MOUNT HOLYOKE

MOUNT HOLYOKE COLLEGE

Introduction:

In accordance with Massachusetts General Law Chapter 69, Section 31B(f), "An Act to Support Improved Financial Stability in Higher Education," the College is providing an overview of the financial statements for the years ended June 30, 2019 and 2018 to aid the reader in understanding the financial position of the College. This summary has not been audited and is not considered an integral part of the audited financial statements.

Financial Summary:

As of June 30, 2019, the financial position of the College is strong and stable with a healthy balance sheet noting $900m in net assets. This modest increase from June 30, 2018 is the result of revenue growth coupled with expenditure control in order to maintain a balanced operating measure on the statement of activities. The FY19 operating revenues increased by 6% and expenses increased by 2% from FY18.

The College continued to maintain a Moody's Investor Service bond rating of Aa3 with a stable outlook.

Balance Sheet:

The balance sheets provide detailed information about the College's assets, liabilities and net assets.

Overall assets of the College grew by $14m over the past year while liabilities declined by $3m. The change in assets is almost entirely the result of the return on the College's investments offset by a reduction in cash as the College has utilized debt proceeds for capital investment. More details related to the College's investments can be found in Footnote 7. Details related to bonds payable can be found in Footnote 12. Net assets for the College increased by $18m or 2%. This is mainly due to the investment returns noted above.

Statement of Activities:

The College's Statement of Activities details the revenues and expenses during the year and is broken out into operating and non-operating activity.

Operating revenue for the College is made up of the main business activities of the institution, including collecting fees from students, other revenue generated by the utilization of our facilities, the normal distribution from the endowment to support College operations, as well as any restricted and unrestricted gifts received from our generous donors for current operations. These gifts generally support the faculty engaged in teaching our students or the co-curricular needs of students enrolled in our programs.

Net operating revenue for the College increased by $9m from FY18. This was mainly due to an increase in net revenue collected from students of $7m, which was a direct result of increased enrollment over the previous year. Most other operating revenues were stable or grew modestly in FY18.

Non-operating activity for the College decreased by $35m from FY18. Positive investment returns in FY19 resulted in realized and unrealized gains of $44m. In addition, gifts (including pledges) for long term investment were $9m. Non-operating activities also include financing transactions such as debt retirement or issuance, actuarial changes related to our employee defined benefit pension plan, and the change in value of other planned gift instruments (trusts and annuities).

In each year, the Board of Trustees approved an amount to distribute from the endowment to support operations. For FY19, the amount distributed was $36.7m which is shown as a reduction in non-operating activity and also as operating revenue. The endowment, policies that surround it, and changes in value are included in more detail in footnote 7 which describes the investments and footnote 8 which describes the spending and donor restrictions.

Non-operating activities can swing fairly significantly from year to year due to fluctuations in market returns on the endowment and are generally not cause for concern on a year to year basis.

Statement of Cash Flows:

The statement of cash flows reports the cash generated and used by the College during the fiscal year. Cash inflows/outflows are reported as one of three activities: Operating (amounts generated/used as a function of the College completing its normal business activities), Investing (amounts generated/used through investment activity, including fixed asset purchases and sales), and Financing (amounts generated/used as part of financial transactions such as debt borrowings, repayments, and refinancing).

Footnotes:

The footnotes to the financial statements provide additional detail to support the information summarized in the financial statements. They generally describe new accounting pronouncements, outline accounting policies that govern the preparation of the statements, and provide details of significant accounting estimates or financial statement balances. In this section, we will describe some of the more significant items that were not presented above.

Footnote 2 relates to the liquidity of the College's financial assets and measures the resources available for operations within 12 months. This information is important because it gives a sense of how accessible (or inaccessible) some of the financial assets of the College are. Any business operation must have access to cash in order to operate and we feel confident that the types of assets that we hold as well as other liquidity at our disposal – like the line of credit described in footnote 11 – give the College sufficient liquidity.

Footnote 4 describes contributions receivable and the timetable within which we expect to receive them. Contributions receivable include gift commitments that will be paid in future years as well as trusts held by an outside administrator for which the College is a beneficiary. These receivables are assessed annually for collectability and discounted to their present value.

Footnote 6 describes the physical assets of the College – including the land, buildings and equipment. These assets are recorded at historical value and reported net of depreciation. This footnote also discloses a "conditional asset retirement obligation." This figure is an estimate of the cost of the legal obligation to dispose of any hazardous substances in long-lived physical assets upon their retirement.

Footnote 7 describes the College's investment philosophy and an overview of the assets held as of the balance sheet dates. The vast majority of the College's investment assets are the result of generous donations over time to the endowment pool. The Chief Investment Officer and the Investment Committee of the board of trustees oversee the investment of these assets. As is noted, care is taken to assess the appropriate value of these assets at year end and to assure adequate liquidity to fund cash flow needs of the investment commitments as well as the spending needs of the College.

Footnote 8 describes the endowment funds and how they are managed. The vast majority of this funding was given to the College by donors as permanent endowment (gifts invested in perpetuity with the income used in support of the College) either with restriction (income is utilized to support a particular College need) or without restriction (income is utilized to support general needs of the College). It also includes gifts made to the College that were not specified by the donor as endowment gifts, but the College decided to invest for the perpetual support of the College. As is noted, there are many financial policies that govern the use of these funds, all meant to safeguard the long-term financial health of the College and ensure that the funds support the students of the future as well as the students of today and yesterday. The long-term goal is that investment returns provide consistent support for operations and allow the endowment to grow by a factor at least equivalent to inflation.

Footnote 9 describes the type of College activity that the net assets support. It is not surprising that the single largest area is scholarship support followed closely by general operations and instruction. While a significant portion of these net assets are restricted for a particular purpose, those purposes are closely aligned with our mission and values as an institution.

Footnote 10 breaks out the operational expenses of the College into functional and natural classifications so that the reader of the financial statements can see the functional totals in each column and their respective natural totals in each row. You will note that over 60% of the College expenses are salaries and benefits, and functionally, over 50% of the expenses support our core mission of instruction and academic support.

Footnote 12 describes the debt portfolio of the College.

Finally, Footnote 14 gives details related to the College's defined benefit pension plan. The footnote explains the funded status of the plan as well as the significant assumptions utilized to value the plan at fiscal year-end. This plan is no longer open to new participants, as all employees now participate in the defined contribution plan described in footnote 13.