



**WELLESLEY COLLEGE**

Financial Statements

June 30, 2020 and 2019

(With Independent Auditors' Report Thereon)

**WELLESLEY COLLEGE**

June 30, 2020 and 2019

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KPMG LLP  
Two Financial Center  
60 South Street  
Boston, MA 02111

## Independent Auditors' Report

The Board of Trustees  
Wellesley College:

We have audited the accompanying financial statements of Wellesley College (the College), which comprise the statements of financial position as of June 30, 2020 and 2019, 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 these financial statements in accordance with U.S. generally accepted accounting principles; 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.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 the auditors' 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, the auditor considers internal control relevant to the entity'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 entity'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.

### *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, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

**KPMG LLP**

October 27, 2020

**WELLESLEY COLLEGE**

Statements of Financial Position

June 30, 2020 and 2019

(In thousands)

| <b>Assets</b>   | <b>2020</b>  | <b>2019</b> |
|---|--------------|-------------|
| Cash and cash equivalents                               | \$ 99,723    | 92,381      |
| Restricted cash   | —            | 28,383      |
| Receivables, net  | 18,825       | 22,663      |
| Contributions receivable, net                           | 52,199       | 50,046      |
| Prepaid, inventory and other assets                     | 4,552        | 1,592       |
| Investments   | 2,295,151    | 2,181,574   |
| Planned giving investments                              | 55,214       | 57,764      |
| Land, buildings and equipment, net                      | 465,704      | 420,883     |
|   | <hr/>        | <hr/>       |
| Total assets  | \$ 2,991,368 | 2,855,286   |
|   | <hr/>        | <hr/>       |
| <b>Liabilities and Net Assets</b>                       |              |             |
| Liabilities:  |              |             |
| Accounts payable and accrued expenses                   | \$ 46,347    | 42,032      |
| Deferred income and advances under grants and contracts | 8,141        | 9,272       |
| Annuities and unitrusts payable                         | 31,225       | 29,101      |
| Asset retirement and environmental obligations          | 22,515       | 21,850      |
| Accrued pension liability                               | 42,015       | 27,150      |
| Bonds payable   | 319,483      | 321,218     |
| Other liabilities                                       | 34,914       | 25,699      |
| Government loan advances                                | 779          | 2,379       |
|   | <hr/>        | <hr/>       |
| Total liabilities                                       | 505,419      | 478,701     |
|   | <hr/>        | <hr/>       |
| Net assets:   |              |             |
| Without donor restrictions                              | 694,999      | 661,237     |
| With donor restrictions                                 | 1,790,950    | 1,715,348   |
|   | <hr/>        | <hr/>       |
| Total net assets  | 2,485,949    | 2,376,585   |
|   | <hr/>        | <hr/>       |
| Total liabilities and net assets                        | \$ 2,991,368 | 2,855,286   |
|   | <hr/>        | <hr/>       |

See accompanying notes to financial statements.

**WELLESLEY COLLEGE**

Statement of Activities

Year ended June 30, 2020

(In thousands)

|   | <b>Without donor<br/>restrictions</b> | <b>With donor<br/>restrictions</b> | <b>2020<br/>Total</b> |
|---|---------------------------------------|------------------------------------|-----------------------|
| <b>Operating revenues:</b>                                      |                                       |                                    |                       |
| Tuition, fees, room and board, net of financial aid of \$67,876 | \$ 93,376                             | —                                  | 93,376                |
| Auxiliary operations  | 7,324                                 | —                                  | 7,324                 |
| Government grants   | 5,552                                 | —                                  | 5,552                 |
| Private gifts and grants  | 19,288                                | 4,335                              | 23,623                |
| Endowment distributed for operations                            | 84,699                                | 7,457                              | 92,156                |
| Amounts transferred from endowment funds                        | 990                                   | —                                  | 990                   |
| Restricted and designated funds used in operations              | 3,810                                 | —                                  | 3,810                 |
| Other   | 6,192                                 | —                                  | 6,192                 |
| Net assets released from restrictions                           | 7,821                                 | (7,821)                            | —                     |
| Total operating revenues  | 229,052                               | 3,971                              | 233,023               |
| <b>Operating expenses:</b>                                      |                                       |                                    |                       |
| Instruction   | 90,291                                | —                                  | 90,291                |
| Sponsored research and centers                                  | 13,516                                | —                                  | 13,516                |
| Student services  | 51,571                                | —                                  | 51,571                |
| Academic support  | 24,235                                | —                                  | 24,235                |
| Institutional support   | 38,400                                | —                                  | 38,400                |
| Auxiliary operations  | 11,790                                | —                                  | 11,790                |
| Total operating expenses  | 229,803                               | —                                  | 229,803               |
| Change in net assets from operating activities                  | (751)                                 | 3,971                              | 3,220                 |
| <b>Nonoperating activities:</b>                                 |                                       |                                    |                       |
| Investment return, net of spending allocation                   | 34,929                                | 44,293                             | 79,222                |
| Endowment distributed for operations                            | (990)                                 | —                                  | (990)                 |
| Matured planned giving agreements                               | 1,592                                 | (1,592)                            | —                     |
| Gifts and pledges   | 7,731                                 | 49,636                             | 57,367                |
| Pension related changes other than net service cost             | (15,326)                              | —                                  | (15,326)              |
| Net unrealized loss on interest swap                            | (8,838)                               | —                                  | (8,838)               |
| Other changes   | (1,481)                               | —                                  | (1,481)               |
| Net assets released from restrictions                           | 17,991                                | (21,801)                           | (3,810)               |
| Change in net asset classification and transfers                | (1,095)                               | 1,095                              | —                     |
| Total nonoperating revenues                                     | 34,513                                | 71,631                             | 106,144               |
| Net change in net assets  | 33,762                                | 75,602                             | 109,364               |
| <b>Net assets:</b>  |                                       |                                    |                       |
| Beginning of year   | 661,237                               | 1,715,348                          | 2,376,585             |
| End of year   | \$ 694,999                            | 1,790,950                          | 2,485,949             |

See accompanying notes to financial statements.

**WELLESLEY COLLEGE**

Statement of Activities

Year ended June 30, 2019

(In thousands)

|   | <u>Without donor<br/>restrictions</u> | <u>With donor<br/>restrictions</u> | <u>2019<br/>Total</u> |
|---|---------------------------------------|------------------------------------|-----------------------|
| Operating revenues:   |                                       |                                    |                       |
| Tuition, fees, room and board, net of financial aid of \$67,791 | \$ 96,199                             | —                                  | 96,199                |
| Auxiliary operations  | 7,060                                 | —                                  | 7,060                 |
| Government grants   | 4,313                                 | —                                  | 4,313                 |
| Private gifts and grants  | 19,691                                | 4,089                              | 23,780                |
| Endowment distributed for operations                            | 84,030                                | 6,736                              | 90,766                |
| Amounts transferred from endowment funds                        | 3,694                                 | —                                  | 3,694                 |
| Restricted and designated funds used in operations              | 3,122                                 | —                                  | 3,122                 |
| Other   | 10,354                                | —                                  | 10,354                |
| Net assets released from restrictions                           | 13,257                                | (13,257)                           | —                     |
| <b>Total operating revenues</b>                                 | <u>241,720</u>                        | <u>(2,432)</u>                     | <u>239,288</u>        |
| Operating expenses:   |                                       |                                    |                       |
| Instruction   | 93,475                                | —                                  | 93,475                |
| Sponsored research and centers                                  | 12,501                                | —                                  | 12,501                |
| Student services  | 53,227                                | —                                  | 53,227                |
| Academic support  | 24,501                                | —                                  | 24,501                |
| Institutional support   | 39,829                                | —                                  | 39,829                |
| Auxiliary operations  | 12,150                                | —                                  | 12,150                |
| <b>Total operating expenses</b>                                 | <u>235,683</u>                        | <u>—</u>                           | <u>235,683</u>        |
| <b>Change in net assets from operating activities</b>           | <u>6,037</u>                          | <u>(2,432)</u>                     | <u>3,605</u>          |
| Nonoperating activities:  |                                       |                                    |                       |
| Investment return, net of spending allocation                   | 16,272                                | 31,100                             | 47,372                |
| Endowment distributed for operations                            | (3,694)                               | —                                  | (3,694)               |
| Matured planned giving agreements                               | 3,790                                 | (3,790)                            | —                     |
| Gifts and pledges   | 59                                    | 7,438                              | 7,497                 |
| Pension related changes other than net service cost             | (4,289)                               | —                                  | (4,289)               |
| Net unrealized loss on interest swap                            | (5,537)                               | —                                  | (5,537)               |
| Other changes   | (2,401)                               | 4,384                              | 1,983                 |
| Net assets released from restrictions                           | 13,479                                | (16,601)                           | (3,122)               |
| Changes in net asset classification and transfers               | 20                                    | (20)                               | —                     |
| <b>Total nonoperating revenues</b>                              | <u>17,699</u>                         | <u>22,511</u>                      | <u>40,210</u>         |
| <b>Net change in net assets</b>                                 | <u>23,736</u>                         | <u>20,079</u>                      | <u>43,815</u>         |
| Net assets:   |                                       |                                    |                       |
| Beginning of year   | <u>637,501</u>                        | <u>1,695,269</u>                   | <u>2,332,770</u>      |
| End of year   | <u>\$ 661,237</u>                     | <u>1,715,348</u>                   | <u>2,376,585</u>      |

See accompanying notes to financial statements.

**WELLESLEY COLLEGE**

Statements of Cash Flows

Years ended June 30, 2020 and 2019

(In thousands)

|  | 2020       | 2019      |
|--|------------|-----------|
| Cash flows from operating activities:  |            |           |
| Change in net assets   | \$ 109,364 | 43,815    |
| Adjustment to reconcile change in net assets to net cash used in operating activities: |            |           |
| Depreciation and amortization  | 22,160     | 20,733    |
| Contributions restricted for long-term purposes  | (35,468)   | (18,528)  |
| Donated securities received  | (2,155)    | (355)     |
| Realized and unrealized gains on investments   | (150,651)  | (145,890) |
| Change in discount and allowance for doubtful accounts                                 | 203        | (4,314)   |
| Pension related changes other than net periodic pension cost                           | (15,326)   | 4,289     |
| Unrealized loss on interest rate swap  | 8,838      | 5,337     |
| Gain on sale and disposals of plant and equipment                                      | —          | 1,158     |
| Changes in operating assets and liabilities:   |            |           |
| Receivables  | 3,704      | 980       |
| Contributions receivable   | (2,344)    | 31,395    |
| Prepaid, inventory and other assets  | (3,475)    | 2,196     |
| Accounts payable, accrued expenses and other   | 34,125     | (7,957)   |
| Student deposits and deferred revenue  | (1,131)    | (1,536)   |
| Government loan advances   | (1,600)    | 70        |
| Annuities and unitrusts payable  | 2,124      | (1,634)   |
| Other liabilities  | 377        | 238       |
| Net cash used in operating activities  | (31,255)   | (70,003)  |
| Cash flows from investing activities:  |            |           |
| Purchases of land, buildings and equipment   | (66,015)   | (84,468)  |
| Proceeds from sale of land, buildings and equipment                                    | —          | (1,262)   |
| Proceeds from student loans collections  | 986        | 1,251     |
| Student loans issued   | (864)      | (1,110)   |
| Decrease in restricted cash for construction funds                                     | 28,383     | 66,807    |
| Purchases of investments   | (437,639)  | (632,313) |
| Proceeds from sales and maturities of investments                                      | 477,263    | 709,631   |
| Net cash provided by investing activities  | 2,114      | 58,536    |
| Cash flows from financing activities:  |            |           |
| Proceeds from contributions for:   |            |           |
| Investment in endowment  | 24,788     | 16,361    |
| Investment in planned giving   | 10,680     | 2,167     |
| Proceeds from sale of donated securities restricted for long-term purposes             | 2,155      | 355       |
| Receipts from line of credit   | 30,000     | —         |
| Payments on line of credit   | (30,000)   | —         |
| Payments on bonds and notes payable  | (1,140)    | (3,245)   |
| Net cash provided by financing activities  | 36,483     | 15,638    |
| Net increase in cash and cash equivalents  | 7,342      | 4,171     |
| Cash and cash equivalents:   |            |           |
| Beginning of year  | 92,381     | 88,210    |
| End of year  | \$ 99,723  | 92,381    |
| Contributed securities   | \$ 15,805  | 5,292     |
| Cash paid for interest   | 11,457     | 11,979    |
| Change in capital additions included in accounts payable and accrued expenses          | 381        | (3,134)   |

See accompanying notes to financial statements.

## WELLESLEY COLLEGE

### Notes to Financial Statements

June 30, 2020 and 2019

#### (1) Summary of Significant Accounting Policies

##### (a) Organization

Founded in 1870, Wellesley College (the College) is a private, nonprofit liberal arts college for women. In pursuit of the College mission, Wellesley prepares women for leadership roles and educates them to make a difference in the world.

##### (b) Basis of Presentation

The financial statements of Wellesley College have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) 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:

*Without donor restrictions* – Net assets that are not subject to donor-imposed stipulations, but which may be designated for specific purposes by the College or otherwise be limited by contractual agreements with outside parties. The College records any donor-restricted contributions for which the donor-imposed restrictions are met in the same reporting period as the contribution is received within net assets without donor restrictions.

*With donor restrictions* – Net assets that are subject to donor-imposed stipulations that expire by the passage of time, can be fulfilled by actions of the College pursuant to the stipulations, or which may be perpetual.

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 unrealized gains and losses on the interest rate swap, pension related changes other than net periodic pension cost and changes in matured planned giving agreements.

##### (c) Cash and Cash Equivalents

For the purpose of the statement of cash flows, cash and cash equivalents include short-term, highly liquid investments with original maturities of three months or less. Cash equivalents included in restricted cash, endowment assets and planned giving assets are not considered cash and cash equivalents for the purpose of the statement of cash flows.

##### (d) Investments

Investments are generally carried at fair value. Purchases and sales of investments are recorded on the trade date of the transaction. Realized gains and losses arising from 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.



## WELLESLEY COLLEGE

### Notes to Financial Statements

June 30, 2020 and 2019

For investments made directly by the College whose values are based on quoted market prices in active markets, the market price is used to report fair value. The College's interests in alternative investment funds such as hedge, private equity, and absolute return, are reported at the net asset value (NAV) reported by the fund managers. Unless it is probable that all or a portion of the investments will be sold for an amount other than NAV, the College has concluded that, as a practical expedient, NAV approximates fair value.

The College has established a framework for measuring fair value under GAAP. The College determines fair value based on 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: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the College has the ability to access at measurement date.

Level 2: Quoted prices, other than those included in Level 1, that are either directly or indirectly observable for the assets or liabilities.

Level 3: Unobservable quoted prices used when little or no market data is available.

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 with donor restrictions. 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. For planned giving contracts, the contributed assets are included at fair value within planned giving investments and investments on the Statements 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 Statements of Financial Position.

## WELLESLEY COLLEGE

### Notes to Financial Statements

June 30, 2020 and 2019

#### **(e) 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.

Wellesley's Endowment Spending Policy is based on a combination of the prior year's spending and a percentage of the latest 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 most recent endowment value on December 31. The amount of allowable spending will be capped at 5.0% or no less than 4.0% of the average of the last three fiscal year end endowment values adjusted for HEPI inflation. The Endowment Spending Policy is applied on a per unit basis. 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.

In accordance with the Massachusetts Uniform Prudent of Management of Institutional Funds Act, the College considers the following factors in making a determination to appropriate for spending or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the College and the donor-restricted endowment fund
3. General economic conditions
4. The possible effects of inflation and deflation
5. The expected total return from income and appreciation of investments
6. Other resources of the College
7. The College's investment policies

**WELLESLEY COLLEGE**

Notes to Financial Statements

June 30, 2020 and 2019

**(f) Receivables, net**

Accounts receivable include amounts due from students, student organizations and other miscellaneous receivables. Loans to students are carried at net realizable value. Student accounts receivable as of June 30, 2020 and 2019 were \$1,098,000 and \$764,000, respectively, and are reported net of allowances for doubtful accounts of \$172,000 and \$187,000, respectively. Loans receivable as of June 30, 2020 and 2019 were \$6,854,000 and \$7,003,000, respectively, and are reported net of allowances for doubtful loans of \$855,000 and \$828,000, respectively. The provisions are intended to provide for student accounts and loans that may not be collected. The remaining balance as of June 30, 2020 and 2019 consists of grants and other accounts receivable.

**(g) Contributions**

Contributions of cash and other assets, including unconditional promises to give, are recorded as revenue based on any donor-imposed restrictions on the date of the donors' commitment or gift. Contributions of other assets are recorded at their estimated fair value at the date of the gift. Unconditional pledges are recorded at their estimated present value, which approximates fair value, net of an allowance for uncollectible amounts. Conditional pledges are not recognized as revenue until such time as the conditions are substantially met.

**(h) Land, Buildings, and Equipment**

Land, buildings, and equipment are recorded at cost, or if donated, at estimated fair value at the date of donation and are presented net of accumulated depreciation. 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. Interest, depreciation, operations, and maintenance expenses have been allocated to functional expense classifications based on square footage utilized. When assets are retired or disposed, the cost and accumulated depreciation are removed from the accounts and gains and losses from disposal are included in the Statements of Activities. Depreciation is computed on a straight-line basis over the estimated useful lives of the related assets as follows:

|                              | <u>Years</u> |
|------------------------------|--------------|
| Buildings and Infrastructure | 20–60        |
| Building improvements        | 20           |
| Furniture and Equipment      | 4–12         |

**(i) Student Charges**

The College recognizes revenue from tuition, fees, room, and board within the fiscal year in which educational services are provided. Financial aid, in the form of scholarships and grants, includes amounts funded by the endowment, gifts and unrestricted institutional resources. This amount reduces the published price of tuition for students receiving such aid. As such, financial aid is referred to as a tuition discount and represents the difference between the stated charge for tuition and fees and the amount that is billed to the student and/or third parties making payments on behalf of the student. Tuition and fee revenue was \$132,195,000 and \$128,441,000 at June 30, 2020 and 2019, respectively,

## WELLESLEY COLLEGE

### Notes to Financial Statements

June 30, 2020 and 2019

and room and board revenue was \$29,057,000 and \$35,549,000. Financial aid provided to students totaled \$67,876,000 and \$67,791,000 for the years ended June 30, 2020 and 2019, respectively.

#### **(j) Grant Revenue**

Grants and contracts awarded by federal and other sponsors, which generally are considered nonexchange transactions restricted by sponsors for certain purposes, are recognized as revenue when qualifying expenditures are incurred and conditions under the agreements are met. The College has elected the simultaneous release option for conditional contributions that are also subject to purpose restrictions. Under this option, net assets without donor restrictions include donor-restricted contributions for which purpose restrictions and conditions are met in the same reporting period. Total revenue from grants and contracts recognized in net assets without donor restrictions was \$10,559,000 and \$7,640,000 for the years ended June 30, 2020 and 2019, respectively, and are included in the government grants and private gifts and grants lines on the Statements of Activities. Payments received from sponsors in advance of conditions being met are reported as deferred income and advances under grants and contracts, which totaled \$7,304,000 and \$6,912,000 as of June 30, 2020 and 2019, respectively.

Government grants normally provide for the recovery of direct and indirect costs. 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.

#### **(k) Auxiliary Operations**

Auxiliary operations include summer programs, 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 based on square footage.

Room and board expenses are included in the student services functional line item on the Statements of Activities.

#### **(l) Internal Revenue Code Status**

The College has been granted tax-exempt status as a not-for-profit organization under Section 501(c)(3) of the Internal Revenue Code.

The College has no material uncertain tax provisions as of June 30, 2020 and 2019.

The Tax Cuts and Jobs Act (the Act) was enacted on December 22, 2017. The Act impacts the College in several ways, including new excise taxes on executive compensation and net investment income, increases to unrelated business taxable income (UBTI) by the amount of certain fringe benefits for which a deduction is not allowed, changes to the net operating loss rules, repeal of the alternative minimum tax (AMT), and the computation of UBTI separately for each unrelated trade or business. Further, the Act reduces the US federal corporate tax rate and federal corporate unrelated business income tax rate from 35% to 21%.

## WELLESLEY COLLEGE

### Notes to Financial Statements

June 30, 2020 and 2019

For the year ended June 30, 2020 and 2019, the College is subject to the federal excise tax of 1.4% imposed on colleges and universities meeting certain criteria. The excise tax imposed is on net investment income, as defined under federal law, which includes interest, dividends, and net realized gains on assets subject to the tax. The current portion of the excise tax was approximately \$616,000. The College has made provisions for a deferred tax liability resulting from net unrealized gains on qualifying assets and estimated at the 1.4% tax rate, of \$6,622,000 as of June 30, 2020 and \$3,400,000 as of June 30, 2019.

#### **(m) Asset Retirement and Environmental Obligations**

Asset retirement and environmental obligations (ARO) are legal obligations associated with long-lived assets. The College has recognized an estimated liability for 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 amortized over the useful lives of the related assets. Subsequent to 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 Statements of Activities.

#### **(n) Interest Rate Swap**

In fiscal year 2008, the College entered into an interest rate swap agreement in conjunction with the issuance of 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 (differences are between variable and fixed rate) under the swap agreement are recorded as interest expense in the operating section of the Statements of Activities and are allocated to the functional expense categories. The change in fair value of the swap is recorded in the nonoperating section of the Statements of Activities as net unrealized gain(loss) on interest swap.

#### **(o) Use of Estimates**

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

#### **(p) New Accounting Pronouncements**

In November 2016, the FASB issued Accounting Standards Update (ASU) 2016-18, *Statement of Cash Flows (Topic 320): Restricted Cash*, which provides specific guidance on the classification and presentation of changes in restricted cash and cash equivalents on the statement of cash flows. This ASU became effective for the College for the year ended June 30, 2020, and the College's adoption did not have a material effect on the College's financial statements.

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**(q) Reclassifications**

Certain other reclassifications have been made to the 2019 information to conform to the 2020 presentation.

**(2) Liquidity and Availability**

As of June 30, 2020 and 2019, financial assets and liquidity resources available within one year for general expenditure, such as operating expense, interest and principal payments on debt, and capital renewal programs, were as follows (in thousands):

|  | <u>2020</u>       | <u>2019</u>    |
|--|-------------------|----------------|
| Financial assets:  |                   |                |
| Cash and cash equivalents                                      | \$ 99,723         | 92,381         |
| Contributions and accounts receivable, net                     | 16,176            | 12,034         |
| Fiscal 2021/2020 endowment appropriation                       | <u>95,590</u>     | <u>91,452</u>  |
| Total financial assets available                               | 211,489           | 195,867        |
| Liquidity resources:   |                   |                |
| Bank line of credit available                                  | <u>60,000</u>     | <u>60,000</u>  |
| Total financial assets and other liquidity resources available | <u>\$ 271,489</u> | <u>255,867</u> |

To manage liquidity, the College regularly monitors the availability of resources available to meet its general operating expenditures. Cash flows are subject to seasonal variations attributable to the timing of tuition billings, receipts of gifts and grants, pledge payments and transfers from the endowment.

In addition, as of June 30, 2020 and 2019, the College had \$691 million and \$664 million of board designated endowment funds, respectively. Although the College does not intend to spend from its board-designated endowment funds, these amounts could be made available with Board approval, subject to liquidity provisions of underlying investments.

**WELLESLEY COLLEGE**  
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**(3) Contributions Receivable**

Contributions receivable, net, is summarized as follows at June 30 (in thousands):

|   | <u>2020</u>      | <u>2019</u>    |
|---|------------------|----------------|
| Unconditional promises expected to be collected in:     |                  |                |
| Less than one year                                      | \$ 14,227        | 10,898         |
| One year to five years                                  | 32,572           | 24,187         |
| Over five years   | 3,870            | 13,083         |
| Less discounts and allowance for uncollectible accounts | <u>(6,215)</u>   | <u>(6,024)</u> |
| Total   | 44,454           | 42,144         |
| Assets held by external trustee                         | <u>7,745</u>     | <u>7,902</u>   |
| Contributions receivable, net                           | <u>\$ 52,199</u> | <u>50,046</u>  |

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 3.0% to 6.0% as of June 30, 2020 and 2019.

**(4) Land, Buildings and Equipment**

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

|                                     | <u>2020</u>       | <u>2019</u>      |
|-------------------------------------|-------------------|------------------|
| Land and land improvements          | \$ 50,093         | 50,107           |
| Buildings and building improvements | 701,229           | 586,021          |
| Equipment                           | 10,243            | 9,371            |
| Construction in progress            | <u>44,180</u>     | <u>94,175</u>    |
|                                     | 805,745           | 739,674          |
| Less accumulated depreciation       | <u>(340,041)</u>  | <u>(318,791)</u> |
| Total                               | <u>\$ 465,704</u> | <u>420,883</u>   |

Depreciation and amortization expense was \$21,914,000 and \$20,733,000 for the years ended June 30, 2020 and 2019, respectively.

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The College recognized \$949,000 and \$932,000 of operating expenses relating to the accretion of environmental liabilities associated with the asset retirement obligations for the years ended June 30, 2020 and 2019, respectively. Conditional asset retirement obligations of \$22,515,000 and \$21,850,000 at June 30, 2020 and 2019, respectively, are presented in the liabilities section of the Statements of Financial Position.

**(5) Investments and Fair Value Measurements**

The fair values of investments at June 30, 2020 and 2019 were as follows (in thousands):

|  | <u>2020</u>         | <u>2019</u>      |
|--|---------------------|------------------|
| Investments:                                   |                     |                  |
| Investments pooled:                            |                     |                  |
| Cash and cash equivalents                      | \$ 116,565          | 142,674          |
| Bonds  | 54,000              | 90,621           |
| Equities                                       | 699,921             | 642,010          |
| Private equity                                 | 741,639             | 596,981          |
| Real assets                                    | 131,688             | 160,706          |
| Absolute return                                | 528,087             | 524,457          |
| Other assets                                   | —                   | 851              |
| Total pooled investments                       | <u>2,271,900</u>    | <u>2,158,300</u> |
| Faculty mortgages                              | <u>23,031</u>       | <u>23,056</u>    |
| Total pooled investments and faculty mortgages | 2,294,931           | 2,181,356        |
| Investments not pooled:                        |                     |                  |
| Cash and cash equivalents                      | <u>220</u>          | <u>218</u>       |
| Total investments                              | <u>\$ 2,295,151</u> | <u>2,181,574</u> |



**WELLESLEY COLLEGE**  
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|                                    | <b>2020</b> | <b>2019</b> |
|------------------------------------|-------------|-------------|
| Planned giving investments:        |             |             |
| Pooled income funds and annuities: |             |             |
| Cash and cash equivalents          | \$ 782      | 1,138       |
| Bonds                              | 12,082      | 11,266      |
| Equities                           | 29,681      | 27,782      |
| Other Assets                       | 23          | —           |
| Total pooled income and annuities  | 42,568      | 40,186      |
| Charitable remainder trusts:       |             |             |
| Cash and cash equivalents          | 221         | 454         |
| Bonds                              | 2,203       | 3,866       |
| Equities                           | 6,208       | 9,482       |
| Other assets                       | 1,972       | 2,281       |
| Assets held by external trustee    | 2,042       | 1,495       |
| Total charitable remainder trusts  | 12,646      | 17,578      |
| Total planned giving investments   | \$ 55,214   | 57,764      |

The majority of College investments are invested in the College's long-term investment pool. Assets in this pool also include faculty mortgages and planned giving assets.

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 leverage as part of their strategies.

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 \$343,488,000 and \$357,601,000 as of June 30, 2020 and 2019, respectively.

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*Fair Value Disclosures*

The following fair value hierarchy tables present information about the College's assets and liabilities measured at fair value on a recurring basis at June 30, 2020 and 2019 (in thousands):

|                                   |  | <b>2020</b>    |                 |                |                  |  |
|-----------------------------------|--|----------------|-----------------|----------------|------------------|--|
| <b>Assets</b>                     | <b>NAV<br/>Practical<br/>expedient</b> | <b>Level 1</b> | <b>Level 2</b>  | <b>Level 3</b> | <b>Total</b>     |  |
| <b>Investments:</b>               |  |                |                 |                |                  |  |
| Equities                          | \$ 689,107                             | 10,814         | —               | —              | 699,921          |  |
| Bonds                             | —                                      | 54,000         | —               | —              | 54,000           |  |
| Private equity                    | 741,639                                | —              | —               | —              | 741,639          |  |
| Real assets                       | 131,688                                | —              | —               | —              | 131,688          |  |
| Absolute return                   | 528,087                                | —              | —               | —              | 528,087          |  |
| Cash equivalents and other assets | —                                      | 116,785        | —               | 23,031         | 139,816          |  |
| Total investments at fair value   | 2,090,521                              | 181,599        | —               | 23,031         | 2,295,151        |  |
| Planned giving investments        | —                                      | —              | —               | 55,214         | 55,214           |  |
| Total investments at fair value   | <u>\$ 2,090,521</u>                    | <u>181,599</u> | <u>—</u>        | <u>78,245</u>  | <u>2,350,365</u> |  |
| <b>Liabilities</b>                |  |                |                 |                |                  |  |
| Interest rate swap agreement      | \$ —                                   | —              | (25,546)        | —              | (25,546)         |  |
| Total                             | <u>\$ —</u>                            | <u>—</u>       | <u>(25,546)</u> | <u>—</u>       | <u>(25,546)</u>  |  |
|                                   |  | <b>2019</b>    |                 |                |                  |  |
| <b>Assets</b>                     | <b>NAV<br/>Practical<br/>expedient</b> | <b>Level 1</b> | <b>Level 2</b>  | <b>Level 3</b> | <b>Total</b>     |  |
| <b>Investments:</b>               |  |                |                 |                |                  |  |
| Equities                          | \$ 594,748                             | 47,263         | —               | —              | 642,011          |  |
| Bonds                             | 90,621                                 | —              | —               | —              | 90,621           |  |
| Private equity                    | 596,981                                | —              | —               | —              | 596,981          |  |
| Real assets                       | 160,706                                | —              | —               | —              | 160,706          |  |
| Absolute return                   | 498,493                                | 25,963         | —               | —              | 524,456          |  |
| Cash equivalents and other assets | 851                                    | 142,892        | —               | 23,056         | 166,799          |  |
| Total investments at fair value   | 1,942,400                              | 216,118        | —               | 23,056         | 2,181,574        |  |
| Planned giving investments        | —                                      | —              | —               | 57,764         | 57,764           |  |
| Total investments at fair value   | <u>\$ 1,942,400</u>                    | <u>216,118</u> | <u>—</u>        | <u>80,820</u>  | <u>2,239,338</u> |  |
| <b>Liabilities</b>                |  |                |                 |                |                  |  |
| Interest rate swap agreement      | \$ —                                   | —              | (16,708)        | —              | (16,708)         |  |
| Total                             | <u>\$ —</u>                            | <u>—</u>       | <u>(16,708)</u> | <u>—</u>       | <u>(16,708)</u>  |  |

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Interest rate swap is 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 statement of financial position 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 2.

The following tables present planned giving investment assets and faculty mortgages carried at fair value as of June 30, 2020 and 2019 that are classified within Level 3 of the fair value hierarchy (in thousands):

|   | <b>2020</b>                      |                              |
|---|----------------------------------|------------------------------|
|   | <b>Planned giving<br/>assets</b> | <b>Faculty<br/>mortgages</b> |
| Balance June 30, 2019                           | \$ 57,764                        | 23,056                       |
| Realized and unrealized losses/accrued interest | (5,085)                          | (425)                        |
| Purchases                                       | 10,005                           | 870                          |
| Sales   | (7,470)                          | (470)                        |
| Balance June 30, 2020                           | <u>\$ 55,214</u>                 | <u>23,031</u>                |

|  | <b>2019</b>                      |                              |
|--|----------------------------------|------------------------------|
|  | <b>Planned giving<br/>assets</b> | <b>Faculty<br/>mortgages</b> |
| Balance June 30, 2018                          | \$ 57,562                        | 22,011                       |
| Realized and unrealized gains/accrued interest | 3,394                            | 525                          |
| Purchases                                      | 2,064                            | 666                          |
| Sales  | (5,256)                          | (146)                        |
| Balance June 30, 2019                          | <u>\$ 57,764</u>                 | <u>23,056</u>                |

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Detailed liquidity of the College's investments as of June 30, 2020 and 2019 is as follows (in thousands):

|                                 | 2020              |                |   |                       |                | Total            |
|---------------------------------|-------------------|----------------|---|-----------------------|----------------|------------------|
|                                 | Daily/Monthly     | Quarterly      | Greater than quarterly and less than one year | Greater than one year | Illiquid       |                  |
| Investments:                    |                   |                |   |                       |                |                  |
| Equities                        | \$ 421,222        | 174,915        | 24,534  | 64,753                | 14,497         | 699,921          |
| Bonds                           | 54,000            | —              | —   | —                     | —              | 54,000           |
| Private equity                  | —                 | —              | —   | —                     | 741,639        | 741,639          |
| Real assets                     | —                 | —              | —   | —                     | 131,688        | 131,688          |
| Absolute return                 | 59,506            | 107,558        | 241,449                                       | 67,132                | 52,442         | 528,087          |
| Cash and other assets           | 116,785           | —              | —   | —                     | 23,031         | 139,816          |
| Total investments at fair value | <u>\$ 651,513</u> | <u>282,473</u> | <u>265,983</u>                                | <u>131,885</u>        | <u>963,297</u> | <u>2,295,151</u> |
|                                 |                   |                |   |                       |                |                  |
|                                 | 2019              |                |   |                       |                | Total            |
|                                 | Daily/Monthly     | Quarterly      | Greater than quarterly and less than one year | Greater than one year | Illiquid       |                  |
| Investments:                    |                   |                |   |                       |                |                  |
| Equities                        | \$ 326,652        | 315,359        | —   | —                     | —              | 642,011          |
| Bonds                           | 46,271            | 11,087         | 33,263  | —                     | —              | 90,621           |
| Private equity                  | —                 | —              | —   | —                     | 596,981        | 596,981          |
| Real assets                     | —                 | —              | —   | —                     | 160,706        | 160,706          |
| Absolute return                 | 86,341            | 100,575        | 302,940                                       | —                     | 34,600         | 524,456          |
| Cash and other assets           | 142,892           | —              | —   | —                     | 23,907         | 166,799          |
| Total investments at fair value | <u>\$ 602,156</u> | <u>427,021</u> | <u>336,203</u>                                | <u>—</u>              | <u>816,194</u> | <u>2,181,574</u> |

**(6) Related Parties**

The Wellesley College Alumnae Association is a separate 501(c)(3) organization whose mission is to support the institutional priorities of Wellesley College. Endowment investments held on its behalf are included in the College's long-term investment pool and are reflected as part of the College's assets and liabilities. Assets at fair value totaled \$9,368,000 and \$9,001,000 at June 30, 2020 and 2019, respectively, and are included within investments on the Statements of Financial Position.

Mortgages due from faculty of \$23,031,000 and \$23,056,000 at June 30, 2020 and 2019, respectively, are included within investments on the Statements of Financial Position.

The College had Charitable Remainder Trusts, where the College is the trustee, invested alongside the endowment with a fair value of \$9,754,000 and \$8,140,000 at June 30, 2020 and June 30, 2019, respectively. These assets are included within the investments total on the Statements of Financial Position.

**WELLESLEY COLLEGE**

Notes to Financial Statements

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**(7) Bonds Payable and Lines of Credit**

Indebtedness at June 30, 2020 and 2019 includes various bonds issued through the Massachusetts Development Finance Agency (MDFA) and other parties. Interest payments on debt totaled \$11,457,000 and \$11,979,000 during fiscal years 2020 and 2019, respectively.

The College has an available line of credit with a bank. The line of credit allows the College to borrow up to \$60 million, with various terms and interest at an adjusted LIBOR rate. This line of credit can be used for varying purposes and expires on March 01, 2023. As of June 30, 2020 and 2019, there were no amounts drawn or outstanding under this line of credit.

Balances of outstanding bonds payable at June 30 consisted of the following (in thousands):

|   | <b>2020</b> | <b>2019</b> |
|---|-------------|-------------|
| MDFA, Series I, Variable Rate Demand Bonds, bearing interest at a weekly rate, maturing July 2039.<br>The rate at June 30, 2020 was 0.586%. | \$ 57,385   | 57,385      |
| MDFA, Series G, Variable Rate Demand Bonds, bearing interest at a weekly rate, maturing July 2039.<br>The rate at June 30, 2020 was 0.586%. | 20,000      | 20,000      |
| 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 2.935% to 4.196%, maturing 2042.                                  | 87,625      | 87,625      |
| MDFA, Series L, Revenue Bonds, issued at an interest rate of 4.000% to 5.000%, maturing 2048.   | 94,340      | 95,480      |
| Total bonds payable   | 309,150     | 310,290     |
| Less unamortized bond issue costs   | (1,835)     | (1,932)     |
| Add unamortized original issue premium  | 12,168      | 12,860      |
|   | \$ 319,483  | 321,218     |

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

|                     |    |         |
|---------------------|----|---------|
| 2021                | \$ | 2,685   |
| 2022                |    | 3,790   |
| 2023                |    | 4,555   |
| 2024                |    | 3,620   |
| 2025                |    | 3,785   |
| Thereafter          |    | 290,715 |
| Total bonds payable | \$ | 309,150 |

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In order to reduce exposure to floating interest rates on variable rate debt, in January 2008, the College entered into an interest rate swap agreement, with a term through 2039. This swap effectively locks in a fixed rate of 3.239% per annum. The agreement has a notional amount of \$57,385,000. At June 30, 2020 and 2019, the fair value of the swap agreement amounted to a liability of \$25,546,000 and \$16,708,000, respectively. The fair value of the swap 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 other liabilities on the Statements of Financial Position. The change in fair value of the swap is recorded in the nonoperating section of the Statements of Activities as net unrealized gain or 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 change in fair value resulted in a loss of \$8,838,000 and \$5,337,000 in 2020 and 2019, respectively. Additionally, the College paid net interest expense in association with the swap agreement of \$1,229,000 and \$877,000 for the years ended June 30, 2020 and 2019, respectively, which is recorded in the operating section of the Statements of Activities as an allocation to the functional expense categories.

Restricted cash represents amounts for construction held by trustees in association with the MDFA Series L bond issue. The College had cash equivalents on deposit with bond trustees of \$0 and \$28,383,000 as of June 30, 2020 and 2019, respectively.

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.

#### **(8) 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, 2020 and 2019, there is approximately \$9,754,000 and \$8,140,000, respectively, invested alongside the endowment, which is included within the investments total on the Statements 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 3.5% to 4%. The liability of \$31,225,000 and \$29,101,000 at June 30, 2020 and 2019, 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.

#### **(9) Retirement Plans**

The College has a defined contribution, noncontributory annuity pension plan for faculty and administrative personnel administered by TIAA. Under this Plan, the College contributed \$8,748,000 and \$8,515,000, respectively, for the years ended June 30, 2020 and 2019.

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

**WELLESLEY COLLEGE**

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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 dates for determining the benefit obligations and net periodic benefit cost for the defined benefit plan were June 30, 2020 and 2019.

The significant assumptions underlying the actuarial computations and changes in the benefit obligation as of and for the years ended June 30 were as follows (in thousands):

|  | <b>2020</b> | <b>2019</b> |
|--|-------------|-------------|
| Assumptions used to determine benefit obligations:       |             |             |
| Discount rate  | 2.550 %     | 3.450 %     |
| Rate of compensation increase                            | 3.000       | 3.000       |
| Assumptions used to determine net periodic benefit cost: |             |             |
| Discount rate  | 3.450 %     | 4.150 %     |
| Expected return on plan assets                           | 7.000       | 7.000       |
| Rate of compensation increase                            | 3.000       | 3.000       |
| Change in projected benefit obligation:                  |             |             |
| Benefit obligation at end of prior year                  | \$ 80,268   | 74,393      |
| Service cost   | 2,135       | 2,057       |
| Interest cost  | 2,712       | 3,018       |
| Actuarial loss, net of administrative expenses paid      | 13,785      | 5,527       |
| Benefits paid  | (3,308)     | (4,727)     |
| Benefit obligation at end of year                        | \$ 95,592   | 80,268      |
| Accumulated benefit obligation                           | \$ 84,236   | 71,172      |

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|  | <b>2020</b> | <b>2019</b> |
|--|-------------|-------------|
| Change in plan assets:   |             |             |
| Fair value of plan assets at end of prior year                     | \$ 53,119   | 50,939      |
| Actual return on plan assets, net of administrative expenses       | (37)        | 3,061       |
| Employer contributions   | 3,803       | 3,846       |
| Benefits paid  | (3,308)     | (4,727)     |
| Fair value of plan assets at end of year                           | \$ 53,577   | 53,119      |
| Funded status:   |             |             |
| Funded status  | \$ (42,015) | (27,150)    |
| Components of net periodic benefit cost:                           |             |             |
| Service cost   | \$ 2,135    | 2,057       |
| Interest cost  | 2,712       | 3,018       |
| Expected return on plan assets                                     | (3,272)     | (3,066)     |
| Net loss on amortization   | 1,021       | 641         |
| Net periodic benefit cost  | \$ 2,596    | 2,650       |
| New net actuarial loss   | \$ 17,094   | 5,535       |
| Net loss on amortization   | (1,021)     | (641)       |
| Total recognized net periodic benefit and other comprehensive loss | \$ 16,073   | 4,894       |

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

|           |           |
|-----------|-----------|
| 2021      | \$ 4,583  |
| 2022      | 3,932     |
| 2023      | 4,467     |
| 2024      | 5,291     |
| 2025      | 5,136     |
| 2026–2029 | 24,000    |
|           | \$ 47,409 |

The College expects to make an employer contribution into the defined benefit plan of \$2,500,000 in the 2021 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



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assessing current valuation measures, income, economic growth and inflation forecasts, and historical risk premiums. Although this basis is consistent with prior years, assumptions vary from year to year.

The following lists the Plan's asset allocation at June 30, 2020 and 2019 (in thousands):

| <b>Asset category</b>        | <b>Fair Value at<br/>June 30, 2020</b> | <b>Fair Value at<br/>June 30, 2019</b> |
|------------------------------|--|--|
| Equity securities            | \$ 34,943                              | 34,723                                 |
| Real estate investment trust | 1,482                                  | 3,622                                  |
| Commodities                  | 2,744                                  | 2,690                                  |
| Fixed income                 | 14,398                                 | 12,270                                 |
| Cash and cash equivalents    | 10                                     | (186)                                  |
|                              | \$ 53,577                              | 53,119                                 |

All pension plan assets are categorized in Level 1 of the fair value hierarchy and 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.

**(10) Net Assets**

Net assets consist of the following at June 30, 2020 and 2019 (in thousands):

|                                   | <b>2020</b> | <b>2019</b> |
|-----------------------------------|-------------|-------------|
| Without donor restrictions:       |             |             |
| Board designated endowments:      |             |             |
| Student financial aid             | \$ 38,560   | 40,722      |
| Professorships                    | 116,081     | 112,648     |
| Other programming                 | 536,575     | 510,386     |
| Total board designated endowments | 691,216     | 663,756     |
| Undesignated                      | (52,362)    | (64,859)    |
| Accrued pension liability         | (42,015)    | (27,150)    |
| Interest rate swap liability      | (25,546)    | (16,708)    |
| Net investment in plant           | 123,706     | 106,198     |
| Total without donor restrictions  | 694,999     | 661,237     |

**WELLESLEY COLLEGE**  
Notes to Financial Statements  
June 30, 2020 and 2019

|                                   | <b>2020</b>  | <b>2019</b> |
|-----------------------------------|--------------|-------------|
| With donor restrictions:          |              |             |
| Donor restricted endowments:      |              |             |
| Student financial aid             | \$ 615,120   | 585,702     |
| Professorships                    | 453,587      | 430,173     |
| Other programming                 | 525,474      | 493,784     |
| Total donor restricted endowments | 1,594,181    | 1,509,659   |
| Purpose restricted and other:     |              |             |
| Student financial aid and loans   | 9,535        | 9,242       |
| Capital                           | 44,040       | 35,598      |
| Annuities                         | 40,153       | 43,471      |
| Other programming                 | 59,254       | 64,162      |
| Unexpended endowment income       | 23,310       | 20,586      |
| Other                             | 20,477       | 32,630      |
| Total with donor restrictions     | 1,790,950    | 1,715,348   |
| Total net assets                  | \$ 2,485,949 | 2,376,585   |

**(11) Endowment**

The College's endowment consists of approximately 2,000 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, 2020 and 2019, endowment net assets consisted of the following (in thousands):

|                                   | <b>2020</b>                           |                                    |              |
|-----------------------------------|---------------------------------------|------------------------------------|--------------|
|                                   | <b>Without donor<br/>restrictions</b> | <b>With donor<br/>restrictions</b> | <b>Total</b> |
| Board designated endowment funds  | \$ 691,216                            | —                                  | 691,216      |
| Donor-restricted endowment funds: |                                       |                                    |              |
| Historical cost                   | —                                     | 620,136                            | 620,136      |
| Appreciation                      | —                                     | 974,045                            | 974,045      |
| Total endowment net assets        | \$ 691,216                            | 1,594,181                          | 2,285,397    |

**WELLESLEY COLLEGE**

Notes to Financial Statements

June 30, 2020 and 2019

|                                   | <b>2019</b>                           |                                    |                  |
|-----------------------------------|---------------------------------------|------------------------------------|------------------|
|                                   | <b>Without donor<br/>restrictions</b> | <b>With donor<br/>restrictions</b> | <b>Total</b>     |
| Board designated endowment funds  | \$ 663,756                            | —                                  | 663,756          |
| Donor-restricted endowment funds: |                                       |                                    |                  |
| Historical cost                   | —                                     | 595,206                            | 595,206          |
| Appreciation                      | —                                     | 914,453                            | 914,453          |
| Total endowment net assets        | \$ <u>663,756</u>                     | <u>1,509,659</u>                   | <u>2,173,415</u> |

Changes in endowment net assets for the year ended June 30, 2020 and 2019 were as follows (in thousands):

|                             | <b>Without donor<br/>restrictions</b> | <b>With donor<br/>restrictions</b> | <b>Total</b>     |
|-----------------------------|---------------------------------------|------------------------------------|------------------|
| Balance June 30, 2019       | \$ 663,756                            | 1,509,659                          | 2,173,415        |
| Net investment return       | 52,521                                | 123,958                            | 176,479          |
| Contributions and transfers | 3,627                                 | 25,022                             | 28,649           |
| Distributions               | <u>(28,688)</u>                       | <u>(64,458)</u>                    | <u>(93,146)</u>  |
| Balance June 30, 2020       | \$ <u>691,216</u>                     | <u>1,594,181</u>                   | <u>2,285,397</u> |

|                             | <b>Without donor<br/>restrictions</b> | <b>With donor<br/>restrictions</b> | <b>Total</b>     |
|-----------------------------|---------------------------------------|------------------------------------|------------------|
| Balance June 30, 2018       | \$ 647,752                            | 1,457,460                          | 2,105,212        |
| Net investment return       | 44,409                                | 92,640                             | 137,049          |
| Contributions and transfers | 7,086                                 | 18,528                             | 25,614           |
| Distributions               | <u>(35,491)</u>                       | <u>(58,969)</u>                    | <u>(94,460)</u>  |
| Balance June 30, 2019       | \$ <u>663,756</u>                     | <u>1,509,659</u>                   | <u>2,173,415</u> |

The College had no underwater donor-restricted endowment funds for the years ended June 30, 2020 and 2019.

**WELLESLEY COLLEGE**

Notes to Financial Statements

June 30, 2020 and 2019

**(12) Expenses**

The statements of activities presents expenses by functional classification. The College also summarizes its expenses by natural classification. The composition of expenses for the years ended June 30, 2020 and 2019 in natural classification are as follows (in thousands):

|  | 2020               |                   |                       |                |   |                |
|--|--------------------|-------------------|-----------------------|----------------|---|----------------|
|  | Salaries and wages | Employee benefits | Supplies and services | Other expenses | Depreciation, amortization and interest | Total expenses |
| Instruction  | \$ 49,421          | 16,740            | 2,868                 | 10,048         | 11,214                                  | 90,291         |
| Sponsored research                                       | 6,165              | 1,896             | 944                   | 4,511          | —                                       | 13,516         |
| Student services   | 18,434             | 6,089             | 8,271                 | 5,088          | 13,689                                  | 51,571         |
| Academic support   | 10,196             | 3,302             | 2,577                 | 4,986          | 3,174                                   | 24,235         |
| Institutional support                                    | 19,707             | 5,283             | 5,292                 | 4,210          | 3,908                                   | 38,400         |
| Auxiliary operations                                     | 3,099              | 979               | 1,633                 | 3,909          | 2,170                                   | 11,790         |
| Total operating expenses for 2020                        | <u>\$ 107,022</u>  | <u>34,289</u>     | <u>21,585</u>         | <u>32,752</u>  | <u>34,155</u>                           | <u>229,803</u> |
| Net periodic postretirement cost other than service cost | \$ —               | 461               | —                     | —              | —                                       | 461            |
|  | 2019               |                   |                       |                |   |                |
|  | Salaries and wages | Employee benefits | Supplies and services | Other expenses | Depreciation, amortization and interest | Total expenses |
| Instruction  | \$ 48,984          | 16,555            | 3,699                 | 13,506         | 10,731                                  | 93,475         |
| Sponsored research                                       | 5,719              | 1,691             | 902                   | 4,189          | —                                       | 12,501         |
| Student services   | 18,513             | 6,090             | 8,715                 | 6,811          | 13,098                                  | 53,227         |
| Academic support   | 6,234              | 3,200             | 4,138                 | 7,892          | 3,037                                   | 24,501         |
| Institutional support                                    | 22,512             | 6,914             | 4,597                 | 2,068          | 3,738                                   | 39,829         |
| Auxiliary operations                                     | 3,440              | 1,094             | 1,430                 | 4,109          | 2,077                                   | 12,150         |
| Total operating expenses for 2019                        | <u>\$ 105,402</u>  | <u>35,544</u>     | <u>23,481</u>         | <u>38,575</u>  | <u>32,681</u>                           | <u>235,683</u> |
| Net periodic postretirement cost other than service cost | \$ —               | 593               | —                     | —              | —                                       | 593            |

**(13) Commitments and Contingencies**

In 1975, the College identified the presence of hazardous materials from an abandoned 19th century paint factory acquired by the College in 1932. When federal and state superfund laws were promulgated in the 1980s the college gained responsibility for the clean up of contaminants found. The remediation was substantially completed in 2014, but the College continues periodic monitoring and reporting under the Massachusetts Contingency Plan (MCP).

In June of 2002, the College discovered an old gas plant site. Following MA DEP MCP guidelines, the college conducted remedial activities and is now in a temporary solution conducting operation, maintenance and monitoring activities for certain chemicals in groundwater.

## WELLESLEY COLLEGE

### Notes to Financial Statements

June 30, 2020 and 2019

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.

In 2018, the College offered a voluntary retirement program to eligible faculty and staff. Total expenses related to the program, recorded in the nonoperating section of the Statement of Activities, were \$9,832,000. The future payment obligations of \$3,822,000 and \$4,811,000 at June 30, 2020 and 2019, respectively, are included in the accounts payable and accrued expenses section of the Statement of Financial Position.

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) COVID-19 Pandemic**

As a result of the COVID-19 pandemic (the pandemic), the College decided to close the residential campus effective March 23, 2020. Due to this closure, the College issued refunds and future statement credits to students for room and board charges based on a prorated amount. These refunds and credits amounted to \$7,360,000 and resulted in a reduction of room and board revenue for the fiscal year ended June 30, 2020.

Also, as a result of the pandemic, in fiscal year 2020 the College was awarded \$985,000 from the Higher Education Emergency Relief Fund (HEERF). The funds were used for emergency financial aid grants to students under the 18004(a)(1) Coronavirus Aid, Relief, and Economic Security Act (CARES Act). The College disbursed \$724,000 of the total received to students to assist the students in their transition to remote learning, with the remaining \$261,000 to be disbursed in fiscal year 2021. The College was awarded an additional \$985,000 from the HEERF to support institutional expenditures relating to the pandemic. The College utilized \$463,000 in fiscal year 2020 and will utilize the balance for pandemic related costs in fiscal year 2021.

In fiscal year 2021, in response to the COVID-19 pandemic, the college offered remote only courses for the summer, and will have students participating in both on campus and remote learning through the fall semester. This will likely have a negative impact on room and board revenue in fiscal year 2021.

While the financial impact on the College's future operations cannot be quantified at this time, the pandemic may have a material adverse effect on the operating performance of the College through its duration. The College continues to monitor the course of the pandemic and is prepared to take additional measures to protect the health of the College community and promote the continuity of its academic mission.

#### **(15) Subsequent Events**

On July 2, 2020, the College entered into a Note Purchase Agreement providing for \$150 million of senior unsecured notes at a rate of 3.00% due in periodic installments. The College intends to utilize the proceeds for various purposes, including but not limited to, ongoing capital expenditures.