# Wellesley College

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

**June 30, 2015**

**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

## Independent Auditor's Report

To the Board of Trustees of
Wellesley College

### Report on the Financial Statements

We have audited the accompanying financial statements of Wellesley College (the "College") which comprise the statements of financial position as of June 30, 2015 and 2014, and the related statements of activities and cash flows for the years then ended and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the College's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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**_Opinion_**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Wellesley College as of June 30, 2015 and 2014 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**_Other Matters_**

*Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards for the year ended June 30, 2015 is presented for purposes of additional analysis as required by 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 financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

**_Other Reporting Required by Government Auditing Standards_**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2015 on our consideration of Wellesley 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, 2015. 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Wellesley College's internal control over financial reporting and compliance.

PricewaterhouseCoopers LLP

October 28, 2015

# Wellesley College
## Statements of Financial Position
## June 30, 2015 and 2014
## ($000s)

| | 2015 | 2014 |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | $ 74,923 | $ 34,307 |
| Cash and cash equivalents, restricted | 18,232 | 55,001 |
| Accounts receivable, net | 3,008 | 1,561 |
| Loans receivable, net | 8,644 | 8,620 |
| Contributions receivable, net | 61,868 | 44,182 |
| Grants receivable | 2,052 | 1,786 |
| Prepaid, inventory and other assets | 7,334 | 5,746 |
| Operating investments | 43,445 | 42,775 |
| Investments | 1,886,519 | 1,838,286 |
| Planned giving investments | 65,711 | 69,253 |
| Land, buildings and equipment, net | 312,380 | 296,082 |
| Total assets | $ 2,484,116 | $ 2,397,599 |
| **Liabilities** | | |
| Accounts payable and accrued expenses | $ 40,757 | $ 39,921 |
| Student deposits and deferred revenues | 1,190 | 2,129 |
| Advances under grants and contracts | 5,945 | 6,055 |
| Annuities and unitrusts payable | 30,988 | 31,120 |
| Asset retirement and environmental obligations | 21,884 | 21,066 |
| Accrued pension liability | 22,117 | 15,550 |
| Bonds payable | 234,553 | 237,404 |
| Government loan advances | 4,569 | 4,569 |
| Total liabilities | 362,003 | 357,814 |
| **Net Assets** | | |
| Unrestricted | 653,496 | 630,158 |
| Temporarily restricted | 933,579 | 900,646 |
| Permanently restricted | 535,038 | 508,981 |
| Total net assets | 2,122,113 | 2,039,785 |
| Total liabilities and net assets | $ 2,484,116 | $ 2,397,599 |

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

# Wellesley College
## Statement of Activities
## Year Ended June 30, 2015
## ($000s)

| | Unrestricted | Temporarily Restricted | Permanently Restricted | 2015 Total |
|---|---|---|---|---|
| **Operating revenues** | | | | |
| Tuition and fees | $ 104,427 | $ - | $ - | $ 104,427 |
| Room and board | 29,249 | - | - | 29,249 |
| Less: Financial aid | | | | |
| Donor sponsored | (27,386) | - | - | (27,386) |
| Institutionally sponsored | (23,919) | - | - | (23,919) |
| Net tuition and fees | 82,371 | - | - | 82,371 |
| Auxiliary operations | 8,085 | - | - | 8,085 |
| Government grants | 3,863 | - | - | 3,863 |
| Private gifts and grants | 20,675 | 4,094 | - | 24,769 |
| Investment return designated for operations | 39,865 | 41,950 | - | 81,815 |
| Amounts transferred from endowment funds | 713 | 33 | - | 746 |
| Other | 3,872 | - | - | 3,872 |
| Net assets released from restrictions | 45,805 | (45,805) | - | - |
| Total operating revenues | 205,249 | 272 | - | 205,521 |
| **Operating expenses** | | | | |
| Instruction and departmental research | 96,091 | - | - | 96,091 |
| Sponsored research and other programs | 11,168 | - | - | 11,168 |
| Library | 11,481 | - | - | 11,481 |
| Student services | 36,822 | - | - | 36,822 |
| General administration | 14,923 | - | - | 14,923 |
| General institutional | 30,935 | - | - | 30,935 |
| Auxiliary operations | 12,257 | - | - | 12,257 |
| Total operating expenses | 213,677 | - | - | 213,677 |
| Change in net assets from operating activities | (8,428) | 272 | - | (8,156) |
| **Nonoperating activities** | | | | |
| Investment return, net of spending allocation | 8,349 | 3,494 | 3,287 | 15,130 |
| Endowment return distributed for operations | (713) | (33) | | (746) |
| Matured planned giving agreements | 1,692 | (1,762) | 62 | (8) |
| Gifts and pledges | 14 | 27,658 | 19,984 | 47,656 |
| Pension related changes other than net periodic pension cost | (5,670) | - | - | (5,670) |
| Net realized/unrealized loss on interest swap | (2,121) | - | - | (2,121) |
| Gain on sale of property | 36,243 | - | - | 36,243 |
| Net assets released from restrictions | 2,529 | (2,529) | - | - |
| Transfers between restrictions | (8,557) | 5,833 | 2,724 | - |
| Total nonoperating revenues | 31,766 | 32,661 | 26,057 | 90,484 |
| Net change in net assets | 23,338 | 32,933 | 26,057 | 82,328 |
| **Net assets** | | | | |
| Beginning of year | 630,158 | 900,646 | 508,981 | 2,039,785 |
| End of year | $ 653,496 | $ 933,579 | $ 535,038 | $ 2,122,113 |

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

# Wellesley College
## Statement of Activities
## Year Ended June 30, 2014
## ($000s)

| | Unrestricted | Temporarily Restricted | Permanently Restricted | 2014 Total |
|---|---|---|---|---|
| **Operating revenues** | | | | |
| Tuition and fees | $ 102,635 | $ - | $ - | $ 102,635 |
| Room and board | 29,131 | - | - | 29,131 |
| Less: Financial aid | | | | |
| Donor sponsored | (27,756) | - | - | (27,756) |
| Institutionally sponsored | (24,177) | - | - | (24,177) |
| Net tuition and fees | 79,833 | - | - | 79,833 |
| Auxiliary operations | 5,947 | - | - | 5,947 |
| Government grants | 4,887 | - | - | 4,887 |
| Private gifts and grants | 19,661 | 5,381 | - | 25,042 |
| Investment return designated for operations | 39,474 | 42,013 | - | 81,487 |
| Other | 3,972 | - | - | 3,972 |
| Net assets released from restrictions | 42,476 | (42,476) | - | - |
| Total operating revenues | 196,250 | 4,918 | - | 201,168 |
| **Operating expenses** | | | | |
| Instruction and departmental research | 92,177 | - | - | 92,177 |
| Sponsored research and other programs | 11,747 | - | - | 11,747 |
| Library | 10,100 | - | - | 10,100 |
| Student services | 43,223 | - | - | 43,223 |
| General administration | 11,457 | - | - | 11,457 |
| General institutional | 29,172 | - | - | 29,172 |
| Auxiliary operations | 12,171 | - | - | 12,171 |
| Total operating expenses | 210,047 | - | - | 210,047 |
| Change in net assets from operating activities | (13,797) | 4,918 | - | (8,879) |
| **Nonoperating activities** | | | | |
| Investment return, net of spending allocation | 57,410 | 144,216 | 5,527 | 207,153 |
| Matured planned giving agreements | 3,048 | (5,691) | 2,643 | - |
| Gifts and pledges | - | 12,480 | 45,746 | 58,226 |
| Pension related changes other than net periodic pension cost | 810 | - | - | 810 |
| Net realized/unrealized loss on interest swap | (1,018) | - | - | (1,018) |
| Net assets released from restrictions | 339 | (339) | - | - |
| Total nonoperating revenues | 60,589 | 150,666 | 53,916 | 265,171 |
| Net change in net assets | 46,792 | 155,584 | 53,916 | 256,292 |
| **Net assets** | | | | |
| Beginning of year | 583,366 | 745,062 | 455,065 | 1,783,493 |
| End of year | $ 630,158 | $ 900,646 | $ 508,981 | $ 2,039,785 |

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

# Wellesley College
## Statements of Cash Flows
## Years Ended June 30, 2015 and 2014
## ($000s)

| | 2015 | 2014 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Change in net assets | $ 82,328 | $ 256,292 |
| Adjustment to reconcile change in net assets to net cash used in operating activities | | |
| Depreciation and amortization | 16,431 | 17,256 |
| Contributions restricted for investments | (35,978) | (48,952) |
| Donated securities received | (11,339) | (4,994) |
| Realized and unrealized gains on investments | (93,591) | (284,213) |
| Change in discount and allowance for doubtful accounts | 3,764 | (2,343) |
| Pension related changes other than net periodic pension cost | 5,670 | (810) |
| Unrealized loss (gain) on interest swap | 2,121 | 1,018 |
| Gain on sale of plant and equipment | (37,345) | (936) |
| Changes in operating assets and liabilities | | |
| Accounts receivable, net | (1,447) | (279) |
| Contributions receivable, net | (21,463) | 12,754 |
| Grants receivable | (266) | (111) |
| Prepaid, inventory and other assets | (1,588) | (480) |
| Accounts payable and accrued expenses | 430 | 7,263 |
| Student deposits and deferred revenue | (939) | (431) |
| Advances under grants and contracts | (110) | (415) |
| Annuities and unitrusts payable | (132) | (2,197) |
| Net cash used in operating activities | (93,454) | (51,578) |
| **Cash flows from investing activities** | | |
| Purchase of plant and equipment | (33,184) | (17,708) |
| Proceeds from sale of plant and equipment | 37,479 | 1,163 |
| Proceeds from student loans collections | 353 | 524 |
| Student loans issued | (377) | (430) |
| Decrease (increase) in restricted cash for construction funds | 36,769 | - |
| Purchases of investments | (562,398) | (607,656) |
| Proceeds from sales and maturities of investments | 610,818 | 634,027 |
| Net cash provided by (used in) investing activities | 89,460 | 9,920 |
| **Cash flows from financing activities** | | |
| Proceeds from contributions for | | |
| Investment in endowment | 14,855 | 38,589 |
| Investment in planned giving | 59 | 2,306 |
| Plant and equipment | 21,063 | 8,057 |
| Proceeds from sale of donated securities restricted for long term purposes | 11,339 | 4,994 |
| Payments on bonds and notes payable | (2,695) | (9,655) |
| Net cash provided by financing activities | 44,621 | 44,291 |
| Net increase in cash and cash equivalents | 40,627 | 2,633 |
| **Cash and cash equivalents** | | |
| Beginning of year | 34,307 | 31,674 |
| End of year | $ 74,934 | $ 34,307 |
| Contributed securities | $ 11,339 | $ 4,994 |
| Cash paid for interest | 8,025 | 8,047 |
| Capital additions included in accounts payable and accrued expenses | 553 | 680 |
| Net change in securities lending | (263) | (721) |

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

## 1. Summary of Significant Accounting Policies

### 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 and losses 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 the permanent endowment. Temporarily restricted net assets generally result from contributions and other inflows of assets whose use by the College is limited by donor-imposed stipulations or by law that either expire by passage of time or can be fulfilled and removed by actions of the College pursuant to those stipulations.

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

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

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

Nonoperating activities reflect transactions of a long-term investment or capital nature including contributions to be invested by the College to generate a return that will support future operations, contributions to be received in the future, contributions to be used for facilities and equipment, and investment return beyond what the College has appropriated for current operational support in accordance with the College's investment return spending guidelines. Nonoperating activities also include net realized and unrealized gains and losses on the interest rate swap and pension related changes other than net periodic pension cost.

**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 investments and planned giving investments, respectively. Restricted cash represents amounts for construction held by trustees in association with the Massachusetts Development Finance Agency Series J bond issue and amounts restricted by a donor for the Science Center and Power Plant.

**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, exchange-traded futures contracts, debt futures contracts and other vehicles that may be appropriate in certain circumstances as permitted within the managers' investment guidelines. The College's external investment 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, charitable remainder unitrusts and annuities and perpetual trusts. Unitrusts, in which the College has a remainder interest, but that are held in trust and administered by outside agents, have been recorded as gifts that are temporarily restricted. Unitrusts, in which the College has a remainder interest, and which are managed by the College, periodically pay income earned on the assets to designated beneficiaries. The College adjusts unitrusts for both the estimated return on the invested assets and the contractual payment obligations during the expected term of the agreement. For planned giving contracts, the contributed assets are included at fair value within planned giving investments and 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, and are included in annuities and unitrusts payable on the Statement of Financial Position.

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.

The College recognized no deficiencies of donor-restricted endowment funds for the years ended June 30, 2015 or June 30, 2014.

**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.

In October 2013, the Board of Trustees approved a revised Endowment Spending Policy effective for the year ended June 30, 2015. Wellesley's revised Endowment Spending Policy is based on a combination of the prior year's spending and latest known endowment value with a weighting of 80% and 20%, respectively. Prior year spending is adjusted for Higher Education Price Index (HEPI) inflation, and 4.25% is the rate applied to the best known value of the endowment. The amount of allowable spending will be capped at 5.0% or no less than 4.0% of the average of the last three endowment values adjusted for HEPI inflation. The Endowment Spending Policy is applied on a per unit basis. The sources of the payout are endowment earned income (interest and dividends), both current and previously reinvested income and a portion of realized gains. Investment return earned in prior years may be utilized if current year income is less than current year spend. The spending policy is designed to insulate investment policy from budgetary pressures, and to insulate program spending from fluctuations in capital markets.

**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.

**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 2015 and 2014, are reported net of allowances for doubtful accounts of $373,000. Loans receivable for 2015 and 2014, are reported net of allowances for doubtful loans of $709,000 and $722,000, respectively. The provisions are intended to provide for student accounts and loans that may not be collected.

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.

**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.

**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.

**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. Interest, depreciation, operations, and maintenance expenses have been allocated to functional expense classifications based on square footage utilized. When assets are retired or disposed of, the cost and accumulated depreciation are removed from the accounts and gains and losses from disposal are included in the Statement of Activities. Depreciation is computed on a straight-line basis over the estimated useful lives of the related assets as follows:

| | **Years** |
|---|---|
| Land improvements | 20–40 |
| Buildings and building improvements | 20–40 |
| Equipment | 4–12 |

**Financial Aid**
The Statement of Activities reflects financial aid as an offset to tuition and fee revenues. The College's financial aid is funded through private gifts, grants and endowment income (donor sponsored). Additional grants, when necessary, are funded through unrestricted institutional resources (Institutional sponsored).

**Auxiliary Operations**
Auxiliary operations include the Nehoiden Golf Club and 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 the direct expenses of running these operations, as well as an allocation for depreciation, debt service and physical plant maintenance and operation.

Room and board revenue, previously reported as part of auxiliary operations, is reported independently as a separate line item for the years ended June 30, 2015 and 2014. The correlating room and board expenses are included in the student services functional line item on the Statement of Activities.

**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.

**Asset Retirement and Environmental Obligations**
Asset retirement and environmental obligations (“ARO”) are legal obligations associated with long lived assets. The College recognizes the fair value of a liability that recognizes the legal obligations associated with environmental asset retirements in the period in which the obligation is incurred, typically when the College becomes obligated to remediate. These liabilities are initially recorded at fair value and the related asset retirement costs are capitalized by increasing the carrying amount of the related assets by the same amount as the liability. Asset retirement costs are subsequently depreciated over the useful lives of the related assets. Subsequent to the initial recognition, the College records period-to-period changes in the ARO liability resulting from the passage of time and revisions to either the timing or the amount of the original estimate of undiscounted cash flows. The College adjusts the ARO liabilities when the related obligations are settled. 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.

**Interest Rate Swap**
In fiscal year 2008, the College entered into an interest rate swap agreement on the Massachusetts Development Finance Agency, Variable Rate Revenue Bonds, Series I in order to convert the variable rate debt to fixed rate, thereby 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 is recorded in the operating section of the Statement of Activities as an allocation to the functional expense categories and is treated as another component of debt service. The change in fair value of the swap is recorded in the nonoperating section of the Statement of Activities as net realized/unrealized gain on interest swap.

**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.

**New Accounting Pronouncements**
In October 2012, the FASB issued a new cash flow disclosure requirement related to the disclosure of the classification of sale of proceeds of donated assets. The new guidance requires entities to classify cash receipts from the sale of donated financial assets consistently with cash donations received in the statement of cash flows if the sale of donated financial assets were without any not-for-profit imposed limitations on the sale, and the assets were converted nearly immediately into cash. The College adopted this accounting standard in fiscal year 2014.

In April 2015, the FASB issued a standard on Simplifying the Presentation of Debt Issuance Costs. This standard requires all costs incurred to issue debt to be presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability. The College early adopted this accounting standard in fiscal year 2015.

**Reclassifications**

Certain amounts from the 2014 financial statements have been reclassified to conform to the 2015 presentation.

## 2. Contributions Receivable

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

| | 2015 | 2014 |
|---|---|---|
| **Unconditional promises expected to be collected in** | | |
| Less than one year | $ 3,380 | $ 11,046 |
| One year to five years | 52,792 | 27,436 |
| Over five years | 15,500 | 11,727 |
| | 71,672 | 50,209 |
| Less: Discounts and allowance for uncollectible accounts | 9,804 | 6,027 |
| Net contributions receivable | $ 61,868 | $ 44,182 |

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 5.1% to 2.6% at June 30, 2015 and 2014.

## 3. Land, Buildings and Equipment

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

| | 2015 | 2014 |
|---|---|---|
| Land and land improvements | $ 50,093 | $ 50,226 |
| Buildings and building improvements | 459,640 | 457,575 |
| Equipment | 8,235 | 8,159 |
| Construction in progress | 45,427 | 15,062 |
| | 563,395 | 531,022 |
| Less: Accumulated depreciation | 251,015 | 234,940 |
| | $ 312,380 | $ 296,082 |

Depreciation expense was $16,587,000 and $16,638,000 for the years ended June 30, 2015 and 2014, respectively.

The College recognized $922,000 and $855,000 of operating expenses relating to the accretion of environmental liabilities associated with the asset retirement obligations for the years ended June 30, 2015 and 2014, respectively. Conditional asset retirement obligations of $21,884,000 and $21,066,000 at June 30, 2015 and 2014, respectively, are presented in the Statement of Financial Position.

During June of 2015, the College sold 47 acres of land to the Town of Wellesley in support of campus renewal efforts. The College also sold 1.706 acres to a private developer in February of 2015. The net proceeds from these transactions are presented in the Statement of Activities as gain on sale of property.

## 4. Investments

The book and market values of investments at June 30, 2015 and 2014 were as follows:

| *($000s)* | 2015 Book Value | 2015 Market Value | 2014 Book Value | 2014 Market Value |
|---|---|---|---|---|
| **Investments** | | | | |
| Investments pooled | | | | |
| Cash and cash equivalents | $ 113,386 | $ 113,386 | $ 66,949 | $ 66,949 |
| Bonds | 63,579 | 61,743 | 57,788 | 68,172 |
| Equities | 340,229 | 576,088 | 320,360 | 606,188 |
| Private equity | 296,294 | 386,791 | 268,638 | 349,799 |
| Real assets | 284,813 | 241,569 | 283,972 | 247,863 |
| Absolute return | 357,091 | 478,563 | 354,955 | 472,275 |
| Other assets | 851 | 851 | 851 | 851 |
| Total pooled investments | 1,456,243 | 1,858,991 | 1,353,513 | 1,812,097 |
| Faculty mortgage Subvention | 3 | 3 | - | - |
| Faculty mortgages | 27,272 | 27,312 | 25,976 | 25,976 |
| Total pooled investments and faculty mortgages | 1,483,518 | 1,886,306 | 1,379,489 | 1,838,073 |
| Investments not pooled | | | | |
| Cash and cash equivalents | 213 | 213 | 213 | 213 |
| Total investments not pooled | 213 | 213 | 213 | 213 |
| Total endowment investments | 1,483,731 | 1,886,519 | 1,379,702 | 1,838,286 |
| Other investments | | | | |
| Restricted construction funds | 45,000 | 43,445 | 45,000 | 42,775 |
| Total other investments | 45,000 | 43,445 | 45,000 | 42,775 |
| Total investments | $ 1,528,731 | $ 1,929,964 | $ 1,424,702 | $ 1,881,061 |
| **Planned giving investments** | | | | |
| Separate Pooled Funds | | | | |
| Cash and cash equivalents | $ 1,259 | $ 1,259 | $ 1,119 | $ 1,119 |
| Bonds | 13,598 | 13,952 | 14,273 | 14,603 |
| Equities | 22,186 | 25,663 | 19,241 | 28,311 |
| Total pooled funds | 37,043 | 40,874 | 34,633 | 44,033 |
| Unitrusts | | | | |
| Cash and cash equivalents | 341 | 341 | 282 | 282 |
| Bonds | 4,026 | 4,133 | 4,034 | 4,130 |
| Equities | 4,539 | 8,833 | 4,951 | 9,409 |
| Other assets | 1,887 | 1,887 | 1,887 | 1,887 |
| Assets held by trustees | 9,643 | 9,643 | 9,512 | 9,512 |
| Total funds not pooled | 20,436 | 24,837 | 20,666 | 25,220 |
| Total planned giving investments | $ 57,479 | $ 65,711 | $ 55,299 | $ 69,253 |

The absolute return 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 the Cash, Bonds and Equity portfolios are various investment vehicles including separate accounts, commingled funds, and hedge funds. Cash includes hedge funds with a market value of $35,398,000 and $40,095,000 at June 30, 2015 and 2014, respectively. Bonds include commingled funds with a market value of $43,243,000 and $47,069,000 and hedge funds with a market value of $18,500,000 and $21,103,000 at June 30, 2015 and 2014, respectively. Equities include separate accounts with a market value of $63,899,000 and $98,013,000 and commingled funds with a market value of $215,140,000 and $182,703,000 and hedge funds with a market value of $294,698,000 and $318,973,000 at June 30, 2015 and 2014, respectively.

The College's investment return from endowment and planned giving investments was as follows for the years ended June 30, 2015 and 2014 ($000s):

| | 2015 | | | |
|---|---|---|---|---|
| | **Unrestricted** | **Temporarily Restricted** | **Permanently Restricted** | **Total** |
| Dividends and interest (net of investemnt expenses of $13,955) | $ 913 | $ (1,116) | $ 3,287 | $ 3,084 |
| Net realized and unrealized gains/losses | 34,788 | 59,073 | - | 93,861 |
| Total return on endowment and planned giving investments | 35,701 | 57,957 | 3,287 | 96,945 |
| Investment return designated for current operations | (26,999) | (54,816) | - | (81,815) |
| | $ 8,702 | $ 3,141 | $ 3,287 | $ 15,130 |

| | 2014 | | | |
|---|---|---|---|---|
| | **Unrestricted** | **Temporarily Restricted** | **Permanently Restricted** | **Total** |
| Dividends and interest (net of investment expenses of $13,912) | $ 2,759 | $ 2,540 | $ 5,527 | $ 10,826 |
| Net realized and unrealized gains/losses | 81,190 | 196,624 | - | 277,814 |
| Total return on endowment and planned giving investments | 83,949 | 199,164 | 5,527 | 288,640 |
| Investment return designated for current operations | (26,539) | (54,948) | - | (81,487) |
| | $ 57,410 | $ 144,216 | $ 5,527 | $ 207,153 |

The total return consisting of realized and unrealized gains and losses and dividends and interest net of investment management and custodial fees was 5.91% and 18.80% for the fiscal years ended June 30, 2015 and 2014, 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 least observable level of significant input to the valuations at June 30, 2015 and 2014.

| | **2015** | | | |
|---|---|---|---|---|
| *($000s)* | **Level 1** | **Level 2** | **Level 3** | **Total** |
| **Investments** | | | | |
| Equities | $ 63,899 | $ 509,838 | $ 2,351 | $ 576,088 |
| Bonds | - | 61,743 | - | 61,743 |
| Private equity | - | - | 386,670 | 386,670 |
| Real assets | - | - | 241,060 | 241,060 |
| Absolute return | 79,250 | 187,021 | 212,292 | 478,563 |
| Cash and other assets | 81,497 | 35,399 | 28,116 | 145,012 |
| Planned giving investments | - | 56,068 | 9,643 | 65,711 |
| Total assets at fair value | $ 224,646 | $ 850,069 | $ 880,132 | $ 1,954,847 |
| Interest rate swap | | | 12,683 | 12,683 |
| Total liabilities at fair value | $ - | $ - | $ 12,683 | $ 12,683 |

| | **2014** | | | |
|---|---|---|---|---|
| *($000s)* | **Level 1** | **Level 2** | **Level 3** | **Total** |
| **Investments** | | | | |
| Equities | $ 98,013 | $ 501,676 | $ 6,499 | $ 606,188 |
| Bonds | - | 68,172 | - | 68,172 |
| Private equity | - | - | 349,799 | 349,799 |
| Real assets | - | - | 247,863 | 247,863 |
| Absolute return | 76,420 | 183,557 | 212,298 | 472,275 |
| Cash and other assets | 67,162 | 42,775 | 851 | 110,788 |
| Planned giving investments | - | 59,741 | 9,512 | 69,253 |
| Total assets at fair value | $ 241,595 | $ 855,921 | $ 826,822 | $ 1,924,338 |
| Interest rate swap | | | 10,562 | 10,562 |
| Total liabilities at fair value | $ - | $ - | $ 10,562 | $ 10,562 |

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.

The following tables present the assets and liability carried at fair value as of June 30, 2015 and 2014 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.

Consistent with the FASB accounting standards reissued in May 2011, related to estimating fair value of investments, $107,501,000 had been reclassified from Level 3 to Level 2, for the year ended June 30, 2014. There were no Level 3 to Level 2 reclassifications for the year ended June 30, 2015. The College had no reclassifications from Level 3 to Level 1 and no transfers from Level 2 to Level 1 for the years ended June 30, 2015 and 2014. Assets had been transferred from Level 3 to Level 2 as a result of changes in the portfolio's liquidity and expirations of the lockup provision. The transfer amount shown for the years ended June 30, 2015 and 2014 is the market value of the transferred assets as of June 30, 2015 and 2014, respectively.

| | 2015 | | | | | |
|---|---|---|---|---|---|---|
| *($000s)* | **Balance at July 1, 2014** | **Realized and Unrealized Gains/Losses** | **Purchases** | **Sales** | **Transfer in/ (out) of Level 3** | **Balance at June 30, 2015** |
| Equities | $ 6,499 | $ 450 | $ - | $ - | $ - | $ 6,949 |
| Private equity | 349,799 | 83,268 | 73,781 | - | - | 506,848 |
| Real assets | 247,863 | (26) | 33,264 | - | - | 281,101 |
| Absolute return | 212,297 | 5,847 | 7,714 | - | - | 225,858 |
| Cash and other assets | 851 | 1,605 | - | (1,605) | - | 851 |
| Planned giving investments | 9,512 | (3,145) | 139 | (536) | 3,673 | 9,643 |
| Interest rate swap - asset/liability | (10,562) | (2,121) | | | | (12,683) |
| **Balances at June 30, 2015** | $ 816,259 | $ 85,878 | $ 114,898 | $ (2,141) | $ 3,673 | $ 1,018,567 |

| | 2014 | | | | | |
|---|---|---|---|---|---|---|
| *($000s)* | **Balance at July 1, 2013** | **Realized and Unrealized Gains/Losses** | **Purchases** | **Sales** | **Transfer in/ (out) of Level 3** | **Balance at June 30, 2014** |
| Equities | $ 18,938 | $ 2,322 | $ - | $ (14,761) | $ - | $ 6,499 |
| Private equity | 294,962 | 85,276 | 50,202 | (80,641) | - | 349,799 |
| Real assets | 228,833 | 34,064 | 34,164 | (49,198) | - | 247,863 |
| Absolute return | 231,255 | 34,978 | 69,189 | (15,624) | (107,501) | 212,297 |
| Cash and other assets | 851 | 2,560 | - | (2,560) | - | 851 |
| Planned giving investments | 8,635 | 2,344 | 1,271 | (1,539) | (1,199) | 9,512 |
| Interest rate swap - asset/liability | (9,544) | (1,018) | - | - | - | (10,562) |
| **Balances at June 30, 2014** | $ 773,930 | $ 160,526 | $ 154,826 | $ (164,323) | $ (108,700) | $ 816,259 |

The amount of total gains or losses for the year included in Investment Return in the Statement of Activities attributed to the change in unrealized gains or losses relating to assets still held at June 30, 2015 and 2014 is $101,233,000 and $158,354,000, respectively.

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, 2015 and 2014.

| | 2015 | | | |
|---|---|---|---|---|
| *($000s)* | **NAV in Funds** | **Unfunded Commitments** | **Timing to Draw Commitments** | **Redemption Terms/Restrictions** |
| **Investment** | | | | |
| Private equity | $ 386,670 | $ 187,884 | 1 to 12 years | Funds are in private equity structure, with no ability to redeem |
| Real assets | 241,060 | 121,272 | 1 to 12 years | Funds are in private equity structure, with no ability to redeem |
| Equities | 512,188 | | | 96% of NAV is redeemable within 90 days;<br>3% of NAV is redeemable within a year;<br>remaining 1% has a multi-year redemption period. |
| Bonds | 61,743 | | | 70% of NAV is redeemable within 90 days;<br>10% of NAV is redeemable within 90 days; |
| Absolute return | 478,562 | 10,153 | 1 to 4 years | remaining 20% has a multi-year redemption period.<br>44% of NAV is redeemable within 90 days:<br>40% is redeemable within a year;<br>16% of NAV has a multi-year redemption period |
| Other assets | 63,515 | | | 41% of NAV is redeemable within 90 days;<br>12% of NAV is redeemable within a year;<br>remaining 47% has a multi-year redemption period. |
| | $ 1,743,738 | $ 319,309 | | |

| | 2014 | | | |
|---|---|---|---|---|
| *($000s)* | **NAV in Funds** | **Unfunded Commitments** | **Timing to Draw Commitments** | **Redemption Terms/Restrictions** |
| **Investment** | | | | |
| Private equity | $ 349,799 | $ 137,262 | 1 to 12 years | Funds are private equity, no ability to redeem. |
| Real assets | 247,863 | 78,205 | 1 to 12 years | Funds are private equity, no ability to redeem. |
| Equities | 508,175 | - | | 89% of NAV is redeemable within 90 days;<br>3% of NAV is redeemable within a year;<br>remaining 8% has a multi-year redemption period. |
| Bonds | 68,172 | - | | 93% of NAV is redeemable within 90 days;<br>remaining 7% has a multi-year redemption period. |
| Absolute return | 472,275 | 4,185 | 1 to 4 years | 38% of NAV is redeemable within 90 days;<br>46% of NAV is redeemable within a year;<br>remaining 16% has a multi-year redemption period. |
| Other assets | 66,908 | | | 22% of NAV is redeemable within 90 days:<br>16% is redeemable within a year;<br>62% of NAV has a multi-year redemption period. |
| | $ 1,713,192 | $ 219,652 | | |

Beneficial interests in 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.

## 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:

| | 2015 | 2014 |
|---|---|---|
| Investments in pooled funds and faculty mortgages, market value ($000s) | $ 1,886,306 | $ 1,838,073 |
| Total number of units | 2,695,201 | 2,654,998 |
| Market value per unit | 699.88 | 692.31 |
| Distribution per unit | 30.57 | 31.21 |

The following are the components of the pooled and nonpooled endowment funds at market value at June 30, 2015 and 2014 ($000s):

| | Units | Pooled Endowment | Nonpooled Endowment | Total Endowment |
|---|---|---|---|---|
| **2015 Funds** | | | | |
| Endowment and similar funds | | | | |
| Endowment funds | 1,745,256 | $ 1,221,461 | $ - | $ 1,221,461 |
| Term funds | 99,326 | 69,303 | 213 | 69,516 |
| Quasi-endowment | 850,619 | 595,329 | | 595,329 |
| | 2,695,201 | $ 1,886,093 | $ 213 | $ 1,886,306 |
| **2014 Funds** | | | | |
| Endowment and similar funds | | | | |
| Endowment funds | 1,705,519 | $ 1,180,742 | $ - | $ 1,180,742 |
| Term funds | 96,675 | 66,929 | 213 | 67,142 |
| Quasi-endowment | 852,804 | 590,402 | - | 590,402 |
| | 2,654,998 | $ 1,838,073 | $ 213 | $ 1,838,286 |

## 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 $17,070,000 and $16,249,000 at June 30, 2015 and 2014, respectively.

Mortgages due from faculty of $27,321,000 and $25,976,000 at June 30, 2015 and 2014, respectively, are included within investments on the Statement of Financial Position.

The College had Charitable Gift Annuities invested alongside the endowment with a market value of $5,332,000 and $3,936,000 at June 30, 2015 and June 30, 2014, respectively. These assets are included within the investments total on the Statement of Financial Position.

## 8. Bonds Payable and Lines of Credit

Indebtedness at June 30, 2015 and 2014 includes various bonds issued through the former Massachusetts Health and Education Facilities Authority (the Authority). On October 1, 2010, pursuant to certain provisions of Chapter 240 of the Acts of 2010 of the Massachusetts Legislature, signed into law by the Massachusetts governor on August 5, 2010, the Authority was merged into the Massachusetts Development Finance Agency (MDFA). Interest payments on debt totaled $6,230,000 and $6,252,000 during fiscal years 2015 and 2014, respectively.

During January 2008, the College issued $57,385,000 in Series I tax-exempt variable rate demand bonds. The proceeds have been 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 allowed the College to realize the present value savings through a restructuring of the College’s debt.

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.

During April 2012, the College issued $49,800,000 in Series J tax-exempt bonds. The bonds mature in 2042. The proceeds will be used for major asset preservation and modernization projects. The College incurred bond issue costs of $499,000 associated with the issue which have been capitalized and are being amortized over the life of the bonds. At June 30, 2015 and 2014, restricted cash included $18,232,000 and $55,001,000, respectively, of construction funds held by trustees that will be drawn down to fund various construction projects.

During April 2012, the College issued $99,210,000 in Series K taxable bonds. The bonds mature in 2042. The proceeds will be used for major asset preservation and modernization projects and were used to retire $50,040,000 of Series H bond debt. The refunding allowed the College to realize the present value savings in restructuring of the College’s debt. The College incurred costs of $525,000 associated with the issue which have been capitalized and are being amortized over the life of the bonds. At June 30, 2015 and 2014, operating investments included $43,445,000 and $42,775,000, respectively, of construction funds that will be drawn down to fund various construction projects.

The College has two lines of credit with different banks. The College may borrow up to $40 million with various terms and interest rates at LIBOR plus 1/5 of 1%. This line of credit expires on March 23, 2016. As of June 30, 2015 and 2014, there were no amounts outstanding under this line of credit. The second line of credit was entered into in February 2013. The College may borrow up to $50 million with various terms and interest rates. This line of credit expires on February 10, 2017. There were no amounts outstanding as of June 30, 2015 and 2014. Based on the repayment and maturity terms under the LOC, if they failed to remarket in their entirety, as of June 30, 2015 the aggregate scheduled principal payments would be as follows: $85,185,000, $84,185,000, $83,185,000, $82,185,000 in fiscal years 2016, 2017, 2018, and 2019, respectively.

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

| | 2015 | 2014 |
|---|---|---|
| MDFA, Series I, Variable Rate Demand Bonds, bearing interest at a daily rate, maturing July 2039. The rate at June 30, 2014 was 0.03%. | $ 57,385 | $ 57,385 |
| MDFA, Series G, Variable Rate Demand Bonds, bearing interest at a daily rate, maturing July 2039. The rate at June 30, 2014 was 0.03%. | 20,000 | 20,000 |
| MDFA, Series E, Variable Rate Demand Bonds, bearing interest at a daily rate, maturing July 2022. The rate at June 30, 2014 was 0.03%. | 7,800 | 8,700 |
| MDFA, Series J, Revenue Bonds, issued at an interest rate of 5.0%, maturing 2042. | 49,800 | 49,800 |
| Wellesley College, Series K, Taxable Bonds, bearing interest at a rate of 0.782% to 4.196%, maturing 2042. | 95,900 | 97,695 |
| Total debt | 230,885 | 233,580 |
| Less unamortized bond issue costs | (1,420) | (1,452) |
| Add unamortized original issue premium | 5,088 | 5,276 |
| | $ 234,553 | $ 237,404 |

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

| | |
|---|---|
| 2016 | $ 2,855 |
| 2017 | 3,020 |
| 2018 | 3,175 |
| 2019 | 3,325 |
| 2020 | 1,200 |
| Thereafter | 217,310 |
| Total bonds and notes payable | $ 230,885 |

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, 2015 and 2014, the market value of the swap agreement amounted to a liability of $12,683,000 and $10,562,000, 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 $2,121,000 in 2015 and a loss of $1,018,000 in 2014, which is reflected in the nonoperating activities section of the Statement of Activities. Additionally, the College paid net interest expense in association with the swap agreement of $1,795,000, which is recorded in the operating section of the Statement of Activities as an allocation to the functional expense categories for the years ended June 30, 2015 and 2014. The change in fair value of the swap is recorded in the nonoperating section of the Statement of Activities as net realized/unrealized loss on interest swap.

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 debt at June 30, 2015 as follows: fixed rate debt of $145,700,000 and variable rate debt of $85,185,000. 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, 2015 approximates $155,491,000. 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. Split-interest agreements are included in planned giving investments, and at June 30, 2015 and 2014, there is approximately $5,332,000 and 3,936,000, respectively, invested alongside the endowment, which are included within the investments total on the Statement of Financial Position. 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 from 4% to 6%. The liability of $30,988,000 and $31,120,000 at June 30, 2015 and 2014, 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. Retirement 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 $8,676,000 and $8,554,000, respectively, for the years ended June 30, 2015 and 2014.

The College also has a defined benefit pension plan for certain classified office and service employees. The Plan provides retirement and death benefits based on the highest thirty-six months 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. As of December 2012, this plan is no longer accepting new participants.

The measurement date of determining the benefit obligations and net periodic benefit cost for the defined benefit plan were June 30, 2015 and 2014.

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

| | 2015 | 2014 |
|---|---|---|
| Assumptions used to determine benefit obligations | | |
| Discount rate | 4.400% | 4.200% |
| Rate of compensation increase | 3.000% | 3.000% |
| Assumptions used to determine net periodic benefit cost | | |
| Discount rate | 4.200% | 4.700% |
| Expected return on plan assets | 7.200% | 7.200% |
| Rate of compensation increase | 3.000% | 3.000% |
| Change in projected benefit obligation ($000s) | | |
| Benefit obligation at end of prior year | $ 65,397 | $ 59,119 |
| Service cost | 2,150 | 1,894 |
| Interest cost | 2,699 | 2,731 |
| Actuarial (gain) loss, net of administrative expenses paid | 3,815 | 4,259 |
| Benefits paid | (2,577) | (2,606) |
| Benefit obligation at end of year | $ 71,484 | $ 65,397 |
| Accumulated benefit obligation | $ 62,454 | $ 56,640 |
| Change in plan assets ($000s) | | |
| Fair value of plan assets at end of prior year | $ 49,847 | $ 42,998 |
| Actual return on plan assets, net of administrative expenses | 1,097 | 7,455 |
| Employer contributions | 1,000 | 2,000 |
| Benefits paid | (2,577) | (2,606) |
| Fair value of plan assets at end of year | $ 49,367 | $ 49,847 |
| Funded status ($000s) | | |
| Funded status | $ (22,117) | $ (15,550) |
| Components of net periodic benefit cost ($000s) | | |
| Service cost | $ 2,150 | $ 1,894 |
| Interest cost | 2,699 | 2,731 |
| Expected return on plan assets | (3,558) | (3,086) |
| Amortization of prior service cost | 55 | 59 |
| Net loss (gain) on amortization | 551 | 642 |
| Net periodic benefit cost | $ 1,897 | $ 2,240 |

| *($000s)* | **2015** | **2014** |
|---|---|---|
| New net actuarial (gain) loss | $ 6,276 | $ (109) |
| Net (loss) gain on amortization | (551) | (642) |
| Amortization of prior service cost | (55) | (59) |
| | $ 5,670 | $ (810) |
| Amounts recognized in the statement of financial position consist of a liability ($000s) | $ (22,117) | $ (15,550) |
| Other changes in plan assets and benefit obligations recognized in unrestricted net assets ($000s) | | |
| Net prior service cost | 103 | 158 |
| Net actuarial loss | 19,373 | 13,647 |
| | $ 19,476 | $ 13,805 |

The amounts expected to be recognized as amortization of prior net service cost and the (gain)/losses to be recognized as a component of net periodic cost in the year are $55,000 and $968,000, respectively.

Estimated future benefit payments reflecting anticipated service, as appropriate, are expected to be paid as shown below:

| | *($000's)* |
|---|---|
| 2016 | $ 2,519 |
| 2017 | 2,833 |
| 2018 | 3,002 |
| 2019 | 3,302 |
| 2020 | 3,222 |
| 2021-2025 | 21,918 |

The College does not expect to make an employer contribution into the defined benefit plan in the 2016 fiscal year.

In selecting the long-term rate of return on assets, the College considered the average rate of earnings expected on the funds invested or to be invested to provide for the benefit of the Plan. This included considering asset allocation and the expected returns likely to be earned over the life of the Plan as well as assessing current valuation measures, income, economic growth and inflation forecasts, and historical risk premiums. This basis is consistent with prior years.

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

| **Asset Category** | **Target Allocation** |
|---|---|
| Equity securities | 60 % |
| Real estate investment trust | 5 |
| Commodities | 5 |
| Fixed income | 27 |
| Cash and cash equivalents | 3 |
| | 100 % |

The following lists the Plan's asset allocation at June 30, 2015 and 2014:

| **Asset Category** | **Value at June 30, 2015** *(000s)* | **2015** | **2014** |
|---|---|---|---|
| Equity securities | $ 31,424 | 64 % | 63 % |
| Real estate investment trust | 2,930 | 6 | 7 |
| Commodities | - | | 4 |
| Fixed income | 12,045 | 24 | 23 |
| Cash and cash equivalents | 2,979 | 6 | 3 |
| | $ 49,378 | 100 % | 100 % |

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

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

## 11. Net Assets

Net assets consist of the following at June 30, 2015 and 2014:

| *($000s)* | | 2015 | | 2014 |
|---|---|---|---|---|
| **Unrestricted** | | | | |
| Designated for specific purposes and plant | $ | 72,865 | $ | 84,769 |
| Quasi-endowment | | 580,631 | | 545,389 |
| | | 653,496 | | 630,158 |
| **Temporarily restricted** | | | | |
| Endowment and similar funds including pledges | | 805,617 | | 791,838 |
| Annuity, life income and unitrusts including pledges | | 38,440 | | 40,479 |
| Other restricted | | 89,522 | | 68,329 |
| | | 933,579 | | 900,646 |
| **Permanently restricted** | | | | |
| Endowment including pledges | | 535,038 | | 508,981 |
| | | 535,038 | | 508,981 |
| | $ | 2,122,113 | $ | 2,039,785 |

## 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 designated by the Board of Trustees to function as endowments (quasi funds). 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, 2015, endowment net assets consisted of the following:

| *($000s)* | | Unrestricted | | Temporarily Restricted | | Permanently Restricted | | Total |
|---|---|---|---|---|---|---|---|---|
| Donor-restricted funds | $ | - | $ | 776,743 | $ | 508,922 | $ | 1,285,665 |
| Board-designated (quasi) and other unrestricted funds | | 595,366 | | | | | | 595,366 |
| | $ | 595,366 | $ | 776,743 | $ | 508,922 | $ | 1,881,031 |

Changes in endowment net assets for the year ended June 30, 2015, consisted of the following:

| *($000s)* | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Endowment net assets at beginning of year | $ 590,794 | $ 761,067 | $ 482,316 | $ 1,834,177 |
| Investment income, net of expenses | 1,487 | 3,019 | | 4,506 |
| Net appreciation (realized and unrealized) | 31,650 | 64,259 | | 95,909 |
| | 623,931 | 828,345 | 482,316 | 1,934,592 |
| Contributions and transfers to endowment | (1,566) | 3,214 | 26,606 | 28,254 |
| Appropriation of endowment assets for expenditure | (26,999) | (54,816) | | (81,815) |
| Endowment net assets at end of year | $ 595,366 | $ 776,743 | $ 508,922 | $ 1,881,031 |

At June 30, 2014, endowment net assets consisted of the following:

| *($000s)* | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Donor-restricted funds | $ - | $ 761,067 | $ 482,316 | $ 1,243,383 |
| Board-designated (quasi) and other unrestricted funds | 590,754 | | | 590,754 |
| | $ 590,754 | $ 761,067 | $ 482,316 | $ 1,834,137 |

Changes in endowment net assets for the year ended June 30, 2014, consisted of the following:

| *($000s)* | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Endowment net assets at beginning of year | $ 518,630 | $ 625,935 | $ 431,772 | $ 1,576,337 |
| Investment income, net of expenses | 3,219 | 6,535 | | 9,754 |
| Net appreciation (realized and unrealized) | 90,849 | 184,452 | | 275,301 |
| | 612,698 | 816,922 | 431,772 | 1,861,392 |
| Contributions and transfers to endowment | 4,595 | (908) | 50,544 | 54,231 |
| Appropriation of endowment assets for expenditure | (26,539) | (54,947) | | (81,486) |
| Endowment net assets at end of year | $ 590,754 | $ 761,067 | $ 482,316 | $ 1,834,137 |

## 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. For the purposes of investigation and potential cleanup, the site has been segmented into various sub-areas, as follows: (1) the “Upper/Wetland/Pond” portion consisting of the former upland site of the paint factory, Paint Shop Pond, adjacent wetlands and Upper Waban Brook; (2) Lake Waban; and (3) Lower Waban Brook.

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 $90,000 and $132,000, respectively, for the years ended June 30, 2015 and 2014. 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. There were no expenses in 2015 for remediation work for Lower Waban Brook. Total expenses to the Lower Waban Brook remedial project were $95,000 as of June 30, 2014. A liability of $2,494,000 has been recorded as of June 30, 2015 and 2014, respectively, and is included in the Statement of Financial Position within accounts payable and accrued expenses.

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.

Outstanding commitments amounted to approximately $325,005,000 and $235,581,000 as of June 30, 2015 and 2014, respectively, for the following:

| *($000s)* | **2015** | **2014** |
|---|---|---|
| Alternative investments | $ 319,309 | $ 219,652 |
| Construction contracts | 5,696 | 15,929 |
| | $ 325,005 | $ 235,581 |

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 of Wellesley $111,000 annually as a guarantee for back-up power, at cost, to the College. This contract is in force until May 2016.

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.

## 14. Subsequent Events

The College has assessed the impact of subsequent events through October 28, 2015, the date the audited financial statements were available for issuance, and has concluded that there are no such events that require adjustment to the audited financial statements or disclosure in the notes of the audited financial statements.

# Wellesley College
## Schedule of Expenditures of Federal Awards
## Year Ended June 30, 2015

| Federal Grantor/Program Title | Federal Catalog Number | Pass-Through Entity Identifying Number | 2015 Expenditures |
|---|---|---|---|
| **Research and Development Cluster** | | | |
| Direct Awards | | | |
| National Aeronautics and Space Administration (NASA) | 43.001 | | $ 98,094 |
| Aerospace Education Service Program | 43.unknown | | 156,764 |
| NASA-Miscellaneous | | | 254,858 |
| Total NASA | | | |
| National Science Foundation | | | |
| Mathematical and Physical Sciences | 47.049 | | 57,415 |
| Computer and Information Science and Engineering | 47.070 | | 290,561 |
| Biological Sciences | 47.074 | | 465,532 |
| Social Behavior and Economic Sciences | 47.075 | | 120,812 |
| Education and Human Resources | 47.076 | | 31,459 |
| ARRA - Trans-NSF Recovery Act Research Support | 47.082 | | - |
| Total National Science Foundation | | | 965,779 |
| Department of Health and Human Services | | | |
| Maternal and Child Health Federal Consolidated Programs | 93.110 | | 74,837 |
| Cancer Detection and Diagnosis Research | 93.394 | | 70,061 |
| Cancer Biology Research | 93.396 | | - |
| Diabetes Endocrinology and Metabolism Research | 93.847 | | 358,925 |
| Allergy, Immunology and Transplantation Research | 93.855 | | 13,166 |
| Pharmacology Physiology and Biological Chemistry | 93.859 | | 48,073 |
| Research for Mothers and Children | 93.865 | | 129,805 |
| Vision Research | 93.867 | | 236,147 |
| Total Department of Health and Human Services | | | 931,014 |
| Department of Commerce | | | |
| National Institute of Standards and Technology | 11.609 | | 8,992 |
| Total Department of Commerce | | | 8,992 |
| National Endowment for the Humanities | | | |
| Promotion of the Humanities - Professional Development | 45.163 | | 674 |
| Total Department of Education | | | 674 |
| Research and Development Direct Awards Subtotal | | | 2,161,317 |
| Pass-Through Awards | | | |
| National Endowment for the Arts | | | |
| National England Foundation for the Arts | 45.025 | 14-28244 | 8,260 |
| Total National Endowment for the Arts | | | 8,260 |
| National Institute of Justice | | | |
| University of Chicago | 16.560 | 5788-Wellesley-01 | 32,749 |
| Total National Institute of Justice | | | 32,749 |
| National Aeronautics and Space Administration (NASA) | | | |
| Arizona State University | 43.001 | 14-404 | 34,228 |
| Arizona State University | 43.001 | 14-507 | 2,951 |
| Jet Propulsion Laboratory | 43.unknown | 1415721 | 44,351 |
| Total NASA | | | 81,530 |
| Department of Energy | | | |
| Brown University | 81.135 | 00000734 | 7,498 |
| Total Department of Energy | | | 7,498 |

The accompanying notes are an integral part of the schedule.

# Wellesley College
## Schedule of Expenditures of Federal Awards
## Year Ended June 30, 2015

| Federal Grantor/Program Title | Federal Catalog Number | Pass-Through Entity Identifying Number | 2015 Expenditures |
|---|---|---|---|
| National Science Foundation | | | |
| Harvard University | 47.049 | 123826-5079722 | 27,651 |
| Massachusetts Institute of Technology | 47.07 | 5710003723 | 73,662 |
| Cornell University | 47.074 | 61468-9523 | 50,758 |
| Northeastern University | 47.074 | 502036-78050 | 3,751 |
| Shippensburg University of Pennsylvania | 47.076 | 4300000766 | 12,121 |
| Wesleyan University | 47.049 | Memo dated 5/20/2011 | 16,451 |
| Computer Research Association | 47.unknown | Agreement dated 6/13/11 | (150) |
| Total National Science Foundation | | | 184,244 |
| Department of Education | | | |
| The Providence Plan | 84.359 | Sub dtd 12/15/2009 | 74,058 |
| Commonwealth of Massachusetts | 84.unknown | CT-DOE-1536Wellesley15LSSKR | 91,780 |
| Total Department of Education | | | 165,838 |
| **Research and Development Cluster** | | | |
| Pass-Through Awards | | | |
| Department of Health and Human Services | | | |
| The Forsyth Institute | 93.121 | 021565-WELL2325 | 9,628 |
| University of Illinois at Chicago | 93.242 | 2011-06805-02-00 | 277,108 |
| Smith College | 93.396 | 636061-2 | 26,985 |
| Boston Medical Center | 93.855 | Activity 0355701 | 25,094 |
| Total Department of Health and Human Services | | | 338,815 |
| Total Research and Development Pass-Through Awards | | | 818,934 |
| Total Research and Development Cluster | | | 2,980,251 |
| **Student Financial Aid Cluster** | | | |
| Department of Education | | | |
| Federal Supplemental Educational Opportunity Grants Program | 84.007 | | 228,227 |
| Federal Work Study Program | 84.033 | | 321,945 |
| Federal Pell Grant Program | 84.063 | | 1,928,716 |
| Total Student Financial Aid Cluster | | | 2,478,888 |
| Total Expenditures of Federal Awards | | | $ 5,459,138 |

The accompanying notes are an integral part of the schedule.

## 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, 2015 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. Negative amounts on the Schedule represent adjustments in the normal course of business to expenditures reported in the prior year.

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. Catalog of Federal Domestic Assistance ("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*, or Uniform Guidance as applicable. 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, 2015 were based on predetermined rates negotiated with the College's federal oversight agency, the Department of Health and Human Services. The College negotiated four-year predetermined indirect cost rates of 75.3% for on-campus and 15.1% for off-campus activity based on salaries and wages. These rates are effective from July 1, 2013 through June 30, 2017.

## 3. Subrecipients

The College passed through federal awards to subgrantee organizations in the Research and Development cluster totaling $115,623.

### 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 Direct Loan ("FDL") issued to students of the College by financial institutions during the year ended June 30, 2015 are summarized as follows:

| | CFDA Number | Amount |
|---|---|---|
| Perkins loans issued | 84.038 | $ 726,974 |
| Total Perkins loans issued | | 726,974 |
| FDL - guaranteed loan programs | | |
| Stafford loans | 84.268 | 2,364,559 |
| Parent Loans for Undergraduate Students | 84.268 | 2,330,172 |
| Total FDL - guaranteed loans issued | | 4,694,731 |
| Total federal loans issued | | $ 5,421,705 |

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 $4,864,173 at June 30, 2015. There was no administrative cost allowance awarded for the Perkins program for the year ended June 30, 2015.

# Part II - Reports on Internal Control and Compliance

**Independent Auditor's Report 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, in accordance with the 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, the financial statements of Wellesley College (the "College"), which comprise the statements of financial position as of June 30, 2015 and 2014, and the related statements of activities and statements of cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated October 28, 2015.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the College's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we do not express an opinion on the effectiveness of the College's internal control.

A *deficiency in internal control* 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 a 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

pwc

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the College's financial statements are free from 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*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

PricewaterhouseCoopers LLP

October 28, 2015

**Independent Auditor's Report 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

**Report on Compliance for Each Major Federal Program**

We have audited Wellesley College's (the "College") compliance 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 the College's major federal programs for the year ended June 30, 2015. 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.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the College's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the College's compliance.

***Opinion on Each Major Federal Program***

In our opinion, based on our audit and the report of other auditors, the College complied, in all material respects, with the types of compliance 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, 2015.

**Report on Internal Control Over Compliance**

Management of the College is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, except as noted in the following paragraph, we considered the College's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 over compliance 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 corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration and the other auditors' consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. Also, the report of the other auditors did not identify and deficiencies in internal control over compliance that they consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

PricewaterhouseCoopers LLP

March 11, 2016

# Part III – Findings and Questioned Costs

# Wellesley College
## Schedule of Findings and Questioned Costs
## June 30, 2015

### I. Summary of Auditor's Results

**Financial Statements**

| | | |
|---|---|---|
| Type of auditor's report issued | Unmodified | |
| 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 | Unmodified | |
| Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? | ___ Yes | ✓ No |

**Identification of Major Programs**

| CFDA Number | Name of Federal Program or Cluster |
|---|---|
| Various | Student Financial Aid Cluster |

| | |
|---|---|
| Dollar threshold used to distinguish between type A and type B programs | $300,000 |
| Auditee qualifies as a low-risk auditee? | Yes |

## II. Financial Statement Findings

No matters are reported.

## III. Federal Award Findings and Questioned Costs

No matters are reported.

**2014-001 Compliance Requirement: Study Abroad Programs**
Grantor: Department of Education
Award Year: July 1, 2013 - June 30, 2014
CFDA Number: 84.063, 84.007, 84.033 and 84.038
CFDA Title: Federal Pell Grant, Federal Supplemental Educational Opportunity Grant, Federal Work Study and Federal Perkins Loan Program

**Condition**
The College has all of its students enrolled in study abroad programs sign a study abroad participation agreement and assumption of risk and release form (the “agreement”) with the Colleges to ensure students are participating in an eligible program. In a sample of 25 students, out of a total population of greater than 250 students tested for compliance in fiscal year 2014, there was one student for which the College could not locate the signed agreement.

PwC recommended the College create a “check list” to outline what documentation must be obtained and retained for each student who will be studying aboard and ensure the “check list” is signed by at least two members of the Student Financial Services group in order to ensure that all the documentation that needs to be retained will be retained before granting permission for the students to study aboard.

**Current Year Status**
Management’s corrective actions in response to the prior year finding from fiscal year 2014 were implemented during fiscal year 2015.

The College has implemented electronic procedures that require students to submit the risk and release waiver on-line as part of their application to study aboard.

**2014-002 Compliance Requirement: Loan Entrance Interviews**
Grantor: Department of Education
Award Year: July 1, 2013 - June 30, 2014
CFDA Number: 84.038
CFDA Title: Federal Perkins Loan Program

**Condition**
In a sample of 60 students, of a total population of greater than 250 students tested for compliance in fiscal year 2014, there were two students for which the College could not locate the signed entrance interviews.

PwC recommended the College should retain its own copy of significant records held by the loan service provider to enable a streamlined transition in the event of a change in loan servicer or a request for documentation from regulator and/or the student. To ensure this documentation is complete, a “check list” could be assigned to each file and the funds should not be disbursed until a member of the Student Financial Services department has signed the form to ensure the documentation is both complete and accurate.

**Current Year Status**
Management’s corrective actions in response to the prior year finding from fiscal year 2014 were implemented during fiscal year 2015.

The office of Student Financial Services (SFS) performed a full review of all the students with outstanding Perkins Loans to confirm all entrance interview information was appropriately transferred to the current loan processor. If any discrepancies were identified they worked with the previous processor to obtain copies of all missing entrance interviews. In addition, the SFS Counselor has the ability to retrieve reports showing completion of the interviews from the loan processor which are reviewed to monitor the entrance activity.

**2014-003 Compliance Requirement: Student Status Changes**
Grantor: Department of Education
Award Year: July 1, 2013 - June 30, 2014
CFDA Number: 84.268
CFDA Title: Federal Direct Loan

**Condition**
In a sample of 25 students, out of a total population of greater than 250 students tested for compliance in fiscal year 2016, there were six students for which the College did not comply with the student status changes reporting requirement. For these students, the change of status submitted to the National Student Loan Data System (“NSLDS”) ranged from 63 to 125 days late.

PwC recommended the College should implement procedures to ensure all staff is made aware of policies and procedures in place to ensure all changes in student status are tracked and communicated on a timely basis, including those student status changes that occur after the last schedule student status confirmation report. Management should also consider implementing procedures to monitor compliance with this requirement on a monthly basis.

**Current Year Status**
Management’s corrective actions in response to the prior year finding from fiscal year 2014 were implemented during fiscal year 2015.

Wellesley College developed and implemented a tracking database to improve communication between departments concerning students taking a leave of absence or withdrawing from the College. This tracking system is jointly used by Advising, Registrar’s Office and Student Financial Services. In addition, the Registrar’s Office has established a practice of manually posting student changes to the National Student Clearinghouse on the same day we record the leave of withdrawal in our student information system.