)
Net change in net assets	78,880	23,885	9,706	112,471
Net assets at beginning of year	473,769	678,833	374,519	1,527,121
Net assets at end of year	<u>\$ 552,649</u>	<u>\$ 702,718</u>	<u>\$ 384,225</u>	<u>\$ 1,639,592</u>

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

Wellesley College
Statements of Cash Flows
For the years ended June 30, 2007 and 2006
(\$000s)

	2007	2006
Cash Flows from Operating Activities		
Change in net assets	\$ 266,329	\$ 112,471
Adjustment to reconcile change in net assets to net cash used by operating activities:		
Depreciation and amortization, net	12,376	12,331
Contributions restricted for investments	(34,134)	(26,048)
Realized and unrealized (gains) losses on investments	(307,301)	(169,036)
Change in discount and allowance for doubtful accounts	(457)	(5,534)
Cumulative effect of change in accounting principle	918	15,784
Changes in operating assets and liabilities:		
Accounts receivable, net	(938)	(91)
Contributions receivable, net	8,204	17,751
Grants receivable	(139)	69
Prepaid, inventory and other assets	563	(1,853)
Accounts payable and accrued expenses	10,555	1,272
Student deposits and deferred revenue	(267)	(154)
Advances under grants and contracts	222	(621)
Annuities and unitrusts payable	(870)	(461)
Net cash used in operating activities	(44,939)	(44,120)
Cash Flows from Investing Activities		
Purchase of plant and equipment	(9,104)	(25,387)
Proceeds from student loans collections	1,051	1,370
Student loans issued	(1,646)	(1,752)
Decrease in restricted cash for debt service	-	3,296
Increase in restricted cash for plant and equipment	(898)	(4,281)
Purchases of investments	(767,041)	(1,136,853)
Proceeds from sales and maturities of investments	807,778	1,168,658
Net cash provided by investing activities	30,140	5,051
Cash Flows from Financing Activities		
Proceeds from contributions for:		
Investment in endowment	16,326	18,282
Investment in planned giving	1,389	1,877
Plant and equipment	16,419	5,889
Bond and notes payable proceeds received, net	-	8,500
Payments on bonds and notes payable	(12,470)	(1,587)
Net cash provided by financing activities	21,664	32,961
Net increase (decrease) in cash and cash equivalents	6,865	(6,108)
Cash and cash equivalents, beginning of year	17,718	23,826
Cash and cash equivalents, end of year	\$ 24,583	\$ 17,718
Cash paid for interest	\$ 5,508	\$ 5,477
Capital additions included in accounts payable and accrued expenses	\$ 1,103	\$ 826
Asset retirement obligations recognized	\$ -	\$ 15,857
Net fixed asset recognized related to asset retirement obligation	\$ -	\$ 73

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

Wellesley College
Notes to the Financial Statements
June 30, 2007 and 2006

1. Summary of Significant Accounting Policies

(a) Basis of Presentation

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

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

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

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

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

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

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

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

(b) Cash Equivalents

Cash equivalents include short-term, highly liquid investments with a maturity of three months or less at the time of purchase. Cash and cash equivalents representing endowment assets and planned giving assets are included in endowment investments and planned giving investments, respectively. Restricted cash represents amounts restricted by a donor for the Science Center and Power Plant.

Wellesley College
Notes to the Financial Statements
June 30, 2007 and 2006

(c) Investments

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

Venture capital and buyout limited partnerships include investments in both publicly and privately owned securities. The fair values of private investments are determined by the College and based on estimates and assumptions of the general partners or partnership valuation committees in the absence of readily determinable public market values. These values are audited annually by other auditors, most typically based on calendar year end information. The values of public investments not yet distributed generally reflect discounts for illiquidity. The limited partnership valuations consider variables such as the financial performance of the investments, recent sales prices of similar investments and other pertinent information. The estimated values as determined by the general partners and investment managers may differ significantly from the values that would have been used had a ready market for the investments existed and the differences could be materially higher or lower.

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

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

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

(d) Endowment Investment Return Spending Policy

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

Wellesley College
Notes to the Financial Statements
June 30, 2007 and 2006

(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 2007 and 2006, are reported net of allowances for doubtful accounts of \$374,000 and \$449,000, respectively. Loans receivable for 2007 and 2006, are reported net of allowances for doubtful loans of \$624,000 and \$629,000, respectively. The provisions are intended to provide for student accounts and loans that may not be collected.

(g) Grant Revenue

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

(h) Pledges

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

(i) Loans Receivable

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

(j) Land, Buildings, and Equipment

Land, buildings, and equipment are recorded at cost, or if donated, at fair market value at the date of donation. Additions to plant assets are capitalized while scheduled maintenance and minor renovations are charged to operations. Library books are expensed when purchased. Museum collections are not capitalized. Plant assets are presented net of accumulated depreciation. When assets are retired or disposed of, the cost and accumulated depreciation are removed from the accounts and gains and losses from disposal are included in the statement of activities. Depreciation is computed on a straight-line basis over the estimated useful lives of the related assets as follows:

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

(k) Financial Aid

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

Wellesley College
Notes to the Financial Statements
June 30, 2007 and 2006

(l) Auxiliary Operations

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

(m) Internal Revenue Code Status

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

(n) Conditional Asset Retirement Obligations

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

(o) 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.

(p) Cumulative Effect of Changes in Accounting Principles

Effective June 30, 2006, the College adopted FIN 47, *Accounting for Conditional Asset Retirement Obligations*. Effective June 30, 2007, the College adopted SFAS No. 158, *Employer's Accounting for Defined Benefit Pension and Other Post Retirement Plans*. The cumulative effect of these changes is discussed in Notes 3 and 9, respectively.

(q) Reclassifications

Certain June 30, 2006 balances previously reported have been reclassified to conform to June 30, 2007 presentation.

Wellesley College
Notes to the Financial Statements
June 30, 2007 and 2006

2. Contributions Receivable

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

Unconditional Promises Expected to be Collected in:	2007	2006
Less than one year	\$ 7,880	\$ 17,852
One year to five years	13,709	14,770
Over five years	36,586	34,231
Total	58,175	66,853
Less discounts and allowance for uncollectible accounts	10,340	11,351
Net contributions receivable	\$ 47,835	\$ 55,502

Discount rates used to calculate the present value of contributions receivable ranged from 3.75% to 5.10% at June 30, 2007 and 2006.

3. Land, Buildings and Equipment

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

	2007	2006
Land and land improvements	\$ 45,500	\$ 45,281
Buildings and building improvements	353,292	349,098
Equipment	14,806	30,810
Construction in progress	5,444	1,320
	419,042	426,509
Less: accumulated depreciation	140,460	144,889
	\$ 278,582	\$ 281,620

Depreciation expense was \$12,418,000 and \$12,374,000 for the years ended June 30, 2007 and 2006, respectively.

In March 2006, the Financial Accounting Standards Board (FASB) issued FIN No. 47. This interpretation clarifies the recognition of conditional asset retirement obligations as referred to in SFAS No. 143. A conditional asset retirement obligation is defined as a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. Uncertainty with respect to the timing and/or method of settlement of the asset retirement obligation does not defer recognition of a liability. The obligation to perform the asset retirement activity is unconditional, and accordingly, a liability should be recognized. SFAS No. 143 requires the fair value of a liability for a legal obligation associated with an asset retirement be recorded in the period in which the obligation is incurred. When the liability is initially recorded, the cost of the asset retirement obligation is capitalized.

The College adopted FIN No. 47 effective June 30, 2006 and recorded \$15,784,000 as a cumulative effect of a change in accounting principle. The cumulative effect reflects the cumulative accretion of the liability and cumulative depreciation of the related asset component from the date the liability would have been recognized had the provisions of the interpretation been in effect when the liability was incurred through June 30, 2006. The College recognized \$603,000 of operating expenses relating to the accretion of liabilities recorded under FIN No. 47 for the year ended June 30, 2007. Conditional asset retirement obligations of \$16,395,000 and \$15,857,000 for the years ended June 30, 2007 and 2006, respectively, are

Wellesley College
Notes to the Financial Statements
June 30, 2007 and 2006

included in the College's asset retirement obligation. Substantially all of the impact of adopting FIN No. 47 relates to estimated costs to remove asbestos that is contained within the College's facilities. The following table illustrates the effect on the College's change in net assets in the Statement of Activities as if this interpretation had been applied for the year ended June 30 (\$000s):

	2006
Change in net assets, as reported	\$ 128,255
less: Total depreciation and interest accretion costs	(691)
Proforma change in net assets	\$ 127,564

4. Investments

The book and market values of investments at June 30, 2007 and 2006 were as follows (\$000s):

	2007 Book Value	2007 Market Value	2006 Book Value	2006 Market Value
Endowment Investments				
Investments pooled				
Cash and cash equivalents	\$ 63,547	\$ 63,547	\$ 7,891	\$ 7,891
Bonds	206,562	209,240	220,543	218,446
Equities	395,495	632,417	435,263	634,139
Other assets	572,170	751,361	466,166	538,353
Total pooled investments	1,237,774	1,656,565	1,129,863	1,398,829
Faculty mortgages	15,670	15,670	13,581	13,581
Total pooled investments and faculty mortgages	1,253,444	1,672,235	1,143,444	1,412,410
Investments not pooled				
Cash and cash equivalents	238	238	194	194
Total investments not pooled	238	238	194	194
Total endowment investments	\$1,253,682	\$1,672,473	\$1,143,638	\$1,412,604
Planned Giving Investments				
Separate pooled funds				
Cash and cash equivalents	\$ 236	\$ 236	\$ 251	\$ 251
Bonds	6,549	6,287	7,003	6,686
Equities	6,866	13,250	7,122	11,533
Total pooled funds	13,651	19,773	14,376	18,470
Unitrusts				
Cash and cash equivalents	1,288	1,288	1,574	1,574
Bonds	23,428	23,203	18,175	17,072
Equities	19,443	30,728	24,337	31,194
Other assets	889	889	877	877
Assets held by Trustees	7,248	7,677	7,247	7,676
Total funds not pooled	52,296	63,785	52,210	58,393
Total Planned Giving Investments	\$ 65,947	\$ 83,558	\$ 66,586	\$ 76,863

Wellesley College
Notes to the Financial Statements
June 30, 2007 and 2006

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

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

Included in bonds and equities are alternative investment vehicles including hedge funds with a market value of \$237,381,000 and \$230,123,000 and commingled funds with a market value of \$358,954,000 and \$372,637,000 at June 30, 2007 and 2006, respectively, whose holdings are bonds and equities.

The College’s investment return from endowment and planned giving was as follows for the years ended June 30, 2007 and 2006 (\$000s):

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>2007</u>				
Dividends and interest (net of expenses of \$8,639)	\$ 1,372	\$ 2,405	\$ 307	\$ 4,084
Net realized and unrealized gains	<u>112,536</u>	<u>196,252</u>	<u>-</u>	<u>308,788</u>
Total return on endowment and planned giving investments	113,908	198,657	307	312,872
Investment return designated for current operations	(35,751)	(38,745)		(74,496)
	<u>\$ 78,157</u>	<u>\$ 159,912</u>	<u>\$ 307</u>	<u>\$ 238,376</u>
<u>2006</u>				
Dividends and interest (net of expenses of \$8,418)	\$ 2,642	\$ 3,937	\$ 271	\$ 6,850
Net realized and unrealized gains	<u>66,466</u>	<u>102,570</u>	<u>-</u>	<u>169,036</u>
Total return on endowment and planned giving investments	69,108	106,507	271	175,886
Investment return designated for current operations	(32,946)	(36,213)		(69,159)
	<u>\$ 36,162</u>	<u>\$ 70,294</u>	<u>\$ 271</u>	<u>\$ 106,727</u>

The total return consisting of realized and unrealized gains and losses and dividends and interest net of investment management and custodial fees was 22.7% and 14.0% for the fiscal years ended June 30, 2007 and 2006, respectively.

5. Pooled Funds

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

Wellesley College
Notes to the Financial Statements
June 30, 2007 and 2006

Pooled funds were as follows as of June 30:

	<u>2007</u>	<u>2006</u>
Investments in pooled funds and faculty mortgages, market value (\$000s)	\$1,672,235	\$1,412,410
Total number of units	2,417,538	2,371,964
Market value per unit	\$691.71	\$595.46
Distribution per unit	\$30.74	\$28.96

The following are the components of the pooled and nonpooled endowment funds at market value at June 30, 2007 and 2006 (\$000s):

	<u>Units</u>	<u>Pooled Endowment</u>	<u>Nonpooled Endowment</u>	<u>Total Endowment</u>
<u>2007 Funds:</u>				
Endowment and similar funds:				
Endowment funds	1,535,268	\$ 1,061,960	\$ -	\$ 1,061,960
Term funds	79,498	54,990	238	55,228
Quasi-endowment	802,772	555,285	-	555,285
Total	<u>2,417,538</u>	<u>\$ 1,672,235</u>	<u>\$ 238</u>	<u>\$ 1,672,473</u>
<u>2006 Funds:</u>				
Endowment and similar funds:				
Endowment funds	1,514,213	\$ 901,653	\$ -	\$ 901,653
Term funds	76,782	45,721	194	45,915
Quasi-endowment	780,969	465,036	-	465,036
Total	<u>2,371,964</u>	<u>\$ 1,412,410</u>	<u>\$ 194</u>	<u>\$ 1,412,604</u>

6. Related Parties

The College acts as fiscal agent and investment advisor for the Wellesley College Alumnae Association and a retired president of the College. Endowment investments held on their behalf are included in the College's general pool of investments and are reflected either as part of the College's net assets or a pension liability. The market value of the assets totaled \$15,018,000 and \$12,634,000 at June 30, 2007 and 2006, respectively.

Mortgages due from faculty of \$15,670,000 and \$13,581,000 at June 30, 2007 and 2006, respectively, are included within investments on the Statement of Financial Position.

7. Notes and Bonds Payable

Indebtedness at June 30, 2007 and 2006 includes various bonds issued through the Massachusetts Health and Education Facilities Authority (MHEFA). Interest payments on debt totaled \$5,588,000 and \$5,442,000 during fiscal years 2007 and 2006, respectively.

During March, 2006, the College executed a fixed rate promissory note with a bank. The College may borrow up to \$40 million with various terms and interest rates at LIBOR plus 1/5 of 1%.

Wellesley College
Notes to the Financial Statements
June 30, 2007 and 2006

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

	2007	2006
MHEFA, Series H, Revenue Bonds issued at an interest rate of 2.0% - 5.0% maturing July 2033.	\$ 54,705	\$ 55,245
MHEFA, Series F, Revenue Bonds issued at an interest rate of 5.125% maturing July 2039.	30,000	30,000
MHEFA, Series G, Variable Rate Revenue Bonds, bearing interest at a daily rate, maturing July 2039. The rate at June 30, 2007 was 3.76%.	20,000	20,000
MHEFA Capital Asset Program, Series B & C, Variable Rate Demand Bonds, monthly amortization of principal with final payment due June 2010. Interest rate reset semi-annually. The rate at June 30, 2007 was 4.75%.	2,144	2,785
MHEFA, Series E, Variable Rate Demand Bonds, scheduled amortization of principal with final maturity July 2022. Interest adjusted weekly. The rate at June 30, 2007 was 3.72%.	13,900	14,500
Notes Payable Promissory Note, principal maturing July 2007. The rate at June 30, 2007 was 5.385%.	14,810	25,500
Total debt	135,559	148,030
Less unamortized bond issue costs	(420)	(444)
Add unamortized original issue premium	1,150	1,216
	\$ 136,289	\$ 148,802

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

2008	16,682
2009	2,156
2010	2,171
2011	1,480
2012	1,705
Thereafter	111,365
Total bonds and notes payable	\$ 135,559

The College has outstanding at June 30, 2007 fixed rate debt of \$84,705,000 and variable rate debt of \$50,854,000. The fair market value of the College's fixed rate debt at June 30, 2007 approximates \$87,299,000. The College's variable rate debt approximates fair value. Fair value for fixed and variable rate debt is based on estimates using current interest rates available for debt with equivalent maturities.

8. Annuities and Unitrusts Payable

The College has split-interest agreements consisting primarily of annuities, pooled life income plans and charitable remainder unitrusts, and annuities 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 risk-free rate of return that ranges from 4% to 6%. The liability of \$39,041,000 and \$39,911,000 at June 30, 2007 and 2006, respectively, is adjusted

Wellesley College
Notes to the Financial Statements
June 30, 2007 and 2006

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.

9. Pension Plans

The College has a defined contribution, noncontributory annuity pension plan for faculty and administrative personnel administered by the Teachers Insurance and Annuity Association and College Retirement Equities Fund ("TIAA/CREF"). Under this Plan, the College contributed \$6,232,000 and \$5,007,000 respectively, for the years ended June 30, 2007 and 2006.

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

The measurement date of determining the benefit obligations and net periodic benefit (income) cost was June 30, 2007 and 2006.

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

	<u>2007</u>	<u>2006</u>
Assumptions used to determine benefit obligations:		
Discount rate	6.25%	6.25%
Rate of compensation increase	4.00%	4.00%
Assumptions used to determine net periodic benefit (income) cost:		
Discount rate	6.25%	5.13%
Expected return on plan assets	7.80%	7.80%
Rate of compensation increase	4.00%	4.00%
Change in projected benefit obligation (\$000s)		
Benefit obligation at end of prior year	\$ 30,856	\$ 34,954
Service cost	1,154	1,330
Interest cost	1,911	1,751
Actuarial loss/(gain)	1,697	(6,192)
Benefits paid	(1,265)	(981)
Administrative expenses paid	(7)	(6)
Benefit obligation at end of year	<u>\$ 34,346</u>	<u>\$ 30,856</u>
Change in plan assets (\$000s)		
Fair value of plan assets at end of prior year	\$ 26,890	\$ 23,809
Actual return on plan assets	4,711	2,688
Employer contributions	1,660	1,380
Benefits paid	(1,265)	(981)
Administrative expenses paid	(7)	(6)
Fair value of plan assets at end of year	<u>\$ 31,989</u>	<u>\$ 26,890</u>

Wellesley College
Notes to the Financial Statements
June 30, 2007 and 2006

In September 2006, the FASB issued SFAS No. 158 *Employers' Accounting for Defined Benefit Pension and Other Post Retirement Plans*. SFAS 158 focuses primarily on the Statement of Financial Position reporting for the funded status of benefit plans and requires recognition of benefit liabilities for under-funded plans and benefit assets for over-funded plans, with offsetting impacts to unrestricted net assets. The impact of adoption resulted in a net decrease of \$918,000 in unrestricted net assets, which has been recorded as a cumulative effect of a change in accounting principle. The net decrease is comprised of the net prior service cost of \$621,000 and actuarial loss of \$297,000.

	<u>2007</u>	<u>2006</u>
<i>Funded status (\$000s)</i>		
Funded status	\$ (2,357)	\$ (3,965)
Unrecognized prior service cost	-	719
Unrecognized net actuarial loss	-	1,222
Accrued benefit liability	<u>\$ (2,357)</u>	<u>\$ (2,024)</u>
<i>Components of net periodic benefit cost (\$000s)</i>		
Service cost	\$ 1,154	\$ 1,330
Interest cost	1,911	1,751
Expected return on plan assets	(2,089)	(1,817)
Amortization of prior service cost	98	175
Recognized net actuarial loss	0	317
Net periodic benefit cost	<u>\$ 1,074</u>	<u>\$ 1,756</u>

The incremental effect of applying SFAS 158 on individual line items in the statement of financial position as of June 30, 2007 is as follows:

	Before Application of SFAS 158	Defined Benefit Plan Adjustments	After Application of SFAS 158
Accounts payable and accrued expenses	\$ 29,165	\$ 918	\$ 30,083
Total liabilities	231,463	918	232,381
Unrestricted net assets	625,562	(918)	624,644
Total net assets	1,906,839	(918)	1,905,921

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 \$75,000.

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

2008	\$ 1,138
2009	1,123
2010	1,215
2011	1,237
2012	1,374
2013-2017	10,445

The College expects to make employer contributions into the plan of \$1,300,000 in the 2008 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.

Wellesley College
Notes to the Financial Statements
June 30, 2007 and 2006

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

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

The following lists the Plan's asset allocation at June 30, 2007 and 2006:

<u>Asset Category</u>	<u>2007</u>	<u>2006</u>
Equity Securities	59%	61%
Real Estate Investment Trust	3%	3%
Commodities	5%	5%
Fixed Income	30%	27%
Cash and Equivalents	<u>3%</u>	<u>4%</u>
Total	<u>100%</u>	<u>100%</u>

10. Net Assets

Net assets consist of the following at June 30, 2007 and 2006:

(\$000s)	<u>2007</u>	<u>2006</u>
Unrestricted:		
Designated for specific purposes and plant	\$ 108,468	\$ 120,890
Quasi-endowment	516,176	431,943
Deficiencies in donor-restricted endowments	-	(184)
	<u>624,644</u>	<u>552,649</u>
Temporarily restricted:		
Endowment and similar funds including pledges	769,714	616,287
Annuity, life income and unitrusts including pledges	44,463	37,032
Deficiencies in donor-restricted endowments	-	184
Other restricted	<u>72,054</u>	<u>49,215</u>
	886,231	702,718
Permanently restricted:		
Endowment including pledges	<u>395,046</u>	<u>384,225</u>
	395,046	384,225
	<u>\$ 1,905,921</u>	<u>\$ 1,639,592</u>

Wellesley College
Notes to the Financial Statements
June 30, 2007 and 2006

11. Commitments and Contingencies

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

After the contaminated material was removed, the area was capped and seeded. These actions were undertaken in accordance with plans approved by the Department of Environmental Protection (DEP) on July 5, 1991. The College has continued to work with the DEP and has completed the process of remediating and restoring approximately 30 acres of land referred to as the Upland site. The College began in April 2001 excavating and consolidating contaminated soils from the upland, wetland, and pond ("Upland/Wetland/Pond") portions of the site. The soils have been treated and consolidated on site under a permanent engineered barrier. The capped area has been developed into three playing fields, an eight lane all weather track, and a softball field and was completed in October 2002. The cost of this project was \$32.8 million; \$10 million has been funded from a HEFA bond issuance and the remainder from unrestricted endowment. Costs associated with the campus improvement project are capitalized as land improvements. Costs incurred to remediate this property are charged to expense when they can be estimated. Ongoing expenses associated with the monitoring and maintenance of the engineered barrier are charged to operations. Total expenses for this project were \$463,000 and \$464,000, respectively for the years ended June 30, 2007 and 2006. 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 2006, the College recommended that no remedial action be taken in portions of Lake Waban beyond the Northern Shoreline and Western Cove, apart from periodic monitoring of water quality and fish-growth patterns. DEP responded favorably to this report in a letter dated October 2006. The College anticipates that the periodic monitoring program will be initiated in 2008. The cost of this program should be insignificant. After completing preliminary discussions with the DEP about the risk-based goals for the remediation of Lower Waban Brook, the College currently is in the early stages of designing and permitting that project. The Lower Waban Brook remedial project is anticipated to commence late in 2008, at the earliest and is estimated to cost \$3,600,000. A liability of \$3,600,000 has been recorded as of June 30, 2007 and is included in the Statements of Financial Position within accounts payable and accrued expenses.

Outstanding commitments amounted to approximately \$366,620,000 and \$374,137,000 as of June 30, 2007 and 2006, respectively for the following:

	<u>2007</u>	<u>2006</u>
Alternative investments	\$355,400,000	\$370,100,000
Construction contracts	11,220,000	4,037,000
	<u>\$366,620,000</u>	<u>\$374,137,000</u>

Wellesley College
Notes to the Financial Statements
June 30, 2007 and 2006

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

The College built a gas-fired cogeneration plant capable of producing 7.5 megawatts of electricity. The plant supplies electricity for the entire campus. The College pays the Town \$111,000 annually as a guarantee for back-up power, at cost, to the College. This contract is in force until May 2010.

The College has several legal cases pending that have arisen in the normal course of its operations. The College believes that the outcome of these cases will have no material adverse effect on the financial position of the College.

12. Subsequent Events

On January 31, 2008, the College received proceeds from the offering of the Massachusetts Health and Educational Facilities Authority (MHEFA) \$57,385,000 Wellesley College Series I (2008) Variable Rate Demand Revenue Bonds (the "Bonds"). The proceeds from the Bonds were used to refund the MHEFA Wellesley College Series F Bonds and notes payable and to finance various campus improvements. Funds remain in a refunding trust to repay the Series F obligations. The College will begin annual repayment of the Series I Bonds commencing in 2038 with the final annual repayment of principal due by July 1, 2039. The interest rate on the loan is variable and was 1.95% as of January 31, 2008. Interest is payable monthly until all amounts due under the bonds have been paid in full.

In January 2008, the College entered into an interest rate swap agreement with a notional amount of \$57,385,000 and a term through July 2039. This swap effectively locks in a fixed rate of 3.239%. The swap agreement relates to the offering of the MHEFA Wellesley College Series I (2008) Variable Rate Demand Revenue Bonds.

Wellesley College
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2007

Federal Grantor/Program Title	Federal Catalog Number	Pass-Through Entity Identifying Number	2007 Expenditures
Research and Development Cluster			
Direct Awards			
Department of Defense			
Department of Defense - Dependent Schools (DODDS)	12		\$ 339
Total Department of Defense			<u>339</u>
National Aeronautics and Space Administration			
NASA - Miscellaneous	43		198,077
Total National Aeronautics and Space Administration			<u>198,077</u>
National Science Foundation			
Mathematical and Physical Sciences	47.049		287,825
Biological Sciences	47.074		193,962
Social, Behavioral, and Economic Sciences	47.075		83,874
Education and Human Resources	47.076		208,410
Total National Science Foundation			<u>774,071</u>
Department of Health and Human Services			
Mental Health Research Grants	93.242		406,407
Occupational Safety and Health Research Grants	93.262		47,414
Child Care and Development Block Grant	93.575		208,972
Diabetes Endocrinology and Metabolism Research	93.847		115,145
Pharmacology Physiology and Biological Chemistry	93.859		197,141
Research for Mothers and Children	93.865		721,759
Total Department of Health and Human Services			<u>1,696,838</u>
Research and Development Direct Programs Subtotal			<u>2,669,325</u>
Pass-Through Awards (Research and Development)			
National Aeronautics and Space Administration			
Pass-Through Jet Propulsion Laboratory	43	1280033	312,090
Pass-Through Southwest Research Institute	43	599787Q	14,996
Pass-Through Jet Propulsion Laboratory	43	1287667	5,400
Pass-Through Jet Propulsion Laboratory	43	1289432	3,718
Total NASA Pass-Through			<u>336,204</u>
National Science Foundation			
Pass-Through Brandeis University	47.049	4-00773	3,038
Pass-Through Cornell University	47.074	46222-7764	30,143
Total National Science Foundation Pass-Through			<u>33,181</u>
Department of Health and Human Services			
Pass-Through Harvard University School of Public Health	93.113	111945	24,732
Pass-Through The McLean Hospital	93.242	No Sub #/2 R01 MH51290-09A2	84,553
Total Department of Health and Human Services Pass-Through			<u>109,285</u>
Department of Education			
Pass-Through University of Massachusetts Boston	84.349	S0000604200000	32,236
Total Department of Education			<u>32,236</u>
National Institute of Justice			
Pass-Through Caliber Associates, Inc.	16.560	Letter d+d 9/28/05	52,518
Total National Institute of Justice			<u>52,518</u>
Total Pass-Through Awards (Research and Development)			<u>563,424</u>
Total Research and Development Cluster			<u>3,232,749</u>

The accompanying notes are an integral part of the schedule.

Wellesley College
Schedule of Expenditures of Federal Awards, Continued
Year Ended June 30, 2007

Federal Grantor/Program Title	Federal Catalog Number	Pass-Through Entity Identifying Number	2007 Expenditures
Student Financial Aid			
Department of Education			
Federal Supplemental Educational Opportunity Grants Program	84.007		\$ 357,959
Federal Work Study Program	84.033		321,945
Federal Pell Grant Program	84.063		953,125
Academic Competitiveness Grants	84.375		79,400
National Science and Mathematic Access to Retain Talent Grants	84.376		<u>78,000</u>
Total Student Financial Aid			<u>1,790,429</u>
Other Programs			
National Endowment for the Arts			
Institute of Museum and Library Services-Conservation Project Support	45.303		<u>49,846</u>
Total Other Programs			<u>49,846</u>
Pass Through Awards (Other)			
National Science Foundation			
Pass-Through University of Florida	47.049	00004000cg	<u>32,417</u>
Total National Science Foundation Pass-Through			<u>32,417</u>
Department of Health and Human Services			
Temporary Assistance for Needy Families	93.558	Agrmnt dtd 9/15/06	3,545
Child Care and Development Block Grant	93.575	07SC087064	<u>12,100</u>
Total Department of Health and Human Services Pass-Through			<u>15,645</u>
Total Other Pass-Through Programs			<u>48,062</u>
Total Expenditures of Federal Awards			<u>\$ 5,121,086</u>

The accompanying notes are an integral part of the schedule.

Wellesley College
Notes to Schedule of Expenditures of Federal Awards
June 30, 2007

1. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") summarizes the expenditures of Wellesley College (the "College") under programs of the federal government for the year ended June 30, 2007 recorded on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the activities of the College, it is not intended to and does not present the financial position, changes in net assets and cash flows of the College.

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

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

2. Facility and Administrative Costs

Facility and administrative costs allocated to certain awards for the year ended June 30, 2007 were based on predetermined rates negotiated with the College's federal oversight agency, the Department of Health and Human Services. The College negotiated three-year predetermined indirect cost rates of 73% for on-campus and 14% for off-campus activity based on salaries and wages. These rates are effective from July 1, 2004 through June 30, 2007.

3. Subrecipients

The College passed through federal awards to subgrantee organizations in the Research and Development cluster totaling \$211,076.

Wellesley College
Notes to Schedule of Expenditures of Federal Awards
June 30, 2007

4. Federal Student Loan Programs

Loans made by the College to eligible students under the Perkins loan program and federally guaranteed loans under the Federal Family Education Loan Program (FFEL) issued to students of the College by financial institutions during the year ended June 30, 2007 are summarized as follows:

	CFDA Number	Amount
Perkins loans issued	84.038	\$ 998,049
Total Perkins loans issued		<u>998,049</u>
FFEL - guaranteed loan programs		
Stafford loans	84.032	1,974,878
Parent Loans for Undergraduate Students	84.032	<u>3,210,056</u>
Total FFEL - guaranteed loans issued		<u>5,184,934</u>
Total federal loans issued		<u>\$ 6,182,983</u>

The Perkins Loan Program is administered directly by the College, except for functions performed by University Accounting Services, Inc. (UAS). Balances and transactions relating to these programs are included in the College's financial statements. The balance of loans receivable outstanding under the Perkins program was \$5,369,768 at June 30, 2007.

PART II - REPORTS ON INTERNAL CONTROL AND COMPLIANCE

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

To the Board of Trustees of
Wellesley College

We have audited the financial statements of Wellesley College (the "College") as of and for the year ended June 30, 2007, and have issued our report thereon dated October 20, 2007, except for Note 12 for which the date is February 4, 2008, which includes an additional paragraph regarding the accounting for conditional asset retirement obligations in 2006 and reporting of its defined benefit plan in 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

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

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

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

Compliance and Other Matters

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

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

PricewaterhouseCoopers LLP

October 20, 2007, except for Note 12, for which the date is February 4, 2008

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

To the Board of Trustees of
Wellesley College

Compliance

We have audited the compliance of Wellesley College (the "College") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2007, except as described in the second paragraph of this report. The College's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the College's management. Our responsibility is to express an opinion on the College's compliance based on our audit.

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

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

In our opinion, based on our audit and the report of other auditors, the College complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2007.

Internal Control over Compliance

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

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

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

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

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

PriceWaterhouseCoopers LLP

January 31, 2008

PART III – SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Wellesley College
Schedule of Findings and Questioned Costs
June 30, 2007

I. Summary of Auditor's Results

Financial statements

Type of auditor's report issued Unqualified

Internal control over financial reporting

Material weakness(es) identified Yes No

Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes None Reported

Noncompliance material to financial statements noted? Yes No

Federal awards

Internal control over major programs

Material weakness(es) identified Yes No

Reportable condition(s) identified that are not considered to be material weaknesses? Yes None Reported

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

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 Yes No

Identification of major programs

CFDA Number	Name of Federal Program or Cluster
Various	Student Financial Aid Cluster
Dollar threshold used to distinguish between type A and type B programs	\$300,000
Auditee qualifies as a low-risk auditee?	Yes

Wellesley College
Schedule of Findings and Questioned Costs
June 30, 2007

II. Financial Statement Findings

No matters are reported.

III. Federal Award Findings and Questioned Costs

No matters are reported.

Wellesley College
Summary Schedule of Prior Year Findings
June 30, 2007

06-01 Return of Title IV Funds: SFA Cluster Award Year 2005-2006

The College had a total population of 414 withdrawals / leave of absences during fiscal year 2006 and a total of 11 refunds. PwC reviewed all 11 calculations for the return of Title IV aid, and PwC noted 6 instances where the initial amount of funds returned was incorrect. The correct amounts totaling \$4,524 were not returned within the 30 day required period.

See management's update at the end of this report.



Wellesley College

106 Central Street, Wellesley, Massachusetts 02481-8203
Financial Aid and Student Employment (781) 283-2360 FAX (781) 283-3946
Student Accounts and Educational Financing (781) 283-2456 FAX (781) 283-3636

Management's Views and Corrective Action Plan For the Fiscal Year Ended 6/30/06

06-1

The College has tightened the process for handling Title IV Refunds. The procedures adopted in March of 2007 have produced improved results compared to past year audits. The following procedures will continue at Wellesley:

Our first step is to evaluate a student's aid status before we begin processing any forms to be sure that we agree on aid that has been disbursed and/or could have been disbursed. The Student Financial Services Representative completes the Return of Title IV Funds form and notifies the appropriate staff person of the action that needs to be taken. Finally, the committee reviews the student's file to be sure that the funds have been returned or a late disbursement has been made, if necessary.

The committee meets weekly to review the status of all students who have withdrawn or taken a leave of absence with Title IV aid to evaluate where each student is in the process and to insure that deadlines are met.

Kathryn Osmond, Executive Director of Student Financial Services, is responsible for implementing the corrective action plan.

Kathryn Osmond
Kathryn Osmond
Executive Director for Student Financial Services

1-16-08

Date