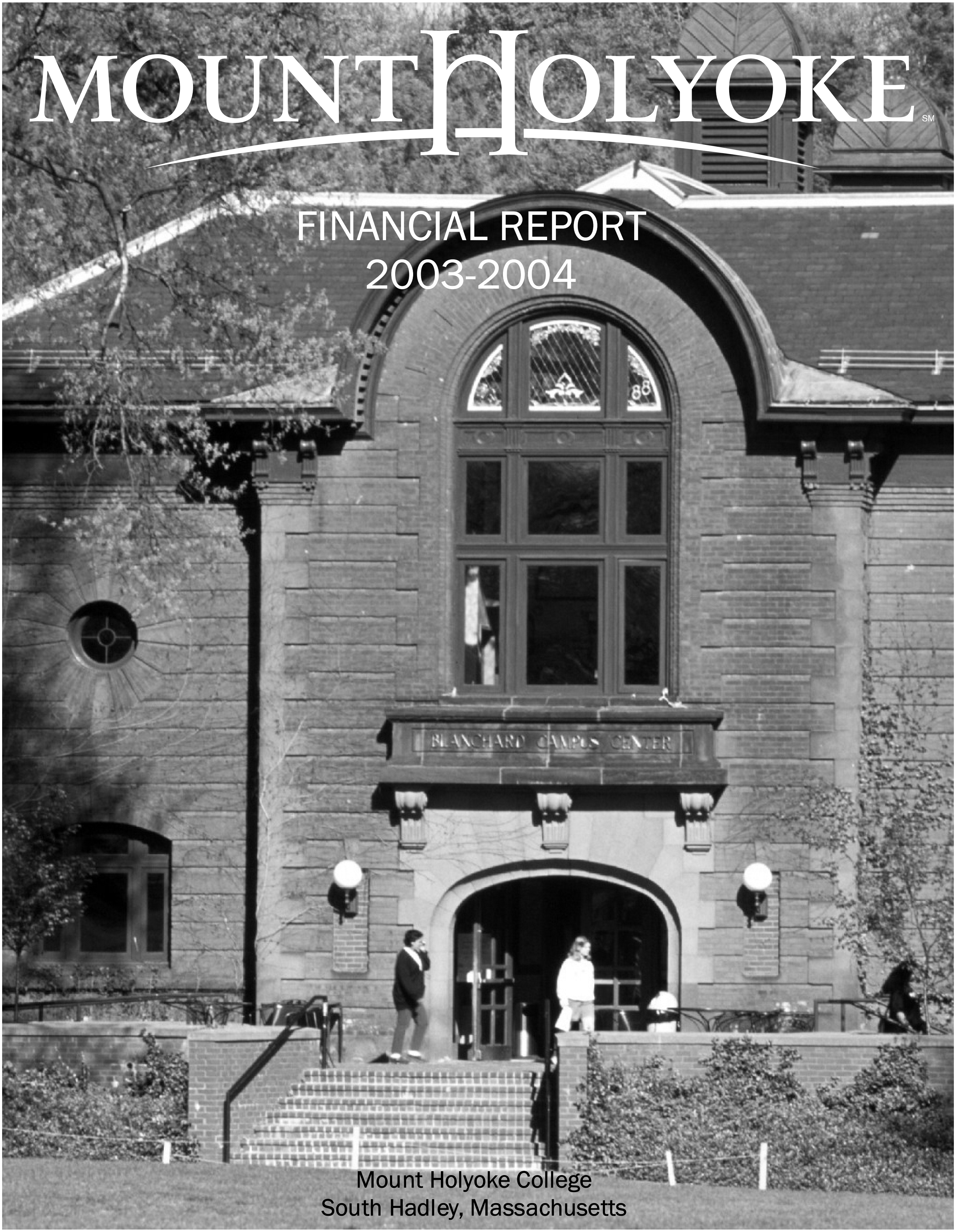
MOUNT HOLYOKE

FINANCIAL REPORT
2003-2004



Mount Holyoke College
South Hadley, Massachusetts

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Financial Report
2003-04

Narrative

The year ending June 30, 2004, was a stronger year financially for Mount Holyoke. After two years of difficult economic and financial market environments, the current year saw solid gains in financial strength. Operationally, 2003-04 began as a challenging year, but resulted in an operating surplus.

The College's fundraising campaign reached a highly successful conclusion on December 31, 2003. The total funds raised exceeded $257 million, beating the $250 million goal (which was raised from an initial $200 million goal). The impact of the campaign has been felt in all parts of the College. There are beautiful and functional new spaces for science, music and art, including a much needed renovation of the art museum. The addition and renovation to the Blanchard Campus Center has been tremendously successful. Increases in endowment and annual gift funding have provided important support to the College's operations as have the many gifts of program specific funds.

Facilities planning and renewal activity continued to be an area of considerable focus for the College, with the completion of several major projects and the ongoing work to manage the level of maintenance and modernization needs.

- Renovations to Shattuck and Cleveland Halls, the last pieces of the Science Center project, were completed during the summer and both facilities opened for fall semester. The Science Center is already achieving the goal of bringing the sciences closer together. A café has been added to the spectacular atrium space in the new Kendade Hall, which has become a popular lunch destination. The project has received LEED certification from the United States Green Building Council as an environmentally responsible building.

- The renovation and expansion of the Blanchard Campus Center was also completed over the summer and opened for fall semester. The facility is extremely popular with students and has indeed become the center of activity on campus. The landscaping of the area between Blanchard and Pratt Music Hall is continuing over the summer of 2004, as is the completion of the seating wall and the gas-fired "lantern" adjacent to the skating rink. This project has also received LEED certification from the United States Green Building Council.

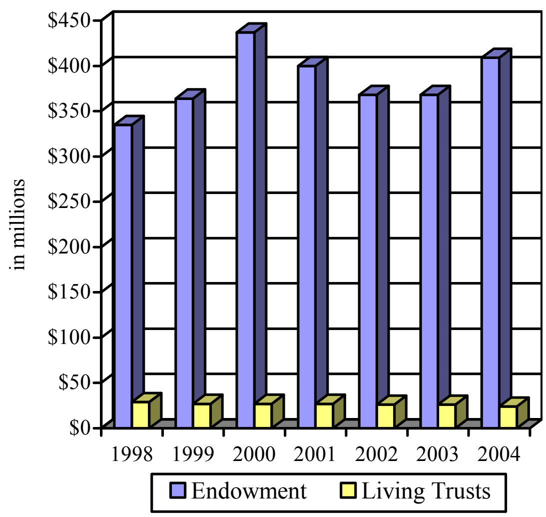
These and a number of smaller facilities projects resulted in a net increase of $5.5 million in Land, Buildings and Equipment. All of these efforts represent a focused, long-term effort to reinvest in the College's physical assets and to enhance a campus of extraordinary beauty.

Statement of Financial Position

The Statement of Financial Position reports the College's assets, liabilities and net assets for the year. Total assets grew 5.6%, increasing from $587.9 million in 2002-03 to $620.6 million in 2003-04. While most assets increased to some degree, the primary areas of growth were Investments, resulting from the rebounding of the financial markets; and Land, Buildings and Equipment, showing the impact of the College's continuing investment in physical facilities. The only asset class that declined was Funds Held by Trustee Under Bond Indenture, representing the continuing use of the 2001 Bond proceeds.

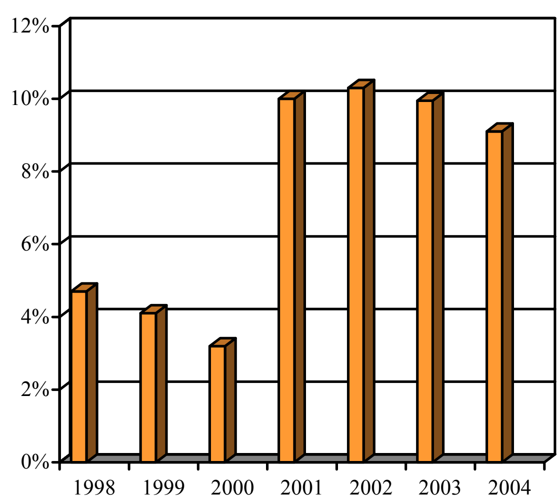
The market value of endowment rose to $409.2 million in 2003-04, representing a total return of 12.8%. Life income funds declined slightly to $24 million, reflecting more institutional emphasis on outright gifts.

Market Value of Investments



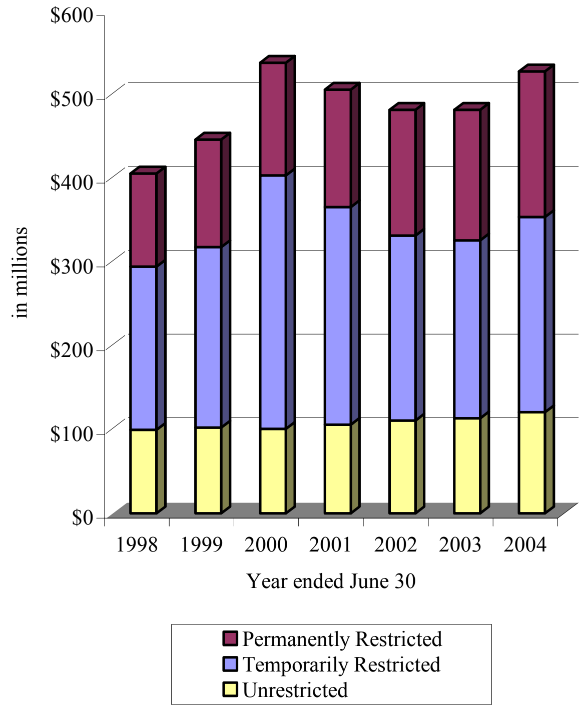
Total liabilities decreased by $12.8 million, reflecting reductions in Accounts Payable, Bonds Payable and the use of the College's line of credit. As a result of the increase in assets and the decrease in liabilities, the ratio of assets to liabilities improved from 5.5/1 in 2002-03 to 6.7/1 in 2003-04. The ratio of debt as a percentage of total assets dropped as well, from 9.95 percent in 2002-03 to 9.1 percent in 2003-04.

Debt to Assets



As a result, Mount Holyoke's net assets increased by 9.5%, from $481.8 million in 2002-03 to $527.4 million in 2003-04.

Net Assets

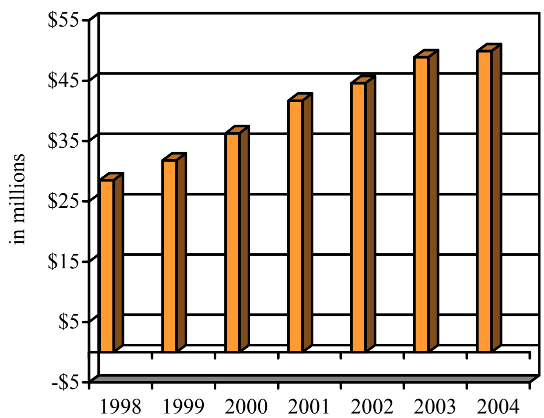


Unrestricted net assets, which provide the institution with the maximum flexibility, increased by 6.2 percent this past year, equaling $113.5 million at June 30, 2004, and representing 22.9 percent of total net assets. Temporarily restricted net assets, a category which includes spendable invested funds whose restricted purposes have not yet been met and undistributed gains from endowment, represented 44.2 percent of total net assets and ended the year at $233.0 million, up $20.8 million from the June 30, 2003, level. Permanently restricted net assets, representing the original principal value of true endowment funds, were 33.0 percent of total net assets and ended the year at $173.8 million, up $17.7 million from the prior year.

<u>Statement of Activities</u>

The Statement of Activities presents the College's revenues and expenses for 2003-04 and reports the changes in net assets during the year. The overall results of operations for 2003-04 was an increase of $4.6 million. Operating revenues increased by $3.3 million, primarily as a result of increases in net student charges and contributions. Contributions were up substantially, from $17.2 million in 2002-03 to $21.5 million in 2003-04 as the fundraising campaign completed its last year. Net student charges revenue increased by $1.1 million, up 1.0 percent. The cost of financial aid increased to $27.7 million, up from $26.8 million in 2002-03.

Net Student Charges



Expenses were up 2.8 percent during 2003-04, reflecting a focus on cost control resulting from modest revenue increases. The pattern of expenditures continues to shift toward the College's core priorities—instruction and research, academic support and libraries, and student services—reducing the percentage of costs devoted to institutional overhead. The cost of physical facilities, including utilities, maintenance, depreciation and interest on facilities debt, was allocated to each functional area based on square footage occupied.

Mount Holyoke has chosen to separate the activities affecting the endowment from the rest of the College's activities and to report them in a second section of the Statement of Activities. This makes it possible to see both the College's operating activities and investment activities each year. The endowment section of the Statement of Activities displays the total investment return for the year and identifies amounts distributed for operating purposes, which also appear in the operating section of the schedule. Endowment and Similar Net Assets increased in 2003-04 by $40.1 million.

This year, strong market performance reversed the minimum pension liability adjustment required to the College's cash balance pension plan required in 2002-03. Rather than an additional liability of $3.5 million there was a reduction in liability of $0.9 million. This resulted in an overall positive change in net assets for the year of $45.6 million.

Statement of Cash Flows

The Statement of Cash Flows provides information on the sources and uses of cash during the year. Mount Holyoke uses the indirect method of presenting the cash flow statement to make the financial statements more comparable to those of other colleges and universities.

Operating activities used $8.4 million in 2003-04, up from $765,000 in 2002-03. Cash flow from investing activities represented a net use of $13.5 million, down $35.5 million from the previous year, due to the winding down of the building program of the previous year and net sales over purchases in invested funds. Cash from financing activities showed a $21.0 million net addition to cash.

Overall, cash and cash equivalents at the end of 2003-04 were $6.4 million, compared with $7.3 million at June 30, 2003.

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Report of Independent Auditors

To the Board of Trustees of Mount Holyoke College:

In our opinion, the accompanying statement of financial position and the related statements of activities and of cash flows present fairly, in all material respects, the financial position of Mount Holyoke College (the "College") at June 30, 2004 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audits. The prior year summarized comparative information has been derived from the College's 2003 financial statements, and in our report dated October 6, 2003, we expressed an unqualified opinion on those financial statements. We conducted our audits of these statements 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

October 4, 2004

MOUNT HOLYOKE COLLEGE
Statement of Financial Position
June 30, 2004 and 2003 (in thousands)

	2004	2003
Assets		
Cash and cash equivalents	$ 6,417	$ 7,287
Short-term investments	452	195
Accounts receivable, net	2,322	2,385
Contributions receivable, net	30,758	29,867
Inventory	726	717
Prepaid expenses	862	641
Notes receivable, net	276	252
Student loans, net	14,449	13,817
Deferred charges	541	643
Funds held by trustee under bond indenture	3,499	15,428
Land, buildings, equipment and collections, net	136,130	130,623
Investments	421,803	384,194
Other assets	2,384	1,807
Total assets	$ 620,619	$ 587,856
Liabilities and net assets		
Accounts payable	2,525	7,013
Accrued liabilities	3,934	4,325
Deferred revenue	2,781	2,330
Deposits	141	335
Line of credit		5,000
Split-interest obligations	21,125	22,892
Bonds payable	56,488	58,470
Other liabilities	1,765	1,335
Refundable advances — government student loan funds	4,490	4,381
Total liabilities	93,249	106,081
Net assets		
Unrestricted	120,552	113,504
Temporarily restricted	233,028	212,203
Permanently restricted	173,790	156,068
Total net assets	527,370	481,775
Total liabilities and net assets	$ 620,619	$ 587,856

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

MOUNT HOLYOKE COLLEGE
Statement of Activities
For the year ended June 30, 2004
With comparative totals for 2003 (in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2004 Total	2003 Total
Revenues					
Student tuition, room, board and other fees	$ 77,612			$ 77,612	$ 75,700
Less student aid	(27,681)			(27,681)	(26,842)
	49,931			49,931	48,858
Contributions	10,436	$ 6,454	$ 4,593	21,483	17,218
Grants and contracts	267	1,541		1,808	3,675
Other revenue	302		42	344	1,624
Change in value of split-interest agreements		(688)	1,958	1,270	(86)
Use of endowment	8,986	15,004		23,990	24,768
Net assets released from program restrictions	26,756	(26,756)			
Other changes		404		404	(127)
	96,678	(4,041)	6,593	99,230	95,930
Expenses					
Instruction and research	37,233			37,233	37,116
Academic support and libraries	11,934			11,934	10,942
Student services, residence halls and food service	29,059			29,059	27,023
Fund raising and alumnae relations	5,458			5,458	5,471
Institutional support	6,422			6,422	6,585
Other deductions	4,535			4,535	4,917
	94,641			94,641	92,054
	2,037	(4,041)	6,593	4,589	3,876
Endowment and similar net assets					
Contributions		177	9,296	9,473	5,897
Total investment return	6,542	40,254	111	46,907	10,775
Endowment utilized for operations	(8,986)	(15,004)		(23,990)	(24,768)
Other changes	6,544	(561)	1,722	7,705	7,926
	4,100	24,866	11,129	40,095	(170)
Total change in net assets before pension adjustment	6,137	20,825	17,722	44,684	3,706
Additional minimum pension liability adjustment	911			911	(3,537)
Total change in net assets	7,048	20,825	17,722	45,595	169
Net assets, beginning of year	113,504	212,203	156,068	481,775	481,606
Net assets, end of year	$ 120,552	$ 233,028	$ 173,790	$ 527,370	$ 481,775

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

MOUNT HOLYOKE COLLEGE
Statement of Cash Flows
For the years ended June 30, 2004 and 2003 (in thousands)

	2004	2003
Cash flow from operating activities		
Increase in net assets	$ 45,595	$ 169
Adjustments to reconcile increase in net assets to net cash used in operating activities		
Depreciation and amortization	8,804	7,722
Additional minimum pension liability	(911)	3,537
Contributions restricted for investments	(15,585)	(13,330)
Gifts in kind	(452)	(873)
Change in value of split interest agreements	(372)	(2,561)
Realized and unrealized losses on investments	(41,245)	(4,537)
Gain on disposal of plant assets	(197)	(467)
Changes in operating assets and liabilities		
Short term investments	(257)	5,900
Accounts receivable	63	54
Contributions receivable	(891)	3,569
Inventory and prepaid expenses	225	(19)
Deferred charges	(7)	(3)
Other assets and liabilities	(176)	212
Accounts payable and accrued liabilities	(1,439)	(657)
Deferred revenue and deposits	257	279
Change in split income obligations	(1,767)	240
Net cash used in operating activities	(8,355)	(765)
Cash flow from investing activities		
Purchase of plant and equipment	(17,874)	(36,969)
Proceeds from sale of plant assets	1,349	1,094
Net change in loans and notes receivable	(656)	(849)
Purchases of investments	(433,337)	(210,767)
Proceeds from sales and maturities of investments	436,973	198,462
Net cash used in investing activities	(13,545)	(49,029)
Cash flow from financing activities		
Proceeds from contributions for		
Investment in endowment	9,192	5,841
Investment in planned giving	1,602	1,384
Plant and equipment	4,791	6,105
Change in value of split interest agreements	372	2,561
Increase in federal student loan funds	109	116
Proceeds from line of credit	2,000	14,000
Payments on bonds payable and line of credit	(8,965)	(10,890)
Change in construction funds deposited with trustee	11,929	13,029
Net cash provided by financing activities	21,030	32,146
Net change in cash and cash equivalents	(870)	(17,648)
Cash and cash equivalents, beginning of year	7,287	24,935
Cash and cash equivalents, end of year	$ 6,417	$ 7,287
Supplemental disclosure		
Interest paid	$ 2,650	$ 2,297
Fixed asset purchases included in accounts payable	369	3,324

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

1. Accounting Policies

a. Description of Organization

Mount Holyoke College (the "College") is an independent, residential, liberal arts college. A pioneer and leader in the world-wide education of women since its founding in 1837, the College is the oldest continuing institution of higher learning for women in the nation. The College qualifies as a tax-exempt not-for-profit organization under section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for federal income taxes has been made.

b. Basis of Financial Presentation

The financial statements have been prepared on the accrual basis of accounting. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure 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. The College's significant estimates include the valuation of its investments, the assumptions related to its pension benefit obligations and its liability for split-interest agreements.

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not present the College's complete prior year financial condition and results, and accordingly, such information should be read in conjunction with the College's financial statements for the year ended June 30, 2003, from which the summarized information was derived.

c. Classification of Net Assets

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. In the accompanying financial statements, net assets that have similar characteristics have been combined as follows:

Permanently Restricted — Net assets subject to donor-imposed stipulations that they be maintained permanently by the College.

Temporarily Restricted — Net assets whose use by the College is subject to donor-imposed stipulations that can be fulfilled by actions of the College or that expire by the passage of time.

Unrestricted — Net assets that are not subject to donor-imposed stipulations. 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.

Following is a reconciliation (in thousands) between institutional equity by fund as of June 30, 2004 and June 30, 2003 and the College's net asset balances in the accompanying statement of financial position.

Institutional Equity	Fund Balances	Liability	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets
June 30, 2004					
Current unrestricted	$ 524	$ 354	$ 170		
Current restricted	13,836			$ 13,836	
Permanent/term endowment	325,385			181,486	$ 143,899
Quasi-endowment	72,079	1,706	47,762	22,611	
Living trust funds	36,593	21,125	2,592	6,526	6,350
Unexpended plant					
Unrestricted	144		144		
Restricted	208			208	
Investment in Plant	66,533		66,533		
Student Loan Funds	8,985	4,490	3,351		1,144
	$ 524,287	27,675	120,552	224,667	151,393
Contributions receivable				7,117	22,397
Grants receivable				1,244	
		$ 27,675	$ 120,552	$ 233,028	$ 173,790

Institutional Equity	Fund Balances	Liability	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets
June 30, 2003					
Current unrestricted	$ 751	$ 781	$ (30)		
Current restricted	13,184			$ 13,184	
Permanent/term endowment	290,689			157,750	$ 132,939
Quasi-endowment	67,015	1,335	44,021	21,659	
Living trust funds	36,364	22,892	2,232	7,027	4,213
Unexpended plant					
Unrestricted	756		756		
Restricted	531			531	
Investment in Plant	63,440		63,440		
Student Loan Funds	8,567	4,381	3,085		1,101
	$ 481,297	29,389	113,504	200,151	138,253
Contributions receivable				9,611	17,815
Grants receivable				2,441	
		$ 29,389	$ 113,504	$ 212,203	$ 156,068

Accumulated net realized and unrealized gains of endowment and similar funds included in temporarily restricted net assets were approximately $192,132,000 and $168,566,000 as of June 30, 2004 and 2003, respectively.

As a result of market declines, the fair market value of certain donor-restricted endowments is less than the historical cost value of such funds by $858,755 at June 30, 2004, and $2,326,861 at June 30, 2003. These unrealized losses have been recorded as reductions in unrestricted net assets. Future market gains will be used to restore this deficiency in unrestricted net assets before any net appreciation above the historical cost value of such funds increases temporarily restricted net assets.

d. Classification of Revenues, Expenses, Gains and Losses

Revenues from sources other than contributions are reported as increases in unrestricted net assets. Contributions are reported as increases in the appropriate category of net assets. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or by law. Expirations of temporary restrictions recognized on net assets (i.e., the donor stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications from temporarily restricted net assets to unrestricted net assets. Temporary restrictions on gifts to acquire long-lived assets are considered met in the period in which the assets are acquired or placed in service.

Amounts reflected as revenues and expenses on the statement of activities include activities that relate to ongoing operations of the College, as well as the accrual of promises to give made by donors during the reporting period. Endowment and similar net assets include cash and securities received that have been designated by donors or the trustees for investment to provide future revenue to the College for its programs and activities.

Contributions, including unconditional promises to give and grant awards, are recognized as revenues in the period received. Contributions received with donor imposed restrictions are reported as permanently or temporarily restricted revenues depending upon the specific restriction. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value at the date of the gift. Contributions to be received after one year are discounted at a risk-free rate appropriate for the expected payment term. Amortization of the discount is recorded as contribution revenue in the appropriate net asset category. Allowance is made for uncollectible contributions based upon management's judgment and analysis of the creditworthiness of the donors, past collection experience and other relevant information.

Expenses listed in the statement of activities represent the following functional classifications (in thousands):

	2004	2003
Educational program services	$ 78,226	$ 75,081
Administrative and general	11,880	12,056
Other	4,535	4,917
	$ 94,641	$ 92,054

e. Investments

Investments are stated at fair value. Publicly traded securities are valued at closing sale prices, or in the absence of a recorded sale, at closing bid prices. The College's investments at June 30, 2004 include amounts due from brokers of approximately $1,417,000 and amounts due to brokers of approximately $1,221,000. At June 30, 2003 the amounts due from and due to brokers were approximately $2,060,000 and $2,385,000, respectively.

Direct investments in real estate are valued on the basis of periodic independent appraisals. Private equities and certain other non-marketable securities held through limited partnerships are valued using current estimates of fair value obtained from the general partner or external investment manager for the respective funds. For the years ended June 30, 2004 and 2003, approximately 31% and 32%, respectively, of the College's endowment and similar assets were held in the form of investments stated at estimated fair value.

The College believes that the carrying amount of its alternative instruments is a reasonable estimate of fair value as of June 30, 2004 and 2003. Because alternative investments are not readily marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investments existed. Such differences could be material.

Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is possible that changes in values of investment securities could occur in the near term and that such changes could materially affect investment balances and activity included in the financial statements.

Short-term investments are stated at cost which approximates fair value.

Securities received as gifts are recorded at fair value on the date of the gift.

f. Endowment Return Spending Policy

Endowment and annuity funds share in an investment pool on a unit market value basis. Funds are added to and withdrawn from the pool at the then current unit market value of the pooled assets. Life income funds are invested and also accounted for on a unit market value basis in two separate investment pools.

The College uses a total return approach to managing endowment investments. 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.

Investment return is distributed for operations on a unit share basis. The College has an endowment total return spending policy limiting the annual distribution of return within a range of 4% to 6% of a twelve quarter average market value. For fiscal years 2004 and 2003, the College elected to distribute 5.0% of the average of the prior twelve quarter-end market values, as of December 31, 2002 and December 31, 2001, respectively, less outstanding debt.

The total investment return earned on the endowment and annuity investment pool for the years ended June 30, 2004 and 2003 are as follows (in thousands):

	2004	2003
Investment income	$ 4,214	$ 4,116
Realized and unrealized gains	42,693	6,659
Total endowment investment return	46,907	10,775
Annuity investment return	2,281	1,026
Total investment return	$ 49,188	$ 11,801

g. Land, Buildings, Equipment and Collections

The College has a policy of capitalizing land, buildings, improvements, equipment and library acquisitions at cost. Donations of capital assets are recorded at the fair value at the date of gift. No value has been assigned to art collections acquired prior to July 1, 1989. Depreciation is computed on a straight-line basis over the estimated useful lives of buildings (50 years), improvements (20 years), equipment (5 years) and library collections (10 years).

h. Fair Value of Financial Instruments

Fair value approximates carrying value for cash and cash equivalents, notes, loans and accounts receivable.

The fair value of bonds payable is estimated using discounted cash flow analyses, based on current incremental borrowing rates for similar types of borrowing arrangements.

i. Statement of Cash Flows

For the purpose of the statement of cash flows, the College considers cash and cash equivalents to be cash in banks and money market funds generally due within three months of when purchased.

2. Accounts Receivable

Accounts receivable, including student accounts, are net of an allowance for doubtful accounts of $400,000 at June 30, 2004 and 2003.

3. Contributions Receivable

Contributions receivable, at June 30, 2004 and 2003, are summarized as follows (in thousands):

Contributions to be collected:

	2004	2003
Within one year	$ 14,846	$ 13,147
In one to five years	11,075	12,236
After five years	17,775	17,699
	43,696	43,082
Less: discount to present value	(11,388)	(11,865)
	32,308	31,217
Less: allowance for uncollectible contributions	(1,550)	(1,350)
	$ 30,758	$ 29,867

4. Notes and Loans Receivable

Student loans are net of an allowance for doubtful accounts of $2,175,000 and $2,144,500 at June 30, 2004 and 2003, respectively.

5. Land, Buildings, Equipment and Collections

Land, buildings, equipment and collections consist of the following (in thousands) at June 30:

	2004	2003
Land and land improvements	$ 8,987	$ 8,311
Buildings	156,495	132,079
Vehicles, equipment and furnishings	52,578	45,861
Art and library collections	23,748	22,143
	241,808	208,394
Less accumulated depreciation	(107,257)	(98,689)
	134,551	109,705
Construction in progress	1,579	20,918
	$ 136,130	$ 130,623

The College capitalized approximately $326,000 and $700,000 of interest on various construction projects during the years ended June 30, 2004 and 2003, respectively.

Depreciation expense for the College was $8,711,788 and $7,620,825 for the years ended June 30, 2004 and 2003, respectively.

6. Investments

Endowment and similar funds at June 30, 2004 and 2003 are invested as follows (in thousands):

June 30, 2004

	General Endowment and Annuity Pool	Unpooled Endowment Funds	Mead Life Income Pool	Woolley Life Income Pool	Unitrusts and Similar Funds	Total Fair Value	Percent
Investments							
Fixed income securities	$ 62,518	$ 113	$ 3,588	$ 8,904	$ 2,006	$ 77,129	17.8%
Domestic equities	135,908		3,228		6,207	145,343	33.5%
International equities	60,335					60,335	13.9%
Absolute return	53,358					53,358	12.3%
Private equities	34,368					34,368	7.9%
Venture capital	13,701					13,701	3.2%
Distressed securities	17,092					17,092	3.9%
Real estate	12,963					12,963	3.0%
Other	6,888	626				7,514	1.7%
	397,131	739	6,816	8,904	8,213	421,803	97.2%
Cash and cash equivalents	12,019	2	46	54	132	12,253	2.8%
	$ 409,150	$ 741	$ 6,862	$ 8,958	$ 8,345	$ 434,056	100.0%
Pooled investment statistics							
Units (in thousands)	98,264		1,877	7,246			
Market value per unit	$4.164		$3.656	$1.236			
Income per unit	$0.041		$0.129	$0.070			
Total return	12.77%		7.59%	0.69%			

June 30, 2003

	General Endowment and Annuity Pool	Unpooled Endowment Funds	Mead Life Income Pool	Woolley Life Income Pool	Unitrusts and Similar Funds	Total Fair Value	Percent
Investments							
Fixed income securities	$ 59,717	$ 117	$ 3,760	$ 9,384	$ 2,950	$ 75,928	19.3%
Domestic equities	123,957		2,795		5,774	132,526	33.6%
International equities	46,634					46,634	11.8%
Absolute return	49,218					49,218	12.5%
Private equities	26,897					26,897	6.8%
Venture capital	11,861					11,861	3.0%
Distressed securities	17,643					17,643	4.5%
Real estate	17,087					17,087	4.3%
Other	5,829	571				6,400	1.6%
	358,843	688	6,555	9,384	8,724	384,194	97.4%
Cash and cash equivalents	8,728	21	127	177	821	9,874	2.6%
	$ 367,571	$ 709	$ 6,682	$ 9,561	$ 9,545	$ 394,068	100.0%
Pooled investment statistics							
Units (in thousands)	95,389		1,899	7,374			
Market value per unit	$3.853		$3.518	$1.297			
Income per unit	$0.042		$0.147	$0.073			
Total return	2.74%		9.08%	11.84%			

Under the terms of certain limited partnership agreements for private equity, venture capital, distressed security and real estate investments, the College has commitments to remit additional funding of approximately $41.6 million as of June 30, 2004. These commitments are scheduled to be funded over a number of years. Included in the College's investments are 100% ownership interests in Center Redevelopment Corporation (CRC) and Center Business Corporation (CBC).

The College's investment portfolio utilizes derivative financial instruments to manage currency exchange risks arising from investments in nonderivative foreign assets in proportion to the assets at risk. Such instruments consist of forward exchange contracts entered into as part of the investments of the endowment funds of the College. Unrealized gains and losses at June 30, 2004 are not significant and are included on a net basis in the statement of financial position.

Additionally, the College has investments in certain limited partnerships and other investment funds which participate directly, or have the option to participate, in derivative financial instruments. These partnerships represent approximately 12% of the College's total long-term investments for endowment and similar funds. Derivatives held by the limited partnerships in which the College invests pose no off-balance sheet risk to the College due to the limited liability structure of the investments.

In connection with the Massachusetts Development Finance Authority bonds, the College entered into an interest rate swaption agreement that would effectively change the interest rate exposure on a portion of this debt from a fixed rate to a variable rate if the swaption is exercised by the buyer during a one-week period in February, 2005. The notational amount of the swaption is $30,000,000 and the termination date follows a maturity schedule ending on July 1, 2031. On June 30, 2004, the swaption's fair value (a liability of approximately $237,000) has been recorded with the College's investments.

On July 1, 2004, in connection with the Massachusetts Development Finance Authority bonds, the College entered into an interest rate swap agreement with Morgan Stanley Capital Services on a notional amount of $44,246,000. Under the terms of the agreement, each month from August 1, 2011 through July 1, 2031, Morgan Stanley will pay the College a variable rate of interest equal to 68% of LIBOR, and the College will pay Morgan Stanley a fixed rate of interest of 4.38%. At September 30, 2004 the fair value of the swap agreement was a liability of approximately $1,158,000.

7. Promissory Notes

The College has an uncollateralized demand line of credit available in the amount of $5,000,000 through February 18, 2005, at an interest rate equal to LIBOR plus 150 basis points, or the prime rate less 150 basis points. At June 30, 2004, no amount was outstanding ($5,000,000 was outstanding at June 30, 2003).

8. Bonds Payable

The College's bonds payable as of June 30, 2004 and 2003, are summarized as follows (in thousands):

Series	Year of Maturity	Interest Rates	2004	2003
Massachusetts Development Finance Authority (MDFA):				
2001	2005-2032	4.00% - 5.50%	$ 56,035	$ 58,000
Unamortized premium			453	470
			$ 56,488	$ 58,470

The MDFA bond proceeds were used to refund bonds outstanding as of June 30, 2000, as well as provide funding for various construction projects. Debt service payments are made to a Trustee under terms of the bond agreement. As of June 30, included in the line "Funds held by trustee under bond indenture" are the following:

	2004	2003
Debt service fund	$ 3,499	$ 3,453
Project fund	0	11,975
	$ 3,499	$ 15,428

The fair value of the bonds payable at June 30, 2004 approximates $58,667,000.

Principal payments due on these bonds during each of the next five fiscal years ending June 30 and thereafter are as follows (in thousands):

2005	$ 2,060
2006	2,165
2007	2,265
2008	1,040
2009	1,085
Thereafter	47,420
	$ 56,035

9. Defined Contribution Pension Plan

The College sponsors a defined contribution pension plan covering all faculty and administrative employees. The College contributed approximately $3,865,000 in 2004 and $3,765,000 in 2003 to the plan.

10. Defined Benefit Pension Plan

The College maintains a defined benefit pension plan for bargaining unit employees. As of July 1, 1998, the plan was noncontributory.

Obligations and Funded Status

The following table sets forth the plan's change in benefit obligation and plan assets for the years ended June 30, 2004 and 2003 (in thousands):

	2004	2003
Change in benefit obligation		
Benefit obligation at beginning of year	$ 7,769	$ 6,022
Service cost	464	333
Interest cost	458	441
Actuarial (gain)/loss	(233)	1,235
Plan amendments	0	75
Benefits paid	(299)	(337)
Benefit obligation at end of year	$ 8,159	$ 7,769
Change in value of plan assets		
Fair value of plan assets at beginning of year	$ 7,000	$ 7,526
Actual return on plan assets	1,098	(189)
Benefits paid	(299)	(337)
Fair value of plan assets at end of year	$ 7,799	$ 7,000
Funded status	$ (360)	$ (769)

To determine the benefit obligations, the College has used a discount rate, which is the estimated rate at which the obligation for pension benefits could effectively be settled, of 6.25% at June 30, 2004 and 6.00% at June 30, 2003 and a salary projection rate, which is the estimated rate at which salaries will increase, of 4.0% for the years ended June 30, 2004 and 2003.

A minimum pension liability adjustment is required when the actuarial present value of a plan's accumulated benefit obligation (ABO) exceeds plan assets and accrued pension liabilities. As of the June 30, 2004 and 2003 measurement dates, the ABO exceeded plan assets by $295,120 and $780,548, respectively. These amounts have been recorded as liabilities, with intangible assets equal to the unrecognized prior service cost of $184,935 and $214,221 at June 30, 2004 and 2003, respectively. The cumulative minimum pension liability adjustment at June 30, 2004 of $2,625,879 has been recorded as a reduction of unrestricted net assets.

The following table sets forth the plan's funded status and amounts recognized in the College's statement of financial position as of June 30, 2004 and 2003 (in thousands):

	2004	2003
Funded status	$ (360)	$ (769)
Unrecognized prior service cost	185	214
Unrecognized net loss	2,691	3,525
Deferred pension cost	$ 2,516	$ 2,970
Intangible asset	(185)	(214)
Cumulative minimum pension liability adjustment	(2,626)	(3,537)
Accrued pension liability	$ (295)	$ (781)

The following table sets forth the plan's accumulated benefit obligation and fair value of plan assets (in thousands):

	2004	2003
Projected benefit obligation	$ 8,159	$ 7,769
Accumulated benefit obligation	8,094	7,781
Fair value of plan assets	7,799	7,000

Components of Net Periodic Benefit Cost

To determine net periodic pension costs, the College has used a discount rate, which is the estimated rate at which the obligation for pension benefits could effectively be settled, of 6.00% for the year ended June 30, 2004 and 7.25% for the year ended June 30, 2003; a salary projection rate, which is the estimated rate at which salaries will increase, of 4.0% for the year ended June 30, 2004 and 4.5% for the year ended June 30, 2003; and an expected long-term rate of return on plan assets, which is the estimated rate of earnings generated on the assets of the plan, of 10% for the years ended June 30, 2004 and 2003.

Net pension cost for the years ended June 30, 2004 and 2003 includes the following components (in thousands):

	2004	2003
Service cost earned during the period	$ 464	$ 333
Interest cost on projected benefit obligation	458	441
Amortization of prior service cost	29	29
Amortization of net loss	184	52
Expected return on assets	(681)	(737)
Net pension cost	$ 454	$ 118
(Decrease)/increase in minimum liability included in change in net assets	$ (911)	$ 3,537

Plan Assets

The plan's asset allocations at June 30, 2004 and 2003 by asset category are as follows:

	Plan Assets at June 30	
Asset Category	2004	2003
Equity securities	66.8%	70.8%
Debt securities	13.1	6.5
Cash	0.7	0.2
Other	19.4	22.5
Total	100.0%	100.0%

During the year ended June 30, 2004 the College revised the investment strategy for the plan to reduce the allocation to growth equities and increase the allocations to domestic value and international equities and to high yield fixed income securities.

Cash Flows

The College does not expect to contribute to the defined benefit pension plan for the year ending June 30, 2005.

Benefit payments, which reflect expected future service, are expected to be paid as follows (in thousands):

2005	$ 319
2006	407
2007	439
2008	366
2009	326
2010-2013	2,591

11. Early Retirement

The College has in place an early retirement program for certain members of the faculty and staff subject to the approval of the College. As of July 1, 2003, for eligible employees there is a full retirement option from ages 60 to 64 and a phased retirement option for a four year period anytime between the ages of 58 and 72. For the year ended June 30, 2003, the phased retirement option was available between the ages of 55 and 64. The present value of future obligations under the plan is accrued as of the date of early retirement. There was no expense under this program for the years ended June 30, 2004 and June 30, 2003.

12. Reclassifications

Certain items in 2003 have been reclassified to conform to the current year presentation.

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Statistics

	2004	1999	1994
Unit value of endowment pool	$4.164	$4.171	$2.852
Tuition	$29,170	$23,200	$17,980
Room and board	$8,580	$6,820	$5,520
Student enrollment (FTE)	2,124	1,842	1,920
Faculty (FTE)	199	183	184
Student/faculty ratio	10.7	10.1	10.4
Percent of students receiving Mount Holyoke financial aid	67%	69%	65%
Library collection in volumes	717,393	688,212	623,360
Insured value of physical plant	$561,143,478	$407,000,000	$217,000,000

10 Year Comparison