MOUNT HOLYOKE

FINANCIAL REPORT 2008-2009

Mount Holyoke College
South Hadley, Massachusetts

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MOUNT HOLYOKE COLLEGE
Financial Report
2008-09

Narrative

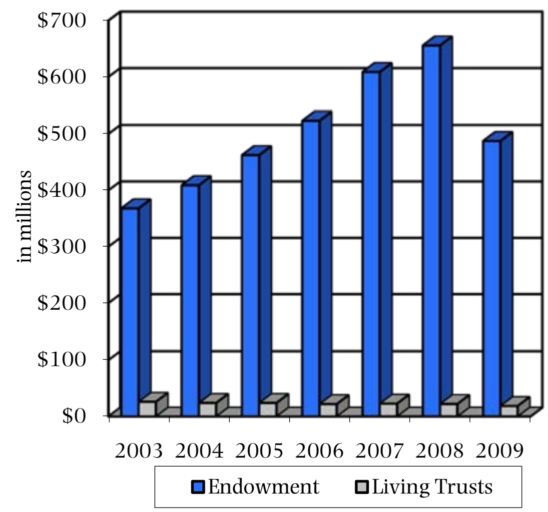
The year ending June 30, 2009, was a difficult year for Mount Holyoke as the College coped with the most severe financial downturn in decades. All sources of operating revenue were negatively impacted and progress toward the achievement of the ongoing $300 million fundraising campaign was slowed. With the imminent completion of the addition to Kendall Hall to expand the fitness center and improve the Dance Department spaces, further large facilities projects have been deferred although work continues on maintenance, energy conservation and space reconfigurations that permit operating budget reductions.

Statement of Financial Position

The Statement of Financial Position reports the College's assets, liabilities and net assets for the year. Total assets shrunk by 18.6 percent, decreasing from $926.0 million in 2007-08 to $753.8 million in 2008-09. The largest decline was investments, down $172 million from their June 30, 2008 level. Cash and cash equivalents were lower by $3.7 million due to a combination of lower gift receipts, reduced endowment cash from net capital call distributions and bridge funding of some construction projects. The more challenging giving environment also affected net contributions receivable, down $7.0 million from last year. Land, buildings, equipment and collections values increased, reflecting the continued investment in physical facilities and technology.

The market value of the endowment investment pool declined to $498.3 million in 2008-09, representing a total return of -21.2 percent. Life income funds declined to $18.8 million.

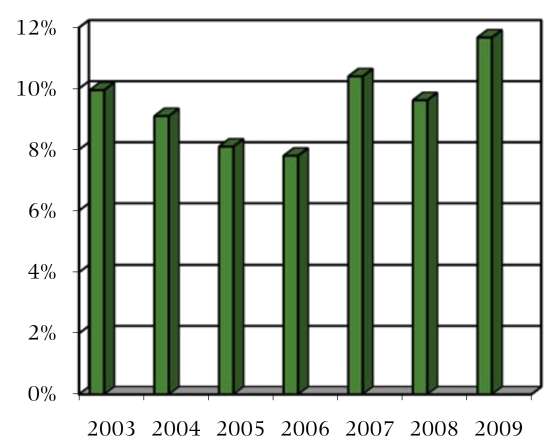
Market Value of Investments



Total liabilities increased slightly to $147.4 million due to increases in notes payable, interest rate swap liabilities and the defined benefit pension plan liability.

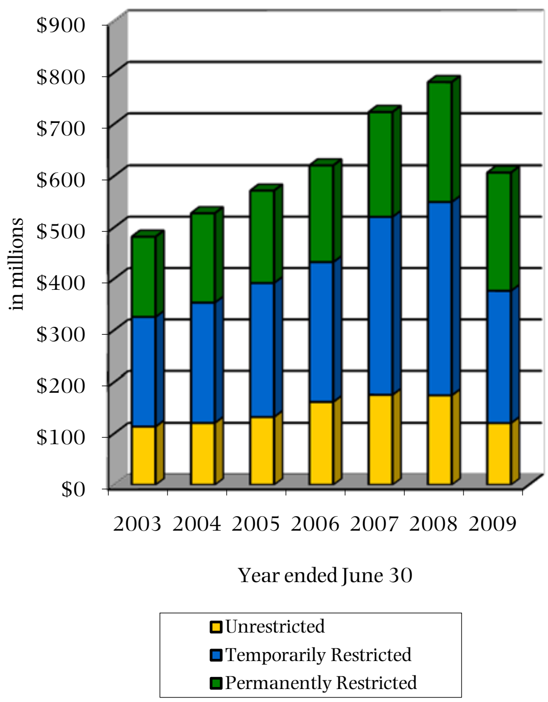
As a result of the decline in assets, the ratio of long term debt as a percentage of total assets increased, from 9.6 percent in 2007-08 to 11.7 percent in 2008-09.

Debt to Assets



Mount Holyoke's net assets decreased by 22.4 percent, from $781.3 million in 2007-08 to $606.5 million in 2008-09.

Net Assets

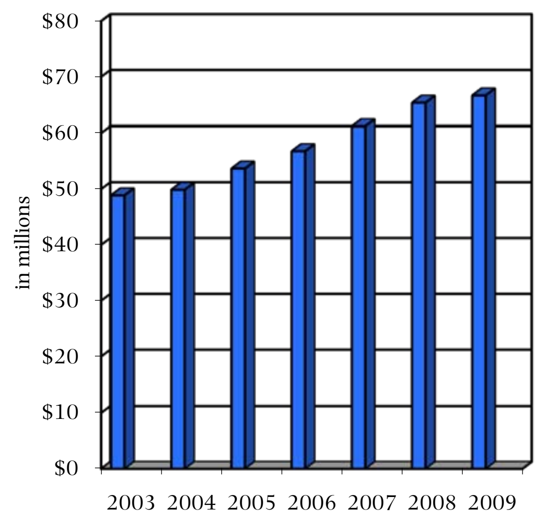


All categories of net assets declined this past year. Unrestricted net assets, which provide the institution with the maximum flexibility, decreased from $174.4 million at June 30, 2008 to $120.4 million at June 30, 2009, and represented 19.8 percent of total net assets. Temporarily restricted net assets, a category that includes spendable invested funds whose restricted purposes have not yet been met and undistributed gains from endowment, represented 42.3 percent of total net assets and ended the year at $256.2 million, down $118.7 million from the June 30, 2008 level. Permanently restricted net assets, representing the original principal value of true endowment funds, were 37.9 percent of total net assets and ended the year at $229.9 million, down $2.1 million from the prior year.

Statement of Activities

The Statement of Activities presents the College's revenues and expenses for 2008-09 and reports the changes in net assets during the year. The overall results of operations for 2008-09 was a reduction of $8.1 million. Operating revenues decreased by $19.6 million, primarily in contributions, change in split-interest agreements and other revenues, due to the loss in value of a perpetual trust. Revenue from net student charges (tuition, room and board less financial aid) increased by $4.8 million, up 4.8 percent. The cost of financial aid increased to $38.5 million, up from $34.9 million in 2007-08.

Net Student Charges



Expenses were up 5.7 percent during 2008-09. The pattern of expenditures emphasizes the College's core priorities—instruction and research, academic support and libraries, and student services—with only 14.2 percent of the expenditures (net of auxiliary expenses) supporting fundraising, alumnae relations and institutional support. Auxiliary expenses totaled $6.7 million, offset by $4.4 million of auxiliary income. 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 decreased in 2008-09 by $162.3 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.

Overall, cash and cash equivalents at the end of 2007-08 were $5.0 million, compared with $8.7 million at June 30, 2008.

KPMG LLP
One Financial Plaza
Hartford, CT 06103-4103

Independent Auditors' Report

The Board of Trustees
Mount Holyoke College:

We have audited the accompanying statements of financial position of Mount Holyoke College (the College) as of June 30, 2009 and 2008, and the related statements of activities and cash flows for the years then ended. 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.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also 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, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mount Holyoke College as of June 30, 2009 and 2008 and the changes in its net assets and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

KPMG LLP

October 30, 2009

MOUNT HOLYOKE COLLEGE
Statement of Financial Position
June 30, 2009 and 2008 (in thousands)

	2009	2008
Assets		
Cash and cash equivalents	$ 4,983	$ 8,656
Short-term investments	673	1,169
Accounts and notes receivable, net	2,961	2,961
Contributions receivable, net	29,297	36,279
Inventory, prepaid expenses and deferred charges	2,992	3,641
Student loans, net	17,195	16,736
Funds held by trustee under bond indenture	4,061	90
Land, buildings, equipment and collections, net	183,770	176,463
Investments	506,747	678,708
Other assets	1,144	1,314
Total assets	$ 753,823	$ 926,017
Liabilities and net assets		
Accounts payable and accrued liabilities	10,377	12,048
Deposits and deferred revenue	2,162	2,597
Split-interest obligations	18,339	19,687
Notes payable	3,500	1,500
Bonds payable	88,020	89,122
Other liabilities	20,322	15,160
Refundable advances — government student loan funds	4,631	4,556
Total liabilities	147,351	144,670
Net assets		
Unrestricted	120,361	174,417
Temporarily restricted	256,245	374,962
Permanently restricted	229,866	231,968
Total net assets	606,472	781,347
Total liabilities and net assets	$ 753,823	$ 926,017

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

MOUNT HOLYOKE COLLEGE
Statement of Activities
For the year ended June 30, 2009 (in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues				
Student tuition, room, board and other fees	$ 105,118			$ 105,118
Less student aid	(38,456)			(38,456)
	66,662			66,662
Contributions	10,698	$ 2,760	$ (2,000)	11,458
Grants and contracts	2,803	303		3,106
Other revenue	4,103	(26)	(2,294)	1,783
Change in value of split-interest agreements	407	(672)	(2,243)	(2,508)
Endowment return distributed for operations	3,901	17,108	48	21,057
Other auxiliary income	4,405			4,405
Net assets released from program restrictions	24,391	(24,391)		
	117,370	(4,918)	(6,489)	105,963
Expenses				
Instruction and research	53,907			53,907
Academic support and libraries	14,278			14,278
Student services, residence halls and food service	31,318			31,318
Fund raising and alumnae relations	7,429			7,429
Institutional support	9,079			9,079
Other auxiliary expense	6,735			6,735
	122,746			122,746
Transfers from/(to) endowment	8,763	(62)		8,701
	3,387	(4,980)	(6,489)	(8,082)
Endowment and similar net assets				
Contributions		578	3,560	4,138
Total endowment investment return	(22,927)	(112,949)		(135,876)
Endowment return distributed for operations	(3,901)	(17,156)		(21,057)
Transfers from/(to) operations	(8,763)	46	16	(8,701)
Other changes	(17,362)	15,744	811	(807)
	(52,953)	(113,737)	4,387	(162,303)
Total change in net assets before change in value of interest rate swaps	(49,566)	(118,717)	(2,102)	(170,385)
Change in value of interest rate swaps	(4,490)			(4,490)
Total change in net assets	(54,056)	(118,717)	(2,102)	(174,875)
Net assets, beginning of year	174,417	374,962	231,968	781,347
Net assets, end of year	$ 120,361	$ 256,245	$ 229,866	$ 606,472

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

MOUNT HOLYOKE COLLEGE
Statement of Activities
For the year ended June 30, 2008 (in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues				
Student tuition, room, board and other fees	$ 100,336			$ 100,336
Less student aid	(34,912)			(34,912)
	65,424			65,424
Contributions	8,127	$ 13,689	$ 4,649	26,465
Grants and contracts	2,809	314		3,123
Other revenue	6,987	38	933	7,958
Change in value of split-interest agreements	32	(118)	309	223
Endowment return distributed for operations	3,671	15,472	44	19,187
Other auxiliary income	3,218			3,218
Net assets released from program restrictions	23,218	(23,218)		
	113,486	6,177	5,935	125,598
Expenses				
Instruction and research	52,260			52,260
Academic support and libraries	13,917			13,917
Student services, residence halls and food service	29,673			29,673
Fund raising and alumnae relations	7,226			7,226
Institutional support	7,061			7,061
Other auxiliary expense	5,989			5,989
	116,126			116,126
Transfers from/(to) endowment	6,218	(12)		6,206
	3,578	6,165	5,935	15,678
Endowment and similar net assets				
Contributions		54	22,893	22,947
Total endowment investment return	11,230	39,166	(9)	50,387
Endowment return distributed for operations	(3,671)	(15,516)		(19,187)
Transfers from/(to) operations	(6,218)		12	(6,206)
Other changes	(1,505)	(24)	578	(951)
	(164)	23,680	23,474	46,990
Total change in net assets before change in value of interest rate swap and loss on debt refinancing	3,414	29,845	29,409	62,668
Change in value of interest rate swaps	(3,772)			(3,772)
Loss on refinancing of debt	(688)			(688)
Total change in net assets	(1,046)	29,845	29,409	58,208
Net assets, beginning of year	175,463	345,117	202,559	723,139
Net assets, end of year	$ 174,417	$ 374,962	$ 231,968	$ 781,347

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

MOUNT HOLYOKE COLLEGE
Statements of Cash Flows
For the years ended June 30, 2009 and 2008 (in thousands)

	2009	2008
Cash flow from operating activities		
Change in net assets	$ (174,875)	$ 58,208
Adjustments to reconcile change in net assets		
to net cash used in operating activities		
Depreciation and amortization	10,607	10,180
Loss on refinancing of debt	-	688
Change in interest rate swap liability	4,490	3,772
Contributions restricted for investments	(10,643)	(28,500)
Gifts in kind	(981)	(573)
Realized and unrealized loss on split interest agreements	4,516	466
Realized and unrealized (gain)/loss on investments	147,588	(48,526)
Gain on disposal of plant assets	(142)	(427)
Changes in operating assets and liabilities		
Accounts and notes receivable	-	49
Contributions receivable	6,982	(11,474)
Inventory, prepaid expenses and deferred charges	613	(313)
Other assets and liabilities	841	1,676
Accounts payable and accrued liabilities	(198)	1,341
Deposits and deferred revenue	(434)	(832)
Change in split income obligations	(1,348)	42
Net cash used in operating activities	(12,984)	(14,223)
Cash flow from investing activities		
Purchase of plant and equipment	(18,481)	(32,411)
Proceeds from sale of plant assets	253	1,146
Net change in loans	(459)	(923)
Purchases of investments	(94,895)	(83,334)
Proceeds from sales and maturities of investments	114,752	85,070
Purchases of short-term investments	(25,046)	(90,033)
Proceeds from sales and maturities of short-term investments	25,543	90,020
Change in funds deposited with trustee	(3,971)	9,570
Net cash used in investing activities	(2,304)	(20,895)
Cash flow from financing activities		
Proceeds from contributions for		
Investment in endowment	5,022	17,834
Investment in planned giving	1,365	2,930
Plant and equipment	4,256	7,736
Change in federal student loan funds	75	(13)
Proceeds from bonds and line of credit	11,100	41,714
Bond issuance costs	(18)	(453)
Payments on bonds payable and line of credit	(10,185)	(40,815)
Net cash provided by financing activities	11,615	28,933
Net change in cash and cash equivalents	(3,673)	(6,185)
Cash and cash equivalents, beginning of year	8,656	14,841
Cash and cash equivalents, end of year	$ 4,983	$ 8,656
Interest paid	$ 3,798	$ 3,311
Fixed asset purchases included in accounts payable	1,024	2,497

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.

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 U.S. generally accepted accounting principles 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 current economic environment increases the uncertainty of these estimates. The College's significant estimates include the valuation of its investments, the allowances for uncollectible contributions, student loans and accounts receivable, the useful lives of buildings, equipment and collections, the assumptions related to its pension benefit obligations and its liability for split-interest agreements.

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 legal or 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.

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 net assets released from program restrictions. 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 Statements 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 assets 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, 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-adjusted 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.

e. Income Taxes

The College is a tax-exempt organization as described in Section 501(c)(3) of the Internal Revenue Code and is generally exempt from income taxes pursuant to Section 501(a) of the Code.

f. Investments

Investments are reported at fair value. If an investment is held directly by the College and an active market with quoted prices exists, the College reports the fair value as the market price of an identical security. The College also holds shares or units in alternative investments such as hedge funds, private equity, venture capital, distressed securities and real asset strategies. Such funds may hold securities or other financial instruments for which a ready market exists and are priced accordingly. In addition, those investments may hold assets which require the estimation of fair values in the absence of readily determinable market values. Such valuations are determined by fund managers and generally consider variables such as operating results, comparable earnings multiples, projected cash flows, recent sales prices and other pertinent information, and may reflect discounts for the illiquid nature of certain investments held.

The College has utilized the net asset value (NAV) reported by each of the underlying funds as a practical expedient to estimating the fair value of the investments. These investments are generally redeemable or may be liquidated at NAV under the original terms of the subscription agreements and operations of the underlying funds. However, it is possible that these redemption rights may be restricted or eliminated by the funds in the future in accordance with the underlying fund agreements. Due to the nature of the investments held by these funds, changes in market conditions and the economic environment may significantly impact the NAV of the funds and, consequently, the fair value of the College's interest in the funds. Furthermore, changes in the liquidity provisions of the funds may significantly impact the fair value of the College's interests in the funds. Although certain investments may be sold in secondary market transactions, subject to meeting certain requirements of the governing documents of the funds, the secondary market is not active and individual transactions are not necessarily observable. It is therefore reasonably possible that if the College were to sell its interest in a fund in the secondary market, the sale could occur at an amount materially different than the reported value.

Included in the College's investments are 100% ownership interests in Center Redevelopment Corporation (CRC) and Center Business Corporation (CBC). The corporations were formed in 1986 (CRC) and 1987 (CBC) to develop and lease retail, residential and office space at the Village Commons in South Hadley, Massachusetts.

g. Land, Buildings, Equipment and Collections

All plant assets are stated at cost except gifts in kind, which are recorded at their estimated fair value on the date of the gift. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets. Construction in progress is not depreciated until placed in service. When plant assets are retired or disposed of, the cost and related accumulated depreciation are removed and any resulting gain or loss is reflected in the Statements of Activities.

The College recognizes the fair value of a liability for legal obligations associated with asset retirements in the period in which the obligation is incurred, in accordance with Statement of Financial Accounting Standards (SFAS) No. 143 and Interpretation No. 47 (FIN 47), if a reasonable estimate of the fair value of the obligation can be made. When the liability is initially recorded, the College capitalizes the cost of the asset retirement obligation by increasing the carrying amount of the related long lived asset. The liability is accreted to its present value each period, and the capitalized cost associated with the retirement obligation is depreciated over the useful life of the related asset. Upon settlement of the obligation, any difference between the cost to settle the asset retirement obligation and the liability recorded is recognized as a gain or loss in the Statements of Activities.

h. Statements of Cash Flows

For the purpose of the Statements 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.

i. Recently Issued Accounting Standards

Effective July 1, 2008, the College adopted Financial Accounting Standards Board (FASB) Statement No. 157, *Fair Value Measurements* (Statement 157). Statement 157 defines fair value, requires expanded disclosures about fair value measurements, and establishes a three-level hierarchy for fair value measurements based on the observable inputs to the valuation of an asset or liability at the measurement date. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It prioritizes the inputs to the valuation techniques used to measure fair value by giving the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements), and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements).

In connection with the adoption of FAS 157, the College adopted the provisions of Accounting Standards Update No. 2009-12, *Investments in Certain Entities that Calculate Net Asset Value per Share (or Equivalent)*, to its alternative investments. This Standard amends Statement 157 and allows for the estimation of the fair value of investments in investment companies for which the investment does not have a readily determinable fair value, using net asset value per share or its equivalent as a practical expedient.

Effective June 30, 2009, the College adopted FASB Statement No. 165, *Subsequent Events* (Statement 165). Statement 165 establishes principles and requirements for subsequent events and applies to accounting for and disclosure of subsequent events not addressed in other applicable generally accepted accounting principles. The College evaluated events subsequent to June 30, 2009 and through October 30, 2009, the date on which the financial statements were approved for issuance. The adoption of Statement 165 had no impact on the College's financial statements.

Effective July 1, 2008, the College adopted FASB Staff Position No. 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* (FSP 117-1). FSP 117-1 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 requires disclosures about endowment funds.

2. Accounts and Notes Receivable

Accounts, including student accounts, and notes receivable are net of an allowance for doubtful accounts of $415,000 and $400,000 at June 30, 2009 and 2008, respectively.

3. Contributions Receivable

Contributions receivable, at June 30, 2009 and 2008, are summarized as follows (in thousands):

Contributions to be collected:	**2009**	**2008**
Within one year	$ 3,933	$ 2,579
In one to five years	16,903	22,337
After five years	17,006	22,412
	37,842	47,328
Less: discount to present value	(6,945)	(9,149)
	30,897	38,179
Less: allowance for uncollectible contributions	(1,600)	(1,900)
	$ 29,297	$ 36,279

Discount rates for contributions receivable range from 2.5% to 6.0%, depending upon the fiscal year in which the pledge was made.

4. Student Loans

Student loans are net of an allowance for doubtful accounts of $2,575,000 and $2,500,000 at June 30, 2009 and 2008, respectively.

5. Land, Buildings, Equipment and Collections

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

	2009	2008
Land and land improvements	$ 21,951	$21,549
Buildings	210,401	172,933
Vehicles, equipment and furnishings	55,370	63,196
Art and library collections	33,241	31,209
	320,963	288,887
Less accumulated depreciation	(144,482)	(145,221)
	176,481	143,666
Construction in progress	7,289	32,797
	$183,770	$176,463

The College capitalized approximately $457,000 and $668,000 of interest on various construction projects during the years ended June 30, 2009 and 2008, respectively.

Depreciation expense for the College was $10,572,212 and $10,136,626 for the years ended June 30, 2009 and 2008, respectively.

The College follows the provisions of FASB Interpretation No. 47 (FIN 47) to account for conditional asset retirement obligations. Conditional asset retirement obligations of approximately $8,328,000 and $8,201,000 are included within other liabilities on the Statements of Financial Position for the years ended June 30, 2009 and 2008, respectively.

6. Investments

Investments held by the endowment and annuity pool, unpooled funds, life income funds and trusts consist of the following (in thousands) at June 30:

	2009	2008
Pooled fund		
Fixed income securities	$ 78,815	$ 82.538
Domestic equities	71,615	138,692
International equities	86,424	100,809
Hedge funds	84,992	122,340
Private equities	44,915	60,223
Venture capital	20,755	22,707
Distressed securities	27,746	22,469
Inflation hedging	72,121	105,979
	487,383	655,757
Unpooled investments	717	827
Life income and trust investments	18,647	22,124
	$ 506,747	$ 678,708

The College's total return on invested assets consisted of the following (in thousands) for the years ended June 30:

	2009	2008
Endowment funds		
Investment income	$ 11,712	$ 1,861
Realized gains (losses)	(1,038)	75,774
Unrealized losses	(146,550)	(27,248)
	(135,876)	50,387
Split interest investments		
Investment income	937	807
Realized gains (losses)	(516)	1,080
Unrealized losses	(4,000)	(1,546)
	(3,579)	341
Total investment return	$ (139,456)	$ 50,728

Investment income is presented net of management fees and related expenses of approximately $7,531,000 in 2009 and $7,703,000 in 2008.

Statement 157 establishes a fair value hierarchy which prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the college has the ability to access at measurement date.

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

Level 3: No observable quoted prices, reliance on assumptions market participants would use if a market existed for the assets or liabilities.

The level in the fair value hierarchy used to classify an item is based on the lowest level that is significant to the fair value being established.

The College owns interests in alternative investment funds rather than in securities underlying each fund, and therefore it is generally required to consider such investments as Level 2 or 3 for the purposes of applying SFAS No. 157, even though the underlying securities may not be difficult to value or may be readily marketable. Also, because of the use of NAV as a practical expedient to estimate fair value, the level in the fair value hierarchy in which each fund's fair value measurement is classified is based primarily on the College's ability to redeem interest in the fund at or near the date of the statement of financial position. Accordingly, the inputs or methodology used for valuing or classifying investments for financial reporting purposes are not necessarily an indication of the risk associated with holding those investments or a reflection on the liquidity of each fund's underlying assets and liabilities.

The College's assets and liabilities at June 30, 2009 that are reported at fair value are summarized in the following table by their fair value hierarchy (in thousands of dollars):

	Level 1	Level 2	Level 3	Total
Assets				
Investments				
Fixed income	$ 71,249	$ 14,136	$ 5,959	$ 91,344
Domestic equities	52,269	24,119		76,388
International equities	20,881	67,009		87,890
Hedge funds		27,121	57,871	84,992
Private equity and venture capital		2,784	62,885	65,669
Distressed securities			27,746	27,746
Inflation hedging investments	5,126	7,868	59,127	72,121
Other investments	597			597
Total investments	150,122	143,037	213,588	506,747
Other assets				
Short-term investments	673			673
Total assets	$ 150,795	$ 143,037	$ 213,588	$ 507,420
Liabilities				
Interest rate swaps		$ (8,862)		
Total liabilities		$ (8,862)		

The following table presents the College's activity for the fiscal year ended June 30, 2009 for investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as defined in Statement 157 (in thousands of dollars):

	Fixed Income and Equities	Hedge Funds	Private Equity and Venture Capital	Distressed Securities	Inflation Hedging Investments	Total
Fair value as of June 30, 2008	$ 56,344	$ 90,215	$ 79,970	$ 22,469	$ 73,947	$ 322,945
Acquisitions			12,739	9,125	8,514	30,378
Dispositions	(41,014)	(13,704)	(4,395)	(2,023)	(17,784)	(78,920)
Investment return	(3,561)	11,167	(1,823)	(1,847)	(4,183)	(247)
Unrealized gains (losses)	(5,810)	(29,807)	(23,606)	22	(1,367)	(60,568)
Fair value as of June 30, 2009	$ 5,959	$ 57,871	$ 62,885	$ 27,746	$ 59,127	$ 213,588

Included in the College's total investments are holdings in numerous partnerships that diversify the underlying investments over a period of years pursuant to provisions of the individual partnership agreements. As of June 30, 2009, the maturities of these investments and the related unfunded commitments were as follows (in thousands of dollars):

Investments Maturing In	Fair Value	Related Unfunded Commitments
1 - 5 years	$ 36,274	$ 8,145
5 - 10 years	74,879	72,271
10 years or more	1,929	7,490
	$ 113,082	$ 87,906

In addition to the above, another portion of the College's total investments contain lock-up provisions restricting redemption for a period of time. For those investments, the terms and conditions upon which an investor may redeem an investment range from 30 to 90 days notice after the initial lock up period. The expirations of redemption lock up periods are summarized in the table below (in thousands of dollars):

Fiscal Year	Amount
Within 1 year	$ 39,829
Within 2-3 years	38,939
More than 3 years	3,216
Total	$ 81,984

7. Endowment Funds

The College's endowment consists of approximately 1,500 individual funds established for a variety of purposes, including both donor restricted endowment funds and funds designated by the College to function as endowments (quasi-endowment).

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's Board of Trustees approves the annual spending distribution per unit. The spending policy limits the annual distribution of return within a range of 4.5% to 5.5% of a twelve quarter average market value less outstanding debt. For fiscal years 2009 and 2008, the College elected to distribute 4.5% and 4.6%

respectively of the average of the prior twelve quarter-end market values, as of December 31, 2007 and December 31, 2006, respectively, less outstanding debt.

The Uniform Prudent Management of Institutional Funds Act (UPMIFA) of the Commonwealth of Massachusetts became effective June 30, 2009. In accordance with FASB Statement No. 124, the College has prepared these financial statements on the basis of the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result, the College classifies as permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the college in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the College considers the following factors in determining appropriate spending levels from donor-restricted endowment funds:

a) Duration and preservation of the endowment fund
b) Purposes of the College and the endowed fund
c) General economic conditions
d) Possible effects of inflation or deflation
e) Expected total return from income and the appreciation of investments
f) Other resources of the College
g) Investment policy of the College

As a result of market declines, the fair value of certain donor-restricted endowments may fall below original contributed value. At June 30, 2009, this dollar amount was $3,968,238 ($2,493 as of June 30, 2008). These unrealized losses have been recorded as reductions of unrestricted net assets. Future market gains will be used to restore this reduction in unrestricted net assets before any net appreciation above the UPMIFA or donor required value of such funds increases temporarily restricted net assets.

Endowment funds are classified and reported based on the existence or absence of donor imposed restrictions. Donor restricted amounts reported below include term endowments reported as temporarily restricted net assets; and appreciation, also reported as temporarily restricted net assets.

Endowment funds, which do not include annuities, consisted of the following at June 30, 2009 and June 30, 2008 (in thousands of dollars):

June 30, 2009	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted	$ (3,968)	$ 218,009	$ 211,320	$ 425,361
Board designated (quasi)	60,851	16,956		77,807
Total	$ 56,883	$ 234,965	$ 211,320	$ 503,168

June 30, 2008	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted	$ (2)	$ 344,356	$ 205,524	$ 549,878
Board designated (quasi)	108,550	4,476		113,026
Total	$ 108,548	$ 348,832	$ 205,524	$ 662,904

Changes in endowment funds for the fiscal years ended June 30, 2009 and June 30, 2008 were as follows (in thousands of dollars):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
June 30, 2008 balance	$ 108,548	$ 348,832	$ 205,524	$ 662,904
Contributions		3	3,512	3,515
Investment income	2,643	9,069		11,712
Realized & unrealized gains (losses)	(25,570)	(122,018)		(147,588)
Distributions	(3,507)	(17,216)	60	(20,663)
Reclassifications	(15,851)	15,851		
Transfers and other changes	(9,380)	444	2,224	(6,712)
June 30, 2009 balance	$ 56,883	$ 234,965	$ 211,320	$ 503,168

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
June 30, 2007 balance	$ 106,625	$ 325,335	$ 183,416	$ 615,376
Contributions			21,571	21,571
Investment income	892	969		1,861
Realized & unrealized gains (losses)	10,339	38,196	(9)	48,526
Distributions	(3,307)	(15,668)	152	(18,823)
Transfers and other changes	(6,001)		394	(5,607)
June 30, 2008 balance	$ 108,548	$ 348,832	$ 205,524	$ 662,904

In 2009, in conjunction with the adoption of FSP 117-1, the College reviewed the classification of its endowment net assets. Based upon that review, the College identified $11,881,987 of unexpended restricted quasi-endowment funds previously accounted for as unrestricted due to the nature of the donor imposed restrictions. In accordance with FSP 117-1, the College has reclassified the funds from unrestricted to temporarily restricted net assets.

8. Promissory Notes

The College had an uncollateralized demand line of credit available through June 30, 2009, in the amount of $10,000,000 at an interest rate equal to LIBOR plus 75 basis points, or the prime rate less 150 basis points. The College also has an uncollateralized demand line of credit available through July 31, 2011, in the amount of $20,000,000 at an interest rate of prime less 25 basis points. The amounts outstanding on the lines of credit were $3,500,000 and $1,500,000 at June 30, 2009 and 2008, respectively.

9. Bonds Payable

The College's bonds payable as of June 30, 2009 and 2008 are summarized as follows (in thousands):

Series	Fiscal Years of Maturity	Interest Rates	2009	2008
Massachusetts Development Finance Authority (MDFA):				
2001	2010-2032	4.125% - 5.50%	$ 47,420	$ 48,505
Unamortized premium			369	386
2008	2012-2037	2.30%-5.00%	39,765	39,765
Unamortized premium			466	466
			$ 88,020	$ 89,122

During the year ended June 30, 2008, the College issued Massachusetts Development Finance Authority bonds, Series 2008. The proceeds were used to refund Massachusetts Development Finance Authority bonds, Series 2006. The College entered into this refinancing due to turmoil in the auction rate securities market, which was affecting both the interest rate paid and the College's ability to market these bonds. The refinancing resulted in a loss of approximately $688,000.

Debt service payments are made to a Trustee under terms of the bond agreements and are represented in the line "Funds held by bond trustee" on the Statements of Financial Position.

The College's bonds trade periodically in a limited market. Utilizing available market pricing information provided by a third-party, the College estimated that the aggregate fair value of its fixed rate debt as of June 30, 2009 was $87,265,042.

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

2010	$ 1,885
2011	1,965
2012	2,035
2013	2,115
2014	2,210
Thereafter	76,975
	$ 87,185

On July 1, 2004, in connection with the 2001 Massachusetts Development Finance Authority bonds, the College entered into an interest rate swap agreement on a notional amount of $44,246,000. Under the terms of the agreement, each month from August 1, 2011 through July 1, 2031, the College will receive a variable rate of interest equal to 68% of LIBOR, and the College will pay a fixed rate of interest of 4.38%. The fair value of the swap agreement was a liability of approximately $5,328,000 and $3,132,000 at June 30, 2009 and 2008, respectively. This is included in other liabilities on the Statements of Financial Position.

On May 10, 2005, in connection with the 2001 Massachusetts Development Finance Authority bonds, the College entered into an interest rate swap agreement on a notional amount of $51,810,000. Under the terms of the agreement, every six months the College will pay an amount equal to the Securities Industry and Financial Markets Association Municipal Swap Index rate, and the College will receive an amount equal to 68% of the six month LIBOR plus 46 basis points. This agreement was modified on December 21, 2007 to change the payment to the College to 68% of the six month LIBOR plus 75 basis points from January 1, 2008 to December 31, 2009 and to 60.65% of the ten year LIBOR plus 46 basis points from January 1, 2010 to June 30, 2031. The fair value of the swap agreement was a liability of approximately $65,000 at June 30, 2009 and an asset of approximately $363,000 at June 30, 2008. The liability is included with other liabilities on the Statements of Financial Position, and the asset is included in other assets on the Statements of Financial Position. In October, 2009, the College terminated this swap agreement in exchange for a payment to the College of $1,247,000.

On November 4, 2005, in anticipation of issuing the Massachusetts Development Finance Authority bonds, Series 2006, the College entered into a forward starting fixed payer swap agreement on a notional amount of $29,650,000. Under the terms of the agreement, every six months from January 1, 2007 through July 1, 2036, the College will pay a fixed rate of interest of 3.785%, and the College will receive a variable rate of interest equal to 68% of LIBOR. The fair value of the swap agreement was a liability of approximately $3,469,000 and $1,604,000 at June 30, 2009 and 2008, respectively. This is included in other liabilities on the Statements of Financial Position.

On October 22, 2009, the College, as part of its management of debt, entered into a fixed receiver swap agreement on a notional amount of $29,650,000. Under the terms of the agreement, every six months from January 1, 2010 through July 1, 2036, the College will pay a variable rate of interest equal to the Securities Industry and Financial Markets Association Municipal Swap Index rate, and the College will receive a fixed rate of interest of 3.145%.

Under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended by SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities*, the instruments' fair value and changes therein must be included in the College's financial statements. The value of the swap instruments represents the estimated cost to the College to cancel the agreement at each reporting date and is based on pricing models that consider interest rates and other market factors. Interest rate volatility, remaining outstanding principal and time to maturity will affect the swaps' fair value at subsequent reporting dates. If the College repays the debt on schedule, the value of the swaps will reach zero at their final maturity.

10. Defined Contribution Pension Plan

The College sponsors a defined contribution pension plan covering all faculty and administrative employees. Pension benefits are administered by Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF) and Fidelity Tax-Exempt Services Company. The College contributed approximately $4,754,000 in 2009 and $4,488,000 in 2008 to the plan.

11. Defined Benefit Pension Plan

The College maintains a defined benefit pension plan for bargaining unit employees. The plan is noncontributory.

Obligations and Funded Status

The College follows FASB Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* (Statement 158).

The following table sets forth (in thousands) changes in the College's pension benefit obligation, plan assets, and funded status at June 30:

	2009	2008
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 10,913	$ 10,425
Service cost	533	582
Interest cost	655	610
Actuarial (gain)/loss	(785)	(233)
Benefits paid	(312)	(471)
Benefit obligation at end of year	$ 11,004	$ 10,913
Change in value of plan assets:		
Fair value of plan assets at beginning of year	$ 8,961	$ 9,995
Actual return on plan assets	(1,420)	(611)
Benefits paid	(312)	(471)
Employer contribution	918	48
Fair value of plan assets at end of year	$ 8,147	$ 8,961
Funded status	$ (2,857)	$ (1,952)

To determine the benefit obligations, the College used a discount rate, which is the estimated rate at which the obligation for pension benefits could effectively be settled, of 6.50% and 6.25% at June 30, 2009 and 2008, respectively, and a salary projection rate, which is the estimated rate at which salaries will increase, of 3.5% and 4.0% for the years ended June 30, 2009 and 2008, respectively. The balance of the unfunded status is included in other liabilities on the Statements of Financial Position.

Components of Net Periodic Benefit Cost

To determine net periodic pension costs, the College used a discount rate, which is the estimated rate at which the obligation for pension benefits could effectively be settled, of 6.25% for the years ended June 30, 2009 and June 30, 2008; a salary projection rate, which is the estimated rate at which salaries will increase, of 4.0% for the years ended June 30, 2009 and June 30, 2008; 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 9.0% for the years ended June 30, 2009 and June 30, 2008.

Net pension cost for the years ended June 30, 2009 and 2008 includes the following components (in thousands):

	2009	2008
Service cost earned during the period	$ 533	$ 582
Interest cost on projected benefit obligation	655	610
Amortization of prior service cost	16	16
Amortization of net loss	108	
Expected return on assets	(804)	(869)
Net pension cost	$ 508	$ 339
Increase/(decrease) in liability included in change in net assets	$ 904	$ 1,521

Plan Assets

The plan's asset allocations at June 30, 2009 and 2008 by asset category are as follows:

	Plan Assets at June 30		Target Investment %	
Asset Category	2009	2008	2009	2008
Equity securities	69.5 %	69.7 %	71 %	64 %
Debt securities	12.0	14.9	11	14
Cash	2.8	1.0	1	1
Other	15.7	14.4	17	21
Total	100.0 %	100.0 %	100 %	100 %

The plan assets are invested in a well-diversified investment portfolio which includes domestic and international equity and fixed income securities. The plan's expected return is based on the projected long-term returns for the asset classes represented in the investment portfolio.

Cash Flows

The College has an estimated minimum required contribution of $820,000 to the defined benefit pension plan for the year ending June 30, 2010.

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

2010	$ 839
2011	579
2012	232
2013	335
2014	550
2015-2019	$ 3,365

12. 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. 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. The present value of future obligations under the plan is accrued as of the date of early retirement for employees choosing the full retirement option. Expense under this program was $241,200 and $0 for the years ended June 30, 2009 and June 30, 2008, respectively.

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Statistics

	2009	2004	1999
Market value of investment pool	$498,283,000	$409,150,000	$363,841,000
Endowment total return	-21.2%	12.8%	10.1%
Unit value of endowment pool	$4.644	$4.164	$4.171
Tuition	$37,480	$29,170	$23,200
Room and board	$11,020	$8,580	$6,820
Student enrollment (FTE)	2,212	2,124	1,842
Faculty (FTE)	197	199	183
Student/faculty ratio	11.2	10.7	10.1
Percent of students receiving Mount Holyoke financial aid	67%	67%	69%
Library collection in volumes	791,277	717,393	688,212
Insured value of physical plant	$935,000,000	$561,000,000	$407,000,000

10 Year Comparison