

Wellesley College

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

June 30, 2010

EIN # 042103637

Wellesley College
Report on Federal Awards in Accordance with OMB Circular A-133
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**PART I - FINANCIAL STATEMENTS AND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**



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") 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 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2010, 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, 2010. 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, 2010 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 30, 2010

Wellesley College
Statements of Financial Position
June 30, 2010 and 2009
(\$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.

Wellesley College
Statement of Activities
For the year ended June 30, 2010
(\$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)	-	-
	4,676	24,305	7,757	36,738
Total nonoperating revenues				
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.

Wellesley College
Statement of Activities
For the year ended June 30, 2009
(\$000s)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2009 Total</u>
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	<u>46,730</u>	<u>-</u>	<u>-</u>	<u>46,730</u>
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	<u>187,126</u>	<u>952</u>	<u>-</u>	<u>188,078</u>
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	<u>193,845</u>	<u>-</u>	<u>-</u>	<u>193,845</u>
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	<u>(135,908)</u>	<u>(239,811)</u>	<u>7,978</u>	<u>(367,741)</u>
Net change in net assets	(142,627)	(238,859)	7,978	(373,508)
Net assets at beginning of year	<u>649,079</u>	<u>812,235</u>	<u>401,042</u>	<u>1,862,356</u>
Net assets at end of year	<u>\$ 506,452</u>	<u>\$ 573,376</u>	<u>\$ 409,020</u>	<u>\$ 1,488,848</u>

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

Wellesley College
Statements of Cash Flows
For the years ended June 30, 2010 and 2009
(\$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
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.

Wellesley College
Notes to the Financial Statements
June 30, 2010 and 2009

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

Wellesley College
Notes to the Financial Statements
June 30, 2010 and 2009

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.

Wellesley College
Notes to the Financial Statements
June 30, 2010 and 2009

(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:

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

Wellesley College
Notes to the Financial Statements
June 30, 2010 and 2009

(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.

Wellesley College
Notes to the Financial Statements
June 30, 2010 and 2009

(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 (\$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

Wellesley College
Notes to the Financial Statements
June 30, 2010 and 2009

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 (\$000s):

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

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.

Wellesley College
Notes to the Financial Statements
June 30, 2010 and 2009

4. Investments

The book and market values of investments at June 30, 2010 and 2009 were as follows (\$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	<u>1,182,718</u>	<u>1,306,796</u>	<u>1,238,906</u>	<u>1,266,437</u>
Faculty mortgages	23,249	23,249	20,645	20,645
Total pooled investments and faculty mortgages	<u>1,205,967</u>	<u>1,330,045</u>	<u>1,259,551</u>	<u>1,287,082</u>
Investments not pooled				
Cash and cash equivalents	199	199	202	202
Total investments not pooled	<u>199</u>	<u>199</u>	<u>202</u>	<u>202</u>
Total endowment investments	<u>\$1,206,166</u>	<u>\$ 1,330,244</u>	<u>\$1,259,753</u>	<u>\$ 1,287,284</u>
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	<u>12,490</u>	<u>13,981</u>	<u>13,174</u>	<u>13,526</u>
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	<u>6,583</u>	<u>6,583</u>	<u>7,617</u>	<u>7,617</u>
Total funds not pooled	<u>52,997</u>	<u>50,690</u>	<u>55,384</u>	<u>49,559</u>
Total Planned Giving Investments	<u>\$ 65,487</u>	<u>\$ 64,671</u>	<u>\$ 68,558</u>	<u>\$ 63,085</u>

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“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 was as follows for the years ended June 30, 2010 and 2009 (\$000s):

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>2010</u>				
Dividends and interest (net of expenses of \$9,930)	\$ (180)	\$ (3,303)	\$ 710	\$ (2,773)
Net realized and unrealized gains/losses	<u>43,715</u>	<u>76,809</u>	<u>-</u>	<u>120,524</u>
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)
	<u>\$ 1,680</u>	<u>\$ 28,749</u>	<u>\$ 710</u>	<u>\$ 31,139</u>
<u>2009</u>				
Dividends and interest (net of expenses of \$8,221)	\$ 856	\$ (281)	\$ 800	\$ 1,375
Net realized and unrealized gains/losses	<u>(89,359)</u>	<u>(201,695)</u>	<u>-</u>	<u>(291,054)</u>
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)
	<u>\$ (127,591)</u>	<u>\$ (244,087)</u>	<u>\$ 800</u>	<u>\$(370,878)</u>

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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.

The following fair value hierarchy tables present information about the College's assets and liabilities measured at fair value on a recurring basis based upon the lowest level of significant input to the valuations at June 30, 2010 and 2009.

2010 (\$000s)	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
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	<u>\$ 276,449</u>	<u>\$ 472,540</u>	<u>\$ 645,926</u>	<u>\$ 1,394,915</u>
Interest rate swap	\$ -	\$ -	\$ 6,816	\$ 6,816
Total liabilities at fair value	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,816</u>	<u>\$ 6,816</u>

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2009 (\$000s)	Level 1	Level 2	Level 3	Total
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	<u>\$ 273,042</u>	<u>\$ 367,797</u>	<u>\$ 709,530</u>	<u>\$ 1,350,369</u>
Interest rate swap	\$ -	\$ -	\$ 4,176	\$ 4,176
Total liabilities at fair value	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,176</u>	<u>\$ 4,176</u>

The following tables present 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.

2010 (\$000s)	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	<u>\$ 705,354</u>	<u>\$ 26,542</u>	<u>\$ (52,651)</u>	<u>\$ (40,135)</u>	<u>\$ 639,110</u>

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.

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2009 (\$000s)	Balance, July 1, 2008	Realized and Unrealized Gains/losses	Purchases and Sales	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, 2010	<u>\$ 908,818</u>	<u>\$ (186,358)</u>	<u>\$ (17,106)</u>	<u>\$ 705,354</u>

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

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	<u>\$1,029,658</u>	<u>\$182,619</u>	

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.

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6. Pooled Funds

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

Pooled funds were as follows as of June 30:

	<u>2010</u>	<u>2009</u>
Investments in pooled funds and faculty mortgages, market value (\$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

The following are the components of the pooled and nonpooled endowment funds at market value at June 30, 2010 and 2009 (\$000s):

	<u>Units</u>	<u>Pooled Endowment</u>	<u>Nonpooled Endowment</u>	<u>Total Endowment</u>
<u>2010 Funds:</u>				
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	<u>2,482,647</u>	<u>\$1,330,045</u>	<u>\$ 199</u>	<u>\$1,330,244</u>
<u>2009 Funds:</u>				
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	<u>2,457,016</u>	<u>\$1,287,082</u>	<u>\$ 202</u>	<u>\$1,287,284</u>

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.

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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.

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

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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.

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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.

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

	<u>2010</u>	<u>2009</u>
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 (\$000s)		
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	<u>\$ 46,621</u>	<u>\$ 39,107</u>
Accumulated benefit obligation	<u>\$ 37,324</u>	<u>\$ 31,470</u>
Change in plan assets (\$000s)		
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	<u>\$ 27,253</u>	<u>\$ 23,241</u>

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	<u>2010</u>	<u>2009</u>
Funded status (\$000s)		
Funded status	<u>\$ (19,368)</u>	<u>\$ (15,866)</u>
Components of net periodic benefit cost (\$000s)		
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	<u>\$ 2,586</u>	<u>\$ 1,782</u>
New net actuarial loss	\$ 4,744	\$ 12,099
Net loss on benefit costs	(1,179)	-
Amortization of prior service cost	(64)	(71)
Total	<u>\$ 3,501</u>	<u>\$ 12,028</u>
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	<u>\$ 3,501</u>	<u>\$ 12,028</u>

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 (\$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.

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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:

<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, 2010 and 2009:

<u>Asset Category</u>	Value at		
	<u>June 30, 2010</u>	<u>2010</u>	<u>2009</u>
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	<u>545</u>	<u>2%</u>	<u>4%</u>
Total	<u>\$ 27,253</u>	<u>100%</u>	<u>100%</u>

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.

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11. Net Assets

Net assets consist of the following at June 30, 2010 and 2009:

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

At June 30, 2010, the endowment net asset composition by type of fund consisted of the following:

(\$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

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Changes in endowment net assets for the year ended June 30, 2010, consisted of the following:

(\$000s)	Temporarily Permanently			Total
	Unrestricted	Restricted	Restricted	
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	<u>\$ 449,273</u>	<u>\$ 482,983</u>	<u>\$ 397,988</u>	<u>\$ 1,330,244</u>

At June 30, 2009, the endowment net asset composition by type of fund consisted of the following:

(\$000s)	Temporarily Permanently			Total
	Unrestricted	Restricted	Restricted	
Donor-restricted funds	\$ -	\$ 467,002	\$ 390,469	\$ 857,471
Board-designated and other unrestricted funds	429,813	-	-	429,813
	<u>\$ 429,813</u>	<u>\$ 467,002</u>	<u>\$ 390,469</u>	<u>\$ 1,287,284</u>

Changes in endowment net assets for the year ended June 30, 2009, consisted of the following:

(\$000s)	Temporarily Permanently			Total
	Unrestricted	Restricted	Restricted	
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	<u>\$ 429,813</u>	<u>\$ 467,002</u>	<u>\$ 390,469</u>	<u>\$ 1,287,284</u>

Wellesley College
Notes to the Financial Statements
June 30, 2010 and 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 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 \$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

Wellesley College
Notes to the Financial Statements
June 30, 2010 and 2009

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:

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

Wellesley College
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2010

Federal Grantor, Pass-Through/Program or Cluster Title	Federal Catalog Number	Pass-Through Entity Identifying Number	2010 Expenditures
Research and Development Cluster			
Direct Awards			
Department of Agriculture			
Food Assistance and Nutrition Research Programs	10.253		\$ 79,240
Miscellaneous USDA	10.unknown		35,189
Total Department of Agriculture			<u>114,429</u>
National Aeronautics and Space Administration (NASA)			
NASA-Miscellaneous	43.unknown		219,106
Total NASA			<u>219,106</u>
National Science Foundation			
Mathematical and Physical Sciences	47.049		110,005
Geosciences	47.050		39,428
Biological Sciences	47.074		1,119,985
Education and Human Resources	47.076		83,106
Trans-NSF Recovery Act Research Support - ARRA	47.082		115,405
Total National Science Foundation			<u>1,467,929</u>
Department of Education			
Undergraduate International: Overseas Faculty Research Abroad	84.016		73,432
Total Department of Education			<u>73,432</u>
Department of Health and Human Services			
Mental Health Research Grants	93.242		154,565
Child Care and Development Block Grant	93.575		124,849
Social Services Research and Demonstration	93.647		32,451
Allergy, Immunology and Transplantation Research	93.855		4,261
Biomedical Research and Research Training	93.859		22,636
Child Health and Human Development Extramural Research	93.865		122,471
Total Department of Health and Human Services			<u>461,233</u>
Research and Development Direct Awards Subtotal			<u>2,336,129</u>
Pass-Through Awards			
Department of Agriculture			
University of California-Davis	10.250	981834-22	6,020
Total Department of Agriculture			<u>6,020</u>
National Institute of Justice			
Police Executive Research Forum	16.560	Letter dated 10/30/2008	60,152
Total National Institute of Justice			<u>60,152</u>
National Aeronautics and Space Administration (NASA)			
Jet Propulsion Laboratory	43.unknown	1352477	249,265
Jet Propulsion Laboratory	43.unknown	1337028	30,170
Southwest Research Institute	43.unknown	A99175JD	26,293
Total NASA			<u>305,728</u>
National Science Foundation			
Massachusetts Institute of Technology	47.049	5710002553	9,999
Cornell University	47.074	46222-7764	45,603
Education Development Ctr., Inc.	47.076	11225	21,340
Northeastern University	47.076	533990P0901718	7,611
Total National Science Foundation			<u>84,553</u>
Department of Education			
University of Massachusetts-Boston	84.349	S0000604200000	328,318
The Providence Plan	84.359	Letter dated 12/15/2009	45,921
Synergy Enterprises, Inc.	84.unknown	1036	74,110
Total Department of Education			<u>448,349</u>

The accompanying notes are an integral part of the schedule.

Wellesley College
Schedule of Expenditures of Federal Awards, Continued
Year Ended June 30, 2010

Federal Grantor, Pass-Through/Program or Cluster Title	Federal Catalog Number	Pass-Through Entity Identifying Number	2010 Expenditures
Department of State			
Babson College	19.500	Letter dated 6/30/2009	\$ 142,933
Total Department of State			<u>142,933</u>
Department of Health and Human Services (DHHS)			
University of Illinois at Urbana-Champaign	93.136	2007-04267-01	69,867
The McLean Hospital	93.242	No Sub #/2 R01 MH51290-09A2	54,023
Judge Baker Children's Center	93.242	Letter dated 5/4/2009	52,475
University of Massachusetts	93.279	Req #34302	20,517
Vida Health Communications	93.061	CDC#1	24,712
Salem State College	93.865	3119	35,218
Total Department of Health and Human Services			<u>256,812</u>
Total Research and Development Pass-Through Awards			<u>1,304,547</u>
Total Research and Development Cluster			<u>3,640,676</u>
Student Financial Aid Cluster			
Department of Education			
Federal Supplemental Educational Opportunity Grants	84.007		337,019
Federal Work Study	84.033		382,817
Federal Pell Grant Program	84.063		1,760,991
Academic Competitiveness Grants	84.375		120,925
National Science and Mathematic Access to Retain Talent Grants	84.376		136,000
Total Student Financial Aid Cluster			<u>2,737,752</u>
Other Programs			
Museums for America	45.301		24,596
Measurement of Engineering Research and Standards	11.609		8,175
P3Award: National Student Design Competition for Sustainability	66.516		3,462
Total Other Programs			<u>36,233</u>
Total Expenditures of Federal Awards			<u>\$ 6,414,661</u>

The accompanying notes are an integral part of the schedule.

Wellesley College
Notes to Schedule of Expenditures of Federal Awards
June 30, 2010

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, 2010 recorded on the accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of the U.S. Office of Management and Budget ("OMB") Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the activities of the College, it is not intended to, and does not, present the financial position, changes in net assets or cash flows of the College and may differ from amounts presented in, or used in preparation of the basic financial statements.

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 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, 2010 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 77% for on-campus and 15% for off-campus activity based on salaries and wages. These rates are effective from July 1, 2007 through June 30, 2010.

3. Subrecipients

The College passed through federal awards to subgrantee organizations in the Research and Development cluster totaling \$90,400.

Wellesley College
Notes to Schedule of Expenditures of Federal Awards
June 30, 2010

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, 2010 are summarized as follows:

	CFDA Number	Amount
Perkins loans issued	84.038	\$ 406,320
Total Perkins loans issued		<u>406,320</u>
FFEL - guaranteed loan programs		
Stafford loans	84.032	2,443,180
Parent Loans for Undergraduate Students	84.032	<u>2,463,675</u>
Total FFEL - guaranteed loans issued		<u>4,906,855</u>
Total federal loans issued		<u>\$ 5,313,175</u>

The Perkins Loan Program is administered directly by the College, except for functions performed by University Accounting Services, Inc. Balances and transactions relating to this program are included in the College's financial statements. The total outstanding loan balance under the Perkins program was \$5,187,951 at June 30, 2010, and the College recovered an administrative cost allowance from the Perkins program of \$70,673 for the year ending June 30, 2010.

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, 2010, and have issued our report thereon dated October 30, 2010. 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 deficiency in internal controls exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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*.

We noted certain matters that we reported to management of the College in a separate letter dated October 30, 2010.

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

PricewaterhouseCoopers LLP

October 30, 2010



**Report of Independent Auditors on Compliance with Requirements
That Could Have a Direct and Material Effect on Each Major Program and on
Internal Control over Compliance in Accordance with OMB Circular A-133**

To the Board of Trustees of
Wellesley College

Compliance

We have audited the compliance of Wellesley College (the "College") with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal program for the year ended June 30, 2010, except as described in the second paragraph of this report. The College's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs 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 could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as items 10-1 and 10-2.



Internal Control over Compliance

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 and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over compliance.

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

A deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and correct on a timely basis.

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 over compliance that might be deficiencies, 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.

The College's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the College's responses and accordingly, we express no opinion on the responses.

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

PricewaterhouseCoopers LLP

March 25, 2011

PART III – SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Wellesley College
Schedule of Findings and Questioned Costs
June 30, 2010

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

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

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

Various

Name of Federal Program or Cluster

Student Financial Aid Cluster
 Research and Development Cluster

Dollar threshold used to distinguish between type A and type B programs

\$497,404

Auditee qualifies as a low-risk auditee?

Yes

Wellesley College
Schedule of Findings and Questioned Costs
June 30, 2010

II. Financial Statement Findings

No matters are reported.

III. Federal Award Findings and Questioned Costs

10-1 Financial Reporting

Grantor: Department of Education
Award Year: July 1, 2009 - June 30, 2010
CFDA #: 84.033
CFDA Title: Federal Work Study Program

Condition

Federal Work Study for the College totaled \$382,817, of which \$66,856 is American Recovery and Reinvestment Act of 2009 (ARRA) funding. The College is required to submit Section 1512 quarterly reports based on Federal Work Study funds received under ARRA. These reports are to be submitted within 10 days of the calendar quarter end (June 30, September 30, December 31, and March 31). The College submitted the ARRA report for the period ending March 31, 2010 on April 16, 2010, six days after the deadline. The remaining quarterly reports (June 30, September 30, and December 31) were submitted timely.

Criteria

Section 1512 ARRA Reporting states that "reporting is required by the 10th day of the month following the end of the calendar quarter."

Cause

This was the first year the College was required to submit American Recovery and Reinvestment Act reports. The College does not have a policy in place for submitting these reports in a timely manner. Therefore, reports are not necessarily submitted in a timely manner.

Effect

The Department of Education is not receiving ARRA reporting information for Federal Work Study on a timely basis.

Questioned Costs

None.

Recommendations

Management should implement procedures to ensure that all reports are submitted in a timely manner consistent with the reporting requirements noted by Section 1512 ARRA Reporting.

Management's Views and Corrective Action Plan

Following this finding is management's views and corrective action plan.

Wellesley College
Schedule of Findings and Questioned Costs
June 30, 2010

10-2 Special Tests and Provisions - Return of Title IV Funds

Grantor: Department of Education
Award Year: July 1, 2009 - June 30, 2010
CFDA#: 84.032
CFDA Title: Federal Family Education Loans

Condition

In a sample of ten students, out of a total population of 49 students who withdrew or went on a leave of absence from the College in the 2009-2010 academic year, for one student the College did not comply with timely return of funds requirements and returned the Stafford Title IV funds to the lender 58 days after the student withdrew.

Criteria

The Code of Federal Regulations ("CFR") section 668.173(b) states that "returns of Title IV funds are required to be deposited or transferred into the SFA account or electronic fund transfers initiated to ED or the appropriate FFEL lender as soon as possible, but no later than 45 days after the date the institution determines that the student withdrew."

Cause

The College miscalculated the student's percentage of attendance as over 60% and believed that the student had earned 100% of the Title IV assistance received, as the College entered the wrong leave of absence date into their calculation. As such, the College did not realize that the funds needed to be returned. When the error was discovered and the return of Stafford funds made, more than the allotted 45 days had already passed. Therefore, returns of Title IV funds are not necessarily processed in a timely manner.

Effect

Title IV funds are not necessarily returned in a timely manner.

Questioned Costs

None.

Recommendations

Management should implement review procedures to ensure that Title IV attendance calculations are performed correctly.

Management's Views and Corrective Action Plan

Following this finding is management's views and corrective action plan.

Wellesley College
Summary Schedule of Prior Audit Findings
June 30, 2010

9-1 Student Status Changes

Grantor: Department of Education
Award Year: July 1, 2008 - June 30, 2009
CFDA #84.032
CFDA Title: Federal Family Education Loans

Condition

In a sample of five students, out of a total population of 48 withdrawn students tested for compliance in fiscal year 2009, there were two students for which the College did not comply with the student status changes reporting requirement. For the two students, the change of status was submitted to the National Student Loan Data System ("NSLDS") 103 days after the deadline.

Current Year Status

Refer to management's 2010 views and corrective action plan for an update on prior year finding.

WELLESLEY COLLEGE

STUDENT FINANCIAL SERVICES

Management's views and Corrective Action Plan For the Fiscal Year ended 6/30/10

10 -1 Financial Reporting

Management View

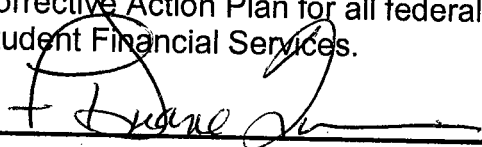
Management accepts the finding that Section 1512 quarterly reports based upon Federal Work Study funds received under the American Recovery and Reinvestment Act of 2009 (ARRA) were filed more than 10 days of the calendar quarter end, and that these reports were filed 6 days after the deadline. Management also notes that this was the first year the College was required to submit reports associated with the American Recovery and Reinvestment Act, and the last year to submit the reports since these funds are no longer available from the federal government.

Corrective Action Plan

Management recognizes that proper reporting under federal guidelines for Administrative Capability is necessary for participation in Title IV programs. Coordination and communication between various departments administering Title IV funds is essential. Management proposes the following Corrective Action Plan:

- 1: Establish a centralized calendar for all federal reporting deadlines to be in place as soon as possible, but at least by the beginning of the next fiscal year.
- 2: Communicate that calendar among all departments involved in the administration of Title IV aid.
- 3: Evaluate, on a quarterly basis, if the calendar is effectively improving the reporting requirements associated with administration of Title IV aid.
- 4: Reevaluate the calendar if necessary.

The individual responsible for development, communication and evaluation of the Corrective Action Plan for all federal reporting requirements is the Director of Student Financial Services.



3.18.11

F. Duane Quinn
Interim Director, Student Financial Services

Date



WELLESLEY COLLEGE

STUDENT FINANCIAL SERVICES

Management's views and Corrective Action Plan For the Fiscal Year ended 6/30/10

10-2 Special Tests and Provisions – Return of Title IV funds

Management Views

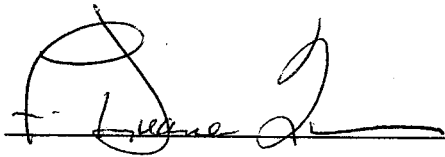
Management understands the federal requirement that after calculating funds returnable under R2T4, that these funds be deposited or transferred into the Student Financial Aid account or electronic fund transfers initiated to the Department of Education as soon as possible, but no later than 45 days after the date the institution determined the student withdrew. The College does have in place policies to assure compliance with this requirement. In the case cited, it was not the policy to return funds but rather the miscalculation of the student's time of attendance which caused the delayed return.

Corrective Action Plan

In prior years the R2T4 calculations were performed by the Administrative staff member assigned to this process, and that staff member could chose to do hand calculation for R2T4 or to use the Department of Education's web based R2T4 tool to perform the calculation. It was through human error and hand calculation that the percentage of attendance was miscalculated and upon discovery of the error caused a delay in the return of funds.

Effective immediately, the Administrative staff member responsible for R2T4 calculation will not have the option of performing hand calculations, but rather will use the Department of Education's web based R2T4 tool for 100% of all calculations. This will prevent human error in performing R2T4 from occurring.

The individual responsible for implementation of this Corrective Action is the Director of Student Financial Services.



3.18.11

F. Duane Quinn
Interim Director, Student Financial Services

Date





Wellesley College

106 Central Street
Wellesley, Massachusetts 02481-8203
(781) 283-2307 FAX (781) 283-3680

Update to Prior Fiscal Year's Management Views and Corrective Action Plan For the Fiscal Year ended 6/30/10

09-1 Student Status Changes

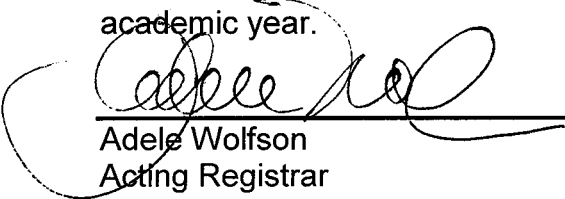
Management View

Management recognizes the importance of timely reporting under all requirements for Administrative Capability in the management of Title IV funds. In the 2008 – 2009 academic year, 2 out of 48 withdrawn students were reported to the National Student Loan Data System ("NSLDS") after the required reporting timeframe. A Corrective Action Plan was established which requires that the reporting to NSLDS be completed every 59 days to assure compliance with reporting requirements.

Update on Corrective Action Plan

Frequently, in assuring that institutions meet requirements established under federal policy and the institutions own established Policy and Procedure, staffing responsibilities and management of staffing need to be addressed. Assuring the task has an individual assigned to it and management oversight of the individual need to be part of institutional policy. The College established individual(s) responsible for the task of reporting to NSLDS and designated the Registrar as responsible for assuring that the tasks are completed and within the required time frames.

This Corrective Action plan appears to be successful in that no withdrawn students were identified as not being in compliance during the 2009 – 2010 academic year.


Adele Wolfson
Acting Registrar

21 Oct 2011
Date