MOUNT HOLYOKE
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Introduction:

In accordance with Massachusetts General Law Chapter 69, Section 31B(f), "An Act to Support Improved Financial Stability in Higher Education," the College is providing an overview of the financial statements for the years ended June 30, 2020 and 2019 to aid the reader in understanding the financial position of the College. This summary has not been audited and is not considered an integral part of the audited financial statements.

COVID 19:

In the spring of 2020, the College moved to remote operations due to the COVID-19 pandemic. The impact to the College of that transition is noted in footnote 1 (o) of the financial statements. The most immediate financial impact was related to room and board credits and refunds that were given to students who were required to leave campus in March 2020. The College received governmental funding in 2020 to support both institutional and student expenses due to the COVID transition and also to support employees who were unable to come to work due to the Massachusetts shutdown order.

In FY21, we continue to monitor the financial implications of COVID 19 and make appropriate decisions to mitigate the short and long-term impact to the College. Financial updates are provided regularly to the campus community and financial stakeholders.

Financial Summary:

The financial position of the College is strong and stable with a healthy balance sheet noting $889m in net assets. While this is a modest decline from June 30, 2019, strong investment performance and expenditure control in light of an unexpected reduction in operating revenues helped maintain our position. The operating revenues and expenditures were very close to equal for FY20 and overall cash levels increased.

Shortly after issuing debt in May to support the College's ongoing capital investment plan, Moody's Investor Service affirmed the College's bond rating at Aa3 with a stable outlook.

Balance Sheet:

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

Overall assets of the College grew by $29m over the past year while liabilities grew by $40m. These changes are almost entirely the result of the College issuing a net of $40m in new debt in May of 2020 to support the capital plan of the College. More details related to this debt issuance can be found in footnote 12 and will be described more fully in the footnote section of this report. Net assets for the College declined by $11m or 1.2%. This is mainly due to a reduction in the endowment value as investment returns were lower than normal spending.

Statement of Activities:

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

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

Net operating revenue for the College declined by $4.4m from FY2019, mostly due to the impact of COVID-19 from March –June 2020.

Operating expenses declined by a similar amount year over year. This was due to an effort to reduce our expenditure base in the spring of 2020. This was also accomplished while keeping all of our employees fully employed through June 15, 2020 even though many were unable to come to campus to perform their work.

The non-operating activities of the College include gifts received for capital needs or long term investment in the endowment. It also includes financing transactions such as debt retirement or issuance, actuarial changes related to our employee defined benefit pension plan, and the change in value of other planned gift vehicles (trusts and annuities).

A significant item in this section is the investment return on the endowment of the College. For FY20 that amounted to $26.4m and was the result of a 3.9% total return on the endowment investments. In each year, the Board of Trustees also approves an amount to distribute from the endowment to support operations. For FY20, the amount distributed was $36.8m which is shown as a reduction in non-operating activity. The endowment, policies that surround it, and changes in value are included in more detail in footnote 7 which describes the investments and footnote 8 which describes the spending and donor restrictions.

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

Statement of Cash Flows:

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

Footnotes:

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

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

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

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

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

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

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

Footnote 10 breaks out the operational expenses of the College into functional and natural classifications so that the reader of the financial statements can see the functional totals in each column and their respective natural totals in each row. You will note that over 65% of the College expenses are salaries and benefits, and functionally, over 50% of the expenses support our core mission of instruction and academic support.

Footnote 12 describes the debt portfolio of the College. In FY20, the College refinanced two outstanding debt series (2011A and 2011B) and issued $37m in tax exempt bonds placed with a private holder and $67m in taxable bonds placed with a private holder. These two transactions resulted in a lower cost of capital for the College as well as $40m in new money available to support the capital plan for the College.

With these two transactions, the College also simplified its debt structure by terminating a fixed payer interest rate swap agreement and transitioned the underlying debt to a fixed rate structure.

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