MASSACHUSETTS COLLEGE *of* PHARMACY *and* HEALTH SCIENCES

Financial Plan
2022 – 2026

Contents

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Nature of Business

Founded in 1823, Massachusetts College of Pharmacy and Health Sciences ("MCPHS" or the "Institution") is a private, co-educational Institution of higher education enrolling approximately 6,300 students in professional, undergraduate and graduate degree programs in pharmacy and health sciences. Over 100 programs of academic study are offered. MCPHS is accredited by the New England Commission of Higher Education (NECHE). The Institution's health profession programs are accredited by approximately 20 separate professional accreditation bodies. MCPHS has three campuses: Boston, MA; Worcester, MA and Manchester, NH. The Institution draws its student population from throughout the United States as well as approximately 90 foreign countries.

The Institution participates in student financial aid programs sponsored by the United States Education Department, the Commonwealth of Massachusetts and other US states. These aid programs facilitate the payment of tuition and other expenses for students, and are subject to review or audit by funding agencies.

The Institution meets or exceeds all financial stability requirements established by federal and state regulations and guidelines, and is considered to have very strong capacity to meet its financial commitments as demonstrated by its US Education Department financial composite scores as well as its credit ratings of AA from Standard and Poor's and Aa2 from Moody's.

Financial Administration, Oversight and Audit Process

The Chief Financial Officer has ultimate responsibility for the Institution's financial administration including financial planning, operational budgeting, debt management, investment management, and capital resource allocation. The Purchasing Director, Business Office staff, and the Chief Human Resources Officer directly support most aspects of financial administration. Planning and budgeting for operating costs is a collaborative effort involving the Chief Financial Officer, President, Vice President for Academic Affairs, Business Office staff and budget managers.

Financial management responsibilities remain centralized at the Institution's Boston campus. The Business Office is responsible for all Institution accounting, cashiering, accounts payable processing, payroll processing, financial recordkeeping and reporting. The Board of Trustees oversees Institution finances through various committees including the Audit Committee and the Investment Committee. These committees report to the full Board.

As required by numerous federal and state agencies, as well as other governing bodies, the Institution undergoes audits conducted by a national, independent certified public accounting firm. Annual audits include independent reviews of accounting and controls related to: Institution financial statements, federal financial aid programs, state financial aid programs, as well as employer and employee funded pension plans. Audited financial statements are reviewed by the Audit Committee and the full Board of Trustees. Management letters are presented annually by the auditors to the Audit Committee, concerning observations and findings where applicable. At least annually, the auditors discuss resolution of any prior-year management letter items with the Audit Committee.

Approach to Financial Planning

Institution financial leadership focuses on a management approach consisting of the following objectives and activities.

Core objectives and activities of financial planning include:

Assessing the Institution's profile including:

- business environment.
- credit profile and capital requirements.
- mission and governance.
- demographic, regulatory and other environmental factors.

Confirming vision and objectives:

- meet operating goals and objectives of the Institution, its schools, and all departments both academic and administrative.
- adapt to post-pandemic conditions including providing flexible and remote teaching, learning and employee support.
- academic and technology strategic planning pertinent to operating objectives and resource requirements.
- preserve and enhance available financial resources sufficient to support the Institution's mission to provide quality academic programs and facilities for the education of individuals in the pharmacy and health science professions.
- ensure financial stability through prudent budgeting and adequate financial reserves.

Identifying and procuring the financial resources needed to achieve these objectives through the following financial activities:

- annual budgeting process.
- financial forecasting and deploying necessary resources.

Communicating the plan and monitoring implementation:

- setting and distributing appropriate budgets.
- meeting regularly with deans and directors regarding progress on initiatives and monitoring of spending.
- forecasting revenue and expenses and monitor for changing requirements and deviation of amounts from expectations.
- reporting to the Trustees, and other governing bodies as required.

Planning and Management Activities

Budgeting process and allocation of resources

In December of each fiscal year, budget managers across all units of the Institution receive budget proposal packages consisting of forms and guidelines for the completion of budget requests pertaining to the upcoming fiscal year. The guidelines require budget managers to identify resource requirements and the relationship of budget requests to objectives of the Institution's strategic plan as well as school and departmental priorities.

The Institution's Chief Financial Officer and Vice President for Academic Affairs review all requested budgets, and work closely with academic leaders to ensure that resource requests and allocations support strategic priorities. Revenue budgets are compiled based on student enrollment, tuition projections, and estimates of all other sources of operating revenue. Operating contingencies are budgeted, allowing for decisive action when unbudgeted but necessary expenses arise. After all adjustments are made, the final operating budget is compiled and presented to the Board of Trustees for approval.

Integration of financial planning with academic and technology plans

Financial management maintains a focus on funding strategic priorities.

Academic management and funding priorities include:

- innovation in teaching and engaged learning.
- strengthening student support services and retention.
- inter-professional education and simulation-based learning.
- technology investments supporting strategic academic initiatives.
- maintaining strong clinical site and corporate affiliations.

Technology management and funding priorities include:

- maintaining a secure and robust infrastructure that maximizes resources available to students and staff.
- technology personnel and resources serving as a partner in academic innovation, including simulation spaces and clinical skills labs.
- fostering a data-driven culture and analytical capacity for assessing academic and administrative activities.
- improved training of faculty and staff on software and systems.
- oversight of economics of initiatives.
- assessing impacts on productivity, and usage of major applications.
- managing costs related to maintenance and staff resources.
- ensuring pricing of technology resources is fair and competitive.
- review and annual funding of hardware purchases and software licenses.
- seeking high-skill talent in consultants and staff to maximize innovation.

Forecasting Process

The forecasting process intends to identify the direction of operating revenues and expenses for highlighting areas of focus. All operating costs are forecast based on current and trending employment levels, fringe benefit costs, departmental spending requirements, planned and unplanned repairs and maintenance – and all other costs expected to be incurred. Tuition revenues are forecast based on known and projected enrollments on a term-by-term basis, and all other revenues based on known and projected activities. Multi-year projections are prepared when appropriate.

The forecasting process focuses on:

- determining how revenues and expenses are materializing relative to current year budget and prior year actuals.
- what conditions and requirements have changed since the budget was established that have created cost savings or incurred additional costs.
- drivers of revenue and expense deviation from original estimates.
- revenue changes related to changes in student enrollments.
- dormitory occupancy and other real estate activities.

The forecasting process also focuses on activities whose budgeted amounts were based on estimates highly subject to change, including:

- overhead reimbursements (grants may be awarded that were not budgeted).
- operating costs of a variable nature based on markets (e.g. energy costs)
- scholarships awarded based on merit (scholarships contingent on incoming student profiles, academic performance while at MCPHS, and student financial need which is measured annually using financial aid applications).

Monitoring of Budgets and Budget Reallocations

During the course of each fiscal year, budget expenditures are monitored by department managers and finance personnel. Department managers request reallocation of budgetary funds based on changes in operating activities and resource requirements. Open communication between budget managers, the Institution's Purchasing Director and finance personnel facilitates timely deployment of resources, a more thorough understanding of departmental activities and resource needs, and appropriate re- budgeting when required. Also facilitated through these processes is improved budgetary planning for future operating periods. All requests for new positions are carefully evaluated as to purpose, supporting revenues, available resources, and expected contributions towards achieving strategic educational and administrative goals.

A centralized budgeting process focused on strategic planning facilitates the evaluation and completion of necessary budget reallocations, and prevents schools and departments from charting a course of spending based on initiatives unaligned with strategic priorities.

Capital Management

The Institution's capital structure consists of long-term capital accounts, primarily facilities, long-term debt and investments. Forecasting all aspects of Institution operations including enrollment levels and space requirements provides important insights into ongoing changes in the Institution's capital structure. Growth in the Institution's physical infrastructure draws resources from the operating budget, and can involve borrowing through the issuance of long-term debt. The following sections outline planning and management related to Institution long-term capital.

Managing Facilities

Facility costs are the second largest Institution expense, only behind human resources. Growth in academic programs, particularly on satellite campuses, has been accommodated through strategic expansion of facilities. Real estate acquired in Worcester, MA and Manchester, NH has provided significant expansion space.

Facility expenditures primarily consist of operating costs and maintenance. The Institution funds repairs and maintenance on an annual basis, reducing amounts deferred to future years. This practice reduces cash requirements in future periods and avoids incremental costs related to rising prices.

The Institution has strategically contracted with other Boston institutions, renting dormitory space for additional capacity to meet the needs of freshmen and other students desiring to be housed in on-campus and Institution-administered facilities. Incremental housing capacity has been gained through other schools excess capacity, at reasonable market rates, without Institutional commitments to debt and capital investments in large-scale construction projects.

Through these strategic expansions and the leveraging of the Boston and Worcester urban landscapes, MCPHS has maintained a focus on academic-related space priorities and stayed away from commitments commonplace at other institutions, such as athletic centers and arts buildings intended to help attract students. MCPHS Institution's planning and circumstances have avoided detrimental participation in the unsustainable "facilities arms race" occurring in higher-education.

Managing Long-term Debt

The Institution has borrowed through the issuance of long-term bonds to fund various building projects. The last borrowing occurred in 2007, for construction costs of the new Griffin Building on Huntington Avenue at the Boston campus.

The Institution has no current or future borrowing plans, and has low debt relative to its peers and relative to financial resources. Debt refinancing completed in 2013 and 2015 has lowered indebtedness interest commitments to historically low levels, with fixed long-term rates at approximately 3.9% with 15 years of repayment remaining. In 2013 and 2015, MCPHS took advantage of issuing low interest rate taxable bonds, which helped roll debt otherwise ineligible for refinancing due to tax-exempt bond regulations.

Management's simplification of the Institution's debt structure (fixed interest, level payments, and front-tilted maturities) allows the school to steadily pay down debt, with predictable annual cash requirements for interest and principal payments due. Multi- year planning is simple with amounts certain. The Institution services no variable-rate debt.

MCPHS investment bankers advise on bond market conditions, for new refinancing opportunities that may arise based on interest rates and proximity of existing debt instruments to call dates. No such opportunities are expected in the near term.

Managing Investments

The goals and investment objectives of the Institution's endowment portfolio are outlined in the Endowment Investment Policy Statement (IPS), as adopted by the Investment Committee of the Board of Trustees. Investment of the endowment is managed by the Investment Committee, Institution executive management, and the independent investment consultancy firm Fiducient Advisors, of Windsor, CT.

Management of the Institution's endowment portfolio consists primarily of:

- maintaining an asset allocation aligned with investment policy targets.
- evaluating and where deemed appropriate, acting on advisor recommendations regarding the hiring or terminating of investment managers.
- monitoring the portfolio's investment performance relative to benchmarks outlined in the investment policy statement.
- planning for asset purchases and sales within the endowment.

The IPS requires the portfolio be invested in accordance with sound investment practices that emphasize long-term investment fundamentals. The Investment Committee and management maintain a low risk tolerance and conservative sentiment regarding management of endowment assets. Concentrations are avoided, volatility is minimized and a liquidity policy mandates that at least 60% of the portfolio be available for redemption in cash within 30 days.

On a forward-looking basis, management continues to plan for endowment performance mostly on an expected market returns basis – seeking to outpace inflation appropriately given the portfolio's 65% allocation to global equity, and to avoid engagement in high-fee, high-risk vehicles and strategies that have low probability of adding value to the MCPHS portfolio.

Long-Term View of Planning

The Institution's approach to long-term planning builds upon the successes and foundations set in the annual financial planning and capital management process. MCPHS maintains a strategically focused perspective on long-term planning, evidenced by the following:

- investing in academic quality and innovative practices.
- focusing on academic space priorities for Institution owned facilities, as teaching and learning is the core Institution mission.
- capitalizing on excess capacity of surrounding institutions to accommodate specific space needs, allowing for reduced long-term commitments to debt service and maintenance costs.
- committing to fixed rate financing and avoiding short-term speculation, interest rate variability and future debt service uncertainty.
- endowment management approaches that include long-term asset allocations, low manager turnover, and leveraging the continuity and expertise of a trusted, long-tenured independent advisor providing portfolio oversight and governance.
- retaining employees proven to lead in their roles for maintaining leadership stability.

Demonstrated Successes of MCPHS Financial Planning

Successful financial planning has resulted in growth in many areas including enrollment, facilities, and in the availability of resources. This growth has been obtained through new, successfully developed health science programs, and through merger opportunities with the Forsyth School of Dental Hygiene and the New England School of Acupuncture.

These successes have resulted in:

- rating agencies recognizing the stable financial position of the Institution.
- maintenance of low debt ratios relative to operations and financial resources.
- strategic investments in state-of-the-art facilities.
- consistent funding of faculty and staff professional development and merit wage increases, resulting in low employee turnover and increased productivity.
- maintenance of low tuition increases relative to Institution competitors.

The value proposition that MCPHS offers its graduates was nationally recognized when MCPHS Institution was ranked the #1 Institution in the US for earning power by the Wall Street Journal/Times Higher Education College Rankings 2018. The Institution's strategic focus on high demand health science disciplines results in strong employment opportunities for the Institution's graduates.