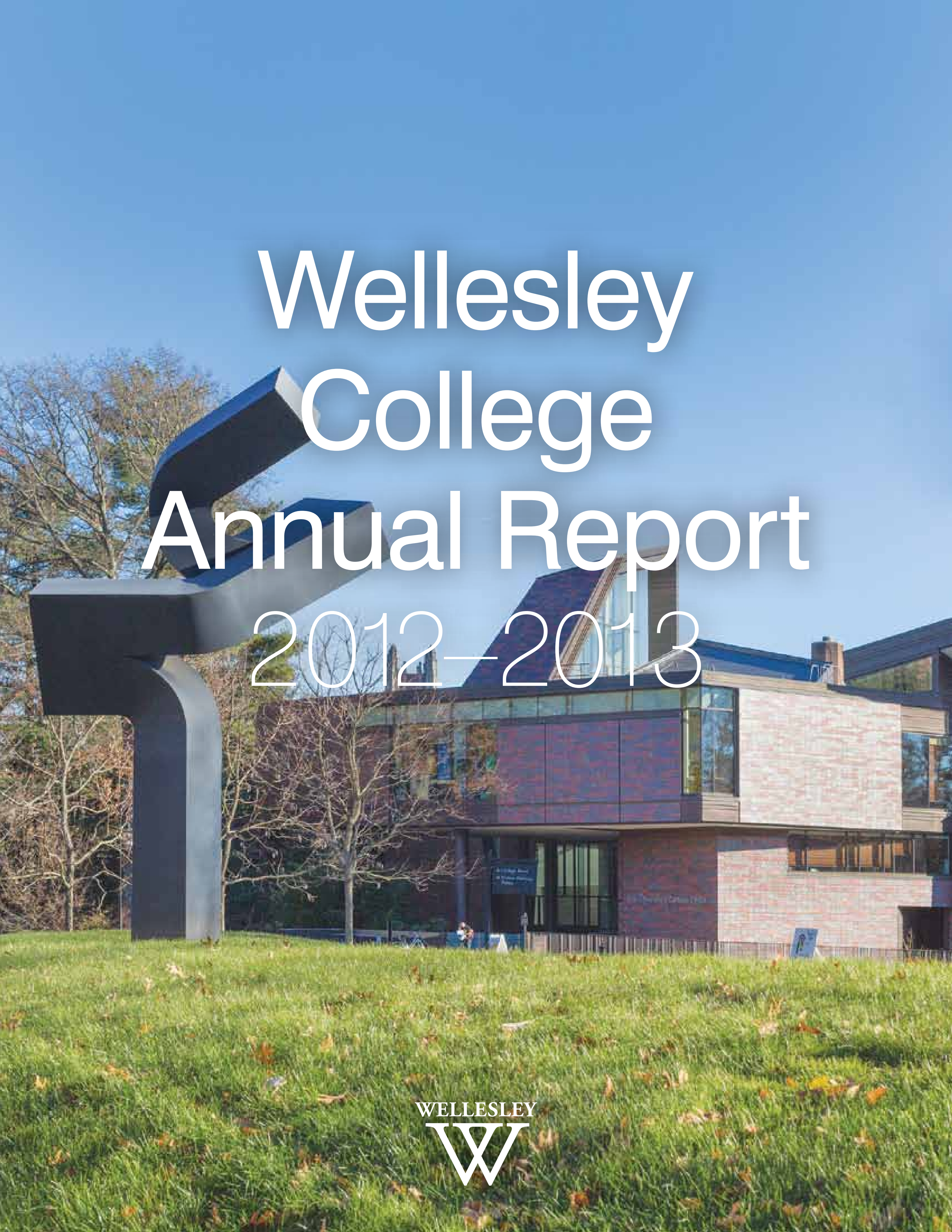
Wellesley College Annual Report 2012–2013



WELLESLEY

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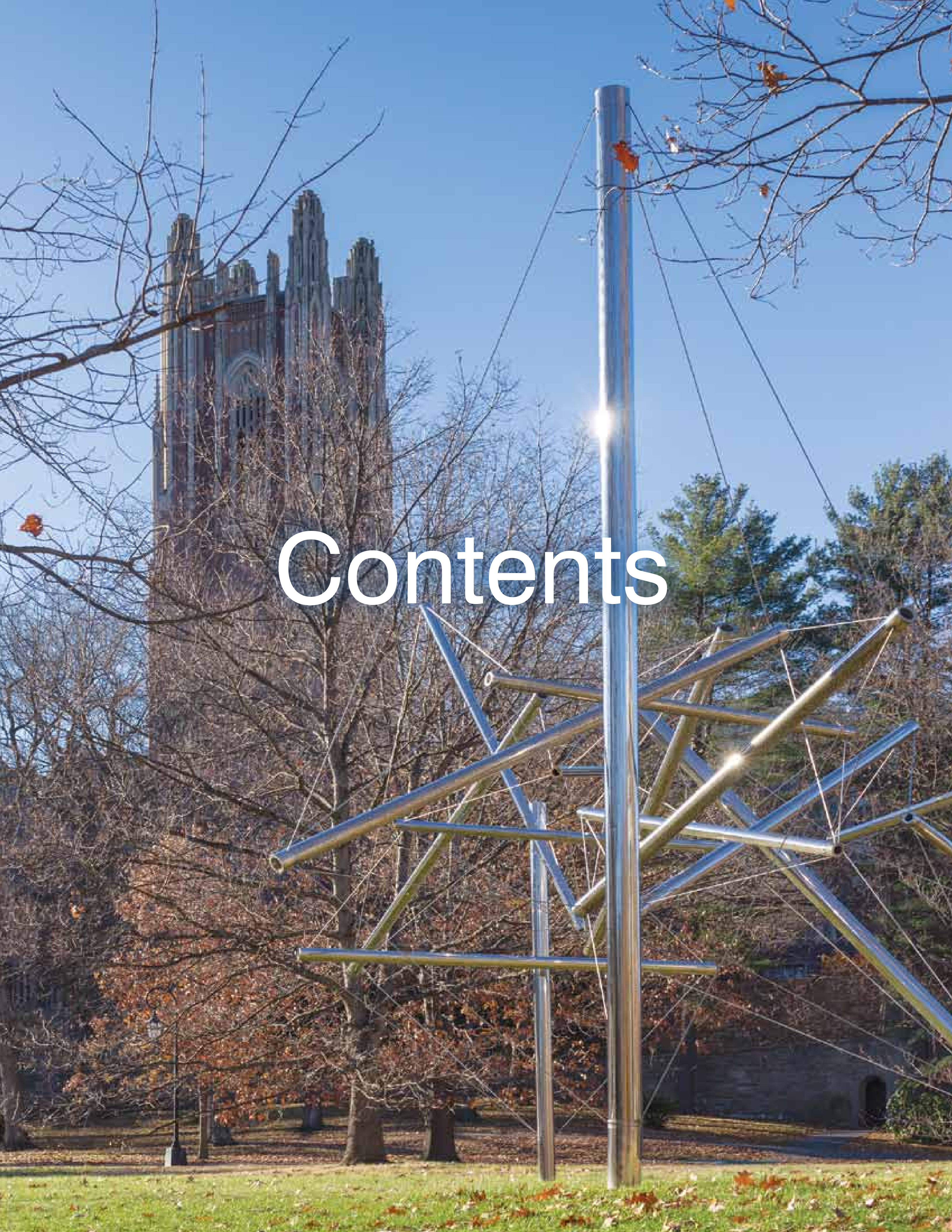

Wellesley College Annual Report

For the year ended June 30, 2013

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Report of the President

November 2013

I am pleased to submit the annual financial report of Wellesley College for the 2012-13 academic year. FY13 was a year marked by growth and innovation, as well as by continued strong financial management.

In the reports that follow, Ben Hammond, the new vice president for finance and administration, and Deborah Foye Kuenstner '80, chief investment officer, detail the financial status of the College and the performance of our endowment. Our financial strength—which relies on prudent financial management as well as the support of alumnae and friends who give so generously to the College—enables Wellesley to continue to provide the exceptional education for which we are known, and enables us to focus on what matters most:

- Attracting and retaining the most talented students;
- Fostering students' growth and learning, while nurturing their talent and leadership;
- Supporting our faculty and advancing teaching and research;
- Continuing to build a network of students, faculty, and alumnae that supports women leaders across the globe;
- Investing in our physical campus and spaces.

The following highlights from the past year exemplify how we have advanced our institutional priorities and positioned ourselves well for the future.

Supporting the Very Best Students

We remain committed to ensuring that a Wellesley education continues to be accessible to all bright young women, regardless of their financial background—a commitment that is made possible by our generous financial aid policies. Because of this commitment, Wellesley was selected this past year to partner with the MasterCard Foundation to enable talented, economically-disadvantaged students from Africa to have the opportunity of a Wellesley education.

Students arrive at Wellesley, and their experiences during their four years enable them to emerge as broadly educated, intellectually sophisticated citizens of the world. As just one example, one of the six Wellesley women to win a prestigious Fulbright Scholarship award last year was a young alumna who had majored in economics and Spanish at Wellesley. She studied the environmental and socioeconomic effects of coffee production in Mexico, and she intends to pursue a Ph.D. in environmental studies. Indeed, our students and young alumnae are well represented among the recipients of highly coveted national and international fellowships, including the Barry M. Goldwater Scholarship, the Thomas J. Watson Fellowship, and the National Science Foundation Graduate Research Fellowship.

As always, Wellesley continues to provide important opportunities for co-curricular learning that complement the classroom experience. Last year, Wellesley supported more than 300 student internships, and another 300 students participated in research or independent study. Service learning is also an important part of our culture, and nearly half of our students do volunteer work. All of these experiences are an important part of a Wellesley education.

Supporting the Very Best Faculty

Wellesley continues to be an exceptional institution because of our world-class faculty. Over the past year, we launched several exciting new academic initiatives, including:

- A set of nine writing-intensive seminars for seniors in majors across all disciplines. David Lindauer, Stanford Calderwood Professor of Economics, is leading this initiative in which students are able to practice conveying their expertise to a general audience in a clear and convincing way, through such courses as Economic Journalism, Biology in the News, and Psychology in the Public Interest.
- The Freedom Project, led by Thomas Cushman, Deffenbaugh de Hoyos Carlson Professor in the Social Sciences and professor of sociology. Through regular guest lectures, a speaker series, an intensive

institute during Wintersession, and now a new course entitled The Individual and Society, The Freedom Project gives students an opportunity to learn about freedom and pluralism, and is intended to expose them to different—even uncomfortable—ways of thinking.

- WellesleyX, which is our experiment with online education. As the first liberal arts college to join edX, the leading platform for online courses that was started by Harvard and MIT, we have much to add to this rapidly developing online learning environment, and much to gain from our participation.

Supporting Women for Leadership

This past year, Wellesley launched Women World Partners, an important initiative in which we seek to partner with world-renowned universities to educate women for leadership across the globe. Our first partnership is with Peking University. While the future of the partnership is still being explored by Wellesley and PKU faculty, we jointly hosted a very successful 10-day academic program in June—modeled after our own Madeleine Korbel Albright Institute for Global Affairs—in which students and faculty from both institutions participated. The academic program culminated in a groundbreaking day-long conference on women's leadership that brought together leaders from around the world, including many Wellesley alumnae. In fact, this major conference could not have happened without the experience, ideas, and connections of our own network of Wellesley alumnae and friends.

This past year also marked another successful Albright Institute—our fourth—with Wendy Judge Paulson '69 and former U.S. Secretary of the Treasury Henry Paulson as our 2013 Distinguished Visiting Professors. As part of the Institute, we also hosted a dialogue on the United States and China between Secretary Paulson and Secretary Albright '59, moderated by Cokie Roberts '64. The Albright Institute continues to serve as a unique educational model for teaching and learning about global leadership.

Our Sense of Place

We take pride in the architecture and natural beauty of our iconic campus; it has been, and will always be, an essential aspect of the Wellesley experience. Our major, multiyear project to renovate and reimagine our campus spaces for the twenty-first century, will help chart the future of Wellesley, ensuring that our environment better reflects the way students live and learn today.

Over the past year, we celebrated an important milestone in this project. Following two years of important planning work, we now have a comprehensive program plan that addresses the most critical needs of our academic and residential buildings and spaces. This past summer, we officially embarked upon this project, beginning with a renovation of Schneider Center, which will bring together several administrative offices in one space, enabling the flexibility that will be required for us to do future work in our academic buildings. All projects to renew our campus will be funded through our operating budget as well as by borrowing and fundraising, with an estimated total cost of between $365 million and $450 million.

When I imagine Wellesley College in 2025—or 2035 or 2045—I see a campus that on the outside looks very similar to Wellesley today. I see the best of our buildings upheld, the characteristic and iconic architectural details that have distinguished our campus maintained. But I also see interior spaces that have undergone a transformation to better support the exceptional quality of the academic and residential experience here. We have inherited our beautiful campus buildings from those who came before us, and we must take care of our spaces, anticipating future needs, so that they serve Wellesley for the next 75 to 100 years. Wellesley 2025 is one of the greatest gifts that this generation can give to the next one.

Our Campus Community

Finally, the 2012-13 academic year brought with it the retirements of several key faculty and staff who helped shape the Wellesley experience over many years. Those retirements included William "Flick" Coleman, professor of chemistry, who dedicated 31 years to Wellesley; Nancy Kolodny '64, the Nellie Zuckerman Cohen and Anne Cohen Heller professor of health sciences, and professor of chemistry, and former dean of the College, who served her alma mater for 44 years; Vicki Mistacco, professor of French, who taught at Wellesley for 45 years; and Andrew Evans, who served as vice president for finance and treasurer since 2004.

Ben Hammond became our new vice president for finance and administration on July 1, and he already has become an important voice on campus.

As always, I am grateful for the many people who are dedicated to this institution, including our faculty, staff, alumnae, parents, and friends. It is a mark of the vitality of Wellesley, and a vote of confidence in the College, that 49.4 percent of alumnae donated to Wellesley last year, enabling us to raise an unprecedented $11.4 million in unrestricted funds.

Wellesley continues to be guided by strong financial management, which allows us to pursue the priorities and educational mission that have guided the College well for nearly 140 years. It is an honor to lead an institution for which so many people care so deeply.

H. Kim Bottomly
President

Report of the Vice President for Finance and Administration

November 2013

This Annual Report of the finances of Wellesley College covers the fiscal year ending June 30, 2013. In addition to the audited financial statements, it presents the College's operating budget, as well as key financial and operating facts and statistics.

Results of Fiscal Year 2013

The College's finances, and its balance sheet in particular, remain strong. As of June 30, 2013, the College's net assets stood at $1.783 billion, an increase of $124 million. Investment returns in excess of endowment distributions for operations accounted for 78 percent of this increase, and gifts and pledges for the rest. Total liabilities decreased slightly to $364 million, modest against total assets of $2.1 billion. Wellesley's endowment per student increased from $653,000 to $704,000, a gain of 8 percent. Total gifts received were $42.5 million, an increase of nearly 8 percent. Finally, endowment distributions for operations were 5.1 percent and 4.9 percent of the one-year and three-year trailing average endowment market value. (The chief investment officer's report provides further details about the endowment, and additional statistics can be found in schedules C and E.)

As in past years, however, operating expenses exceeded operating revenues (as shown in the Statement of Activities contained in the College's audited financial statements, which are prepared using generally accepted accounting principles, or GAAP). This year the shortfall was $10.7 million, or 5.2 percent of operating expenses of $206.2 million. One of the significant differences between GAAP and the College's operating budget is that under GAAP, expenses include depreciation of the College's buildings and other physical assets. However, the College does not yet fully fund depreciation in its operating budget, although it has set a multiyear goal to do so. This operating shortfall (on a GAAP basis) approximates the shortfall in the College's current funding of asset renewal in the operating budget. (Only $6.9 million of major maintenance and capital expenditure is funded by the operating budget; this is against total depreciation expense of $15.8 million in the audited financial statements.)

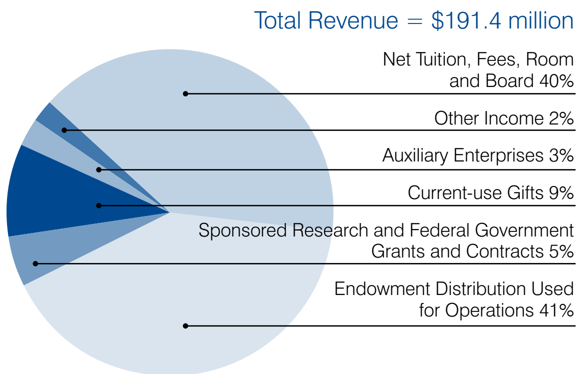
The College's operating budget (shown in Schedule A) for this last fiscal year reflects revenues of $191.4 million and expenditures of $192.9 million, resulting in a deficit of $1.5 million, which was covered by using reserves. Although by policy the College is committed to balanced operating budgets where revenues equal or exceed expenditures, Wellesley uses its reserves to fund initiatives in the operating budget that are intended to either reduce future operating costs or increase future operating revenues. Consequently, the College invested $1.5 million in such activities in the operating budget in FY13, which were effectively funded "below the line" by the use of these reserves. Had the College not made such investments, the operating budget would have been balanced.

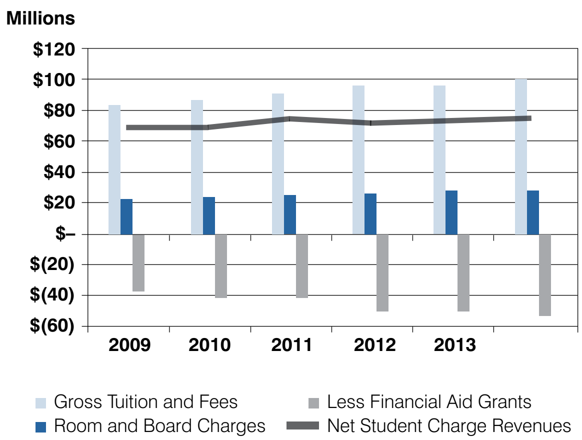
Wellesley is committed to holding down the rate of expense growth to no more than the rate of growth in its revenues over time. Unfortunately, we did not achieve this objective in the year just ended, although total College revenues grew 2.7 percent, while total expenditures increased 3.8 percent versus the prior year; much of this above-target expense growth is actually the result of operating investments incurred in the operating budget and funded by reserves. To address this gap, the College is embarking on a multiyear effort led by Provost Andy Shennan; the goal is to rebalance the operating budget in order to fully fund the cost of campus renewal while continuing to achieve a balanced budget that supports the College's mission and key priorities.

Sources of Revenue

The College has multiple revenue sources, but like most peer institutions, two of these—net student-charge revenue and distributions from the endowment—account for more than 80 percent of total revenues in the operating budget.

Longtime students of this annual report may notice several changes this year. In particular, the College has shifted the presentation of its operating budget in schedules A and B to show net student charge revenues, which is gross tuition and fees, plus room and board charges, net of financial aid grants, as illustrated on the next page.





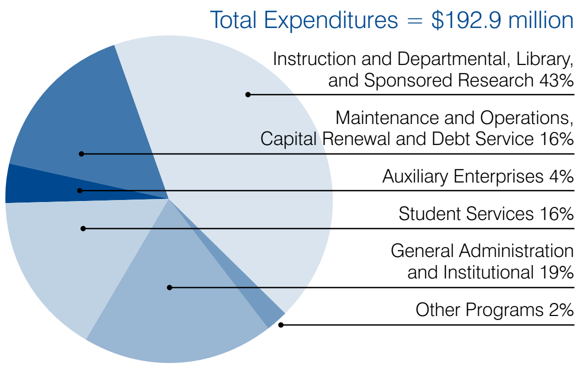
	2013
Program Revenues ($000)	
Net Student Charge Revenue	$75,683
Sponsored Research and Federal Grants and Contracts	10,382
Auxiliary Enterprises	5,207
Other Income	4,832
Total Revenues from Operating Programs	**96,104**
Total Expenditures	**(192,889)**
Deficit before Support from Alumnae and Friends	**(96,785)**
Operating Revenues from Alumnae and Friends	
Distribution from Endowment Used for Operations	$77,848
Restricted Current-use Gifts	5,905
Unrestricted Bequests	3,000
The Wellesley Fund (Unrestricted Current-use Gifts)	8,537
Total Support from Alumnae and Friends	**95,290**
Net Operating Results before Use of Reserves	**(1,495)**

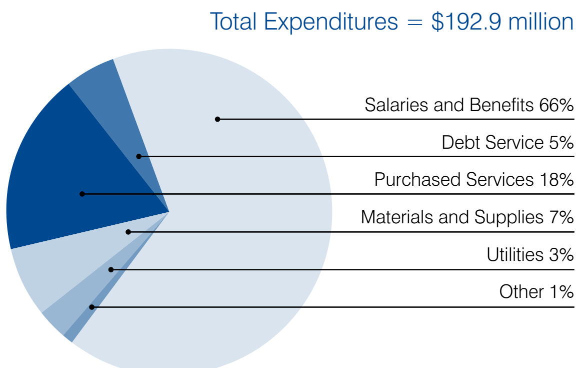
As a residential liberal arts college where more than 97% of students live and eat their meals on campus, room and board is a core component of the education Wellesley provides, and is more appropriately thought of alongside tuition as part of the comprehensive fee than as a stand-alone auxiliary service.

While net-student-charge revenue has increased over time, it has grown more slowly than tuition and room and board because financial aid grants provided to students under Wellesley's policy of need-blind admissions and fully meeting demonstrated need have increased even faster. Wellesley is committed to covering the difference between the cost of attendance and what an admitted student and her family can afford to pay. (Although some of this need is met through loans and work/study jobs, the vast majority is provided in the form of grant aid.) Compared with the previous year, gross tuition, fees, and room and board increased 3.4 percent; financial aid grants increased 5.3 percent; and net student charge revenue was up 2 percent. Net-student-charge revenue grew more slowly than both revenues overall and total expenditures over the past year, but over the past decade, the rate of growth in net student charges averaged 4 percent, exceeding the rate of increase of both total revenues and total expenditures. In real terms (that is, in constant dollars, or adjusted for inflation), the increase in net-student-charge revenue was virtually zero last year, and averaged 1.9 percent growth per year over the past decade.

The extent to which the College depends on the commitment of its alumnae and friends to investments in Wellesley's future and the young women it educates—both in current-use gifts and in the income earned from previous gifts to the endowment—can hardly be overstated, as the following re-ordered and simplified schedule illustrates. At $95 million, such support is almost equal to the $96 million in revenues that the College generates from the programs it operates.

Put another way, the full cost to educate a Wellesley student was $86,169 last year. Even those students whose families paid the full comprehensive fee "sticker price" of $55,114 were actually the beneficiaries of more than $31,000 of support from the College; most of this support was provided by Wellesley's alumnae and friends. This subsidy, which benefits every single Wellesley student, is almost as large again as the average financial aid grant of $37,990 that is provided to students who receive financial aid.





Categories of Expenditures

Wellesley spends 61 percent of its operating budget on academic programs, student services (including room and board) and other programs; 16 percent on operating, maintaining, and renewing the campus, including debt service used for this purpose; 4 percent on auxiliary enterprises; and 19 percent on general administration and institutional purposes.

It is also helpful to consider expenditures by type. As would be expected at such a labor-intensive institution, 66% of Wellesley's operating budget was devoted to salaries and benefits.

Debt service increased 55% this year due to the issuance of new debt in 2012 to fund renewal of the campus.

Financial Principles

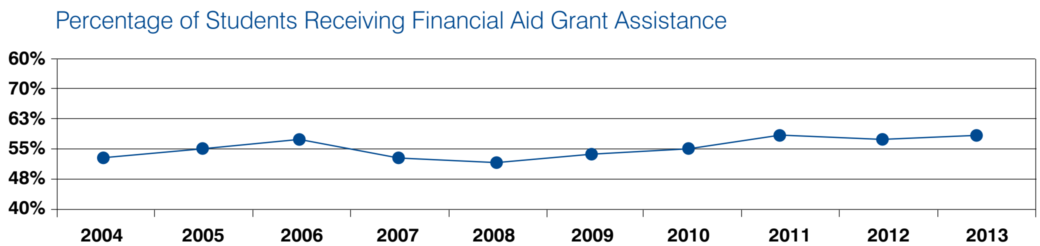
The College operates under a set of financial principles that include preserving the purchasing power of the endowment, ensuring that income and expenses and their rates of increase are in balance, and creating reserves to mitigate unanticipated shocks to a balanced budget. It is committed to funding in the operating budget the full cost of "keeping up" the campus, although it is not yet entirely able to do so.

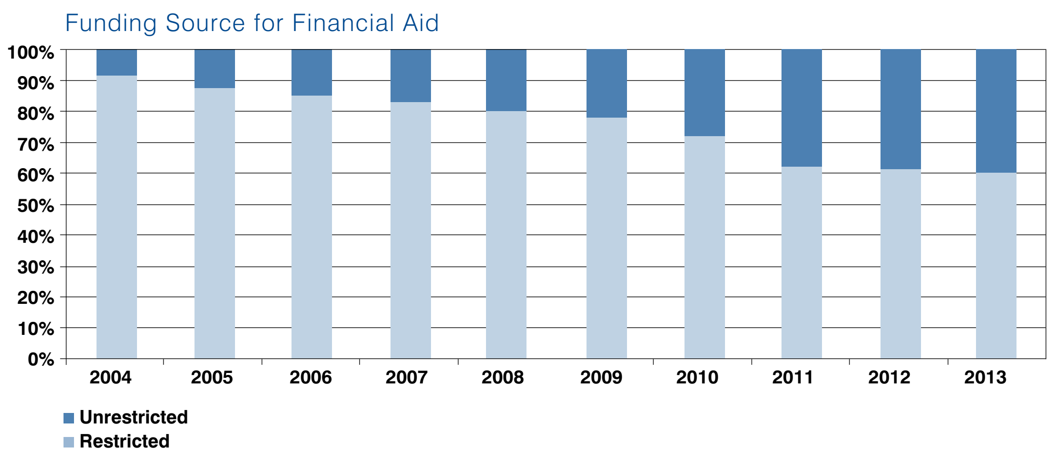
Wellesley's endowment-spending policy seeks to balance the need for a strong, stable, and growing income stream from the endowment to support operations with the objective of maintaining the purchasing power of income from the endowment in perpetuity. The methodology used for setting annual spending levels from the endowment is based on a combination of the prior year's spending (80 percent) and the endowment's value (20 percent). Per the policy, the total amount spent must be within 4.0 percent to 5.5 percent of the three-year trailing average endowment's market value (adjusted for inflation).

The College follows a multiyear budget process that is built around institutional priorities, allowing for inclusiveness and institution-wide input. The provost and the Provost Budget Committee (which he chairs) are charged with ensuring that the College's operating budget allocates resources both to accomplishing its mission—to provide an excellent liberal arts education for women who will make a difference in the world—and to addressing current institutional priorities. The president and her senior staff, —together with the Budget Advisory Committee, which is composed of faculty, staff, and students—also actively participate in the development of the College's budget priorities and planning.

Institutional Values and Priorities

One of the College's highest institutional values is Wellesley's need-blind admission policy. Wellesley considers prospective U.S. students solely on the basis of their talents and personal qualities rather than their ability to pay, and is committed to meeting all admitted students' full financial need. At the same time, the College continues to evaluate the costs and benefits of this policy against its other institutional priorities. Over the past decade, enrolled students' need for financial aid has grown faster than the restricted funds dedicated to financial aid. Effectively, therefore, a smaller share of the total financial aid that the College awards is funded by restricted gifts and the endowment income dedicated to that financial aid. And while the College has used other unrestricted revenues to bridge this growing gap, doing so means that these unrestricted revenues are not available to





support other College priorities. As shown below, the percentage of students receiving financial-aid grants has increased somewhat over the past decade (from 53 percent to 58 percent), as has the size of the average financial-aid grant awarded (from $21,628 to $37,990—an increase of 76 percent, which is quite a bit higher than the 51 percent increase in the comprehensive fee "sticker price" over this same period). But while restricted revenue dedicated to financial aid has increased 29 percent over the past decade, it has been essentially flat for the past five years (see Schedule D for additional detail). As a result, the percentage of student financial-aid expenditures supported by restricted revenues (income from restricted endowment and restricted gifts and grants for current use) has fallen from 91 percent in 2004 to 60 percent in 2013, resulting in the need to use more unrestricted resources to fund this fundamental College value.

The maintenance and enhancement of the College's significant physical assets is also an important institutional priority. The College's operating budget does not currently fully fund depreciation—which is one common measure of the cost of keeping up with the maintenance and renewal of the campus each year. In order to fully fund depreciation, the College will need to provide an additional $9 million of funding each year in addition to the approximately $6.9 million of major maintenance and capital renewal work that it funded in the operating budget in FY13. The College is implementing a phased-in approach to increasing funding for campus renewal, with the amount set aside in the operating budget increasing each fiscal year.

In April 2013, the trustees approved *Wellesley 2025: A Plan for Campus Renewal*. This is a long-term plan establishing a prioritized schedule of capital improvements over the next 11 years based on both facilities needs and institutional goals and priorities for the future. Despite not-insignificant investments in construction and renovation that the College has made in the past, 82 percent of the College's buildings have not had a major renovation in more than 25 years; 62 percent have not had a major renovation in more than 50 years. In some parts of the campus the College's infrastructure systems are more than 75 years old. The planning process has established programmatic priorities to ensure that Wellesley's campus and facilities will meet the needs of students and faculty throughout the twenty-first century. The first project of the campus renewal plan, the renovation of the Schneider Center, began in the summer of 2013. The pace of renovation will increase over the next two years and expand across the campus. Overall, the base plan approved by the trustees is expected to cost $365 million in 2012 dollars, and will be funded by debt, gifts, and rebalancing the operating budget.

Future Challenges and Outlook

The College continues to confront a challenging economy as well as a changing and uncertain future for a liberal-arts education. While the College must continue to maintain our excellent faculty, staff, and student body, we must also rebalance our operating budget to substantially reinvest in an aging campus and infrastructure. To that end, the College has adopted a multiyear plan to free up $20 million in the operating budget annually by the end of fiscal year 2018 to fund our campus renewal plan, and we expect to realize steady progress toward this target each year over the next five years. Doing so will require prioritization and focus, difficult choices, hard work, and the support and goodwill of the entire Wellesley College community.

Throughout this year's annual report we have taken steps to enhance transparency and make clearer Wellesley's finances as well as key facts and statistics about the College. I hope that the results will help members of the Wellesley community better understand the College's finances and the enviable resources that support its mission, as well as some of the challenges that lie ahead.

Members of this community who have questions or suggestions regarding the finances of Wellesley College are welcome to contact me at any time.

Ben Hammond
Vice President for Finance and Administration

Report of the Chief Investment Officer

November 2013

On June 30, 2013—the end of the fiscal year—the Wellesley College endowment had a market value of $1.576 billion (versus $1.469 billion on June 30, 2012—an increase of $107 million). Investment return earned by the endowment portfolio for this fiscal year, net of investment management fees, was 12.5 percent.

Fiscal Year 2013 Developments

Stabilization and improvement in developed market economies during FY13 resulted in strong gains in global equity markets. U.S. and non-U.S. developed equity markets posted double-digit returns. In emerging-market equities, moderate local currency returns were partially offset by currency weakness, resulting in a low single-digit return. Against this backdrop, private equity returns were robust.

Global bond markets were down in FY13 as global monetary easing failed to overcome concerns about a prospective tightening of U.S. monetary policy. In the final quarter of the fiscal year, sovereign debt markets experienced significant declines..

Returns to real assets were mixed. Commodities indices suffered as metals prices fell sharply. Private-equity energy and timber performed well. Returns in real estate varied widely by region and property type, but were modestly positive in the aggregate.

Longer-Term Results

Compound annual returns over the last five and 10 years were 4.4 percent and 8.5 percent respectively, net of investment-management fees. The five-year results—which reflect losses during the financial crisis—are lower than the return necessary to support College spending and maintain the endowment's purchasing power. Ten-year results exceeded this threshold and are strong relative to passive strategies. Over the last 10 years, the College's well-diversified endowment has outperformed U.S. equity investments, represented by the S&P 500, as well as the 65 percent stock/35 percent bond portfolio (shown below). Alternative asset classes with higher long-term returns have contributed significantly to strong longer-term portfolio results.

Total Return by Asset Class Year Ended June 30, 2013

	Wellesley Return	Market Benchmark/Comparative Index	
U.S. Equity	23.7%	21.3%	S&P 500
International Equity	15.0	13.6	MSCI AC World Ex-U.S.
Private Equity	13.9	12.5	Cambridge Associates (1)
Real Assets	7.0	7.6	Real Assets Benchmark (2)
Semi-marketable (3)	10.8	10.6	Cambridge Associates Hedge Fund-of-Funds Index
Fixed Income	(3.9)	(5.2)	Fixed Income Benchmark (4)
Cash	2.4	0.1	Citigroup three month T-Bill
Total Portfolio	**12.5%**	**11.4%**	

1 Private Equity results are measured against the Cambridge Associates Private Equity, Growth Equity, Venture Capital, and Distressed Indices.

2 Real Assets Benchmark is a weighted average of the NCREIF Timber, Cambridge Associates Real Estate, and the Cambridge Associates Natural Resources Index (x-Timber).

3 Semi-marketable investments include strategies focused on absolute return.

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

Total Annualized Return on Endowment, Year Ended June 30, 2013

	3 Years	5 Years	7 Years	10 Years
Wellesley Portfolio	10.9%	4.4%	6.3%	8.5%
S&P 500 Index	18.5	7.0	5.7	7.3
65/35 Stock/Bond Portfolio (5)	13.3	6.8	6.0	6.6
Policy Portfolio Benchmark	11.4	4.1	5.6	7.5

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

Policy Portfolio and Strategy Going Forward

The Policy Portfolio established by the Wellesley College Investment Committee guides asset allocation with the goal of balancing long-term returns and risks. Over the last 15 years, the endowment has diversified into less-efficient market-asset classes, such as venture capital, distressed debt, energy, and commodities. The Investment Committee and Investment Office team regularly review the expectations upon which the Policy Portfolio is based, with the goal of refining the assets held in the Wellesley portfolio in order to provide optimal risk/return characteristics over the long run. In executing this investment strategy, the Investment Office team works to add value within asset classes through the selection of outstanding investment managers.

The table below details the Policy Portfolio and the actual asset allocation as of June 30, 2013. Exposure to total long-term alternative assets was 58 percent of the portfolio, relative to a long-term target of 57 percent. Relative to the long-term Policy Portfolio targets, the endowment portfolio has a small under-weight to fixed income and over-weight to real assets and sufficient exposure to liquid investments to maintain the endowment's financial support to the College's operations and to provide for portfolio liquidity needs.

Asset Allocation as of June 30, 2013

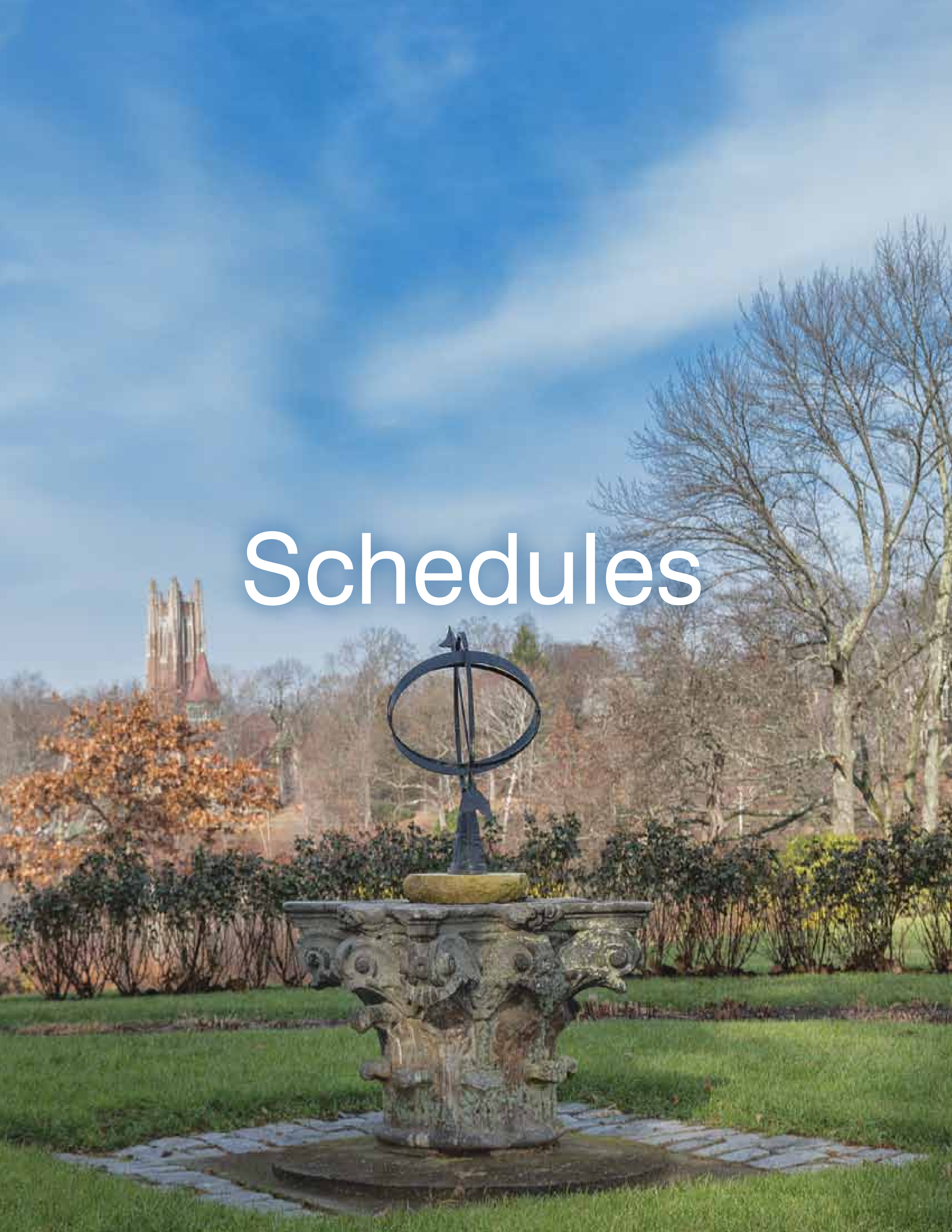
Asset Class	Policy Portfolio	Asset Allocation
U.S. Equities	17%	18%
International Equities	17	16
Total Equities	34	34
Private Equity	19	19
Real Assets	14	16
Semi-marketable	24	23
Total Alternative Assets	57	58
Fixed Income and Cash	9	8
Total Portfolio	100%	100%

The Investment Office and the Investment Committee remain focused on long-term growth to ensure that the endowment continues to support the College's mission. I believe that the College will be well served by its strategy of broad diversification across asset classes, geographies, and strategies, and by the excellent investment managers whom we employ.

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

Deborah F. Kuenstner
Chief Investment Officer

Schedules



Schedule A

Summary of Operating Revenues and Expenditures Years Ended June 30, 2013 and 2012 (in $000s)

	2012	2013	Increase (Decrease)	% Change
Operating Revenues				
Tuition and Fees	$96,702	$100,075	$3,373	3.5%
Room and Board	27,436	28,224	788	2.9%
Financial Aid Grants	(49,947)	(52,616)	(2,669)	5.3%
Net Student Charge Revenue	74,191	75,683	1,492	2.0%
Distribution from Endowment Used for Operations	75,007	77,848	2,841	3.8%
Restricted Gifts for Current Use	4,282	5,905	1,623	37.9%
Unrestricted Bequests	3,000	3,000	—	0.0%
The Wellesley Fund	9,282	8,537	(745)	(8.0%)
Total Support from Alumnae and Friends	91,571	95,290	3,719	4.1%
Sponsored Research	6,881	7,698	817	11.9%
Federal and State Grants	2,859	2,684	(175)	(6.1%)
Auxiliary Enterprises	6,439	5,207	(1,232)	(19.1%)
Other Income	4,414	4,832	418	9.5%
Total Revenues	186,355	191,394	5,039	2.7%
Operating Expenditures				
Instruction and Departmental	69,005	70,001	996	1.4%
Sponsored Research	6,881	7,698	817	11.9%
Library	5,739	5,704	(35)	(.6%)
Student Services	29,886	31,153	1,267	4.2%
General Administration	10,309	10,703	394	3.8%
General Institutional	26,263	26,366	103	.4%
Maintenance and Operations	13,099	12,596	(503)	(3.8%)
Debt Service	6,547	10,136	3,589	54.8%
Major Maintenance and Capital Expenditures	6,113	6,855	742	12.1%
Auxiliary Enterprises	8,450	8,303	(147)	(1.7%)
Other Programs	3,611	3,374	(237)	(6.6%)
Total Expenditures	185,903	192,889	6,986	3.8%
Surplus (Deficit) from Operations	452	(1,495)	(1,947)	(430.8%)
Addition to (Use of) Reserves	450	(1,495)	(1,945)	(432.2%)
Number of Alumnae Donors	$2	$—	$(2)	100%

Schedule B

Ten-Year Operating Budget Financial Summary 2004–2013

											Average Annual Percentage Change Since June 30, 2004	
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Nominal %	Real %
Operating Revenues												
Tuition and Fees	$62,928	$66,989	$71,431	$79,298	$83,447	$86,543	$90,400	$96,402	$96,702	$100,075	5.3%	3.2%
Room and Board	17,214	18,489	19,867	21,070	22,289	23,958	24,859	26,759	27,436	28,224	5.7%	3.6%
Financial Aid Grants	(26,757)	(29,732)	(31,818)	(34,754)	(36,212)	(41,215)	(44,687)	(50,317)	(49,947)	(52,616)	7.9%	5.8%
Net Student Charge Revenue	53,385	55,746	59,480	65,614	69,524	69,286	70,572	72,844	74,191	75,683	4.0%	1.9%
Distribution from Endowment Used for Operations	60,522	65,919	67,762	72,595	75,392	79,155	83,196	78,304	75,007	77,848	2.9%	0.8%
Restricted Gifts for Current Use	6,930	6,071	5,429	6,377	6,769	7,051	6,341	4,757	4,282	5,905	(.3%)	(2.4%)
Unrestricted Gifts and Bequests	10,589	12,024	10,049	10,606	10,671	10,741	10,825	11,274	12,282	11,537	1.2%	(0.9%)
Federal and State Grants and Contracts - Restricted	10,965	8,979	8,048	8,789	8,322	8,567	9,896	8,609	9,740	10,382	.1%	(2.0%)
Sales and Services of Auxiliary Enterprises	7,010	7,290	7,561	8,312	7,811	6,174	6,423	6,239	6,439	5,207	(2.7%)	(4.8%)
Other	3,556	3,661	5,316	6,467	6,716	4,619	3,308	4,040	4,414	4,832	6.1%	4.0%
Total Revenues	$152,957	$159,690	$163,645	$178,760	$185,205	$185,593	$190,561	$186,067	$186,355	$191,394	2.6%	0.5%
Operating Expenditures												
Instruction and Departmental	48,802	51,503	54,892	60,763	65,219	64,508	68,114	66,988	69,005	70,001	4.2%	2.1%
Sponsored Research and Other Programs	12,873	11,104	10,167	10,712	10,672	10,433	10,354	9,569	10,492	11,072	(1.4%)	(3.5%)
Library	5,602	5,922	6,094	6,247	6,458	6,632	5,798	5,638	5,739	5,704	.3%	(1.8%)
Student Services	24,199	25,330	28,538	29,713	31,743	28,567	28,666	29,971	29,886	31,153	3.0%	0.9%
General Administration	7,533	8,310	8,680	12,611	13,164	15,513	12,856	10,714	10,309	10,703	5.4%	3.3%
General Institutional	21,237	21,558	21,178	22,647	23,470	24,441	22,986	25,644	26,263	26,366	2.5%	0.4%
Maintenance and Operations	11,746	13,089	16,123	15,038	15,542	15,970	14,104	14,409	13,099	12,596	1.3%	(.8%)
Debt Service	7,082	7,513	7,078	7,907	7,135	7,163	6,831	6,098	6,547	10,136	5.5%	3.4%
Major Maintenance and Capital Expenditures	6,416	7,678	5,003	6,916	5,596	5,280	6,680	5,841	6,113	6,855	3.2%	1.1%
Auxiliary Enterprise Expenditures	7,467	7,681	5,889	6,199	6,205	7,081	7,243	7,138	8,450	8,303	1.8%	(0.3%)
Total Expenditures	152,957	159,688	163,642	178,753	185,204	185,588	183,632	182,010	185,903	192,889	2.7%	0.6%
Excess of Revenues over Expenditures	$—	$2	$3	$7	$1	$5	$6,929	$4,057	$452	$(1,495)		
Excess of Revenues over Expenditures as a Percentage of Expenditures	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	3.8%	2.2%	0.2%	-0.8%		

Schedule C

Key Facts and Statistics 2004–2013

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Headcount										
Faculty Teaching Strength (FTE)	224	224	231	236	241	248	246	253	260	265
Staff (FTE)	763	746	737	760	802	673	691	713	749	726
Student Enrollment (Average FTE)	2,176	2,169	2,193	2,196	2,234	2,212	2,200	2,287	2,250	2,239
Student/Faculty Ratio	9.7	9.7	9.5	9.3	9.3	8.9	8.9	9.0	8.7	8.4
Admissions and Enrollment										
Number of First-Year Student Applications	3,434	3,944	4,347	3,974	4,017	4,001	4,156	4,267	4,400	4,599
First-Year Students Admitted as a % of Applicants	40.6%	37.5%	33.7%	36.1%	35.7%	36.0%	35.2%	33.7%	31.0%	29.0%
First-Year Students Enrolled as a % of Students Admitted	42.4%	41.7%	41.4%	40.9%	41.1%	41.3%	40.3%	44.0%	42.0%	43.3%
Sticker Price										
Tuition and Fees	$27,904	$29,796	$31,348	$33,072	$34,994	$36,640	$38,062	$39,666	$40,660	$42,082
Room and Board	$8,612	$9,202	$9,682	$10,216	$10,826	$11,336	$11,786	$12,284	$12,590	$13,032
Comprehensive Fee	$36,516	$38,998	$41,030	$43,288	$45,820	$47,976	$49,848	$51,950	$53,250	$55,114
Financial Aid and Net Price										
Percentage of Students Receiving Financial Aid Grant Assistance	53%	55%	56%	53%	52%	54%	55%	58%	57%	58%
Average Financial Aid Grant as % of Comprehensive Fee	58%	64%	60%	61%	62%	66%	67%	69%	69%	69%
Average Financial Aid Grant per Aided Student	$21,628	$22,945	$24,486	$26,588	$28,364	$31,501	$33,497	$35,773	$36,656	$37,990
Net Student Charge Revenue per Student FTE	$24,534	$25,701	$27,123	$29,879	$31,121	$31,323	$32,078	$31,851	$32,974	$33,810
Cost and Share of Cost Charged and Paid										
Total College Expenditures per Student FTE	$70,293	$73,623	$74,620	$81,399	$82,902	$83,901	$83,469	$79,585	$82,624	$86,169
Comprehensive Fee as a Percentage of Total College Expenditures per Student FTE	52%	53%	55%	53%	55%	57%	60%	65%	64%	64%
Net Student Charge Revenue per Student as a Percentage of Total College Expenditures per Student FTE	35%	35%	36%	37%	38%	37%	38%	40%	40%	39%
Resources/Fundraising ($000s)										
Unrestricted Gifts	$7,857	$8,024	$8,761	$8,421	$8,413	$8,847	$8,847	$8,690	$9,177	$9,390
Restricted Gifts	$7,518	$10,493	$6,479	$13,624	$9,137	$8,217	$8,330	$9,211	$8,699	$9,908
Endowment Gifts	$15,124	$648	$13,300	$5,501	$6,056	$4,958	$4,068	$7,810	$6,863	$3,918
Planned Gifts	$2,670	$1,626	$2,411	$1,389	$2,943	$3,389	$1,219	$1,409	$6,990	$4,329
Bequests	$10,573	$36,295	$14,305	$13,017	$4,210	$6,349	$7,555	$8,666	$5,242	$7,766
Facilities Gifts	$10,976	$31,531	$10,656	$22,227	$7,006	$6,482	$3,098	$2,315	$2,442	$7,154
Total Fundraising	$54,718	$88,617	$55,912	$64,179	$37,765	$38,242	$33,117	$38,101	$39,413	$42,465
Number of Alumnae Donors	16,019	15,450	15,113	15,160	14,561	13,527	14,177	14,562	13,388	15,017
Percentage of Alumnae Contributing	53%	51%	50%	50%	47%	44%	45%	47%	45%	49%
Unrestricted Gifts and Total Bequests as % of Total Expenditures	12%	28%	14%	12%	7%	8%	9%	10%	8%	9%
Endowment										
Endowment Market Value ($000s)	$1,180,405	$1,275,767	$1,412,604	$1,672,473	$1,629,447	$1,287,284	$1,330,045	$1,523,451	$1,468,370	$1,576,337
Endowment per Student FTE	$542,466	$588,182	$644,142	$761,600	$729,385	$581,955	$604,566	$666,135	$652,609	$704,193
Endowment Income per Student FTE	$27,813	$30,391	$30,899	$33,058	$33,748	$35,784	$37,816	$34,239	$33,336	$34,777
Endowment Income as Percentage of Total Expenditures	40%	41%	41%	41%	41%	43%	45%	43%	40%	40%
Endowment Income Used to Support Operations as a Percentage of:										
Beginning of Year Market Value	5.1%	5.1%	5.0%	4.7%	4.6%	5.4%	6.4%	5.8%	5.3%	5.1%
Three Year Average Market Value	5.1%	5.2%	5.1%	4.9%	4.7%	4.9%	5.5%	5.9%	5.8%	4.9%
Other										
Gross Square Feet of Buildings	2,583,000	2,643,000	2,643,000	2,600,000	2,598,000	2,594,031	2,587,761	2,592,757	2,592,797	2,592,797
Library Collections in Volumes	1,558,607	1,571,517	1,594,395	1,604,787	1,600,258	1,458,179	1,702,321	1,683,644	1,892,255	1,935,793

Schedule D

Total Sources of Student Financial Aid—Grants and Work Assistance 2004–2013 (in $000s)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Percentage Change (2004–2013)
Restricted Revenue											
Endowment Income	$17,093	$18,881	$20,178	$21,922	$22,823	$24,292	$25,920	$23,791	23,772	24,231	41.8%
Endowment Income—Special Supplement	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	0.0%
Total Restricted Endowment Income	19,093	20,881	22,178	23,922	24,823	26,292	27,920	25,791	25,772	26,231	37.4%
Restricted Annual Gifts	2,747	3,008	2,625	3,678	3,478	3,339	2,718	1,686	1,474	1,761	-36%
Federal Government											
Pell Grants	1,124	1,046	945	1,110	1,203	1,402	2,018	2,467	2,058	2,055	83%
Supplemental Educational Opportunity Grants	405	401	388	358	339	348	337	330	307	307	-24%
College Work Study Program—Federal Government Share	381	359	331	322	333	342	383	322	322	322	-15%
Total Federal Government Grants	1,910	1,806	1,664	1,790	1,875	2,092	2,738	3,119	2,687	2,684	41%
Commonwealth of Massachusetts	245	238	239	268	268	238	143	184	171	169	-31%
Total Restricted Revenue	23,995	25,933	26,706	29,658	30,444	31,961	33,519	30,780	30,104	30,845	28.5%
Unrestricted Revenue											
General College Revenues	2,504	3,751	4,822	5,890	7,826	9,249	13,049	18,675	19,013	20,389	714%
Total Restricted and Unrestricted Revenues	$26,499	$29,684	$31,528	$35,548	$38,270	$41,210	$46,568	$49,455	$49,117	$51,234	34%

Schedule E

General Endowment Pool Annual Total Return Since Inception

Year Ended	Market Value ($000s)	Ending Unit Value	Distribution Per Unit	Total Return %
		$100.00		
1970	$92,600	107.13	$5.50	12.26
1971	121,050	138.68	5.70	33.57
1972	136,273	154.80	5.90	15.44
1973	126,928	139.30	6.00	(5.70)
1974	109,672	116.43	7.30	(10.15)
1975	111,340	116.82	7.05	6.36
1976	115,922	119.77	7.00	8.36
1977	119,152	122.86	7.30	8.52
1978	111,852	116.54	7.68	0.44
1979	119,151	119.70	8.05	9.45
1980	133,168	119.32	9.30	7.76
1981	134,871	121.64	9.11	10.20
1982	127,842	110.90	10.72	0.90
1983	167,556	135.78	10.40	29.60
1984	156,258	123.60	9.00	(2.41)
1985	201,793	149.44	9.09	27.98
1986	260,481	188.93	8.41	32.40
1987	294,574	207.66	8.90	14.72
1988	290,270	198.53	10.25	0.90
1989	319,235	211.06	11.10	12.78
1990	352,537	222.70	11.30	11.20
1991	371,464	231.81	11.30	9.23
1992	409,082	252.95	11.02	14.50
1993	475,797	281.83	11.37	15.50
1994	475,961	278.97	14.00	4.00
1995	520,108	305.01	16.15	15.20
1996	595,950	336.88	17.02	18.24
1997	677,932	371.67	19.60	17.17
1998	780,203	410.41	21.00	15.22
1999	887,036	446.73	22.00	14.96
2000	1,253,008	610.15	23.50	42.85
2001	1,135,925	543.88	24.75	(6.62)
2002	1,031,991	484.59	26.04	(5.19)
2003	1,043,476	479.33	26.88	4.85
2004	1,179,988	521.95	26.16	15.18
2005	1,275,529	550.55	27.88	11.46
2006	1,412,410	595.46	28.96	13.97
2007*	1,656,565	691.71	30.74	22.70
2008	1,611,318	668.81	31.55	1.22
2009	1,266,437	523.84	33.18	(16.97)
2010	1,306,796	535.74	35.08	9.34
2011	1,499,872	608.09	31.68	20.36
2012	1,444,609	579.48	31.11	0.75
2013	1,550,267	616.39	31.36	12.47

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

Audited Financial Statements

Report of Independent Auditors

pwc

To the Board of Trustees of Wellesley College:

We have audited the accompanying financial statements of Wellesley College (the "College") which comprise the statement of financial position as of June 30, 2013 and 2012 and the related statements of activities and cash flows for the years then ended.

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 audit. We conducted our audit 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 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.

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Wellesley College at June 30, 2013 and 2012 and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

Boston, Massachusetts
October 31, 2013

PricewaterhouseCoopers LLP, 125 High Street, Boston, MA 02110
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Statements of Financial Position

June 30, 2013 and 2012 (in $000s)

	2013	2012
Assets		
Cash and cash equivalents	$31,674	$40,541
Cash and cash equivalents, restricted	55,001	57,591
Accounts receivable, net	1,282	876
Loans receivable, net	8,714	8,615
Contributions receivable, net	54,593	48,484
Grants receivable	1,675	1,827
Prepaid, inventory and other assets	5,266	3,169
Operating investments	44,892	45,566
Investments	1,580,403	1,468,582
Planned giving investments	67,178	70,342
Collateral received for securities lending	984	963
Land, buildings and equipment, net	296,272	299,704
Total assets	$2,147,934	$2,046,260
Liabilities		
Accounts payable and accrued expenses	$32,779	$41,882
Student deposits and deferred revenues	2,560	3,761
Advances under grants and contracts	6,470	5,233
Annuities and unitrusts payable	33,317	36,134
Asset retirement and environmental obligations	20,427	19,781
Accrued pension liability	16,120	25,472
Liability under securities lending transactions	984	963
Bonds and notes payable	247,215	249,020
Government loan advances	4,569	4,569
Total liabilities	364,441	386,815
Net Assets		
Unrestricted	583,366	547,240
Temporarily restricted	745,062	668,932
Permanently restricted	455,065	443,273
Total net assets	1,783,493	1,659,445
Total liabilities and net assets	$2,147,934	$2,046,260

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

Statement of Activities

For the year ended June 30, 2013 (in $000s)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2013 Total
Operating revenues				
Tuition and fees	$100,075	$—	$—	$100,075
Room and board	28,224	—	—	28,224
Less: Financial aid				
Donor sponsored	(26,388)	—	—	(26,388)
Institutionally sponsored	(24,173)	—	—	(24,173)
Net tuition and fees	77,738	—	—	77,738
Auxiliary operations	5,206	—	—	5,206
Government grants	4,448	—	—	4,448
Private gifts and grants	17,253	7,205	—	24,458
Investment return designated for operations	38,739	41,185	—	79,924
Other	3,736	—	—	3,736
Net assets released from restrictions	45,463	(45,463)	—	—
Total operating revenues	192,583	2,927	—	195,510
Operating expenses				
Instruction and departmental research	87,157	—	—	87,157
Sponsored research and other programs	11,071	—	—	11,071
Library	9,767	—	—	9,767
Student services	42,819	—	—	42,819
General administration	15,243	—	—	15,243
General institutional	28,334	—	—	28,334
Auxiliary operations	11,841	—	—	11,841
Total operating expenses	206,232	—	—	206,232
Change in net assets from operating activities	(13,649)	2,927	—	(10,722)
Nonoperating activities				
Investment return, net of spending allocation	30,054	66,985	58	97,097
Matured planned giving agreements	2,138	(4,619)	2,481	—
Gifts and pledges	1,734	11,802	9,253	22,789
Pension related changes other than net periodic pension cost	9,952	—	—	9,952
Net realized/unrealized gain on interest swap	4,932	—	—	4,932
Net assets released from restrictions	965	(965)	—	—
Total nonoperating revenues	49,775	73,203	11,792	134,770
Net change in net assets	36,126	76,130	11,792	124,048
Net assets				
Beginning of year	547,240	668,932	443,273	1,659,445
End of year	$583,366	$745,062	$455,065	$1,783,493

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

Statement of Activities

For the year ended June 30, 2012 (in $000s)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2012 Total
Operating revenues				
Tuition and fees	$96,702	$—	$—	$96,702
Room and board	27,436	—	—	27,436
Less: Financial aid				
Donor sponsored	(25,693)	—	—	(25,693)
Institutionally sponsored	(22,196)	—	—	(22,196)
Net tuition and fees	76,249	—	—	76,249
Auxiliary operations	6,440	—	—	6,440
Government grants	4,148	—	—	4,148
Private gifts and grants	17,289	4,848	—	22,137
Investment return designated for operations	38,003	40,389	—	78,392
Other	4,336	—	—	4,336
Net assets released from restrictions	40,426	(40,426)	—	—
Total operating revenues	186,891	4,811	—	191,702
Operating expenses				
Instruction and departmental research	85,225	—	—	85,225
Sponsored research and other programs	10,493	—	—	10,493
Library	9,479	—	—	9,479
Student services	40,627	—	—	40,627
General administration	10,225	—	—	10,225
General institutional	28,175	—	—	28,175
Auxiliary operations	12,016	—	—	12,016
Total operating expenses	196,240	—	—	196,240
Change in net assets from operating activities	(9,349)	4,811	—	(4,538)
Nonoperating activities				
Investment return, net of spending allocation	(25,182)	(46,745)	130	(71,797)
Matured planned giving agreements	2,520	(6,510)	3,990	—
Gifts and pledges	1,613	10,677	5,186	17,476
Pension related changes other than net periodic pension cost	(15,057)	—	—	(15,057)
Net realized/unrealized gain on interest swap	(13,085)	—	—	(13,085)
Loss on early extinguishment of debt	(2,430)	—	—	(2,430)
Net assets released from restrictions	3,508	(3,508)	—	—
Total nonoperating revenues	(48,113)	(46,086)	9,306	(84,893)
Net change in net assets	(57,462)	(41,275)	9,306	(89,431)
Net assets				
Beginning of year	604,702	710,207	433,967	1,748,876
End of year	$547,240	$668,932	$443,273	$1,659,445

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

Statements of Cash Flows

For the years ended June 30, 2013 and 2012 (in $000s)

	2013	2012
Cash flows from operating activities		
Change in net assets	$124,048	$ (89,431)
Adjustment to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	15,636	15,891
Contributions restricted for investments	(18,629)	(17,543)
Receipt of contributed securities	(1,135)	(1,636)
Realized and unrealized losses (gains) on investments	(171,341)	8,711
Change in discount and allowance for doubtful accounts	563	1,131
Unrealized loss (gain) on interest swap	(6,709)	11,320
Debt extinguishment charge	—	(533)
Bond premium	—	5,697
Changes in operating assets and liabilities:		
Accounts receivable, net	(425)	(141)
Contributions receivable, net	(6,672)	(1,734)
Grants receivable	152	(607)
Prepaid, inventory and other assets	(2,097)	1,199
Accounts payable and accrued expenses	(1,055)	(1,990)
Student deposits and deferred revenue	(1,201)	(713)
Advances under grants and contracts	1,237	1,567
Annuities and unitrusts payable	(2,817)	(2,543)
Accrued pension liability	(9,952)	15,057
Net cash used in operating activities	(80,397)	(56,298)
Cash flows from investing activities		
Purchase of plant and equipment	(12,453)	(7,249)
Proceeds from student loans collections	393	704
Student loans issued	(473)	(632)
Decrease (increase) in restricted cash for construction funds	161	(53,356)
Decrease (increase) in restricted cash for plant and equipment	2,428	(4)
Purchases of investments	(489,986)	(347,993)
Proceeds from sales and maturities of investments	554,479	352,961
Net cash provided by (used in) investing activities	54,549	(55,569)
Cash flows from financing activities		
Proceeds from contributions for:		
Investment in endowment	8,130	8,863
Investment in planned giving	3,608	5,689
Plant and equipment	6,891	2,991
Proceeds from bonds	—	149,010
Payments on bonds and notes payable	(1,648)	(52,808)
Net cash provided by financing activities	16,981	113,745
Net (decrease) increase in cash and cash equivalents	(8,867)	1,878
Cash and cash equivalents		
Beginning of year	40,541	38,663
End of year	$31,674	$40,541
Contributed securities	$1,135	$1,636
Cash paid for interest	8,129	5,339
Capital additions included in accounts payable and accrued expenses	938	845
Net change in securities lending	21	(254)

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

Wellesley College
Notes to the Financial Statements

June 30, 2013 and 2012

1. Summary of Significant Accounting Policies

(a) Basis of Presentation

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

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

Unrestricted—Net assets that are not subject to donor-imposed stipulations. These include all revenues, expenses, gains and losses that are not changes in permanently or temporarily restricted net assets. This category includes realized and unrealized gains 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.

(b) Cash and Cash Equivalents

Cash and cash equivalents include short-term, highly liquid investments with a maturity of three months or less at the time of purchase. Cash and cash equivalents representing endowment assets and planned giving assets are included in 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.

(c) Investments

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

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

Derivative investments in the College's portfolio may include currency forward contracts, currency and interest rate swaps, call and put options, 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.

Deficiencies of $352,000 and $1,535,000 for donor-restricted endowment funds, resulting from declines in market value, have been offset by an allocation from unrestricted net assets to temporarily restricted net assets for the years ended June 30, 2013 and 2012, respectively. As the market value of the portfolio increases, the deficiency will decrease.

(d) Endowment Investment Return Spending Policy

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

In October 2010, the Board of Trustees approved a revised Endowment Spending Policy effective for the year ended June 30, 2012. Wellesley's revised Endowment Spending Policy is based on a combination of the prior year's spending and prior year's endowment value with a weighting of 80% and 20%, respectively. The amount of allowable spending will be capped at 5.5% or no less than 4.0% of the average of the last three endowment values adjusted for inflation, with a target of approximately 4.5% of the prior year endowment market value. 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.

(e) Inventories
Inventories are stated at the lower of cost (first-in, first-out method) or market and are included in prepaid, inventory and other assets on the Statement of Financial Position.

(f) Accounts Receivable and Student Loans Receivable
Accounts receivable include amounts due from students, student organizations and other miscellaneous receivables. Loans to students are carried at net realizable value. Accounts receivable for 2013 and 2012, are reported net of allowances for doubtful accounts of $253,000 and $272,000, respectively. Loans receivable for 2013 and 2012, are reported net of allowances for doubtful loans of $713,000 and $694,000, 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.

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

(h) Pledges
The College recognizes the present value of unconditional promises to give as revenue in the period in which the pledges are made by donors.

(i) 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

(j) 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. Additional grants, when necessary, are funded through unrestricted institutional resources.

(k) 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 in the current fiscal year. The correlating room and board expenses are included in the student services functional line item on the Statement of Activities.

(l) 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.

(m) 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 for the legal obligations associated with environmental asset retirements in the period in which the obligation is incurred. 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.

(n) Interest Rate Swap
In fiscal year 2008, the College has 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 along with the change in fair value of the swap are recorded in the nonoperating section of the statement of activities as net realized/unrealized gain on interest swap for the year ended June 30, 2013.

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

(p) New Accounting Pronouncements
On July 1, 2010, the College adopted new guidance enhancing the Fair Value Measurement standard. This standard requires further disclosure of significant transfers in and out of Level 1 and Level 2 fair value measurements, including the reasons for the transfers, and requires discussions of their fair value measurement disclosures on a disaggregated basis. On July 1, 2011, the College adopted the remaining enhancement of this standard. This standard required disclosure on the activity in the Level 3 roll forward to be reported gross, rather than net, basis.

On July 1, 2010, the College adopted the accounting standard, Credit Quality. This standard requires the disclosure about the credit quality of financing receivables and the related allowance for credit losses. See section (f) of this note for additional information.

Reclassifications
Certain amounts from the 2012 financial statements have been reclassified to conform to the 2013 presentation.

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

Unconditional promises expected to be collected in:	2013	2012
Less than one year	$25,623	$3,943
One year to five years	32,407	47,668
Over five years	247	1,120
	58,277	52,731
Less: Discounts and allowance for uncollectible accounts	3,684	4,247
Net contributions receivable	$54,593	$48,484

Contributions receivable expected to be collected within one year are recorded at their net realizable value. Those expected to be collected in future years are recorded at the present value of estimated future cash flows. The present value of estimated future cash flows has been measured at the time of the contribution using rates indicative of the market and credit risk associated with the contribution. Discount rates used to calculate the present value of contributions receivable ranged from 2.6% to 5.10% at June 30, 2013 and 2012.

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

	2013	2012
Land and land improvements	$50,226	$50,226
Buildings and building improvements	450,997	439,023
Equipment	8,676	8,395
Construction in progress	5,157	5,635
	515,056	503,279
Less: Accumulated depreciation	218,784	203,575
	$296,272	$299,704

Depreciation expense was $15,792,000 and $15,959,000 for the years ended June 30, 2013 and 2012, respectively.

The College recognized $865,000 and $830,000 of operating expenses relating to the accretion of environmental liabilities associated with the asset retirement obligations for the years ended June 30, 2013 and 2012, respectively. Conditional asset retirement obligations of $20,427,000 and $19,781,000 at June 30, 2013 and 2012, respectively, are presented in the Statement of Financial Position.

4. Investments
The book and market values of investments at June 30, 2013 and 2012 are shown on Table 4 on page 36.

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 cash, bonds and equities are alternative investment vehicles including hedge funds with a market value of $315,352,000 and $258,593,000 and commingled funds with a market value of $196,080,000 and $189,961,000 at June 30, 2013 and 2012, respectively.

The College is currently invested in exchange-traded futures contracts. The College uses these instruments to maintain target exposures to certain equity markets. The College had long futures exposures with a net ending fair value of $9,666,000 and $9,698,000, at June 30, 2013 and 2012, respectively. The net loss from these derivative instruments for the fiscal years ended June 30, 2013 and 2012 were $334,000 and $7,659,000, respectively, and are included in the investment return on the Statement of Activities.

The College's investment return from endowment and planned giving investments are shown in Table 5 on page 37 for the years ended June 30, 2013 and 2012.

The total return consisting of realized and unrealized gains and losses and dividends and interest net of investment management and custodial fees was 12.47% and 0.75% for the fiscal years ended June 30, 2013 and 2012, respectively.

At June 30, 2013 and 2012 investment securities having a fair value of $946,000 and $937,000, respectively, were loaned to various brokerage firms through a securities lending agent. The loaned securities are returnable on demand and are collateralized by cash deposits. The College has recorded the fair value of the collateral received of $984,000 and $963,000 and an offsetting liability for the return of the collateral on the Statement of Financial Position at June 30, 2013 and 2012, respectively.

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

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

Table 6 on page 37 presents information about the College's assets and liabilities measured at fair value on a recurring basis based upon the lowest level of significant input to the valuations at June 30, 2013 and 2012.

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.

Table 7 on page 38 presents the assets and liability carried at fair value as of June 30, 2013 and 2012 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.

As a result of the FASB accounting standards reissued in May 2011, related to estimating fair value of investments, $5,057,000 and $13,831,000, has been reclassified from Level 3 to Level 2, for the years ended June 30, 2013 and 2012, respectively. The College had no reclassifications from Level 3 to Level 1 in the current year, and reclassified $47,335,000 from Level 3 to Level 1 for the year ended June 30, 2012. The College had no transfers from Level 2 to Level 1 for the years ended June 30, 2013 and 2012.

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, 2013 and 2012 are $75,239,000 and ($83,710,000), 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. Table 8 on page 39 presents investments measured at NAV as of June 30, 2013 and 2012.

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 as of June 30, 2012 and 2013 are shown in Table 9 shown on page 39.

The components of the pooled and nonpooled endowment funds at market value at June 30, 2013 and 2012 are shown on Table 10 on page 40.

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 $15,129,000 and $13,854,000 at June 30, 2013 and 2012, respectively.

Mortgages due from faculty of $26,070,000 and $23,761,000 at June 30, 2013 and 2012, respectively, are included within investments on the Statement of Financial Position.

At June 30, 2013, the College had thirteen Charitable Gift Annuities invested alongside the endowment with a market value of $3,846,000. These assets are included within the investments total on the Statement of Financial Position.

Table 4: Book and Market Values of Investments

June 30, 2013 and 2012 (in $000s)

	2013 Book Value	2013 Market Value	2012 Book Value	2012 Market Value
Endowment investments				
Investments pooled				
Cash and cash equivalents	$59,432	$59,432	$36,856	$36,856
Bonds	40,940	68,493	65,613	110,701
Equities	315,220	523,009	361,071	505,644
Private equity	255,993	295,908	249,679	291,083
Real assets	297,436	242,670	301,652	241,828
Absolute return	280,362	363,757	197,300	257,645
Other assets	851	851	852	852
Total pooled investments	1,250,234	1,554,120	1,213,023	1,444,609
Faculty mortgages	26,070	26,070	23,761	23,761
Total pooled investments and faculty mortgages	1,276,304	1,580,190	1,236,784	1,468,370
Investments not pooled				
Cash and cash equivalents	213	213	212	212
Total investments not pooled	213	213	212	212
Total endowment investments	1,276,517	1,580,403	1,236,996	1,468,582
Other investments				
Restricted construction funds	45,000	44,892	45,000	45,566
Total other investments	45,000	44,892	45,000	45,566
Total investments	$1,321,517	$1,625,295	$1,281,996	$1,514,148
Planned giving investments				
Separate Pooled Funds				
Cash and cash equivalents	$579	$579	$1,937	$1,937
Bonds	10,109	10,015	10,495	10,667
Equities	27,004	32,787	29,160	31,723
Total pooled funds	37,692	43,381	41,592	44,327
Unitrusts				
Cash and cash equivalents	265	265	252	252
Bonds	3,891	3,983	4,686	4,944
Equities	5,823	9,027	8,241	10,806
Other assets	1,887	1,887	2,022	2,022
Assets held by trustees	8,635	8,635	7,991	7,991
Total funds not pooled	20,501	23,797	23,192	26,015
Total planned giving investments	$58,193	$67,178	$64,784	$70,342

Table 5: Investment Returns from Endowment and Planned Giving

For years ended June 30, 2013 and 2012 (in $000s)

2013	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Dividends and interest (net of expenses of $12,568)	$2,707	$2,298	$58	$5,063
Net realized and unrealized gains/losses	53,722	118,236	—	171,958
Total return on endowment and planned giving investments	56,429	120,534	58	177,021
Investment return designated for current operations	(26,375)	(53,549)	—	(79,924)
	$30,054	$66,985	$58	$97,097

2012				
Dividends and interest (net of expenses of $11,439)	$545	$(2,095)	$130	$(1,420)
Net realized and unrealized gains/losses	142	7,873	—	8,015
Total return on endowment and planned giving investments	687	5,778	130	6,595
Investment return designated for current operations	(25,869)	(52,523)	—	(78,392)
	$(25,182)	$(46,745)	$130	$(71,797)

Table 6: Assets and Liabilities

Measured at Fair Value (in $000s)

2013	Level1	Level2	Level3	Total
Investments				
Equities	$124,679	$379,392	$18,938	$523,009
Bonds	—	68,493	—	68,493
Private equity	946	—	294,962	295,908
Real assets	—	13,836	228,834	242,670
Absolute return	61,585	70,917	231,255	363,757
Cash and other assets	59,645	44,892	851	105,388
Planned giving investments	4,440	52,216	10,522	67,178
Total assets at fair value	$251,295	$629,746	$785,362	$1,666,403
Interest rate swap	—	—	9,544	9,544
Total liabilities at fair value	$—	$—	$9,544	$9,544

2012	Level 1	Level 2	Level 3	Total
Investments				
Equities	$146,884	$339,770	$18,990	$505,644
Bonds	16,603	94,098	—	110,701
Private equity	—	—	291,083	291,083
Real assets	—	13,831	227,997	241,828
Absolute return	—	79,510	178,135	257,645
Cash and other assets	37,068	45,566	852	83,486
Planned giving investments	5,629	54,835	9,878	70,342
Total assets at fair value	$206,184	$627,610	$726,935	$1,560,729
Interest rate swap	—	—	16,253	16,253
Total liabilities at fair value	$—	$—	$16,253	$16,253

Table 7: Assets and Liability

Carried at Fair Value as of June 30, 2013 and 2012 (in $000s)

2013	Balance July 1, 2012	Realized and Unrealized Gains/losses	Purchases	Sales	Transfer in/(out) of level 3	Balance, June 30, 2013
Equities	$18,990	$(204)	$152	$—	$—	18,938
Private equity	291,083	38,856	50,035	(85,012)	—	294,962
Real assets	227,997	17,898	19,183	(36,245)	—	228,833
Absolute return	178,135	25,028	38,045	(4,896)	(5,057)	231,255
Cash and other assets	852	6,796	—	(6,797)	—	851
Planned giving investments	9,878	(4,363)	2,465	(1,267)	3,809	10,522
Interest rate swap — asset/liability	(16,253)	6,709	—	—	—	(9,544)
Balances at June 30, 2013	$710,682	$90,720	$109,880	$(134,217)	$(1,248)	$775,817

2012	Balance July 1, 2011	Realized and Unrealized Gains/losses	Purchases	Sales	Transfer in/(out) of level 3	Balance, June 30, 2012
Equities	$22,986	($5,592)	$1,596	$—	$—	$18,990
Private equity	302,276	18,290	64,168	(93,651)	—	291,083
Real assets	245,188	(3,185)	22,187	(17,233)	(18,960)	227,997
Absolute return	124,796	1,357	68,520	(16,538)	—	178,135
Cash and other assets	881	2,771	—	(2,800)	—	852
Planned giving investments	59,722	(1,017)	3,628	(5,120)	(47,335)	9,878
Interest rate swap—asset/liability	(4,933)	(11,320)	—	—	—	(16,253)
Balance at June 30, 2012	$750,916	$1,304	$160,099	$(135,342)	$(66,295)	$710,682

Table 8: Investments Measured At NAV

As of June 30, 2013 and 2012 (in $000s)

2013 Investment	NAV In Funds	Unfunded Commitments	Timing to draw Commitments	Redemption terms/Restrictions
Private equity	$294,962	$87,295	1 to 10 years	Funds are private equity, no ability to redeem.
Real assets	242,669	98,797	1 to 10 years	Funds are private equity, no ability to redeem.
Equities	398,330		1 to 10 years	89% of NAV is redeemable within 90 days; 3% of NAV is redeemable within a year; remaining 8% has a multi-year redemption period.
Bonds	68,492	—		93% of NAV is redeemable within 90 days; remaining 7% has a multi-year redemption period.
Absolute return	363,756	9,238	1 to 4 years	38% of NAV is redeemable within 90 days; 46% of NAV is redeemable within a year; remaining 16% has a multi-year redemption period.
Other assets	45,743	—		22% of NAV is redeemable within 90 days: 16% is redeemable within a year; 62% of NAV has a multi-year redemption period.
	$1,413,952	$195,330		

2012 Investment	NAV In Funds	Unfunded Commitments	Timing to draw Commitments	Redemption terms/Restrictions
Private equity	$291,083	$99,352	1 to 10 years	Funds are private equity, no ability to redeem.
Real assets	241,828	53,286	1 to 10 years	Funds are private equity, no ability to redeem.
Equities	358,760	152	1 to 10 years	80% of NAV is redeemable within 90 days; 10% of NAV is redeemable within a year; remaining 10% has a multi-year redemption period.
Bonds	94,098	—		76% of NAV is redeemable within 90 days; 16% of NAV is redeemable within a year; remaining 8% has a multi-year redemption period.
Absolute return	257,645	12,862	1 to 4 years	15% of NAV is redeemable within 90 days: 43% is redeemable within a year; 42% of NAV has a multi-year redemption period.
Other assets	46,418	—		No ability to redeem
	$1,289,832	$165,652		

Table 9: Pooled Funds

As of June 30, 2013 and 2012 (in $000s)

	2013	2012
Investments in pooled funds and faculty mortgages, market value	$ 1,580,190	$1,468,370
Total number of units	2,563,627	2,533,938
Market value per unit	616.39	$579.48
Distribution per unit	31.36	$31.11

Table 10: Components of Pooled and Nonpooled Endowment Funds at Market Value

As of June 30, 2013 and 2012 (in $000s)

	Units	Pooled Endowment	Nonpooled Endowment	Total Endowment
2012 Funds				
Endowment and similar funds:				
Endowment funds	$1,625,532	$1,001,961	$—	$1,001,961
Term funds	96,705	59,607	213	59,820
Quasi-endowment	841,390	518,622	—	518,622
Total	$2,563,627	$1,580,190	$213	$1,580,403
2012 Funds				
Endowment and similar funds:				
Endowment funds	1,610,607	$933,316	$—	$933,316
Term funds	89,553	51,895	212	52,107
Quasi-endowment	833,778	483,159	—	483,159
Total	2,533,938	$1,468,370	$212	$1,468,582

8. Notes and Bonds Payable

Indebtedness at June 30, 2013 and 2012 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 $6,352,000 and $3,574,000 during fiscal years 2013 and 2012, 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 allows 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, 2013 and 2012, restricted cash included $55,001,000 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 College recognized a debt extinguishment charge of $2,430,000 at June 30, 2012, which has been reflected in the Statement of Activities. The refunding allows 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, 2013 and 2012, operating investments included $44,892,000 and $45,566,000, 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%. There were no amounts outstanding under this line of credit as of June 30, 2013 and 2012. 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, 2015. There were no amounts outstanding as of June 30, 2013.

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

	2013	2012
MDFA, Series I, Variable Rate Demand Bonds, bearing interest at a daily rate, maturing July 2039. The rate at June 30, 2013 was 0.05%.	$57,385	$57,385
MDFA, Series H, Revenue Bonds issued at an interest rate of 4.0% to 5.0% maturing July 2033.	—	925
MDFA, Series G, Variable Rate Demand Bonds, bearing interest at a daily rate, maturing July 2039. The rate at June 30, 2013 was 0.05%.	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, 2013 was 0.04%.	9,600	10,400
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 4.046%, maturing 2042.	99,210	99,210
Notes Payable Promissory Note, principal maturing monthly. The rate at June 30, 2013 was 0.94%.	7,240	7,135
Total debt	243,235	244,855
Less unamortized bond issue costs	(1,484)	(1,489)
Add unamortized original issue premium	5,464	5,654
	$247,215	$249,020

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

2014	$9,655
2015	2,695
2016	2,855
2017	3,020
2018	3,175
Thereafter	221,835
Total bonds and notes payable	$243,235

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, 2013 and 2012, the market value of the swap agreement amounted to a liability of $9,544,000 and $16,253,000, 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 gain of $6,709,000 in 2013 and a loss of $11,320,000 in 2012 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 $1,777,000 and $1,765,000 which is reflected as part of the net realized/unrealized loss/gain on interest swap for the years ended June 30, 2013 and 2012, respectively. This financial instrument necessarily involves counterparty credit exposure and the College's own nonperformance risk. The counterparty for this swap agreement is a major financial institution that meets the College's criteria for financial stability and credit-worthiness.

The College has outstanding debt at June 30, 2013 fixed rate debt of $149,935,000 and variable rate debt of $87,785,000. 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, 2013 approximates $145,859,000. 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, 2013, there is approximately $3,846,000 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 of 6%. The liability of $33,317,000 and $36,134,000 at June 30, 2013 and 2012, respectively, is adjusted during the term of the agreement for changes in actuarial assumptions. Payments of income to beneficiaries are principally funded by the investment income of the related gift annuity and unitrust investments.

10. Pension Plans

The College has a defined contribution, noncontributory annuity pension plan for faculty and administrative personnel administered by the Teachers Insurance and Annuity Association and College Retirement Equities Fund (TIAA/CREF). Under this Plan, the College contributed $8,331,000 and $7,900,000, respectively, for the years ended June 30, 2013 and 2012.

The College also has a defined benefit pension plan for classified office and service employees. The Plan provides retirement and death benefits based on the highest 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.

The measurement date of determining the benefit obligations and net periodic benefit cost was June 30, 2013 and 2012.

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

	2013	2012
Assumptions used to determine benefit obligations		
Discount rate	4.700%	4.000%
Rate of compensation increase	3.000%	3.500%
Assumptions used to determine net periodic benefit cost		
Discount rate	4.000%	5.500%
Expected return on plan assets	7.200%	7.200%
Rate of compensation increase	3.500%	3.500%
Change in projected benefit obligation ($000s)		
Benefit obligation at end of prior year	$62,928	$46,908
Service cost	2,275	1,533
Interest cost	2,542	2,505
Actuarial (gain) loss, net of administrative expenses paid	(6,820)	13,439
Benefits paid	(1,806)	(1,457)
Benefit obligation at end of year	$59,119	$62,928
Accumulated benefit obligation	$50,675	$52,229
Change in plan assets ($000s)		
Fair value of plan assets at end of prior year	$37,456	$35,298
Actual return on plan assets, net of administrative expenses	4,348	615
Employer contributions	3,000	3,000
Benefits paid	(1,806)	(1,457)
Fair value of plan assets at end of year	$42,998	$37,456
Funded status ($000s)		
Funded status	$(16,120)	$(25,472)
Components of net periodic benefit cost ($000s)		
Service cost	$2,275	$1,533
Interest cost	2,542	2,505
Expected return on plan assets	(2,745)	(2,588)
Amortization of prior service cost	64	64
Net loss (gain) on amortization	1,463	291
Net periodic benefit cost	$3,599	$1,805
New net actuarial (gain) loss	$(8,424)	$15,412
Net (loss) gain on amortization	(1,464)	(291)
Amortization of prior service cost	(64)	(64)
Total	$(9,952)	$15,057
Amounts recognized in the statement of financial position consist of a liability	$(16,120)	$(25,472)
Other changes in plan assets and benefit obligations recognized in unrestricted net assets		
Net prior service cost	216	281
Net actuarial loss	14,399	24,286
Total	$14,615	$24,567

The amount expected to be recognized as amortization of prior net service and the (gain)/loss to be recognized both as components of net periodic cost in both years are $64,500.

2014	$2,246
2015	2,436
2016	2,842
2017	3,117
2018	3,500
2019–2023	20,309

The College expects to make employer contributions into the plan of $2,000,000 in the 2014 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%
Total	100%

The following lists the Plan's asset allocation at June 30, 2013 and 2012:

Asset Category	Value at June 30, 2013	2013	2012
Equity securities	$26,650	62%	63%
Real estate investment trust	1,727	4%	4%
Commodities	1,668	4%	5%
Fixed income	11,194	26%	27%
Cash and cash equivalents	1,760	4%	1%
Total	$42,999	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, 2013 and 2012:

($000s)	2013	2012
Unrestricted		
Designated for specific purposes and plant	$97,586	$106,804
Quasi-endowment	486,132	441,971
Deficiencies in donor-restricted endowments	(352)	(1,535)
	583,366	547,240
Temporarily restricted		
Endowment and similar funds including pledges	646,205	583,004
Annuity, life income and unitrusts including pledges	36,975	33,584
Deficiencies in donor-restricted endowments	352	1,535
Other restricted	61,530	50,809
	745,062	668,932
Permanently restricted		
Endowment including pledges	455,065	443,273
	455,065	443,273
	$1,783,493	$1,659,445

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. 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, 2013, the endowment net asset composition by type of fund is shown in Table 19 on page 45.

Changes in endowment net assets for the year ended June 30, 2013, are shown in Table 20 on page 45.

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 $144,000 and $171,000, respectively, for the years ended June 30, 2013 and 2012. The College has purchased an insurance policy to cover cost overruns associated with the Upland/Wetland/Pond project as well as the assessment, monitoring, and, if necessary, remediation of contaminated groundwater located under the Uplands/Wetlands/Pond area. In September 2004, the College submitted a report to DEP recommending that no remedial action be taken in respect of the groundwater portion of the site beyond periodic monitoring of hexavalent chromium concentrations. DEP has not yet responded to this report.

In 2001, the Commonwealth of Massachusetts and the College entered an agreement pursuant to which the Commonwealth agreed to share in the cost of dredging the Northern Shoreline and Western Cove portion of Lake Waban, with the Commonwealth's share capped at $1.4 million. The dredging project was completed in 2002 at a total cost of approximately $1.2 million. Additional reimbursable costs of approximately $100,000 were incurred after the completion of dredging. In three payments made in 2005 and 2006, the Commonwealth reimbursed the College a total of approximately $1.06 million, fully satisfying the Commonwealth's reimbursement obligations under the 2001 cost-sharing agreement. In a report filed with DEP in May 2005, the College recommended that no remedial action be taken in portions of Lake Waban beyond the Northern Shoreline and Western Cove, apart from periodic monitoring of water quality and fish-growth patterns. DEP responded favorably to this report in a letter dated October 2005. The periodic monitoring program was initiated in 2008. The cost of this program is insignificant.

The Lower Waban Brook remedial project was originally anticipated to be undertaken in 2009 and was estimated to cost $3,600,000. Early project designs based upon risk assessments and feasibility studies performed prior to 2000 were not embraced by all constituents as satisfactory. Additional hydrological data gathering has been undertaken in keeping with proposals still under review with DEP, with the intent to develop an updated feasibility study and remedy selection process. It is desirable but not yet clear whether a new process will result in material increases to previous project cost estimates. For the years ending June 30, 2013 and 2012 total expenses to the Lower Waban Brook remedial project were $188,000 and $22,000, respectively. A liability of $2,589,000 and $2,777,000 has been recorded as of June 30, 2013 and 2012, respectively, and is included in the Statement of Financial Position within accounts payable and accrued expenses.

Table 19: Endowment Net Asset Composition by Type of Fund

As of June 30, 2013 (in $000s)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted funds	$—	$625,935	$431,772	$1,057,707
Board-designated and other unrestricted funds	518,630	—	—	518,630
	$518,630	$625,935	$431,772	$1,576,337

Table 20: Endowment Net Assets

For the year ended June 30, 2013 (in $000s)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at beginning of year	$483,161	$562,710	$422,711	$1,468,582
Investment income, net of expenses	2,931	5,951	—	8,882
Net appreciation (realized and unrealized)	54,471	110,592	—	165,063
Subtotal	540,563	679,253	422,711	1,642,527
Contributions and transfers to endowment	4,442	231	9,061	13,734
Appropriation of endowment assets for expenditure	(26,375)	(53,549)	—	(79,924)
Endowment net assets at end of year	$518,630	$625,935	$431,772	$1,576,337

Table 21: Endowment Net Asset Composition by Type of Fund

As of June 30, 2012 (in $000s)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted funds	$—	$562,710	$422,711	$985,421
Board-designated and other unrestricted funds	483,161	—	—	483,161
	$483,161	$562,710	$422,711	$1,468,582

Table 22: Endowment Net Assets

For the year ended June 30, 2012 (in $000s)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$502,013	$609,751	$411,919	$1,523,683
Investment income, net of expenses	698	1,417	—	2,115
Net appreciation (realized and unrealized)	1,775	3,186	—	4,961
Subtotal	504,486	614,354	411,919	1,530,759
Contributions and transfers to endowment	4,544	879	10,792	16,215
Appropriation of endowment assets for expenditure	(25,869)	(52,523)	—	(78,392)
Endowment net assets, end of year	$483,161	$562,710	$422,711	$1,468,582

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 $195,947,000 and $169,863,000 as of June 30, 2013 and 2012, respectively, for the following:

	2013	2012
Alternative investments	$195,330,000	$165,652,000
Construction contracts	617,000	4,211,000
	$195,947,000	$169,863,000

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 2014.

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 31, 2013, 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.

Board of Trustees

2012–2013

Wellesley College, 106 Central Street, Wellesley, Massachusetts 02481