College of the Holy Cross
Financial Report
2019-2020

We are pleased to present the College of the Holy Cross's (the College or Holy Cross) annual financial report for the year ended June 30, 2020. The report includes the opinion of the College's independent auditors, the financial statements, and the related footnotes to the financial statements.

To provide readers of these financial statements with a better understanding of Holy Cross's financial position and operations, we include the following discussion of the College's financial condition and its operating results during the year. We also look ahead to fiscal 2021 and consider how the pandemic-related events in spring and summer of 2020 may impact the College going forward.

During fiscal 2020, the College demonstrated strong financial performance despite the profound challenges brought about by the COVID-19 pandemic. The COVID-19 pandemic affected the College's finances during the final quarter of fiscal 2020, causing both revenue losses and decreased expenditures related to reducing campus activity and moving quickly to remote work and learning in mid-March to protect the health and safety of our community.

The College's 2020 operating performance also reflects the generosity of Holy Cross's donors and friends in supporting the College with philanthropy. Despite economic uncertainty, the annual fund's budgeted goal was met and outstanding pledges continued to be paid. Our ability to successfully steward the future is evident as we wrapped up the Become More Campaign with over $400 million raised as of the end of fiscal 2020, or 100% of the Campaign's goal.

We anticipate larger pressures on fiscal 2021finances as we implement steps to operate the campus safely for those faculty, staff, and students with limited access to campus facilities this fall, and plan for the spring semester under uniquely challenging times. These pressures resulted in a loss of net student-related revenue this fall as we moved to all online learning, with only approximately 225 students in residence and incremental financial aid awarded to students. In addition, as part of a comprehensive program to create a campus environment that adheres to the latest health and safety protocols, the College is performing COVID- 19 tests up to twice weekly for those needing access to campus.

Prudent management of College resources provides us with reserves to absorb a significant portion of COVID-related fiscal pressures without compromising Holy Cross's capacity to sustain its mission. We must continue to be disciplined and cautious with our approach to ongoing fiscal management, mindful that we face significant uncertainties about the duration and depth of the pandemic and the economic trajectory affecting the performance of our endowment. The College has implemented targeted cost controls and increased support from our endowment for operations in fiscal 2021 to help provide resilience to adapt to a wide range of potential short- and long-term financial impacts from COVID-19, and we continue to assess fiscal strategies required to address this unprecedented challenge.

Financial Condition

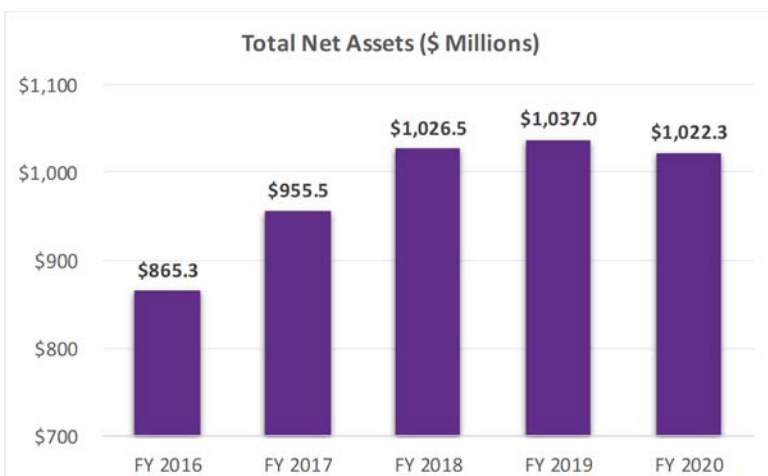
Fiscal 2020 reflects the substantial impact that the coronavirus pandemic had on the College beginning in March 2020, when Holy Cross was among the first colleges to suspend campus operations and move to an online teaching format for the balance of the spring semester. Once the severity of the virus became clear and a state of emergency was announced in Massachusetts, the College's first objective was the safe return home of all its students, including the nearly 200 students studying abroad or in programs away from campus. While costs associated with the pandemic were a secondary consideration, they were also substantial and had a negative impact on the College's finances. See related discussion in the net assets section, and reviews of the endowment, and operating results that follow.

Total Assets, Liabilities, and Net Assets

The College's **total assets** at June 30, 2020 were $1,320.2 million, which was $62.8 million or 5.0% higher than at the end of the previous fiscal year. The increase was largely attributable to proceeds from the College's $60 million debt issue as well as $38.7 million of additional property, plant, and equipment capitalized primarily to construct the Joanne Chouinard-Luth Recreation and Wellness Center and the Prior Center for the Performing Arts. These additional assets were partially offset by a $25.8 million reduction in the value of the College's long-term investments, nearly all of which is represented by the College's endowment. **Total liabilities** amounted to $297.8 million at June 30, 2020, an increase of $77.5 million, which was primarily due to the above-mentioned bonds issued in December 2019 and an increase of $11.3 million in the liability associated with the defined benefit pension plan for the College's hourly employees. The unfunded obligation of the pension plan grew because the substantial decline in rates used to discount expected future cash payments to College retirees exceeded growth in plan assets. The changes in asset values were primarily a function of payments made to beneficiaries, investment performance, and contributions.

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 $1,022.3 million as of June 30, 2020, a decline of 1.4% during the fiscal year. Since approximately three-quarters of the College's total net assets are comprised of the investment portfolio, increases or decreases in the investment value at year-end typically account for most of the annual change in total net assets.

The following graph presents total net assets for the most recent five years:



Endowment

The endowment totaled $760.3 million on June 30, 2020 and represented 74% of the College's total net assets. The endowment declined $25.6 million during the year, which was due primarily to distributions of $30.4 million used to support operations in fiscal 2020. The spending formula is equal to 4.5% of the average endowment value across the three most recently completed fiscal years, with a one-year lag. The calculation is intended to yield consistent levels of support while also maintaining the real value of the endowment for future generations of students.

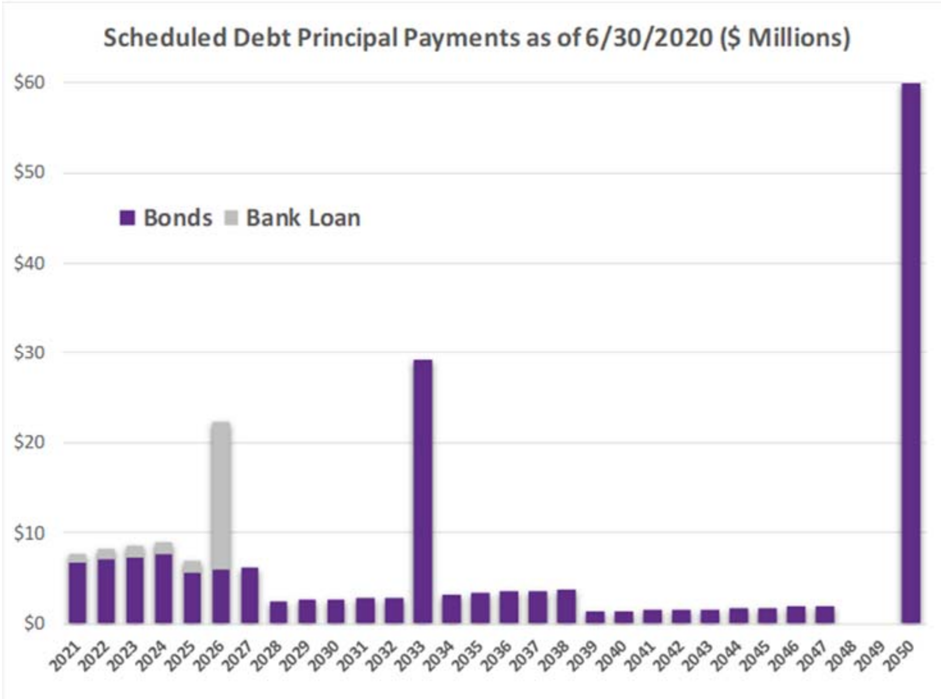
Investment markets were extremely volatile during the fiscal year. Soon after the major U.S. market indices reached record highs in mid-February, the onset of the COVID-19 pandemic and the corresponding effective shutdown of the global economy resulted in extraordinarily rapid and deep market declines. The broader and more representative S&P 500 index declined 33.9% in the 33 days between February 19 and March 23, 2020. Aided in part by the passage of the Coronavirus Aid, Relief, and Economic Security (CARES) Act, investment markets quickly began to recover and, by the end of the fiscal year, were at levels slightly above where they began at the beginning of July 2019. After investment management expenses, the Holy Cross endowment investment return is flat for fiscal 2020. The endowment also benefited from contributions and transfers totaling $4.6 million during the fiscal year.

Long-Term Debt

As of June 30, 2020, the College had $204.5 million of debt outstanding. There is also an additional $6.9 million of related premiums and issue costs paid when the bonds were originally issued that are being amortized over the respective bonds' maturity periods.

The total outstanding balance includes $60 million of new taxable debt that was issued in December 2019, the proceeds of which are being used for the construction of the College's new performing arts center and recreation/wellness facility. The outstanding debt balance on June 30th also includes a $22.5 million bank loan used to finance the portion of these two projects for which pledge payments are outstanding. In July 2020, the College took the final draw of $26.5 million from the bank loan, bringing the total borrowing on the facility to $49 million. Commencing in September 2020, the outstanding principal amount of the bank loan shall amortize monthly, based on a 180-month mortgage-style amortization schedule with a final maturity date in May 2026.

The following graph presents the scheduled debt payments by fiscal year for the College's total outstanding debt as of June 30, 2020. In addition to the bank loan described above, the College has two debt issues that require single "balloon payments" at maturity: $26.1 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.



It is the College's policy to manage its borrowing by minimizing the cost of capital, managing its cash exposure to debt service requirements, and maintaining an appropriate debt to net asset ratio such that Holy Cross obtains the highest investment-grade credit ratings possible. The College's long-term financial planning and budget process provides for debt service and capital replacement.

Bond Agency Ratings

Holy Cross has consistently maintained solid credit ratings from Moody's and S&P, the two major bond rating agencies. In connection with the $60 million bonds issued in December 2019, S&P assigned the College an AA- rating and Moody's assigned a rating of Aa3, both noting a stable medium-term outlook for the College. The ratings are approximately equivalent and both view Holy Cross as having a "very strong" capacity to meet its financial commitments.

Operating Results

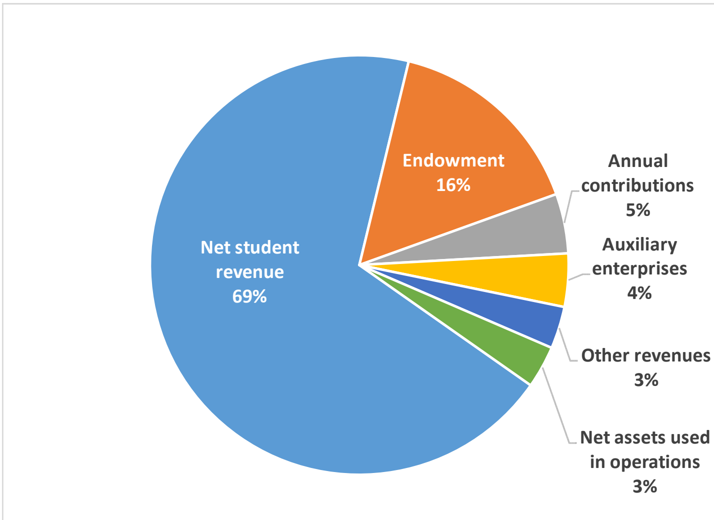
Operating margin is the difference between operating revenues and operating expenses. Since it excludes non-operating items such as investment gains or losses, contributions toward capital projects and the endowment, and certain pension adjustments, operating margin is a measure of how the College manages its day-to-day operations. In fiscal 2020, the College generated an operating margin of $3.4 million, which represented 1.7% of total operating revenues. However, $2.4 million of the margin is attributable to a reclassification of prior year capital contribution revenue to match current period depreciation expense on the portion of constructed assets financed by donors that have been placed into service. This reclassification is the result of an accounting policy implemented in fiscal 2019 intended to allocate long-term capital contributions over the life of the assets they financed. Accordingly, the reclassification provides no cash contribution to the current operating margin. The margin for fiscal 2020 was $4.2 million less than the previous year, when it represented 3.8% of operating revenues.

Fiscal 2020 results reflect the significant negative impact that the coronavirus pandemic had on the campus. Holy Cross suspended nearly all campus operations and arranged for students, including those studying abroad, to immediately return home near the midpoint of the spring semester. Consequently, the College provided dining and residential fee refunds to families, net of financial aid, that resulted in $7.1 million of reduced revenue. The College also acquired the technology to rapidly pivot to an online teaching and learning format for the balance of the semester. To offset a portion of the unplanned costs associated with responding to the pandemic, Holy Cross received $1.7 million in federal aid from the CARES act, half of which was distributed to students.

Operating Revenues:

The following graph presents the sources of the College's operating revenues for the year ended June 30, 2020 that totaled $193.4 million.

Operating Revenues by Source (Fiscal 2020)



Like most colleges, Holy Cross's operating support depends significantly on **net student fees**. In fiscal 2020, 69% of the College's operating revenues, or $133.6 million, was generated from tuition, required fees, and room and board charges, net of financial aid. This was $2.6 million less than the previous year.

Gross tuition and required fees totaled $172.4 million, which was $8 million more than fiscal 2019 resulting from a tuition and fee increase of 3.75% and 40 additional students enrolling in fall 2019. Revenue from residential and dining fees totaled $28.7 million, a decline of $9.2 million from fiscal 2019. The decline includes gross refunds of $10.2 million that were distributed when COVID-19 forced students residing in campus housing to be sent home in mid-March (refunds amounted to $7.1 million net of financial aid). The remaining component of net student revenues is scholarships or financial aid that totaled $67.5 million in fiscal 2020, which was $1.4 million less than 2019. The reduction in financial aid is directly related to refunding room and board charges to students; financial aid excluding the effects of room and board refunds would have totaled $70.6 million.

The second most significant source of operating support (16%) is distributions from the College's **endowment** that totaled $30.4 million in fiscal 2020. Slightly more than half of that support (51%) in fiscal 2020 was unrestricted and used for general college operations, 29% was targeted to support financial aid, and the rest was directed to faculty support (10%), academic programming (6%), mission (2%), facilities support (1%), and athletics (1%).

Contributions to the College's annual fund provided $8.9 million of support, which is nearly identical to the previous year, and represented 5% of total operating revenues. Despite economic disruption from the pandemic, annual giving in fiscal 2020 met the budgeted goal through continued support from alumni, parents, and friends.

Supplemental revenues outside of tuition and room and board are considered **auxiliary enterprises** and primarily include areas such as the bookstore, conference services, retail dining, rentals, athletics, and the College's printing services. These revenues generated $7.9 million in fiscal 2020, about $2.9 million less than the previous year due to COVID-19-related disruptions.

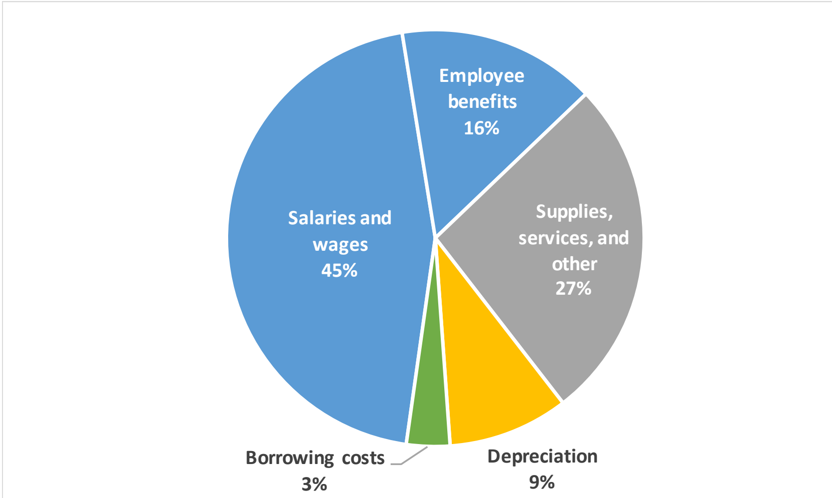
The College also generates revenue from **miscellaneous** other sources that include federal aid to students, gifts and grants, and interest earned on the College's cash and short-term investments. In fiscal 2020, these and other similar revenue sources totaled $6.3 million, which was $1.4 million more than the previous year. The increase is primarily due to the receipt of $1.7 million of economic stimulus funds from the CARES Act that were allocated to higher education to help offset a portion of the costs created by the COVID-19 pandemic; half of the funds received by the College were distributed to students based on their financial need.

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 2020, these funds totaled $6.3 million that included $3.5 million of donor contributions and the reclassification of capital contributions noted above. The figure also included $2.8 million of revenue associated with satisfying restrictions attached to certain gifts and contracts, which was $2.6 million less than in fiscal 2019. The decline was primarily due to the disruption in campus activities that prevented progress on a portion of the College's grants and contracts. However, since the expenses related to those grants and contracts were also reduced, the revenue reduction produced no bottom line impact.

Operating Expenses:

The College's operating expenses totaled $190 million in fiscal 2020, $3.1 million less than fiscal 2019. The largest single expense component for the College is **salaries and wages** that totaled $85.9 million in fiscal 2020; when combined with associated fringe benefits such as retirement contributions, health insurance, social security contributions, tuition benefits, and others, the combined cost of salaries, wages and benefits represented nearly 61% of total operating expenses in fiscal 2020. **Employee benefits** in fiscal 2020 of $29.2 million reflected a reduction in the College's vacation liability of $1.3 million as well as the receipt of a $0.9 million federal retention credit because Holy Cross continued to pay employees through June 30, 2020 despite the campus closure created by COVID-19.

Operating Expenses by Natural Classification (Fiscal 2020)



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 $50.7 million in fiscal 2020, $4.7 million or 8.5% less than last year because COVID-19 caused nearly all campus operations to cease in the last quarter of fiscal 2020.

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 this annual charge. In fiscal 2020, this expense totaled $17.8 million, about $0.3 million more than the previous year. 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 that there is ongoing investment in the College's campus infrastructure.

Borrowing costs associated with the College's long-term debt totaled $6.4 million in fiscal 2020 and represented 3.4% of total operating expenses. These expenses were $0.9 million higher than fiscal 2019 and reflected the additional interest expense associated with the $60 million bond that was issued in December 2019.

Looking Ahead

Careful stewardship of our resources is an enduring objective that has allowed Holy Cross to strengthen its commitment to and fulfillment of our shared mission. To that end, the President and Board of Trustees have commenced a new strategic planning process designed to maintain and enhance Holy Cross's position among liberal arts colleges that will consider strategies, challenges, and opportunities for the next 3 – 5 years. This process, in conjunction with further study of fundraising strategies, capacity, and investments, will guide financial planning efforts for the upcoming years.

An updated fiscal 2021 budget was developed incorporating the impact of actual enrollment figures, which have decreased by 5% spread across all four classes and includes the impacts of the decision to move to a remote fall semester. The revised operating loss is estimated at approximately $5 million cash-basis before the reclassification noted above ($2.5 million operating loss after the reclassification), assuming the current 5% enrollment decline remains and the College enrolls approximately 2,000 residential students for the spring semester. The community response to the inevitable budget cuts that follow a projected $30 million decline in revenues is encouraging, and with continued vigilance over spending, we believe we can mitigate the negative impact to our financial results.

In the immediate future, we will continue to assess and adapt to the financial challenges presented by the pandemic while maintaining a productive and enriching learning environment for our community. The full extent of the impact of COVID-19 on the College will depend on future developments, including the duration and spread of the outbreak and development of a vaccine.

Our solid and multipronged financial model, together with extraordinary philanthropy and enrollment management, means we can continue to not only think boldly, but to act. With the commitment and support of our faculty, students, staff, alumni, and friends and by carefully managing our financial resources, we continue to imagine an even more inspired Holy Cross working to fulfill its vital mission, today and for generations to come.