Emerson
COLLEGE

Office of Administration
and Finance
120 Boylston Street
Boston, MA 02116

+1 617 824 8575
emerson.edu

Fiscal Year 2020 Financial Statements Summary Report

In accordance with "*An Act to Support Improved Financial Stability in Higher Education"* Massachusetts General Law Chapter 69, Section 31B (f), this supplement to the audited financial statements analyzes the Fiscal Year 2020 ("FY20") financial activities and position of Emerson College for the year ended June 30, 2020.

FY20 Summary:

Emerson College's financial statements for the year ended June 30, 2020 are presented in accordance with accounting principles generally accepted in the United States and were audited by Grant Thornton LLP, an independent accounting firm. The financial statements received an unmodified opinion stating that the information contained within was fairly presented in all material respects. The College's Audit Committee and Board of Trustees reviewed and accepted the financial statements, and they were issued in October 2020.

FY20 was an unprecedented year for Emerson College. During the fiscal year, the College completed and operationalized two major multi-year projects. Beginning in July 2019, the College transitioned to the Workday enterprise resource planning system, capping off an 18-month implementation that required significant effort and collaboration from multiple departments. Additionally, in August 2019, students moved into the newly renovated Little Building dormitory which had been under construction for several years.

Most notably, the College was heavily impacted by the COVID-19 pandemic, incurring approximately $9.0M of losses because of additional response-related expenses and lost room and board revenue from the spring semester. However, through the fiscal conservatism exercised by all departments in response to COVID-19, the College realized a $4.7M surplus from operating funds without donor restriction. This surplus is critically needed to be able to respond to the uncertainty presented by the continued impact of COVID-19 in FY21.

Statement of Financial Position:

The College's statements of financial position (balance sheet) and specifically net assets (total assets minus total liabilities) represent the overall wealth of the institution. The most significant changes on the College's balance sheet were:

Assets:

- Cash and cash equivalents increased by $4.3M primarily due to fiscal conservatism as a result of COVID-19, as well as moving to a net-60 payment timeline for supplier invoices.
- Funds held by bond trustee decreased by $19.2M due predominantly to bond reimbursed spending on the Little Building renovation which was finalized in August 2019.

Emerson
COLLEGE

Office of Administration
and Finance
120 Boylston Street
Boston, MA 02116

+1 617 824 8575
emerson.edu

- Investments increased by $2.8M as a result of favorable market performance during the fiscal year.
- Land, buildings and equipment, net increased by $10.5M due to additions of $30.8M primarily related to the Little Building renovation finalization, offset by depreciation of $20.3M.

Liabilities:

- Accounts payable and accrued expenses decreased by $6.0M due to the decreased capital expenses, most notably the Little Building renovation, compared to the prior year. Further, reduced operational spending resulting from the COVID-19 pandemic contributed to the overall decline.
- Student deposits and deferred revenues increased by $3.1M due to the issuance of room and board credits to students.
- Bonds payable, net decreased by $8.4M due to principal payments of $6.8M as well as amortization of bond issuance costs and premiums of $1.6M.

Net Assets:

- Net assets increased by $9.7M as a result of FY20 fiscal year profitability reported on the Statement of Activities discussed below.

Statement of Activities:

The statement of activities is a report on the College's fiscal year profitability resulting from the operation of its educational mission as well as non-operating activities such as reinvestment of endowment gains, revenue from royalties, and other sources.

Revenues:

- Tuition and fees, net, increased by $11.8M or 7.7% due to the Board of Trustees vote to increase tuition and fees by 4.0% for continuing students and 5.5% for first year students. Further, the Speech@Emerson online program helped contribute to the growth in tuition revenue, bringing in approximately $4.4M net tuition in FY20. Note that the tuition discount rate remained consistent at approximately 24%.
- Auxiliary enterprise revenue increased by $5.0M or 13.0% due to net increases in room and board revenue of $6.1M as a result of the reopening of the Little Building. This $6.1M increase includes the impact of offsets of $8.6M of room and board credits issued to students as a result of the COVID-19 pandemic. Offsetting this $6.1M room and board increase was a decline in theater production revenue year over year as a result of COVID-19.

Emerson College

Office of Administration and Finance
120 Boylston Street
Boston, MA 02116

+1 617 824 8575
emerson.edu

Expenses:

- Expenses in aggregate increased by $9.3M or 4.4% from $209.1M to $218.4M due to the following factors summarized by natural classification of expenses which is disclosed in Footnote 13 of the financial statements:
    - Compensation and fringe benefits increased by $3.2M or 3.0% as a result of board approved faculty and staff salary increases that were effective October 1, 2019. Additionally, health insurance costs increased by $1.2M due to increased claims activity incurred during the fiscal year. These increases were offset by reductions in temporary staff costs as a result of COVID-19.
    - Supplies, travel, services, and other costs (direct expenses) decreased by $0.5M or 0.8% due to fiscal conservatism exercised following the onset of the COVID-19 pandemic.
    - Depreciation decreased by $1.7M or 7.8% due to the change in accounting methodology discussed in Footnote 2 and explained below.
    - Interest expense increased by $8.3M or 60.4% due to the decline in capitalized interest as a result of the completion of the Little Building renovation.
- By functional classification, expenses changed as follows:
    - Instruction expenses decreased by $1.6M or 2.6% due to reductions in summer course activity and other operating cost spending as a result of COVID-19. Additionally, note that as a result of reopening the Little Building which added additional square feet of auxiliary space, the allocated percentage of indirect costs such as interest, depreciation, and maintenance decreased within the instruction classification. Lastly, Footnote 2 includes a prior year reclassification disclosure, stating that $4,150 of expenses previously classified as instruction expenses for the year ended June 30, 2019 have been reclassified as institutional support expenses.
    - Academic support expenses increased by $2.9M or 11.9% due to increases in compensation and fringe benefits costs, as well as increased allocated interest expense.
    - Student services expenses increased by $3.3M or 13.0% due to increases in compensation and fringe benefits costs, as well as increased allocated operations and maintenance, depreciation, and interest expense which is determined based on square foot usage of campus space.
    - Institutional support expenses increased by $1.3M or 3.2% due to software subscription cost increases of $0.8M, as well as increases in other consultant costs contributing to the remainder of the increase.
    - Research expenses decreased by $1.3M or 46.7% as a result of a decline in research activity.

Office of Administration and Finance
120 Boylston Street
Boston, MA 02116

+1 617 824 8575
emerson.edu

- Auxiliary enterprise expenses increased by $4.7M or 8.4% due to an increased share of allocated indirect costs of operations and maintenance, depreciation, and interest expense which is determined based on square foot usage of campus space following the reopening of the Little Building.

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 staying in business), 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).

FY20 Comments:

- Operating cash flows remained strong in FY20 despite COVID-19, with $21.0M generated during the year as a result of operations.
- As planned, the most notable outflow of financial resources relates to the finalization of the Little Building project and debt principal payments.

Financial Statement Footnotes:

The footnotes to the financial statements also play an integral part in explaining the financial situation of the College. The footnotes contain language on accounting policies as well as other useful information at a more granular level than the face statements allow.

FY20 Comments:

- As disclosed in Footnote 2, the College updated the useful lives of its buildings from 40 years to 55 years based on the recent significant capital spending to renovate buildings and analyses prepared by external consultants.
- Footnote 3 discusses liquidity and availability of financial resources. Because Emerson College's endowment is heavily weighted toward assets without donor restriction, a significant amount of resources could be used in an emergency situation. It provides comfort to rating agencies such as S&P and Moody's, as well as accreditation agencies such as the New England Commission of Higher Education ("NECHE") and others that Emerson College will be able to meet its financial obligations. Certain financial impacts of the COVID-19 pandemic are also disclosed in this footnote. Most notably, $8.6M of room and board refunds/credits reducing auxiliary revenue were given to students.
- As shown in Footnote 7, the College's endowment value increased by $2.8M to $183.3M due to positive market returns of $4.7M and donor/College contributions of $2.8M, offset by spend rule draws from the endowment of $4.7M. Approximately $143.0M, or 78%, of the endowment is board-designated, without any donor restrictions. The College's

Emerson
COLLEGE

Office of Administration
and Finance
120 Boylston Street
Boston, MA 02116

+1 617 824 8575
emerson.edu

spending policy allows its endowment to maintain purchasing power by growing at a rate equal to or greater than planned payouts. The appropriation of endowment earnings for expenditure amounted to $4.7M for the year, representing approximately 3%.

- As noted in the discussion regarding expenses, Footnote 13 shows the natural classification of expenses for the College. This disclosure shows that the College's expenses break down as follows:
    - **Compensation and Benefits:** 49%
    - **Operations and Maintenance (excl. Compensation and Benefits):** 9%
    - **Operating Expenses:** 23%
    - **Depreciation:** 9%
    - **Interest:** 10%
- In Footnote 16, financial highlights of the Emerson College/Marlboro College alliance are disclosed as the transaction is considered a significant event subsequent to June 30, 2020. In late July 2020, the alliance was completed and approved by both Boards of Trustees and the Vermont and Massachusetts Attorneys General. The alliance will allow the Marlboro College legacy to live on as the Marlboro Institute for Liberal Arts and Interdisciplinary Studies at Emerson College. Emerson College welcomes 53 Marlboro undergraduates and 18 Marlboro tenured and tenure track faculty to teach at Emerson this fall. The 2020-2021 academic year also includes 14 new students in the program.