

## Review of Financial Results For the Fiscal Year Ended June 30, 2021

The College of the Holy Cross is pleased to share our annual financial reporting for the year ended June 30, 2021. Included, you will find the opinion of the College's independent auditors, the financial statements, and the related footnotes to the financial statements. To provide additional context and clarity of these results, however, the College has also provided a discussion of financial performance over the last fiscal year.

### *Overview*

Despite the significant challenges presented by the ongoing impact of the COVID-19 pandemic, Holy Cross ended Fiscal Year 2021 in a strong financial position. Prudent financial management and collaboration across all divisions yielded positive operating results despite a shift to a primarily remote fall 2020 semester. The generosity of alumni and friends of the institution was unwavering through both annual giving and payment of existing pledges. Additionally, the robust level of operating support from the College's endowment, which ended the year over \$1.0 billion for the first time in the College's history, balanced out the revenue stream during the year.

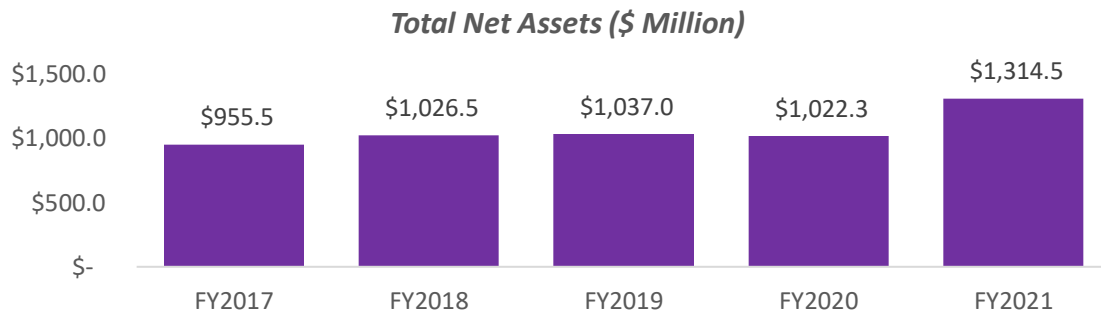
The necessary robust health and safety protocols in place, including extensive COVID testing and contact tracing, enhanced cleaning protocols, take-out meals in the dining hall, meal deliveries for students, and dedicated isolation and quarantine spaces, added significant expense. Additionally, dining, residence halls, and classrooms underwent modifications to enable hybrid in-person and remote learning. All were, however, essential investments in our community to allow for a modified but incredibly high-quality learning experience for our students. The community also responded by being strong stewards of their resources to help the overall management of expense lines.

### *Total Assets, Liabilities and Net Assets*

On June 30, 2021, the College's **total assets** were \$1.6 billion, \$297.8 million (22.6%) higher than at the end of the previous fiscal year. The increase was principally driven by investment gains and contributions to the College's endowment, which brought the total long-term investment balance to a record \$1.1 billion at the end of the fiscal year. In addition, property, plant, and equipment totaled \$389.2 million, increasing \$42.5 million. This increase was driven principally by construction spending on the Prior Center for Performing Arts. Cash and cash equivalents declined \$19.4 million to \$106.6 million as the College deployed short-term investments acquired in the previous year.

**Total liabilities** amounted to \$303.5 million on June 30, 2021, increasing \$5.7 million. About three-quarters of the College's liabilities consist of long-term debt, totaling \$227.9 million on June 30, 2021. Long-term debt increased \$16.5 million during the year. This was principally driven by using the remaining \$26.5 million available on the College's \$49.0 million term loan offset by principal payments on outstanding debt. Due to solid investment returns on plan assets, the College's obligations on its defined benefit pension plan for hourly employees totaled \$8.9 million, declining \$11.4 million year over year.

The resulting **total net assets**, which is the difference between the College's assets and its liabilities and the equivalent of its net worth, totaled \$1,314.5 million as of June 30, 2021, an increase of 28.6% during the fiscal year.



### ***Endowment***

The endowment totaled \$1.0 billion on June 30, 2021, representing 79.4% of the College's total net assets. Endowment assets increased 37.2%, or \$283.0 million, during the year as investment gains net of management fees provided \$285.2 million while contributions and transfers to the endowment added another \$32.4 million.

Distributions in support of operations were \$34.6 million during the year, a 4.5% effective spending rate. Certain restricted funds were not spent during fiscal 2021 due to reduced programming and health and safety restrictions, driving down our effective spending compared to the policy spending rate.

This distribution was determined using our spending formula of 5.0% of the average endowment value across the three most recently completed fiscal years, which provided a one-year lag for budgetary purposes. This spending rule aims to yield consistent levels of support while also maintaining the real value of the endowment for future generations of students.

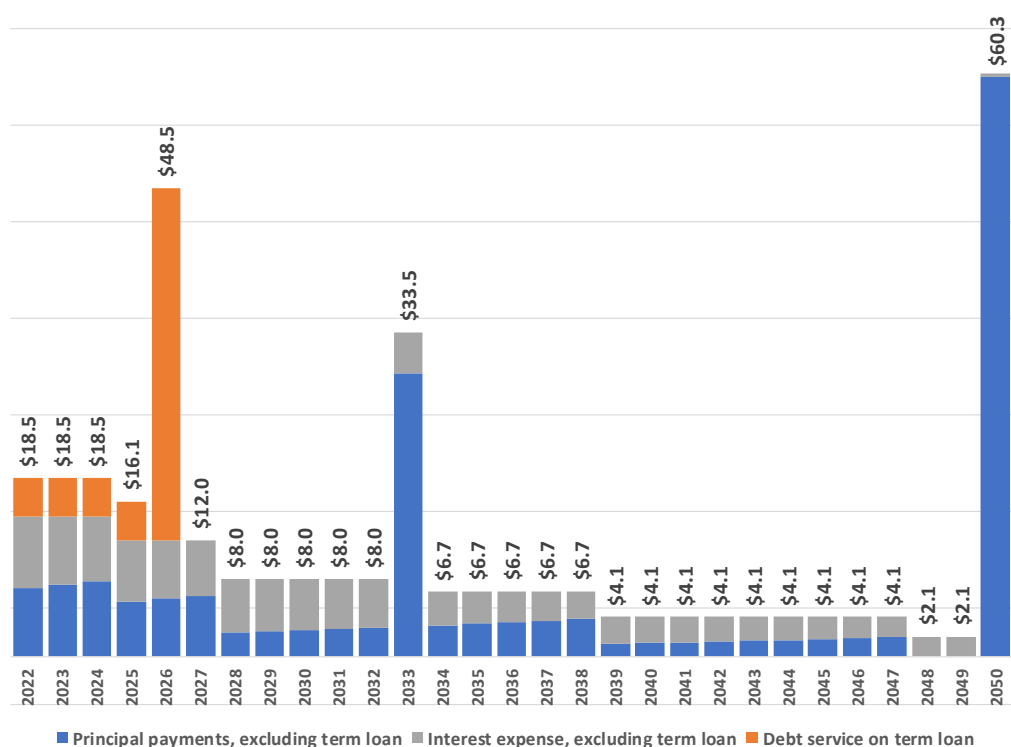
Investment markets, particularly those in the U.S., were extremely strong during fiscal 2021 as federal stimulus programs aided consumer spending. In addition, the development and deployment of coronavirus vaccines also allowed the domestic economy to re-open more quickly than most other countries. As a result, the S&P 500 index, a representative measure of U.S. equity market activity, increased a remarkable 38.4% between July 1, 2020 and June 30, 2021.

### ***Long Term Debt***

As of June 30, 2021, the College had \$222.1 million of outstanding debt. An additional \$5.8 million of related premiums and issue costs paid when the bonds were originally issued are being amortized over the respective bonds' maturity periods. Additionally, during the fiscal year, the College drew the final \$26.5 million on the College's taxable bank loan. These funds will finance the portion of construction costs for the Prior Center for Performing Arts and Joanne Chouinard-Luth Recreation and Wellness Center while gift pledges are outstanding.

The total outstanding principal amount of \$49 million began amortizing monthly in September 2020 based on a 180-month mortgage-style amortization schedule, with a final maturity date in May 2026. As of June 30, 2021, the term loan had an outstanding balance of \$46.8 million.

### Scheduled Debt Payments by Fiscal Year (\$ Millions)



The chart above presents the scheduled debt payments by fiscal year for the College’s total outstanding debt as of June 30, 2021. In addition to the bank loan described above, the College has two debt issues that require single “balloon payments” at maturity: \$26.2 million due in September 2032 and \$60 million due in September 2049. The College has the flexibility to redeem the \$60 million issue beginning after September 1, 2029 at par, or it may exercise a make-whole call provision prior to that date.

### Credit Ratings

Holy Cross has consistently maintained solid credit ratings from Moody’s and S&P, the two major bond rating agencies.

In connection with our \$60 million bond issue in December 2019, S&P assigned the College an AA-rating, and Moody’s assigned a rating of Aa3. Both agencies extended a stable medium-term outlook for the College. Both ratings, which are approximately equivalent to each other, remained unchanged in fiscal 2021 and viewed Holy Cross as having a “very strong” capacity to meet its financial commitments.

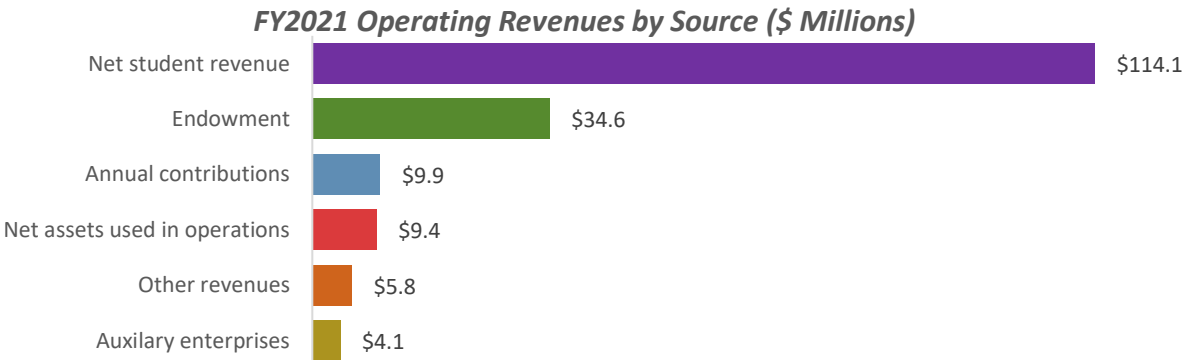
**Operating Results**

Operating margin, defined as the difference between operating revenues and operating expenses, measures the College's effectiveness in managing day-to-day operations. It excludes non-operating items such as investment gains or losses, contributions toward capital projects and the endowment, and certain pension adjustments.

Holy Cross operated at essentially a break-even level during a year that, as described at the outset of this discussion, was severely disrupted by COVID. The majority of the College's operating margin of \$2.8 million, representing 1.6% of total operating revenues, was attributable to a reclassification of prior year capital contribution revenue. This reclassification, driven by an accounting policy implemented in 2019, allocates long-term capital contributions over the life of the assets financed by these contributions. This reclassification matches the current period depreciation expense on these assets, so it provides no cash contribution to operations.

**Operating Revenues**

The College's operating revenues for the year ended June 30, 2021 totaled \$177.9 million.



Like most colleges, Holy Cross's operating support depends significantly on net student fees. In fiscal 2021, 64.1% of the College's operating revenues, or \$114.1 million, was generated from tuition, required fees, and room and board charges, net of financial aid. This was \$19.5 million less than the previous year.

Gross tuition and required fees totaled \$162.3 million, a decline of \$10.1 million from fiscal 2020. This decrease was driven by a combination of factors, including the restriction of internal travel impacting both international students and study abroad and a small number of students electing to defer enrollment due to the pandemic. Tuition revenues were also impacted by the College's decision to forego an increase on the tuition portion of student charges to ease the financial burden on families created by the pandemic.

Gross revenue from residential and dining fees totaled \$16.0 million, a decline of \$12.7 million from the previous year. The reduction reflects a fall 2020 semester where a minimal number of students occupied residential housing and a spring 2021 semester with diminished occupancy. The remaining component of net student revenues, scholarships, and financial aid totaled \$64.2 million. This

amount was \$3.3 million less than 2020 and reflected reduced aid because the overall cost of attendance declined.

As noted previously, the College's endowment draw totaled \$34.6 million, or 19.4% of operating revenues. Slightly more than half of that support (51.7%) in fiscal 2021 was unrestricted and used for general college operations, and 28.5%, or nearly \$10 million, was designated to help fund the College's financial aid policy of meeting the full demonstrated need of admitted students. The remaining endowment draw supported faculty chairs, academic programming, the College's mission-related activities, athletics, and other campus operations.

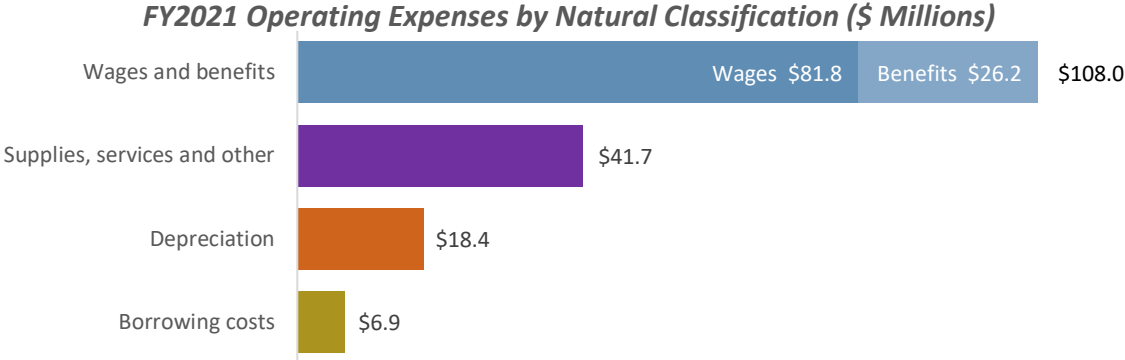
Additional revenues outside of tuition and room and board are considered auxiliary enterprises and primarily include the bookstore, conference services, retail dining, rentals, and athletics. COVID-19 had a disproportionate impact on this revenue source. Contributing 2.3% of operating revenues in fiscal 2021 at \$4.1 million, auxiliary enterprises represented only about half the operating support they provided in the previous year.

The College also generates revenue from other sources that include federal aid to students, gifts and grants, and interest earned on the College's cash and short-term investments. In fiscal 2021, these and other similar revenue sources totaled \$5.8 million, which was \$0.5 million less than the previous year. The grants portion included the receipt of \$2.9 million of federal funds from the CRRSA (Coronavirus Response and Relief Supplemental Appropriations) Act allocated to higher education to help offset a portion of the costs created by the COVID-19 pandemic; \$1.2 million of those funds was distributed to students based on their financial need. Fiscal 2021 also saw interest income on the College's cash balances virtually disappear due to near-zero yields on short-term investments.

The College often receives funds for designated purposes that are used in operations one or more years after they are received. Once those restrictions have been satisfied, the use of those funds are referred to as restricted and designated net assets used in operations. In fiscal 2021, these funds totaled \$9.4 million that included \$4.1 million consisting of donor contributions and the reclassification of capital contributions noted above. The figure also included \$5.3 million of revenue associated with satisfying restrictions attached to specific gifts and contracts, which was \$2.5 million more than in fiscal 2020. However, since the expenses related to those grants and contracts also increased, the additional revenue yielded no bottom-line impact.

**Operating Expenses**

The College’s operating expenses for the year ended June 30, 2021 totaled \$175.0 million.



The largest single expense component for the College is **salaries and wages**, totaling \$81.8 million in fiscal 2021. When combined with associated fringe benefits of \$26.2 million, total compensation represented \$108.0 million, or 62% of total operating expenses in fiscal 2021. The College's combined compensation costs declined \$7.1 million from a year earlier as the College's response to the pandemic included a hiring freeze, limited furloughs, and College contributions to the retirement plan for salaried employees that were suspended for nine months.

**Supplies, services, and other expenses** consist of a broad array of expenditures, including utilities, equipment, professional and contracted services, the cost of goods sold in the College's bookstore and various dining venues, study away programs, travel, insurance, as well as others. These expenses totaled \$41.7 million in fiscal 2021, \$9.0 million less than the previous year. Although the College incurred additional costs for COVID testing, medical services, and isolation and quarantining costs for returning students, these were more than offset by significant savings in travel, study abroad programs, and food costs.

U.S. generally accepted accounting principles (GAAP) require the amounts paid for plant and equipment (i.e. cost) to be allocated over their useful lives. **Depreciation** expense represents that annual charge and, in fiscal 2021, the expense totaled \$18.4 million, about \$0.6 million more than in fiscal 2020. The College's annual operating budget includes GAAP-based annual depreciation expense, which becomes the basis for the renewal and replacement portion of the capital budget; these funds help assure that there is ongoing investment in the College's campus infrastructure.

**Borrowing costs** associated with the College's long-term debt totaled nearly \$7.0 million in fiscal 2021 and represented 4.0% of total operating expenses. These expenses were \$0.6 million higher than fiscal 2020, largely because they reflected the first full year of interest expense associated with our \$60.0 million bond issued in December 2019.

**Looking Ahead**

The College's balanced operating budget for fiscal 2022 reflects a return to more typical operations and from a position of financial strength. Enrollment for the fall 2021 semester of 3,114 is in line with pre-pandemic levels. All classes have returned to in-person teaching, and with appropriate

health and safety considerations, students can participate in campus activities with minimal interruption.

Through the careful stewardship of our resources, Holy Cross aims to pursue its mission for generations to come. To this end, the Board of Trustees and the new President have commenced a strategic planning process. As part of this initiative, we will look to maintain and enhance Holy Cross's position among liberal arts colleges by carefully considering various strategies, challenges, and opportunities. This process, in conjunction with further study of fundraising strategies, capacity, and investments, will guide financial planning efforts for the upcoming years.

The College's prudent financial management, together with extraordinary philanthropy and enrollment management, means that Holy Cross can and will continue to both think and act boldly. With the commitment and support of our faculty, students, staff, alumni, and friends and by carefully managing our financial resources, we can continue to imagine an even more inspired Holy Cross working to fulfill its vital mission today and for generations to come.

Holy Cross aspires to be a leader in the evolution of work. Through a pilot remote-work initiative, we are reimagining how we work together by adopting flexible work practices and policies that enhance employee productivity and satisfaction, supported by technologies that facilitate new forms of collaboration. We are also bringing more intense focus to ensuring that the composition of our community reflects a commitment to diversity, cultivating an empathetic and inclusive environment at Holy Cross, and creating pathways to success and accomplishment for all those who learn and work here.

We are confident in our ability to ensure Holy Cross's long-term leadership amongst liberal arts institutions and our long-term financial viability in a very dynamic and challenging higher education environment.