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# MEMORANDUM

**DATE:** October 30, 2015

**TO:** Dr. Bryan Spiegelberg, Rider AAUP Executive Committee President

**FROM:** Dr. DonnaJean A. Fredeen
Provost/Vice President – Academic Affairs

**SUBJECT:** Notice of Lay-Off

**CC:** Dr. Jeffrey Halpern, Rider AAUP Executive Committee Chief Grievance Officer

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Per Article XV of the Agreement between Rider University and the Rider University Chapter of the American Association of University Professors, I hereby provide you, via attachment, the University's Notice of Lay-Off. Specifically, as noted in Article XV.A.2, the following documentation provides:

a) Written notice of lay-off with documented evidence supporting the conclusion that such action is necessary due to the financial need to eliminate or curtail programs or courses of instruction to protect the well-being of the University.
b) A proposed lay-off plan.
c) Evidence that there has been other reasonable and prudent savings effected by the University.

Attachments

# Rider University
# Notice of Layoff and
# Instructional Cost Reduction Plan

**October 30, 2015**

## Core Financial Issues

In this section, we discuss a series of core financial issues impacting Rider's financial health, resulting in the University's weakened financial position and necessitating the elimination and curtailment of courses of instruction and programs to protect the well-being of the institution. The factors include:

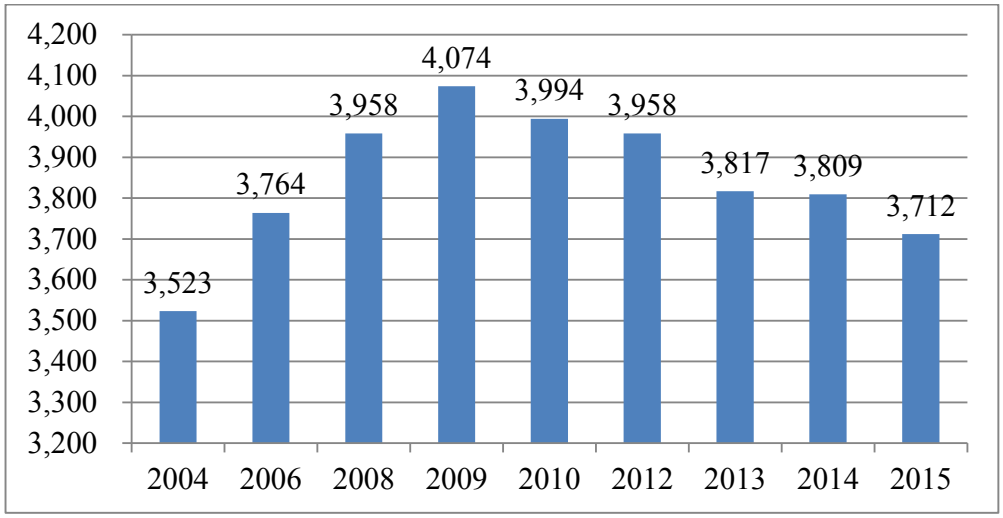
- Declining enrollments;
- Cost and facilities disadvantages;
- High faculty costs relative to competitors and regional peers;
- Resulting declines in operating margins and diminished financial cushion; and
- Related challenges in obtaining debt financing.

The University relies on enrollment related revenue for more than ninety percent of its income. Enrollment declines over the last six years, including fall 2015, have resulted in an operating deficit that will persist without decisive action to reduce expenditures. All of the objective analyses of Rider's financial strength demonstrate declining and limited expendable resources, enrollment declines despite rising tuition discounting, and net operating margins that do not allow for the investments in programs and facilities that will allow Rider to compete effectively within its highly competitive market. After successive rounds of cost reduction, largely focused on non-instructional areas, the University must take steps to reduce the cost of instruction to improve its financial situation. It does not currently have the expendable resources or borrowing capacity to sustain the deficits that the University now faces.

### Declining Enrollments

This fall marks the University's 6th year of full-time undergraduate enrollment decline. As shown in Exhibit 1 on the next page, from Rider's peak undergraduate enrollment in 2009, the total decline is now 362 students, or 9%. That translates into more than $10,000,000 in lost revenue from tuition, room and board, less average financial aid, using current year rates.

**Exhibit 1: Full-time Undergraduate Enrollment, Fall 2004 to 2015**



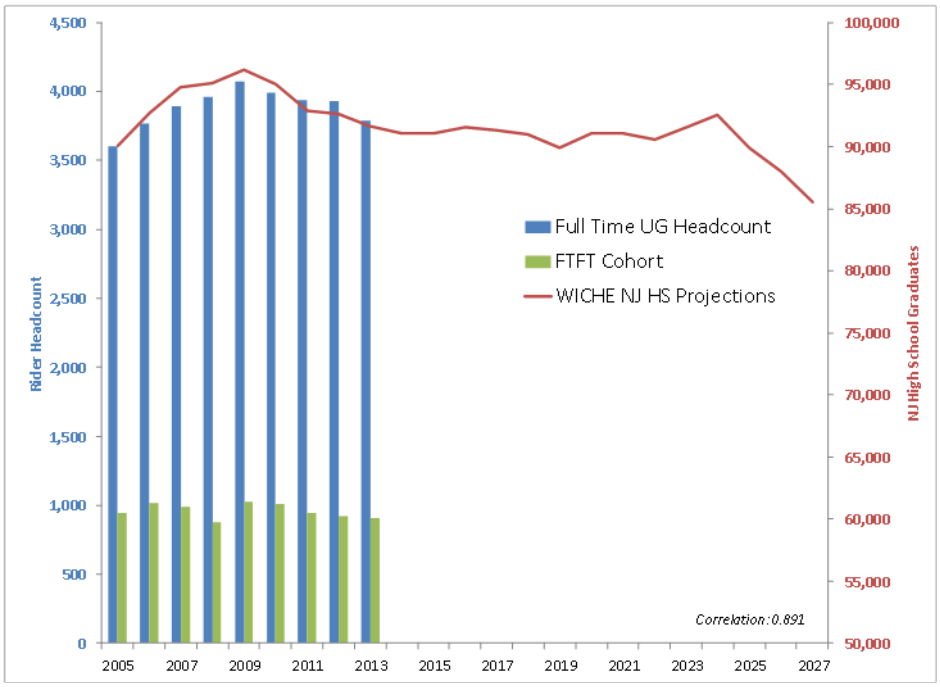

With a larger applicant pool this year, more accepted applicants and higher scholarship awards than were offered in 2014, Rider anticipated and budgeted for a freshman class similar to last year's and overall enrollment growth of 80 students in fall 2015. Instead, the University experienced a 145 student decline relative to the fall 2014 freshman class and an overall decline in undergraduate enrollments of 97 students. The financial impact from lower enrollments lasts for multiple years due to the reduced class size, and enrollment recoveries will only slowly filter into financial performance.

This decline occurred despite a multi-year increase in Rider's tuition discount rates. Rider's overall tuition discount rate per FTE student, as measured from the audited financial statements, rose from 30.5% in 2009 to 37.7% in 2015. This rise mirrored the trend for private universities nationally, but slowed the growth in net revenue per student at Rider. The combination of lower enrollment and limited growth in per student net revenue has seriously impacted Rider's finances.

In the fall Convocation, the administration shared data with the Rider community about key peer institutions, their cost after scholarship, their graduation rates, and their U.S. News rankings. That data showed that for the most recent year for which data is available, all but one of the University's top admissions competitors have lower net tuition prices (what students pay after deducting financial aid) than Rider, and several have higher graduation rates and rankings, which are influential with prospective students and their families. Eight of the top ten competitors are public universities in New Jersey.

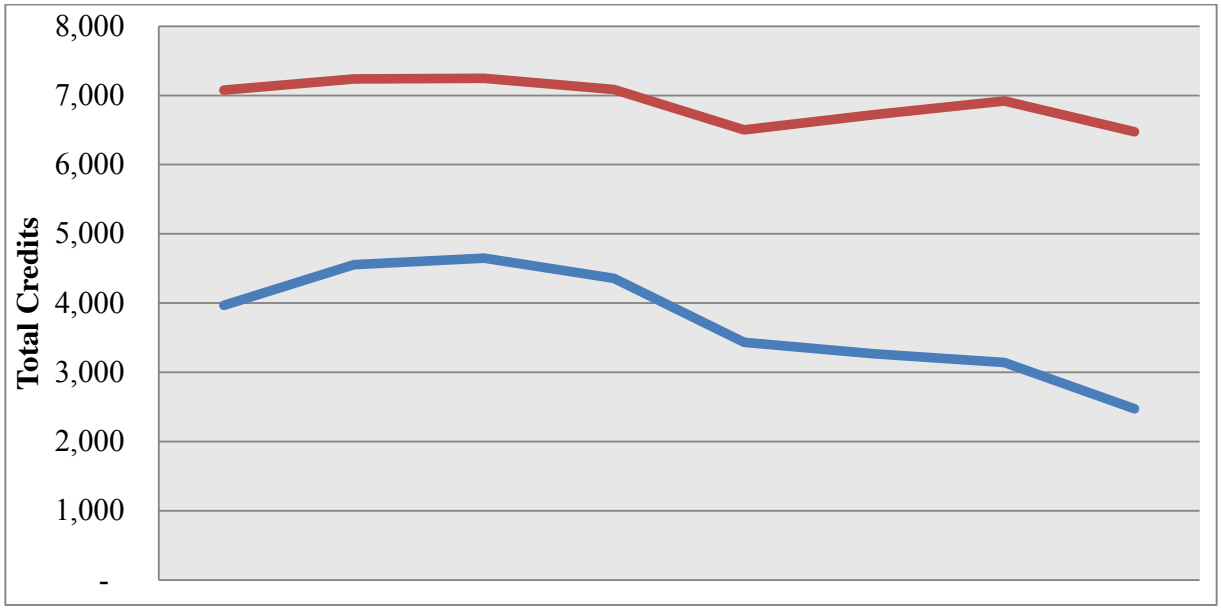
Rider competes for undergraduate students in a highly competitive region with a declining population of high school graduates. As Exhibit 2 below reflects, Rider's decline in undergraduate enrollment closely mirrors the recent decline in New Jersey high school graduates. Approximately 75% of Rider's new student enrollment is drawn from New Jersey. The Western Interstate Commission on Higher Education's forecast of New Jersey high school graduates reflected in the graph indicates the climate for new student recruitment will remain challenging.

**Exhibit 2: Rider's Alignment with the NJ Market**




Over the last several years, Rider has lost undergraduate market share to New Jersey's public colleges and universities. Public institutions in the region have moved aggressively to expand their enrollments. They have a substantial net price advantage given their public subsidies, both in terms of operating support and funding for facilities upgrades. Similarly, the markets for part-time students and graduate enrollments has become more challenging as competitor institutions have established instructional sites in Rider's primarily local markets for part-time enrollments. On-line degree programs have also proliferated, drawing part-time and adult students from within Rider's market. Exhibit 3 shows Rider's enrollment declines in part-time undergraduate and graduate credits. The negative environmental factors impacting Rider's enrollment are not expected to diminish in the intermediate term.

**Exhibit 3: Part-time Graduate and Undergraduate Enrollment, Fall 2004 to 2015**




| | 2004 | 2006 | 2008 | 2010 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|---|---|
| Undergrad | 3,966 | 4,556 | 4,649 | 4,357 | 3,431 | 3,267 | 3,139 | 2,474 |
| Grad | 7,057 | 7,239 | 7,248 | 7,087 | 6,503 | 6,720 | 6,920 | 6,473 |
| **Total** | 11,023 | 11,795 | 11,897 | 11,444 | 9,934 | 9,987 | 10,059 | 8,947 |

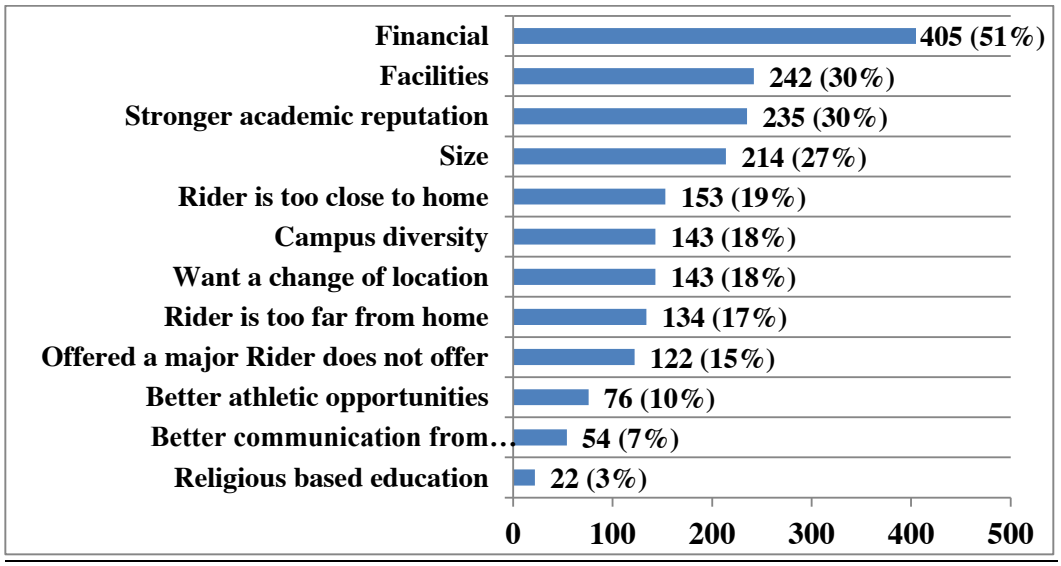
The University took steps over this period with the support of the faculty to develop and successfully launch new academic programs to counter the enrollment declines, which hit undergraduate education programs particularly hard. Enrollments in new programs such as Criminal Justice, Healthcare Management, and Sports Management that were introduced over the 2013-2015 period enrolled 225 new undergraduate students. Continued academic innovation will be a central element of the University's deficit reduction strategy. We are not looking to instructional cost reductions to fully solve the financial problem Rider faces. But in the current climate for higher education overall and given the University's resource constraints, growth solely by addition will not be a successful strategy.

As was true of the full-time undergraduate enrollments, both graduate and part-time credits saw a sharp decline in fall 2015. Both enrollment categories have shown a pattern of steady decline, with the one exception of fall 2014 graduate credits when the online Master of Accountancy was launched.

## Cost and Facilities Disadvantages

Each year, Rider surveys admitted students who chose not to enroll to determine the reasons the students chose to attend a competitor institution instead of Rider. Students are allowed to choose multiple reasons. Exhibit 4 below details 1,405 fall 2015 non-attending students' responses, a 25% response rate. These responses are consistent with those of prior years. Financial reasons (cost of attendance, financial aid availability) are cited by more than half of students who chose to go elsewhere and facilities quality and academic program quality are cited by 30% each.

**Exhibit 4: Fall 2015 Admitted Student Feedback**
**Why Chose Competitor vs. Rider**




In terms of facilities quality, only 30% of Rider's residential housing options are air conditioned. Rider has a limited supply of the apartment and suite style housing that students prefer, and many of Rider's residence halls have not had meaningful renovations in a decade or more. Over the past four years, occupancy in the University's residence halls has declined by more than 300 students. This has had a substantial impact on Rider's revenue, compounding the tuition revenue lost to lower enrollment.

Rider's science facilities put the university at a disadvantage versus peers; the majority of academic space, even if renovated, is located in buildings dating from the 1960s to 1980s. New Jersey's public colleges and universities, that include four of the University's top five admissions competitors, received all but $54 million of proceeds from the $750 million 2013 New Jersey Building Our Future bond issue. Awards included more than $224 million to Rowan University for various projects, including $40.4 million for a new College of Business building, and another $356 million to Rutgers, for projects including multiple science and other academic buildings. Both are top Rider competitors and these facilities investments only increase Rider's recruiting challenges.

**High Faculty Costs Relative to Competitors and Regional Peers**

Rider's faculty costs are high relative to regional and admissions peer institutions, and on a per student basis the difference adds a significant amount to Rider's cost of attendance versus the institutions Rider competes against most directly. The University used publicly available data in analyses that support this assertion. In the case of faculty counts and compensation information, the source is the AAUP's *The Annual Report on the Economic Status of the Profession* survey data. Full-time equivalent enrollment data (full-time headcount plus part-time credits translated to headcount by prescribed formulas) is from the U.S. Department of Education's National Center for Education Statistics.

The data in Exhibit 5 for the 2013-2014 academic year is the most recent for which both FTE enrollment and faculty compensation data are publicly available. (Detailed data underlying this summary is included in **Attachment A**.) It shows that the cost to each Rider FTE student for full-time faculty compensation averaged more than $2,100 more per year than students at the institutions Rider competes against directly.

**Exhibit 5: Rider and Top Admission Competitors' FT Faculty Cost per Student, AY 2013-2014**

| Institution | FT Faculty | FTE Enrollment | FTE per FT Faculty | Full-time Faculty Compensation | Compensation Cost per FTE Student |
|---|---|---|---|---|---|
| Rider | 247 | 4,621 | 18.7 | $ 33,839,700 | $7,323 |
| Monmouth | 201 | 5,485 | 27.3 | $ 24,699,600 | $4,503 |
| Fairleigh Dickinson | 258 | 5,413 | 21.0 | $ 28,767,500 | $5,315 |
| St. Joseph's | 266 | 6,522 | 24.5 | $ 33,458,300 | $5,130 |
| Stockton | 290 | 7,725 | 26.6 | $ 38,598,300 | $4,997 |
| Montclair | 569 | 16,511 | 29.0 | $ 72,847,200 | $4,412 |
| College of NJ | 347 | 6,910 | 19.9 | $ 48,037,100 | $6,952 |
| | | | | Peer Average | $5,218 |
| | | | | Rider>Peer Average | $2,105 |

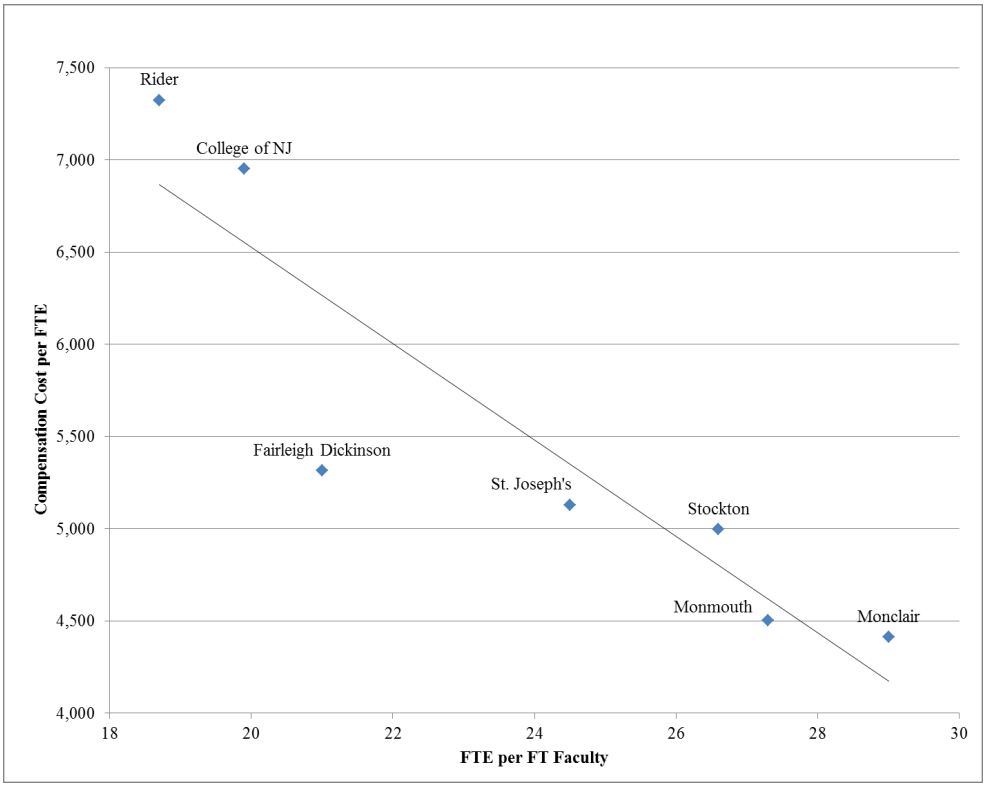
Note that given the intervening enrollment decline at Rider and enrollment growth at the public competitors, this relative cost difference is likely greater now. There are a variety of reasons for the incremental Rider cost that differ somewhat by competitor. They include Rider's higher wage and benefits costs, lack of non-tenure track faculty positions that temper compensation costs, and caps on utilization of adjunct faculty. In just one example, in 2013-2014, Monmouth University taught 864 more FTE students than Rider did, yet spent $9.1 million less on full-time faculty compensation. Monmouth has an AAUP faculty union, and is the only private university

in Rider's top five admissions competitor group. AAUP faculty survey data shows that nationally more than a quarter of full-time faculty hold non-tenure track positions. Given their higher enrollments and lower full-time faculty numbers, the peer data above makes clear that private competitor institutions also utilize adjunct faculty to a greater extent than Rider does. Based on a 2014 University analysis of per course adjunct pay at public and private competitor institutions, Rider was also well above competitor rates for part-time faculty pay.

Rider's share of admitted students that enroll, or yield rate, has been steadily declining, and reached a low of 13% in fall 2015. Higher instructional costs put upward pressure on tuition, particularly during a period of enrollment decline. For Rider and other institutions that are not heavily endowed, that incremental cost is paid by students, and an increasing number of admitted students are unable or unwilling to pay the incremental cost to attend Rider.

Exhibit 5A shows the same data in graphic format. Rider is a clear outlier in comparison to peers. Although Compensation Cost per FTE and FTE per full-time Faculty are highly correlated as one would expect, Rider and (to a slightly lesser extent) the College of New Jersey carry relatively higher costs even adjusting for the lower FTE/FT Faculty ratio. The converse is true of Fairleigh Dickinson University.

**Exhibit 5A: Rider and Top Admission Competitors' FTE Compensation Cost vs. FTE/Faculty Ratio, AY 2013-2014**



A similar conclusion can be drawn from more current data with a broader regional comparison group, also utilizing data from the AAUP's annual salary survey. Exhibit 6 below compares Rider's faculty combined wage and benefit compensation by rank and in total for academic year 2014-2015 to seventy-two regional baccalaureate and seventy-five regional Master's institutions, both public and private. Doctoral institutions are excluded from the comparison because, as evidenced in the AAUP survey report, faculty salaries for law, medical and other doctoral programs skew the rank averages substantially higher and Rider offers no PhD programs. Rider's weighted average compensation is more than $30,000 higher than the average at regional masters institutions (Rider's Carnegie classification), a 28% premium. The differential is driven both by the higher total compensation for each rank, and the absence of lower compensated instructors or lecturers.

**Exhibit 6: 2014-2015 Average Faculty Compensation**
**Rider versus Regional Institutions**

| | Mid- Atlantic[1] | | Rider | | |
|---|---|---|---|---|---|
| | Baccalaureate All Faculty | Masters All Faculty | All Faculty | Rider vs. Masters $ | Rider vs. Masters % |
| Professor | 140,483 | 136,916 | 153,200 | 16,284 | 112% |
| Associate | 106,478 | 110,197 | 139,000 | 28,803 | 126% |
| Assistant | 86,923 | 90,219 | 106,300 | 16,081 | 118% |
| Instructor | 74,523 | 68,169 | | | |
| Lecturer | 81,598 | 77,463 | | | |
| No Rank | 82,331 | 73,376 | | | |
| WTD AVG | **$106,193** | **$107,278** | **$137,600** | **30,322** | **128%** |

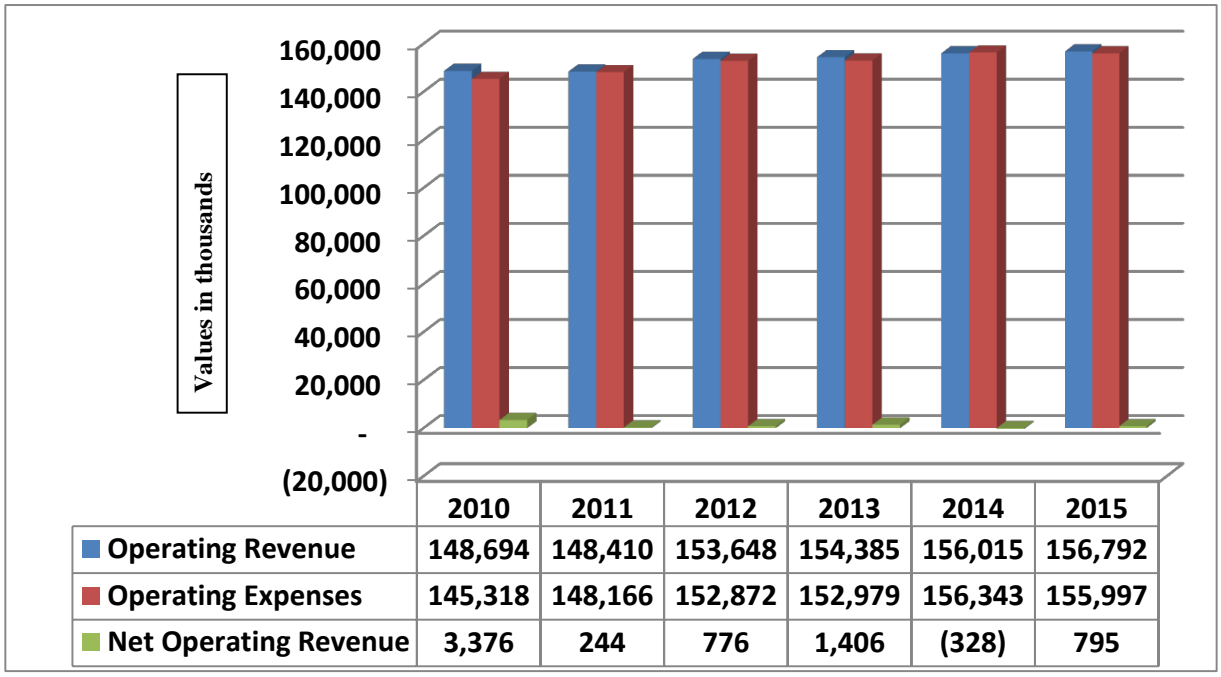
**Source:** The AAUP's *The Annual Report on the Economic Status of the Profession, 2014-15* (Survey Table 7)
**Note 1** Mid-Atlantic = New Jersey, New York, Pennsylvania

## Resulting Declines in Operating Margins and Diminished Financial Cushion

High fixed costs of instruction, inflationary and vendor contractual increases, and sharp enrollment declines from 2009 to present contributed to declining unrestricted operating margins as detailed in Exhibit 7 below, which reflects data from the University's audited financial statements and calculations consistent with current financial analytical standards. Over this period, the University undertook a series of savings initiatives that included approximately $16 million in cumulative operating budget cuts, staff and clerical position eliminations, and varied benefits cuts to offset declining revenues. Those initiatives and others are detailed later in this

report. As shown in Exhibit 7, those cost containment and savings initiatives helped Rider avoid deficits through fiscal 2015, but the University did not generate the levels of net revenue required to make needed competitive investments. While it was an accomplishment to maintain balance through this period, "subsistence budgeting" is not a recipe for institutional success. Among other issues, Rider's audited financials do not evidence the ability to fund debt service payments for needed residence hall and other facilities investments. The painful but necessary savings from non-faculty wage freezes (three years of no raises, including the current one) and successive benefits cuts for non-faculty cannot be sustained into the future to offset rising costs without seriously impairing Rider's ability to attract and retain talented employees.

**Exhibit 7: Persistent Lack of Unrestricted Net Revenue Impairs Competitive Investment**



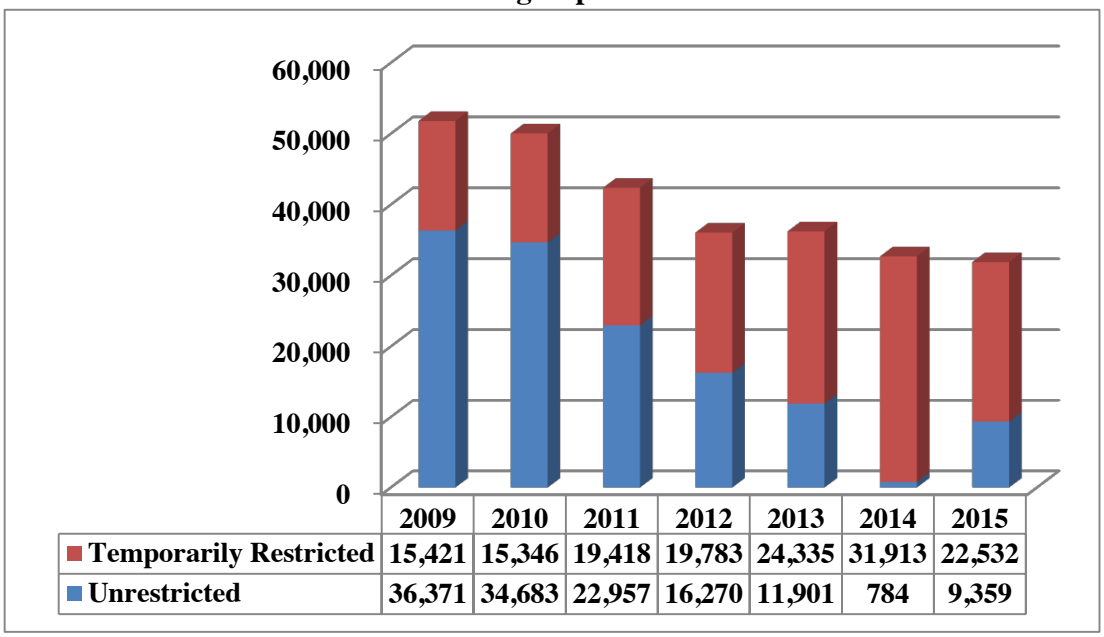

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|
| Operating Revenue | 148,694 | 148,410 | 153,648 | 154,385 | 156,015 | 156,792 |
| Operating Expenses | 145,318 | 148,166 | 152,872 | 152,979 | 156,343 | 155,997 |
| Net Operating Revenue | 3,376 | 244 | 776 | 1,406 | (328) | 795 |

Note: Operating Revenue includes temporarily restricted net assets released from restriction.

One of the key measures of financial health for higher education institutions is the Expendable Financial Resources to Operations ratio which Moody's uses to evaluate the sufficiency and flexibility of a university's financial cushion. It compares expendable net assets to total expenses, and answers the question of how long the institution could operate using those accumulated financial resources. Expendable net assets include both unrestricted and restricted net assets from Rider's audited financial statements, less those assets that are either physical plant assets (illiquid bricks and mortar) or restricted gifts and grants that will be unavailable for operating expenses.

More detail on this ratio is also provided in Attachments C through E to this report, but financial peer institutions (those in the BBB/Baa categories) have a median ratio of approximately 50%. Rider has not met that threshold since the 2007-2008 academic year and has shown declining financial cushion in every year since. Exhibit 8 below shows the persistent decline in financial cushion over the period.

**Exhibit 8: Declining Expendable Net Assets**




| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|---|
| Temporarily Restricted | 15,421 | 15,346 | 19,418 | 19,783 | 24,335 | 31,913 | 22,532 |
| Unrestricted | 36,371 | 34,683 | 22,957 | 16,270 | 11,901 | 784 | 9,359 |

In February 2015, the University's Board of Trustees voted to set aside $8 million of the University's quasi-endowment funds to underwrite expected deficits over the next three years, while work was undertaken to expand enrollments. As distinct from donor endowment funds that are held in perpetuity as a donor condition, quasi-endowment funds are institutional assets invested like endowment that can be spent, but only with Board of Trustee approval. At the time, the $8 million was considered sufficient to support the University through the three years needed to regain financial balance. Based on subsequent enrollment deterioration, as described below, that assumption is no longer true. Rider's Expendable Net Assets to Operations Ratio was 22% based on the June 2015 financial statements, and if the quasi-endowment funds had already been expended at that point to fund deficits, the ratio using June 2015 values would have dropped to 17%. That means Rider's financial cushion to pay expenses is 2.0 months. This is a key factor supporting the need for the University's instructional cost reduction plan.

**Enrollment Losses Precipitate Deficits**

Since the time of the February Board of Trustees meeting, the University revised its enrollment expectations downward twice. First in the June meeting, when an expected 153 student shortfall

of undergraduate students was forecast, and again at the October meeting when a further undergraduate shortfall was realized and both graduate and undergraduate credits came in below goal for the year.

Exhibit 9 below reflects the University's current unrestricted fund deficit forecast for fiscal years 2016 through 2018 as discussed with the trustees at the October meeting. Since the forecast was shared with the AAUP, the 2016 deficit forecast increased from $5.716 million ($6.667 million June deficit below less targeted savings of $951,000 since achieved) to $7.587 million, primarily as a result of additional net tuition losses in existing programs.

**Exhibit 9: Deficit Forecast Fiscal 2016 to 2018**
**(without Instructional Cost Savings Plan)**

| **(Current unrestricted fund, in thousands)** | **Fiscal 2016** | **Fiscal 2017** | **Fiscal 2018** | |
|---|---|---|---|---|
| **Net Deficit at June** | **(6,667)** | **(6,088)** | **(7,653)** | |
| Tuition | (2,237) | (2,117) | (2,200) | |
| Scholarships | 599 | 599 | 601 | |
| Other | (233) | (216) | (208) | |
| Subtotal | (1,871) | (1,734) | (1,807) | |
| Adjunct/other savings | 951 | 500 | 500 | |
| Estimated new program revenue, net | | 961 | 3,665 | 1 |
| **Net Deficit at October** | **(7,587)** | **(6,361)** | **(5,295)** | |

(1) Includes tuition, room and board revenue less program costs

As discussed earlier and reflected above, the forecast reflects the potential for meaningful incremental tuition revenue if the administration and faculty continue to collaborate to introduce a series of new academic programs. Even if the faculty fully support the program innovation needed to build enrollments and revenue as shown here, it is not enough to offset the effects of the substantial enrollment decline Rider has experienced. Not making progress on new program offerings might extend the current unrestricted fund deficits beyond the University's ability to finance them. The University cannot allow the deficits to remain unaddressed. Lenders need to see clear potential for Rider to achieve balanced operations and to evidence sufficient net revenue to repay any newly borrowed funds. It will take both expenditure cuts in the form of instructional savings and expanded revenue from new program offerings to achieve that result.

## Historic and Contemporaneous Cuts

There is no question that instruction is central to Rider's mission. As a result, over a multi-year period Rider implemented a series of cost reduction initiatives that sought to address declining enrollments while preserving the breadth and quality of its academic offerings. This section details the contemporaneous cuts being made in the current fiscal 2016 budget, and the cumulative cost reduction efforts implemented by the University over the period of enrollment declines.

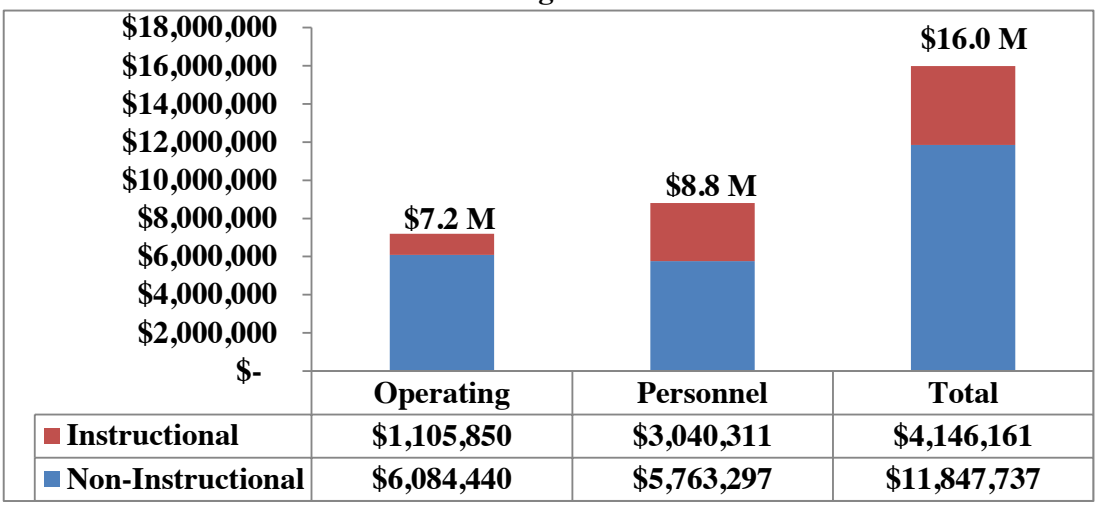
Exhibit 10 summarizes the fiscal 2016 (current year) savings measures enacted to address deficits. Note that these savings are already incorporated in the current and future year deficits in Exhibit 9. A summary of these savings and those reflected in Exhibit 11 are included in **Attachment B**.

**Exhibit 10: Contemporaneous Budget Cuts**
**Fiscal 2016**

| | Instructional | Non-instructional | Total |
|---|---|---|---|
| ***Operating*** | $156,171 | $903,565 | $1,059,736 |
| ***Personnel*** | | | |
| Wage freeze | | $674,880 | $674,880 |
| Pension cut | | $882,973 | $882,973 |
| Positions cut | | $278,000 | $278,000 |
| AOL budget cut | $400,000 | | $400,000 |
| **Total** | **$556,171** | **$2,739,418** | **$3,295,589** |

As the summary above reflects, 83% of the fiscal 2016 cuts are in non-instructional areas of the University. In addition to the quantitative difference in cuts, there are important qualitative differences in terms of the personnel savings. The University's original financial plan for fiscal 2016 included 2% raises for all non-bargaining employees. But based on the enrollment shortfall that was expected in June, Rider cut additional non-faculty positions, instituted a wage freeze for all non-faculty employees and also reduced the University's contribution to all non-faculty employees' pension plans from 8.25% to 5%. These were painful cuts for the University to make, and certainly painful for the impacted employees. Conversely, the $400,000 adjunct overload (AOL) budget reduction shown above is the result of the University's standard practice of eliminating low enrolled course sections. This disparate impact is also evidenced in the cumulative 2010-2016 budget cuts summarized in Exhibit 11 below.

**Exhibit 11: Cumulative Budget Cuts Fiscal 2010-2016**




| | Operating | Personnel | Total |
|---|---|---|---|
| Instructional | $1,105,850 | $3,040,311 | $4,146,161 |
| Non-Instructional | $6,084,440 | $5,763,297 | $11,847,737 |

Rider has made nearly $16 million in cumulative budget cuts from 2010 to the present. Of that total, non-instructional areas bore 85% of the operating cuts and 65% of the personnel cuts. In addition to direct cuts, the University took other steps to slow expenditure growth, including competitive selection processes for its custodial, food service and bookstore vendors, and deferral of needed technology and plant investments.

As with the 2016 cuts, the negative impact of personnel cuts was substantially greater for non-faculty employees. In addition to the $400,000 in AOL cuts discussed above, the $3.0 million in instructional personnel savings above includes an estimate of the maximum annual savings from the faculty early retirement incentive (ERI) program. Faculty members that elect the ERI option receive financial incentives. And while the assumed $1.7 million in maximum annual savings relating to the ERI program is needed and appreciated, it is temporary in nature given that the savings diminish as successor faculty hires progress through the promotion and tenure process to the point where they ultimately are paid what their predecessors would have earned. In contrast, administrative employees are in their third year without a base raise, which represents a permanent loss of income.

Both the cumulative expense reductions and the contemporaneous cuts for 2016 clearly evidence that the University has achieved substantial savings from other means before implementing the instructional cost reductions called for in its plan.

## Supporting Evidence: Objective Measures of Rider's Financial Challenges

Rather than rely exclusively on the University's own financial assessment, this document will reference conclusions reached by highly regarded organizations whose credibility and reputation depend on the thoroughness and independence that they bring to their work. Each organization below uses core financial ratio analysis to assess the financial strength of a substantial number of higher education institutions. While there are subtle differences in their precise methodology, all are evaluating the adequacy of financial resources to repay debt and fund operating expenses, and all are evaluating annual operating margins as key aspects of their assessment. Most also evaluate demand statistics such as applications and the proportion of admitted students who chose to attend. All of the analyses support the University's contention that Rider faces serious financial challenges that must be addressed.

### 2013: Forbes Negative Assessment of Rider's Fiscal Soundness

In August 2013, Forbes Magazine published an analysis of the financial strength and operational soundness of 925 private, non-profit colleges and universities. Forbes utilized data from the U.S. Department of Education's National Center for Education Statistics for the fiscal years ending 2010 and 2011 for private-not-for-profit colleges with a full-time enrollment over 500. The analysis calculated an overall score (range 0-4.5) and assigned letter grades to each institution.

The study considered nine factors, including core financial ratios common to all of the reviews cited by the University in this section, endowment resources, admissions yield (percentage of admitted students who attend), tuition dependency, and others. A complete discussion of the nine factors and study methodology can be found at:

http://www.forbes.com/sites/schifrin/2013/07/24/behind-forbes-financial-grades/

Rider University ranked number 817 among the 925 institutions, with a score of 1.397 and a letter grade of D. Forbes has not printed an updated analysis, but given Rider's financial and enrollment deterioration in the intervening years, it is clear that Rider's ranking would not have improved. That deterioration resulted in subsequent downgrades to the University's bond ratings as described below.

### 2014 and 2015: Ratings Agency Downgrades

Bond rating agencies provide bondholders with information on the financial strength of bond issuers in the form of ratings. Their ratings group bond issuers into groups with letter ratings that measure the degree of risk that the issuer will not pay principal and interest in a timely fashion. To establish or reassess a rating, they undertake an extensive review of financial and operating data of rated credits.

Rider's bonds are rated by both Moody's Investors Service (Moody's) and Standard and Poor's (S&P). Over the last 12 months, both Moody's and S&P downgraded the University's bond rating. Moody's rating was downgraded to Baa2 from Baa1 based on Rider's 2013 operating data and audited financial statements, and S&P downgraded Rider's rating from BBB+ to BBB based on Rider's 2014 operating data and audited financial statements. The ratings are similar in that both ratings scales contain 10 investment grade ratings, and in both cases Rider's rating is the ninth lowest of the ten. Each has lower non-investment grade ratings, which are commonly termed junk-bond ratings.

The ratings reports with the rationale for each agency's downgrade are enclosed at **Attachments C1 and C2**. As credit positives, both reports comment on the University's manageable debt levels, and acknowledge the steps the University has already taken to address its cost structure. But based on the financial ratios and other data evaluated, the rating agencies cite common weaknesses, including:

- Extended enrollment declines and rising financial aid pressures;
- High tuition dependency;
- Weak demand statistics; and
- Declining operating margins and weak resource cushion.

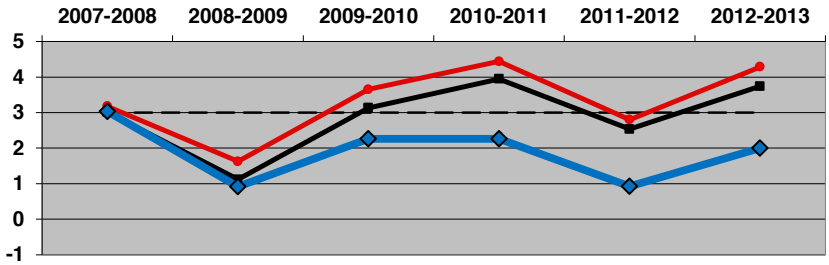
As shown in the ratings reports and discussed later in this report, Rider's expendable net assets relative to other BBB/Baa rated colleges and universities are very limited. Rider's very limited resource cushion vs. the scope of annual spending and concerns about the extent of the University's borrowing capacity are key reasons management is seeking to reduce expenditures through its instructional cost reduction plan.

**2015: Council of Independent Colleges Financial Indicators Tool**

Rider is a member of the Council of Independent Colleges (CIC). As a service to its members, the CIC produces custom reports annually, to provide what it calls "a clear assessment of an institution's financial performance over time with benchmarking comparisons to other institutions." The 2015 report of Rider's core ratios and a description of the report's methodology are included in **Attachment D** to this report. The analysis includes approximately 800 private colleges and universities, utilizing public data from IRS Form 990s and U.S. Department of Education's National Center for Education Statistics. The report covers fiscal years 2007-2008 to 2012-2013, the most recent year for which public data for all institutions is available.

The results of the four core financial ratios are translated into a Composite Financial Index ranging from -2 to 10. As shown in Exhibit 12 below, Rider's Index lags both the national median and mid-east median in all years since 2008-09.

**Exhibit 12**
**Overall Financial Health: The Composite Financial Index (CFI)**




| | 2007-2008 | 2008-2009 | 2009-2010 | 2010-2011 | 2011-2012 | 2012-2013 |
|---|---|---|---|---|---|---|
| NATIONAL MEDIAN | 3.0 | 1.1 | 3.1 | 3.9 | 2.5 | 3.7 |
| MID EAST MEDIAN | 3.2 | 1.6 | 3.7 | 4.4 | 2.8 | 4.3 |
| RIDER | 3.0 | 0.9 | 2.3 | 2.3 | 0.9 | 2.0 |

The developers of the index defined ranges for the CFI that indicate suggested mission based actions for each range. Rider is in the 0-3 Composite Financial Index Range for all reported years, and continues to be. That range has the suggested related strategy of "Re-engineer the institution."

**The AAUP's Assessment of Rider's Financial Health**

The AAUP has produced two analyses of the University's financial health. The authors are Dr. Rudy Fichtenbaum, Professor of Economics at Wright State University and President of the AAUP's national organization, and Dr. Howard Bunis, Professor of Accounting at Eastern Michigan University. Both analyses had conclusions that conflict with the University's assertions that Rider faces serious financial challenges; the disconnect with the University's conclusions has created confusion and mistrust on Rider's campus. So who is correct?

As noted earlier in this section, there are standard methodologies that are widely used to assess universities' financial health. The University engaged Prager & Co., LLC, an investment banking firm with specialized financial advisory services to colleges and universities to evaluate the AAUP's expert reports. The Prager firm's credentials are discussed at http://www.prager.com/FinancialAdvisory/.

Prager is co-author of a highly regarded and widely used guide to financial analysis for colleges and universities. Matt Schifin, Managing Editor of Investing, Markets and Personal Finance and author of Forbes' study cited above said "In order to come up with a financial grading methodology for Forbes new College Financial Grades, I consulted with numerous experts in the field, including authors of '*Strategic Financial Analysis for Higher Education: "Identifying, Measuring & Reporting Financial Risks*' , which is widely considered by to be one of the most

important financial publications in higher education. Included among them are Phil Tahey (formerly of KPMG) and Fred Prager of Prager & Co."

Prager's assessment of the AAUP analysis is enclosed at **Attachment D**. It concludes that both of the AAUP analyses mischaracterize Rider's financial position and lack appropriate benchmark comparisons needed to support their conclusions.

***2015: Assessment of Rider's Credit***

Prager comes to similar conclusions to those of the rating agencies, noting that while Rider employs relatively little leverage, the University's operating results do not indicate significant debt capacity, and that terms offered to Rider on any future financing are likely to be increasingly onerous due to the University's deteriorating financial position and ongoing enrollment challenges. The assessment is enclosed as **Attachment E**.

***Conclusion***

The University's audited financial statements and all of the objective analyses of Rider's financial strength show declining and limited expendable resources. Rider's substantial efforts to date to mitigate the enrollment declines have been focused primarily on non-instructional areas. The University will continue to look for marginal opportunities to save, and will also continue to focus on rebuilding enrollment. But the timing and extent of that enrollment improvement is uncertain, so Rider must reduce its expenditures to strengthen its financial position. It is clear that:

- Competitive factors and demographics will continue to pressure enrollment growth and limit Rider's ability to increase net tuition revenue.
- The University has limited expendable balance sheet reserves to fund interim deficits; and
- Rider must further reduce expenditures, as it lacks the financial cushion or the substantial borrowing capacity that would be needed to maintain the scope of its current operations.

Rider must eliminate or curtail programs and courses of instruction to protect the well-being of the institution. Decisive action to balance revenue and spending must be taken now to strengthen the University's finances and ensure Rider can remain competitive and continue to deliver a student experience of consistently high quality.

## Instructional Cost Reduction Plan

After careful consideration, the University has determined that it has the financial need to eliminate or curtail programs or courses of instruction to protect the well-being of the University. The University has created a plan to eliminate fourteen (14) academic programs and curtail three (3) programs by converting the course of study from a major to a minor. Additionally, some departments will be consolidated. As a result of these necessary actions, the positions that will be eliminated and the names of the impacted faculty members are listed in **Attachment G**.

**Methodology**

The Academic Affairs leadership team engaged in a careful analysis of all undergraduate and graduate major and minor programs to ascertain which programs should be eliminated or curtailed. In examining the programs, consideration was given to the following factors:

- Minimum impact on enrolled students:
    - Low enrolled programs in which a large portion of the student population have greater than 60 credits and can complete the program within a two-year (teach-out) time period.
    - Low enrolled programs in which courses are not a required part of the curricula of other programs.
- Minimum impact on accreditations.
- Low market demand of programs in which further investments are unlikely to increase enrollments.
- Increased competition from programs at other institutions offering similar degrees with more flexible modes of delivery.
- Low number of applicants and low yield rates.
- Lack of participation in an external review and/or establishment and assessment of student learning objectives.
- Potential net savings.

The program's centrality to the University's mission and identity also was considered. Only established programs were considered for elimination, giving new programs appropriate time to become established. Low enrolled programs which recently have demonstrated increased interest through higher application and yield rates were not considered. For some of the identified programs in **Attachment G**, the enrollments in the offered courses have a low proportion of students for whom the course is required. Students enrolled in courses for elective purposes will find available seats in other courses meeting the elective requirement. Current analysis of all sections across the University indicate a total number of 1,053 sections offered in Spring 2015 with 4,433 open seats and 1, 209 sections offered in Fall 2015 with 4,297 open seats. Furthermore, many departments offer courses at all levels which do not carry prerequisites, allowing for a large option of available electives. All decisions sought to minimize

the impact on students, faculty and the University community by achieving needed savings while affecting the fewest members of the faculty.

**Plan Summary**

The details of the Instructional Cost Reduction Plan are found in **Attachment G**. A disposition of Program Elimination indicates that the entire course of study will be eliminated within two years and no longer offered. A disposition of Elimination of Major indicates that the course of study will be curtailed by converting the major to a minor. Some programs offer courses which are required in other programs. While these programs are either curtailed or eliminated, the required courses will be offered to meet graduation requirements for students in other majors. Specifics regarding each program are provided below.

*Advertising:* The Advertising degree resides in the Marketing, Advertising, and Legal Studies Department and is not considered a separate discipline within the department. Therefore, elimination of the major requires a careful examination of the workload for the Marketing degree. In addition to the individuals named in **Attachment G**, six (6) part-time faculty members will not be rehired. The vacant position in the Marketing Department will be eliminated.

*American Studies:* American Studies is an interdisciplinary program. Therefore, the full-time faculty teaching within the program have teaching responsibilities in their home department. For the full-time faculty teaching in-load in the American Studies program, elimination of the program results in an increase to the in-load teaching responsibility within the home departments. Full-time faculty teaching in the program for AY 2015-2016 and subsequent reassignments include:

- Sullivan, John – teaches full load in home department (English).
- Mathew, Biju – teaches an additional course in home department (Information Systems).
- Marshall, Nowell – teaches an additional course in home department (English).
- Hess, Mickey – teaches an additional course in home department (English).
- Ross, Kelly – teaches an additional course in home department (English).
- Neelakanta, Vanita – teaches an additional course in home department (English).

An examination of schedules from previous academic years indicates that the majority of individuals teaching in the American Studies program are assigned to the English Department or are members of the administration. The workload of the home departments for the American Studies faculty will not increase as a result of the faculty return. Specific course assignments

will be determined by the department. However, the net effect will be a reduction in adjunct taught sections.

The assignment of the full-time faculty teaching loads back to the home departments requires the reassignment of one adjunct-taught section in the Information Systems Department and ten (10) adjunct-taught sections in the English Department.

*Art and Art History:* The Art and Art History programs are listed as separate disciplines within the Fine Arts Department. Both programs will be eliminated. Students needing a course to fulfill a fine arts requirement can choose from courses in music, theatre, and dance. All sections within both programs are taught by the full-time faculty. Therefore, the elimination of the programs results in the lay-off of all three full-time faculty. The lay-offs within the Art program will occur over a two year period to provide students in their junior year an opportunity to complete the program. The effective dates of the lay-offs are based upon the seniority of the faculty within the Art program.

*Business Education*: Currently, one full-time faculty member is supervising eight (8) count to 9's. This individual will pick up student teaching assignments, resulting in the elimination of 1.83 credits of part-time faculty supervision.

*Business Economics:* This program of study is curtailed by converting the major to a minor. The ECO 200 and ECO 201 courses will continue to be offered to meet the requirements of the other majors within the College of Business Administration. However, the number of sections offered will be reduced. Two part-time faculty will not be rehired and one full-time faculty member will be laid-off as indicated in **Attachment G**.

*Economics, B.A.:* Given the curtailment of the Business Economics program, the B.A. in Economics offered through the College of Liberal Arts, Education, and Sciences will be eliminated. This program elimination will have no impact on personnel.

*Entrepreneurial Studies:* This program of study is curtailed by converting the major to a minor. The number of sections offered will be reduced. Two part-time faculty will not be rehired and one full-time faculty member will be laid-off as indicated in **Attachment G**. The faculty search currently underway in the department will be cancelled given the allocation of the position to the Entrepreneurial program.

*French:* The B.A. in French degree will be eliminated. However, the department will continue to offer the first year of French language courses. As a consequence, the two part-time faculty will not be rehired and one full-time faculty will be laid-off as indicated in **Attachment G**.

*Geosciences:* Eight of the ten sections are required in the Environmental Science major. Therefore, the elimination of the major will result in two part-time faculty not being rehired.

*German:* The B.A. German degree will be eliminated along with the German language courses resulting in the elimination of one full-time faculty position per **Attachment G**.

*Italian:* The elimination of all courses, including the first and second year language courses in the minor will result in one part-time faculty member not being rehired and one full-time faculty member being laid-off, as indicated in **Attachment G**. However, the full-time faculty member will have the option of requesting a transfer to the anticipated vacant position in the Voice Department at Westminster Choir College.

*Marine Sciences:* The elimination of this program results in the two (2) part-time faculty members not being rehired and the lay-off of two individuals as indicated in **Attachment G**. The lay-offs of the full-time faculty will occur over a two year period to provide students in their junior year an opportunity to complete the program. The effective dates of the lay-offs are based upon the seniority of the faculty within the department.

*Organizational Leadership:* Elimination of the program requires the elimination of all part-time and full-time faculty teaching in the program as indicated in **Attachment G**. The full-time faculty in the program do not have the required credentials to teach in other programs in the department. The other programs in the department are highly specialized and have very rigorous standards for qualified faculty to meet accreditation standards or state Department of Education requirements, including, in some instances, licensing and/or certification. The lay-offs of the full-time faculty will occur over a two year period to provide students in an opportunity to complete the program. The effective dates of the lay-offs are based upon the seniority of the faculty within the program.

*Philosophy:* The Philosophy major will be eliminated. However, philosophy courses will be offered for students who are required to meet either a philosophy or humanities requirement within their core curriculum. Two (2) part-time faculty members will not be rehired and one full-time faculty member will be laid-off due to the reduction in courses resulting from the elimination of the major. With the lay-off of a full-time faculty member, the department will no longer meet the minimum requirement of four full-time faculty and will, therefore, be merged with the History Department. The clerical position associated with the department will be eliminated.

*Piano:* While the undergraduate program is eliminated, the faculty will continue to offer Secondary Piano courses for a total of 80 credits per academic year. As a consequence, all part-time faculty assigned to the piano program (undergraduate and graduate), including four preferred/priority adjuncts, will not be rehired. The Piano Coordinator position will be eliminated.

*Sociology:* This program of study is curtailed by converting the major to a minor. The number of sections of SOC 101 needed to meet the Social Science requirement in the College of Liberal Arts, Education and Sciences core will be reduced and the number of sociology electives not included in the Criminal Justice major will be reduced. All sociology part-time faculty will not be rehired and one full-time faculty member will be laid off. The remaining Sociology faculty, Criminal Justice program, and Global Studies program will be merged with the Political Science Department. The clerical position assigned to the department will be eliminated.

*Web Design:* The full-time faculty member teaching courses unique to this program within the Communication departments will be assigned courses in Communication studies. Therefore, six (6) part-time faculty members will not be rehired.

**Full-time Faculty Costs, Total and per FTE Student**
**Academic Year 2013-2014**

| Public Institution |
|---|
| Private Institution |

**ATTACHMENT A**

**Rider University**

| | Total # | Average Salary | Total Salary | Average Comp | Total Comp |
|---|---|---|---|---|---|
| Full | 102 | $118,300 | $12,066,600 | $153,700 | $15,677,400 |
| Associate | 92 | $104,700 | $9,632,400 | $137,100 | $12,613,200 |
| Assistant | 53 | $79,600 | $4,218,800 | $104,700 | $5,549,100 |
| Instructor | 0 | 0 | $0 | 0 | 0 |
| *Total* | 247 | | $25,917,800 | | $33,839,700 |
| | | $104,930 | | $137,003 | |
| FTE Enrollment | 4621 | | | | |
| $ Per FTE Student | | | **$5,609** | | **$7,323** |
| FTE Students per FT Faculty | **18.7** | | | | |

**Stockton College**

| | Total # | Average Salary | Total Salary | Average Comp | Total Average Comp |
|---|---|---|---|---|---|
| Full | 66 | $123,300 | $8,137,800 | $177,000 | $11,682,000 |
| Associate | 140 | $91,200 | $12,768,000 | $132,000 | $18,480,000 |
| Assistant | 81 | $70,100 | $5,678,100 | $101,100 | $8,189,100 |
| Instructor | 3 | $60,700 | $182,100 | $82,400 | $247,200 |
| *Total* | 290 | | $26,766,000 | | $38,598,300 |
| | | $92,297 | | $133,098 | |
| FTE Enrollment | 7725 | | | | |
| $ Per FTE | | | **$3,465** | | **$4,997** |
| FTE Students per FT Faculty | **26.6** | | | | |
| **Rider vs. Peer** | **Per FTE %** | | **162%** | | **147%** |
| | **Per FTE $** | | **$2,144** | | **$2,326** |

**Monmouth University**

| | Total # | Average Salary | Total Salary | Average Comp | Total Average Comp |
|---|---|---|---|---|---|
| Full | 41 | $116,600 | $4,780,600 | $155,600 | $6,379,600 |
| Associate | 95 | $95,700 | $9,091,500 | $132,300 | $12,568,500 |
| Assistant | 54 | $69,800 | $3,769,200 | $92,800 | $5,011,200 |
| Instructor | 11 | $51,500 | $566,500 | $67,300 | $740,300 |
| *Total* | 201 | | $18,207,800 | | $24,699,600 |
| | | $90,586 | | $122,884 | |
| FTE Enrollment | 5485 | | | | |
| $ Per FTE | | | **$ 3,320** | | **$ 4,503** |
| FTE Students per FT Faculty | **27.3** | | | | |
| **Rider vs. Peer** | **Per FTE %** | | **169%** | | **163%** |
| | **Per FTE $** | | **$2,289** | | **$2,820** |

**Montclair University**

| | Total # | Average Salary | Total Salary | Average Comp | Total Average Comp |
|---|---|---|---|---|---|
| Full | 179 | $122,200 | $21,873,800 | $156,500 | $28,013,500 |
| Associate | 232 | $97,000 | $22,504,000 | $127,400 | $29,556,800 |
| Assistant | 145 | $75,600 | $10,962,000 | $99,100 | $14,369,500 |
| Instructor | 13 | $53,200 | $691,600 | $69,800 | $907,400 |
| *Total* | 569 | | $56,031,400 | | $72,847,200 |
| | | $98,473.46 | | $128,027 | |
| FTE Enrollment | 16511 | | | | |
| $ Per FTE | | | **$3,394** | | **$4,412** |
| FTE Students per FT Faculty | **29.0** | | | | |
| **Rider vs. Peer** | **Per FTE %** | | **165%** | | **166%** |
| | **Per FTE $** | | **$2,215** | | **$2,911** |

**Fairleigh Dickinson University**

| | Total # | Average Salary | Total Salary | Average Comp | Total Average Comp |
|---|---|---|---|---|---|
| Full | 87 | $97,400 | $8,473,800 | $132,600 | $11,536,200 |
| Associate | 81 | $76,400 | $6,188,400 | $103,800 | $8,407,800 |
| Assistant | 85 | $70,800 | $6,018,000 | $97,900 | $8,321,500 |
| Instructor | 5 | $72,500 | $362,500 | $100,400 | $502,000 |
| *Total* | 258 | | $21,042,700 | | $28,767,500 |
| | | $81,561 | | $111,502 | |
| FTE Enrollment | 5413 | | | | |
| $ Per FTE | | | **$ 3,887** | | **$ 5,315** |
| FTE Students per FT Faculty | **21.0** | | | | |
| **Rider vs. Peer** | **Per FTE %** | | **144%** | | **138%** |
| | **Per FTE $** | | **$1,721** | | **$2,009** |

**The College of New Jersey**

| | Total # | Average Salary | Total Salary | Average Comp | Total Average Comp |
|---|---|---|---|---|---|
| Full | 90 | $118,500 | $10,665,000 | $172,500 | $15,525,000 |
| Associate | 142 | $94,600 | $13,433,200 | $137,800 | $19,567,600 |
| Assistant | 110 | $77,600 | $8,536,000 | $112,900 | $12,419,000 |
| Instructor | 5 | $72,300 | $361,500 | $105,100 | $525,500 |
| *Total* | 347 | | $32,995,700 | | $48,037,100 |
| | | $95,088 | | $138,435 | |
| FTE Enrollment | 6910 | | | | |
| $ Per FTE | | | **$ 4,775** | | **$ 6,952** |
| FTE Students per FT Faculty | **19.9** | | | | |
| **Rider vs. Peer** | **Per FTE %** | | **117%** | | **105%** |
| | **Per FTE $** | | **$834** | | **$371** |

**St. Joseph's**

| | Total # | Average Salary | Total Salary | Average Comp | Total Average Comp |
|---|---|---|---|---|---|
| Full | 69 | $117,800 | $8,128,200 | $154,500 | $10,660,500 |
| Associate | 102 | $92,900 | $9,475,800 | $125,900 | $12,841,800 |
| Assistant | 95 | $78,500 | $7,457,500 | $104,800 | $9,956,000 |
| Instructor | 0 | $0 | $0 | $0 | $0 |
| *Total* | 266 | | $25,061,500 | | $33,458,300 |
| | | $94,216.17 | | $125,783.08 | |
| FTE Enrollment | 6522 | | | | |
| $ Per FTE | | | **$ 3,843** | | **$ 5,130** |
| FTE Students per FT Faculty | **24.5** | | | | |
| **Rider vs. Peer** | **Per FTE %** | | **146%** | | **143%** |
| | **Per FTE $** | | **$1,766** | | **$2,193** |

FTE Enrollment Source- IPEDS Full-time equivalent enrollment (DRVF2013)
Faculty Compensation Source: AAUP 2013-2-14 Salary Survey Appendix I

Note- Seton Hall and Rowan did not participate in the AAUP Survey.

**NOTES:**
FTE Enrollment Source- IPEDS Full-time equivalent enrollment (DRVF2013)
Faculty Compensation Source: AAUP 2013-2-14 Salary Survey Appendix I

Seton Hall and Rowan did not participate in the AAUP Survey in this year.
Rutgers is excluded because doctoral programs skew the averages and Rider offers no doctoral programs.

**ATTACHMENT B**

**Cost Reduction Measures, 2010 to 2016**

| Operating Budget Reductions | Office of the President | Athletics, AVP Planning | Enrollment Management | Advancement | Student Affairs | Finance Division: Auxiliary Services | Finance Division: Facilities | Finance Division: Finance and General Institution | Finance Division: Office of Information Technology | Finance Division: Human Resources | Finance Division: Division Total | Academic Affairs Administrative | Non-Instructional Total | Academic Affairs Instruction | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Permanent budget cuts- FY10 | 25,421 | 65,000 | 55,000 | 25,000 | 100,000 | | 130,000 | 20,000 | 100,000 | | 250,000 | 78,900 | **599,321** | **121,100** | **720,421** |
| Permanent budget cuts - FY11 | 8,792 | | 50,000 | 20,000 | 60,000 | | 185,000 | | 75,412 | | 260,412 | 121,924 | **521,128** | | **521,128** |
| Permanent budget cuts - FY12 | | | 88,000 | 25,000 | 49,000 | | 10,000 | | | | 10,000 | 152,000 | **324,000** | **130,804** | **454,804** |
| Permanent budget cuts - FY13 | 20,000 | 80,000 | | 53,000 | 200,285 | 30,000 | 243,090 | 3,000 | 159,610 | 2,500 | 438,200 | 35,344 | **826,829** | **52,767** | **879,596** |
| Permanent budget cuts - FY14 July | 50,200 | 52,000 | | 109,000 | 230,269 | 158,120 | 312,679 | 160,020 | 308,820 | 75,000 | 1,014,639 | 113,228 | **1,569,336** | **488,933** | **2,058,269** |
| Permanent budget cuts - FY14 October | | | 80,000 | 40,000 | 64,000 | 65,000 | 65,000 | 4,398 | 47,175 | 17,500 | 199,073 | 54,800 | **437,873** | **156,075** | **593,948** |
| Permanent budget cuts - FY15/16 | 17,158 | 5,471 | 57,837 | 10,000 | 143,739 | 5,425 | 211,475 | 208,459 | 63,345 | 26,000 | 514,704 | 154,657 | **903,565** | **156,171** | **1,059,736** |
| Custodial reductions, cumulative 17 positions | | | | | | | 902,388 | | | | 902,388 | | **902,388** | | **902,388** |
| | | | | | | | | | | | | | | | - |
| **Total** | **121,571** | **202,471** | **330,837** | **282,000** | **847,293** | **258,545** | **2,059,632** | **395,877** | **754,362** | **121,000** | **3,589,416** | **710,853** | **6,084,440** | **1,105,850** | **7,190,289** |
| | **2%** | **3%** | **5%** | **4%** | **12%** | **4%** | **29%** | **6%** | **10%** | **2%** | **50%** | **10%** | **85%** | **15%** | **100%** |
| | | | | | | | | | | | | **Compensation and Benefits (detail below)** | **5,763,297** | **3,040,311** | **8,803,608** |
| | | | | | | | | | | | | | **65%** | **35%** | **100%** |
| | | | | | | | | | | | | **Total Savings** | **11,847,737** | **4,146,160.84** | **15,993,898** |
| | | | | | | | | | | | | | **74%** | **26%** | **100%** |

**Compensation and Benefits**

| | | | % Personnel |
|---|---|---|---|
| **Non Faculty** | | | |
| Vacation accrual limit policy change[4] | 790,000 | | |
| Health benefits cost sharing changes[5] | 287,511 | | |
| 2010 position eliminations[6] | 1,090,411 | | |
| 2014 Staffing reductions | 853,047 | | |
| Fiscal 2014 wage freeze (non-bargaining only) | 553,461 | | |
| 2016 Position cuts | 278,000 | | |
| Fiscal 2016 wage freeze | 674,880 | | |
| Fiscal 2016 pension reduction | 882,973 | | |
| | | **5,410,283** | 65% [3] |
| **Faculty** | | | |
| Faculty ERI estimated savings (maximum annual)[2] | 1,747,297 | | |
| AOL budget cuts - FY2014 (108 sections) | 540,000 | | |
| AOL budget cuts - FY2016 (unspent 2015, no section cuts) | 400,000 | | |
| | | **2,687,297** | 35% [3] |
| **All Employees**[3,7] | | | |
| Workers compensation premium savings | 290,800 | | |
| Conversion of STD coverage to AICUNJ consortium | 181,229 | | |
| Life/long term disability changes | 88,000 | | |
| Negotiation of a revenue credit account with TIAA CREF | 146,000 | | |
| | | **706,029** | |
| **Compensation and Benefits Subtotal** | | **8,803,608** | |

**Footnotes**

1 Academic admimistrative includes Provost, Deans Offices. Academic instructional includes all instructional departments, library, study abroad, TLC and other departments engaged in teaching.

2 Fiscal 2018 is maximum annual savings, declines subsequently with phased replacements and progression of new hires through the promotion and tenure process.

3 Assumes 50% of savings allocable to faculty and 50% to non-faculty

4 Multi-year reduction in vacation accrual limits. Precipitated taking vacation in time vs. cash payout, plus lowered annual cost and liability as employees don't accrue above the lower caps.

5 Employees' contributions as a % of monthly premiums were increased over a three year period to correspond with market ratios for employee cost sharing.

6 Positions initially "chilled", then permanently eliminated.

7 No changes were made in benefits provided. All reflect carrier negotiations/changes.

STANDARD & POOR'S RATINGS SERVICES
McGRAW HILL FINANCIAL

# RatingsDirect®

# New Jersey Educational Facilities Authority
# Rider University; Private Coll/Univ - General Obligation

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## Table Of Contents

# New Jersey Educational Facilities Authority Rider University; Private Coll/Univ - General Obligation

## Credit Profile

**New Jersey Educl Facs Auth, New Jersey**

Rider Univ , New Jersey

**Series 2012A**

| | | |
|---|---|---|
| *Long Term Rating* | BBB/Stable | Downgraded |

**2012A**

| | | |
|---|---|---|
| *Unenhanced Rating* | BBB(SPUR)/Stable | Downgraded |

Many issues are enhanced by bond insurance.

## Rationale

Standard & Poor's Ratings Services lowered its rating on New Jersey Educational Facilities Authority's revenue refunding bonds, issued for Rider University to 'BBB' from 'BBB+'. The outlook is stable.

This action reflects our view of the university's weakened operating performance in recent years stemming from declining enrollment, growing financial aid pressures, and a resulting decrease in net tuition revenue in fiscal 2014. The university's operating surpluses have steadily waned over the past several years, and the university posted a modest operating deficit in fiscal 2014. Management expects continued deficits in the near term as the university looks to stabilize enrollment through enhanced program offerings and targeted recruitment. In our view, these deficits, coupled with Rider's financial resources that we consider only just-adequate, modest endowment, and current demand metrics, are consistent with the lower rating. In addition, the university drew $8 million from its quasi-endowment in fiscal 2015, and it may look to increase its line of credit (which has historically been untapped), the combination of which may be needed to support near-term deficit operations. While plans to support operations from the quasi-endowment draw and increased borrowings are preliminary, we believe there is some capacity for these measures at the 'BBB' rating level given the university's financial resources relative to debt.

More specifically, the rating reflects our assessment of Rider's:

- Recent operating deficit with additional near-term deficits expected, although the university's long history of surplus performance partially offsets this;
- 11.7% drop in headcount enrollment from fall 2009 to fall 2014, and net tuition revenue decline in fiscal 2014;
- Highly competitive regional market, reflected in a relatively unselective first-year acceptance rate of 70.9%, and a fall 2014 matriculation rate of 15.2% that we consider weak;
- High dependence on student-generated tuition and fees; and
- Low-but-adequate financial resources for the rating category, with fiscal 2014 cash and investments equal to 43.2% of operations and 167.4% of debt.

Partially offsetting the preceding credit weaknesses, in our view, are Rider's:

- Manageable debt, with maximum annual debt service (MADS) of $6.3 million, or 3% of fiscal 2014 expenses;
- Modest $65 million endowment as of June 30, 2014, consistent with rating category medians, although the one-time endowment draw will reduce this balance; and
- Strong and experienced management team, which has been transparent and proactive in addressing the university's cost structure in light of the recent enrollment pressures.

The university has $55 million in debt, primarily in one series (the 2012A bonds) that bears fixed-rate interest with a 25-year (2037) maturity. Debt service is stepped, with MADS ($6.3 million) occurring in 2016 and declining thereafter. The MADS burden remains moderately low, in our view, at approximately 3% of fiscal 2014 adjusted operating expenses. All debt is a general obligation (GO) of the university. We understand there are no plans to issue additional debt for the foreseeable future. Instead, management expects to fund any new capital projects internally with gifts, and through potential state grant funding.

## Outlook

The stable outlook reflects our anticipation that, over the two-year outlook period, Rider will continue to maintain adequate financial resources and current demand metrics as the university starts to stabilize enrollment. While we expect operating deficits in the near-term (as mentioned above), supported by the one-time quasi-endowment draw and potential borrowings on the line of credit, we expect the university to progress toward breakeven results over time through management's strategic initiatives and cost-saving measures.

We could take further negative rating action if enrollment fails to stabilize as expected, operating deficits grow unexpectedly in magnitude, or financial resources decline from their current levels. Additionally, should Rider's endowment draw exceed the amount currently communicated, further draws become necessary, or borrowings on the line of credit be significant, the rating could be affected. We do not expect a positive rating action in the near term given the expected deficit operating performance, only adequate financial resources, and enrollment pressures.

## Enterprise Profile

### Background

Founded in 1865, Rider University has two campuses: the main campus in Lawrenceville, on approximately 280 acres, and a 23-acre campus for the Westminster Choir College in Princeton. Rider offers 70 undergraduate and 26 graduate programs in business administration, education, liberal arts, sciences, fine and performing arts, counseling, and leadership. In addition, the musical theatre and criminal justice programs are growing, according to management. Rider's student body is composed of approximately 81% undergraduates and 19% graduate students, with a total headcount of approximately 5,361 in fall 2014.

### Enrollment

The university's enrollment has been declining in recent years, with a 1.5% drop from fall 2013, and an overall 11.7% regression from fall 2009, the university's peak enrollment year. The declines have been concentrated at the

undergraduate level, where headcount was down 2.1% and 2.7% for falls 2014 and 2013, respectively. Although the university reported 1,012 incoming freshmen for fall 2014--its largest freshman class in four years--total headcount was still down modestly due to a large graduating class. Despite the lower undergraduate headcount, the university reports it is slowly expanding its undergraduate degree offerings, which may help to reverse the recent enrollment trend. The university also reports roughly 66% of eligible undergraduates live on campus (88% of first-year students), with 91% of campus housing now occupied. Like many small, private universities, the university is highly dependent on student-generated fees, including auxiliary fees (about 93% of fiscal 2014 adjusted operating revenue). Therefore, management's ability to manage expenses and enrollment is important, in our view.

Applications for fall 2014 jumped 16% to just over 9,300--Rider's largest one-year increase in recent history. Management attributes the increase to growing interest in new programs, with over 600 applications for the university's new criminal justice major alone, and increased marketing efforts that have expanded Rider's geographic reach. Growth in applications has been accompanied by a lower matriculation rate, which dropped 0.6% to 15.2% (which we consider low) and reflects Rider's highly competitive regional landscape. Matriculation growth is low for the rating category, in our opinion (about 71% of applicants are admitted). The retention rate is good, in our view, at 80.6% and reflects improvement over the past two years. Based on fall 2015 applications and deposits, the incoming freshman class will be smaller than the prior year. Management is targeting incoming classes of about 900, with plans to stabilize the undergraduate population partly through the recent addition of new majors (as mentioned above). However, we expect stabilizing enrollment to remain a challenge in the near-term given the university's primarily regional draw, a decline in high school graduation rates in the northeast, and pressures on financial aid.

### Management

Rider welcomed its seventh president on Aug. 1, 2015, following the recent retirement of the university's former longstanding president. Dr. Gregory Dell'Omo previously served as president of Robert Morris University in Pittsburgh, where he is recognized for his efforts in transforming the school from a regional, commuter-based institution to a comprehensive residential university. According to management, Dr. Dell'Omo has considerable experience in programming and curricula, a key area of focus for Rider as it continues to navigate the challenging enrollment environment. We expect a smooth presidential transition, with the university likely to begin its next strategic planning process over the next year. Financial management is long-serving and very capable, in our opinion, with proactive budget oversight amid the declining enrollment trend. The university is governed by a 30-member, self-perpetuating board that has various policies in place involving debt management and conflicts of interest, among others.

## Financial Profile

### Weakening operations

Rider's conservative budgeting has historically allowed for consistent operating surpluses on a full-accrual basis, which we believe has helped the university remain competitive. However, for fiscal 2014, as expected, the university posted its first operating deficit in recent history due to the enrollment softness, increased financial aid, and resulting decline in net tuition revenue (as mentioned above). In addition, operations remained pressured by rising depreciation, which grew to $9.8 million in fiscal 2014, from $9.1 million and $5.8 million in fiscals 2013 and 2009, respectively. The higher depreciation is attributable to Rider's investment in its plant, primarily through fundraising and operations. Rider was

able to offset some of these pressures in 2014 with an increase in gifts and careful expense management, resulting in a modest operating loss of $328,000. Total net assets grew 8.6% in fiscal 2014, while unrestricted net assets declined 0.8% to $66.5 million.

Due to expected pressures on enrollment, financial aid, and general operating expenses, management expects another operating deficit in fiscal 2015, with additional deficits annually through fiscal 2018. Still, we believe management is working proactively to address this trend, and has targeted initiatives to reduce the losses as part of its long-term financial strategy. As a result, management was able to reduce the magnitude of the operating deficit in fiscal 2015, though we still expect a larger deficit on a full accrual basis than in the prior year. Internal fiscal 2015 results reflect growth in net tuition revenue, which we view positively given Rider's high dependence on student-generated fees. Based on management's projections, the university anticipates modest net tuition revenue increases through fiscal 2018, though we understand financial aid and a rising discount rate may continue to pressure results. The first-year discount rate was 49.5% in fiscal 2015, surpassing the prior year's 48.5%. Management projects this rate will continue to increase, reaching approximately 52% in three years.

### Financial resources

Rider's financial resources remain low relative to the rating category medians, but are adequate, in our view, for a 'BBB' rating. In fiscal 2014, expendable resources were $34.3 million, up 2.2% from the prior year; this represents a low 16.1% of operating expenses (down from 25.3% in fiscal 2010), and a somewhat better 62.3% of debt (down from 81.4% in fiscal 2010), although still below rating category medians. The drop in expendable resources is partly related to the university's investment in plant, as described above. It is important to note that Rider's expendable resources calculation (unrestricted net assets plus temporarily restricted net assets less [net plant, property, and equipment, or PPE, plus debt]) is slightly deflated due to the university's low debt relative to net PPE. As such, we believe cash and investments is a better relative measure. Cash and investments have remained relatively stable over four years and were $92.1 million in fiscal 2014, representing 43.2% of operations (still low for the rating category) and 167.4% of debt (about average for the category).

### Endowment and fundraising

The university recently revised its endowment spending policy to 4.9% (down from 5%) of a three-year-moving average. The modest endowment, valued at $65 million as of fiscal year-end 2014, is invested as follows: approximately 24.2% in international equity, 20.4% in domestic equity, 18.1% in flexible capital, 14.6% in inflation hedging vehicles, 14.2% in fixed income, 8.3% in private equity, and the balance in liquid capital. This does not include campus real estate. Remaining uncalled capital for private equity and private real assets is modest, in our view, at about $3.7 million. Management does not report any liquidity challenges at this time. The university raises roughly $2 million a year in unrestricted gifts; meanwhile, fundraising efforts are underway for an athletic practice facility and theater renovations on the Princeton campus, with more than 95% of the necessary funds received for each project. In addition, the university plans to request funds under the state's capital financing grant program, which (if approved) would be used for modest capital enhancements to science labs, a lecture hall, the library façade, and residences. The university has no additional near-term debt plans beyond potential borrowings on its line of credit (mentioned above) for working capital purposes.

## Rider University -- Selected Financial Statistics

| | --Fiscal year ended June 30-- | | | | | --Medians for 'BBB' rated private colleges and universities-- |
|---|---|---|---|---|---|---|
| | 2015 | 2014 | 2013 | 2012 | 2011 | 2014 |
| **Enrollment and demand** | | | | | | |
| Headcount | 5,361 | 5,444 | 5,513 | 5,636 | 5,816 | MNR |
| Full-time equivalent | 4,820 | 4,857 | 4,928 | 4,979 | 5,096 | 3,318 |
| Freshman acceptance rate (%) | 70.9 | 71.9 | 72.1 | 73.3 | 70.6 | 70.6 |
| Freshman matriculation rate (%) | 15.2 | 15.8 | 16.3 | 16.1 | 17.4 | 24.2 |
| Undergraduates as a percentage of total enrollment (%) | 81.3 | 81.7 | 82.9 | 82.5 | 81.6 | 74.5 |
| Freshman retention (%) | 80.6 | 78.9 | 76.8 | 82.5 | 79.2 | 78.0 |
| Graduation rates (five years) (%) | 62.0 | 61.7 | 63.5 | 65.6 | 61.3 | 59.5 |
| **Income statement** | | | | | | |
| Adjusted operating revenue ($000s) | N.A. | 212,787 | 207,224 | 202,773 | 195,581 | MNR |
| Adjusted operating expense ($000s) | N.A. | 213,115 | 205,818 | 201,997 | 195,337 | MNR |
| Net operating income ($000s) | N.A. | (328) | 1,406 | 776 | 244 | MNR |
| Net operating margin (%) | N.A. | (0.15) | 0.68 | 0.38 | 0.12 | MNR |
| Change in unrestricted net assets ($000s) | N.A. | (522) | 5,277 | (5,157) | 1,968 | MNR |
| Tuition discount (%) | N.A. | 35.9 | 33.8 | 32.6 | 32.0 | 33.3 |
| Tuition dependence (%) | N.A. | 74.4 | 75.5 | 74.4 | 75.3 | MNR |
| Student dependence (%) | N.A. | 92.7 | 94.1 | 92.9 | 93.4 | MNR |
| Endowment and investment income dependence (%) | N.A. | 1.1 | 1.1 | 1.2 | 0.5 | MNR |
| **Debt** | | | | | | |
| Outstanding debt ($000s) | N.A. | 55,019 | 56,269 | 56,865 | 55,952 | 55,019 |
| Current debt service burden (%) | N.A. | 2.96 | 1.38 | 2.85 | 3.00 | 3.40 |
| Current MADS burden (%) | N.A. | 2.97 | 3.18 | 3.24 | 3.09 | MNR |
| **Financial resource ratios** | | | | | | |
| Endowment market value ($000s) | N.A. | 65,227 | 57,338 | 51,495 | 54,217 | 64,256 |
| Cash and investments ($000s) | N.A. | 92,106 | 87,983 | 83,508 | 82,758 | MNR |
| Unrestricted net assets ($000s) | N.A. | 66,486 | 67,008 | 61,731 | 66,888 | MNR |
| Expendable resources ($000s) | N.A. | 34,256 | 33,531 | 35,302 | 41,848 | MNR |
| Cash and investments to operations (%) | N.A. | 43.2 | 42.7 | 41.3 | 42.4 | 75.4 |
| Cash and investments to debt (%) | N.A. | 167.4 | 156.4 | 146.9 | 147.9 | 151.7 |
| Expendable resources to operations (%) | N.A. | 16.1 | 16.3 | 17.5 | 21.4 | 54.5 |
| Expendable resources to debt (%) | N.A. | 62.3 | 59.6 | 62.1 | 74.8 | 88.8 |
| Average age of plant (years) | N.A. | 12.6 | 12.5 | 11.7 | 11.9 | 12.8 |

**Rider University -- Selected Financial Statistics (cont.)**

MADS--maximum annual debt service. MNR--median not reported. N.A.--not available. Total adjusted operating revenue--unrestricted revenue less realized and unrealized gains/losses and financial aid. Total adjusted operating expense--unrestricted expense plus financial aid expense. Net operating margin--100x (net adjusted operating income/adjusted operating expense). Tuition dependence--100x (gross tuition revenue/adjusted operating revenue). Current debt service burden--100x (current debt service expense/adjusted operating expenses). Current MADS burden--100x (MADS expense/adjusted operating expenses). Cash and investments--cash plus short-term and long-term investments. Expendable resources--unrestricted net assets plus temporary restricted net assets (net plant, property, and equipment--outstanding debt). Average age of plant--accumulated depreciation/depreciation and amortization expense.

## Related Criteria And Research

### Related Criteria

- USPF Criteria: Higher Education, June 19, 2007

MOODY'S
INVESTORS SERVICE

# Rating Update: Moody's downgrades Rider University, NJ to Baa2, outlook stable

Global Credit Research - 16 Oct 2014

**$52 million debt affected**

NEW JERSEY EDUCATIONAL FACILITIES AUTHORITY
Private Colleges & Universities
NJ

**Opinion**

NEW YORK, October 16, 2014 --Moody's Investors Service downgrades Rider University's ("Rider") rating to Baa2 on the Series 2012A bonds issued by the New Jersey Educational Facilities Authority. The rating outlook is revised to stable from negative.

SUMMARY RATING RATIONALE

The downgrade to Baa2 reflects extended enrollment pressure and limited expense flexibility for this tuition-dependent university which has translated into thinning operating performance and cash flow generation. Liquidity is modest and weaker operations are constraining further growth. The downgrade incorporates projections of weak operations for FY 2015 and FY 2016, which is expected to further weaken the balance sheet cushion.

The Baa2 rating is supported by Rider's operating scale ($154 million revenue in FY 2013 and over 4,800 full-time equivalent students), offset by weak student demand statistics and high operating dependence on student charges.

The stable outlook factors in the recent expense management initiatives, with strong short- and long-term planning using conservative assumptions which will help stabilize operations and enrollments.

CHALLENGES

*Declining enrollments, combined with concentrated revenue (93% from student charges in FY 2013) negatively affected operating performance, with a FY 2013 operating cash flow margin of only 7.8% compared to 9.6% in FY 2010. The university expects comparable performance for FY 2014 and weaker results for FY 2015 to FY 2017.

*The trend of operating deficits and elevated endowment spending has prevented build up of financial resources, which are still below the peak reached in FY 2008. Expendable financial resources provided a thin 0.6 times coverage of debt and 0.2 times coverage to operations in FY 2013. The cushion is expected to be comparable for FY 2014.

*Rider University has limited expense flexibility as about 33% of total expenses are related to faculty multi-year union contracts which include mandatory annual increases for salaries and benefits.

*Unrestricted liquidity is modest at only 79 days cash on hand, reflecting both weakening operations and significant capital investment in the campus.

STRENGTHS

*Strong governance and management contribute to active oversight of financial operations, including budgeting for contingencies and very active expense management and reductions, including managing faculty and staff vacancies and limiting salary increases. Recently, management negotiated wages with the union that will have a positive impact on expense growth.

*Niche programs in the performing arts and accounting differentiate the university, located in southern New Jersey and recruiting from a highly competitive market. Rider is diversifying program offerings with new offerings, including sports management, criminal justice and health care management.

*Operating cash flow, though relatively thin, continues to provide adequate debt service coverage at 1.9 times for

FY 2014.

*The debt burden is manageable as the debt is fixed rate, fully amortizing, and produces low operating leverage (ratio of debt to operating revenue of 0.37 times). There are no near-term debt plans.

DETAILED CREDIT DISCUSSION

RECENT DEVELOPMENTS/RESULTS

Rider University's operating performance will remain challenged for the next three years, which will hamper its financial resource cushion. Rider's operating performance was negatively affected from limited growth in revenue due to falling enrollment and an inability to reduce expenses at a comparable rate. Enrollments, a critical driver of 93% of operating revenues, are expected to stabilize based on fall 2014 information showing a higher incoming class than prior year. Rider has limited opportunities to manage expenses, with over one-third related to unionized faculty contracts which include mandatory annual salary and benefit increases. Another 14% of the expenses are major contractual agreements which include utilities and debt service payments.

The commitments leave the university with little operational flexibility to adjust for any revenue decline. As a result, the operating cash flow margin has consistently declined and was at 7.8% in FY 2013 from 9.6% in FY 20010 with the unaudited FY 2014 performance on par with prior year. Rider recently renegotiated the faculty union contract to include a FY 2015 wage freeze and offered an early retirement incentive program to its faculty, both of which will improve expense flexibility. However, the revenue declines in prior years and retirement incentive-related expenses will result in operating deficits for FY 2015 to FY 2017. Consequently financial resource growth is expected to be limited to any investment gains over this period.

The university continues to face student market pressure, most clearly demonstrated by the trend of enrollment declines and a low 15% matriculation rate in fall 2014. Rider's market position is challenging as it draws students primarily from the highly competitive northeast, largely New Jersey accounting for 70% of students. New Jersey is facing a decline in high school graduates that reduces the potential applicant pool for Rider and competing colleges, including lower-priced New Jersey public universities.

LEGAL SECURITY: The bonds are a general obligation of the university and are secured by a Mortgage and Security Agreement under which certain real and personal property are pledged, along with a pledge of tuition and fees. There is no debt service reserve fund.

DEBT STRUCTURE: The university has all fixed-rate debt with no interest rate derivatives.

OUTLOOK:

The stable outlook reflects expectations that operations will be pressured through FY2017, but that there will be limited deterioration in liquid reserves. It also is based on management's ongoing expense containment initiatives that should result in gradual improvement of performance over the next several years.

WHAT COULD MAKE THE RATING GO UP

A rating upgrade could result from consistently stronger cash flow, significant growth of liquid balance sheet reserves and stabilization in student demand.

WHAT COULD MAKE THE RATING GO DOWN

Reduction in liquidity and continuation of operating deficits beyond projections would pressure the rating. Additional debt without growth in balance sheet reserves will also negatively pressure the rating.

KEY INDICATORS (FY 2013 financial data and fall 2013 enrollment data)

Total Full-Time Equivalent (FTE) Enrollment: 4,857 students

Total Financial Resources: $71.2 million

Total Direct Debt: $56.3 million

Total Operating Revenue: $153.4 million

Reliance on Student Charges as a percentage of Total Operating Revenue (Tuition, Fees and Auxiliaries): 92.6%

Monthly Days Cash on Hand: 79 days

Operating Cash Flow Margin: 7.8%

Three-Year Average Debt Service Coverage: 2.6 times

METHODOLOGY

The principal methodology used in this rating was U.S. Not-for-Profit Private and Public Higher Education published in August 2011. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

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MOODY'S
INVESTORS SERVICE

# CORE RATIOS FOR FINANCIAL HEALTH

**Attachment D**

## *Rider University*

### Resource Sufficiency:
### *Primary Reserve Ratio*

| 2007-2008 | 2008-2009 | 2009-2010 | 2010-2011 | 2011-2012 | 2012-2013 |
|---|---|---|---|---|---|
| 0.59 | 0.38 | 0.33 | 0.28 | 0.23 | 0.22 |

**Definition**: Measures financial strength by comparing expendable net assets to total expenses. The ratio represents the
**Calculation**: Expendable net assets divided by total expenses.
**Threshold**: **.40** -- Below .15 (15% of a year, or 1.8 months) indicates possible short-term borrowing and struggling to find

### Debt Management:
### *Viability Ratio*

| 2007-2008 | 2008-2009 | 2009-2010 | 2010-2011 | 2011-2012 | 2012-2013 |
|---|---|---|---|---|---|
| 1.17 | 0.82 | 0.81 | 0.75 | 0.62 | 0.60 |

**Definition**: Measures the ability of the institution to meet its entire debt obligation with assets readily available.
**Calculation**: Expendable net assets divided by long-term debt.
**Threshold**: **1.25** -- A ratio of less than 1.0, where debt obligation and expendable assets are equal, is poor and may

### Asset Performance:
### *Return on Net Assets Ratio (%)*

| 2007-2008 | 2008-2009 | 2009-2010 | 2010-2011 | 2011-2012 | 2012-2013 |
|---|---|---|---|---|---|
| 4.2 | -3.6 | 4.6 | 7.9 | 0.6 | 6.6 |

**Definition**: Indicates whether the institution's total assets, restricted and unrestricted, are increasing or decreasing.
**Calculation**: Change in net assets divided by total net assets at the beginning of the fiscal year.
**Threshold**: **3 to 4% above the inflation rate** -- If, for example, the CPI is 3%, a healthy return on net assets ratio would be

### Operating Results:
### *Net Operating Revenues Ratio (%)*

| 2007-2008 | 2008-2009 | 2009-2010 | 2010-2011 | 2011-2012 | 2012-2013 |
|---|---|---|---|---|---|
| 1.1 | -8.8 | 3.3 | 1.3 | -3.4 | 3.4 |

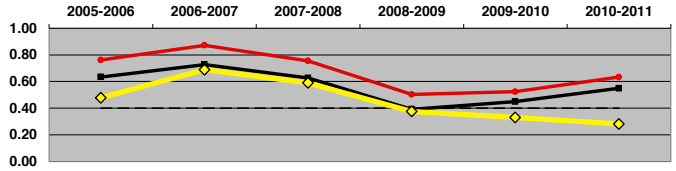
**Definition**: Indicates whether institutional operations resulted in a surplus or a deficit for the year.
**Calculation**: Change in unrestricted net assets divided by total unrestricted revenue.
**Threshold**: **4%** -- A deficit in a single year is not necessarily a problem, but deficits over a number of years indicate trouble
method that can be calculated from publicly available IPEDS and IRS Form 990 data.

ATTACHMENT D

# *Rider University*

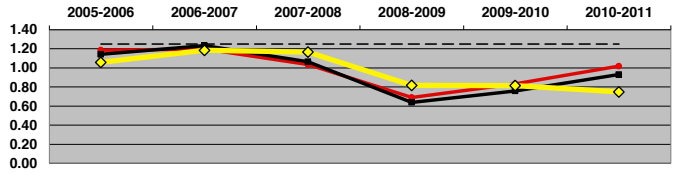
## FIT TRENDS

### Resource Sufficiency: Primary Reserve Ratio



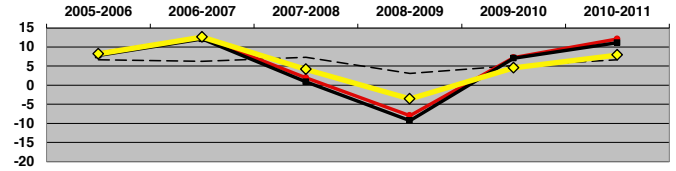

| | 2005-2006 | 2006-2007 | 2007-2008 | 2008-2009 | 2009-2010 | 2010-2011 |
|---|---|---|---|---|---|---|
| NATIONAL MEDIAN | 0.63 | 0.73 | 0.63 | 0.39 | 0.45 | 0.55 |
| MID EAST MEDIAN | 0.76 | 0.87 | 0.75 | 0.50 | 0.52 | 0.63 |
| RIDER | 0.48 | 0.69 | 0.59 | 0.38 | 0.33 | 0.28 |

### Debt Management: Viability Ratio



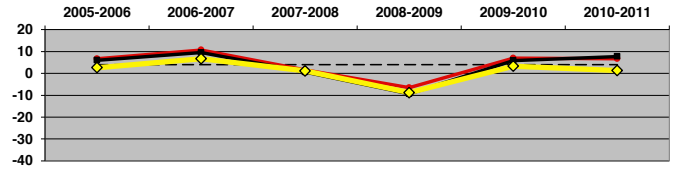

| | 2005-2006 | 2006-2007 | 2007-2008 | 2008-2009 | 2009-2010 | 2010-2011 |
|---|---|---|---|---|---|---|
| NATIONAL MEDIAN | 1.14 | 1.23 | 1.06 | 0.64 | 0.76 | 0.93 |
| MID EAST MEDIAN | 1.19 | 1.20 | 1.03 | 0.69 | 0.83 | 1.02 |
| RIDER | 1.06 | 1.18 | 1.17 | 0.82 | 0.81 | 0.75 |

### Asset Performance: Return on Net Assets Ratio (%)



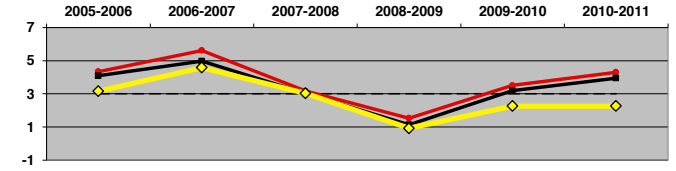

| | 2005-2006 | 2006-2007 | 2007-2008 | 2008-2009 | 2009-2010 | 2010-2011 |
|---|---|---|---|---|---|---|
| NATIONAL MEDIAN | 7.8 | 12.1 | 0.9 | -9.3 | 7.0 | 11.1 |
| MID EAST MEDIAN | 8.4 | 12.6 | 2.0 | -7.9 | 7.2 | 12.1 |
| RIDER | 8.2 | 12.6 | 4.2 | -3.6 | 4.6 | 7.9 |

### Operating Results: Net Operating Revenues Ratio (%)




| | 2005-2006 | 2006-2007 | 2007-2008 | 2008-2009 | 2009-2010 | 2010-2011 |
|---|---|---|---|---|---|---|
| NATIONAL MEDIAN | 6.0 | 9.5 | 0.6 | -9.4 | 5.9 | 7.8 |
| MID EAST MEDIAN | 6.7 | 10.7 | 1.6 | -6.6 | 6.9 | 6.7 |
| RIDER | 2.6 | 6.7 | 1.1 | -8.8 | 3.3 | 1.3 |

### Overall Financial Health: The Composite Financial Index (CFI)




| | 2005-2006 | 2006-2007 | 2007-2008 | 2008-2009 | 2009-2010 | 2010-2011 |
|---|---|---|---|---|---|---|
| NATIONAL MEDIAN | 4.1 | 5.0 | 3.0 | 1.1 | 3.2 | 3.9 |
| MID EAST MEDIAN | 4.3 | 5.6 | 3.2 | 1.5 | 3.5 | 4.3 |
| RIDER | 3.2 | 4.6 | 3.0 | 0.9 | 2.3 | 2.3 |

**ATTACHMENT D**

# INTRODUCTION

The Financial Indicators Tool (FIT) is an annual financial benchmarking report provided by the Council of Independent Colleges (CIC) to presidents of member colleges and universities. Customized for each institution and containing an institution's unique data, the FIT presents a clear assessment of an institution's financial performance over time with benchmarking comparisons to similar institutions. The organization and format are similar to CIC's Key Indicators Tool (KIT), though the indicators in the FIT focus exclusively on financial conditions. The indicators in the FIT measure resource sufficiency, debt management, asset performance, and operating results. These four measures are then combined, resulting in one composite score for the overall financial health of the institution. The FIT distills the complex financial operations of a college or university into one concise report that can assist presidents in understanding and explaining to others the institution's fiscal state. Originally developed with support from the William Randolph Hearst Foundations, CIC gratefully acknowledges TIAA-CREF's continued generous financial support of CIC's benchmarking reports.

Now in its ninth year, the Financial Indicators Tool is produced for CIC by the Austen Group. Data are collected from two publicly available sources, the U.S. Department of Education's Integrated Postsecondary Education Data System (IPEDS) and GuideStar, which provides Form 990s filed with the Internal Revenue Service (IRS). Using public sources for data minimizes the need to collect information directly from colleges and universities. The report includes four commonly used financial ratios: primary reserve, viability, return on net assets, and net operating revenues. These four ratios are combined into a single index score, the Composite Financial Index (CFI), as described in the publication *Strategic Financial Analysis for Higher Education, Seventh Edition.* This method was developed by KPMG; Prager, Sealy & Co., LLC.; and Attain for use both in private and public higher education.

The financial indicators in this report are presented with data over a six-year period from academic year 2007–2008 through academic year 2012–2013, the most recent year for which data are available from public sources. Benchmarking comparisons for each of the four ratios and for the CFI are made with the same universe of colleges and universities found in CIC's Key Indicators Tool–all baccalaureate and master's level private, not-for-profit institutions–and represent the first attempt to apply the CFI methodology to this entire sub-sector of institutions. Like the KIT, this report makes comparisons by region of the country, financial resources, enrollment size, and Carnegie classification. The information in the FIT and the KIT is provided to member institutions to enhance institutional effectiveness and decision making. These confidential resources are prepared for the exclusive use of CIC member presidents, who in turn may choose to share some or all of the report with key staff, board members, or other campus constituents.

## OVERALL FINANCIAL HEALTH: THE COMPOSITE FINANCIAL INDEX

The Composite Financial Index (CFI) is a single indicator of overall institutional financial health based on performance in four principal domains of finance: sufficiency and flexibility of financial resources, management of debt, management and performance of assets, and results from operations. Each domain is measured by a core financial ratio:

- Primary Reserve Ratio - A measure of financial flexibility and resource sufficiency
- Viability Ratio - A measure of debt management
- Return on Net Assets Ratio - A measure of overall asset return and performance
- Net Operating Revenues Ratio - A measure of operating results

The "ratio map" below presents these basic concepts visually and can be useful in explaining the CFI.

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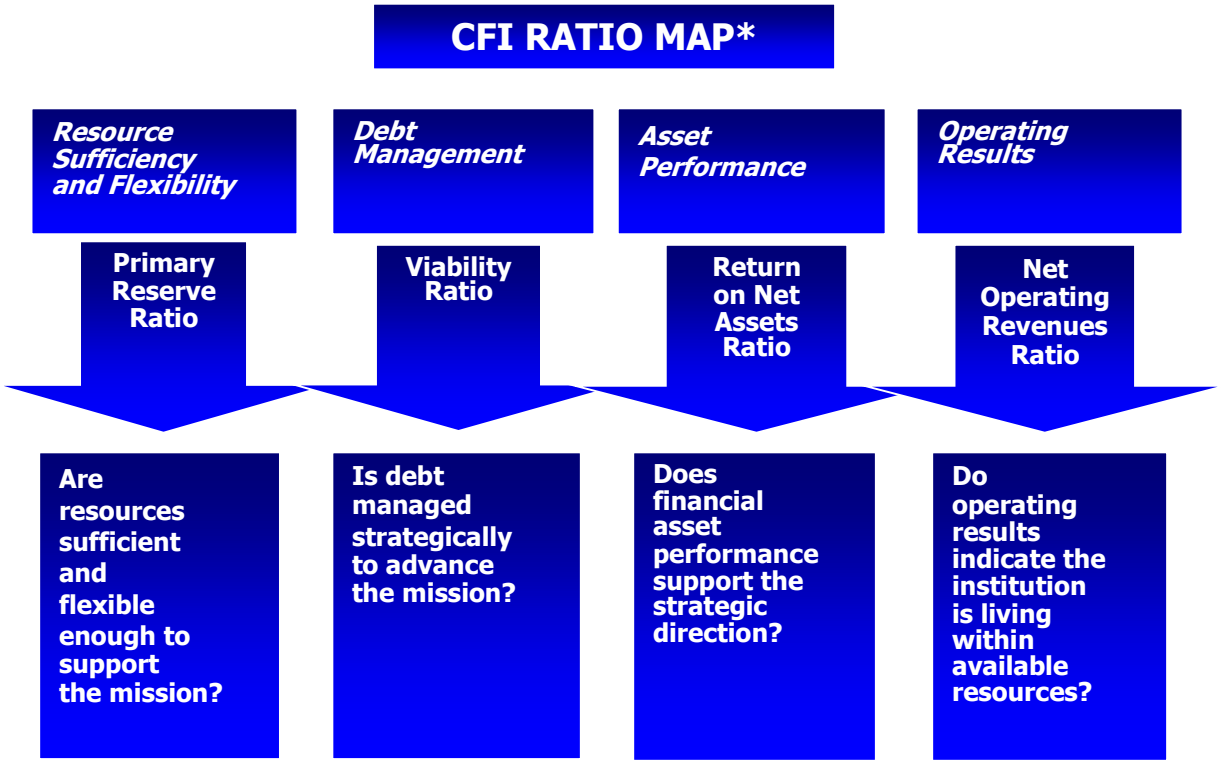


**Adapted from* Strategic Financial Analysis for Higher Education*, p. 107.*

Once the four ratios are calculated, each ratio is then converted into a "strength factor" which falls on a scale of -4 to 10. The strength factors provide standardized measurements of each ratio for comparative purposes. The strength factor scores are then weighted (primary reserve and viability ratios at 35 percent; return on net assets ratio at 20 percent; and net operating revenues ratio at 10 percent) and added together to create the composite score. For institutions with no long-term debt in a given year, the weighting is altered to reflect the absence of a viability ratio (primary reserve ratio at 55 percent; return on net assets ratio at 30 percent; and net operating revenues ratio at 15 percent).

The CFI score also falls on a scale of -4 to 10. A CFI score of 3.0 is considered the threshold for institutional financial health by the developers of the tool; a score of less than 3.0 suggests the need to address the institution's financial condition; and a score of greater than 3.0 indicates an opportunity for strategic investment to optimize the achievement of institutional mission. Since unique circumstances such as unusual short-term borrowing or a down-turn in the stock market can affect the CFI score, a long-term view over three to five years is recommended.

**Resource Sufficiency: *The Primary Reserve Ratio***

The primary reserve ratio measures the sufficiency and flexibility of financial resources by comparing expendable net assets to total expenses. In other words, the total available resources that an institution could spend on operations are divided by the total expenses for the year. This ratio represents the portion of a year the institution could meet financial obligations with assets readily available. For example, if funds that could be spent equaled four million dollars and total expenses equaled two million dollars, the ratio would be 2.0. In this scenario an institution could operate at the same level for two years with no additional revenue before all the expendable resources would be depleted. If the reverse was true, and funds that could be spent were two million dollars and total expenses over the year were four million, the ratio would be 0.5. Under this scenario an institution could operate for six months without additional revenue.

The recommended threshold for the primary reserve ratio is 0.4 (reserves to cover 40 percent of a year, or 4.8 months), indicating sufficient cash for short-term needs, facilities maintenance, and contingency reserves. A ratio below 0.15 (15 percent of a year, or 1.8 months) indicates possible short-term borrowing and insufficient reserves for reinvestments. A ratio of 1.0 or greater indicates reserves available to cover at least one year of expenses with no additional revenue.

### Debt Management: *The Viability Ratio*

The viability ratio measures the ability of an institution to adequately manage debt, indicating whether the institution can meet its entire debt obligation with expendable assets. To calculate this ratio, the total resources that an institution could spend on operations are divided by long-term debt. The numerator in the viability ratio—expendable net assets—is identical to the numerator in the primary reserve ratio, but the viability ratio compares resources that could be spent to long-term debt rather than to total expenses. When expendable funds equal long-term debt the ratio is 1.0. When expendable funds are twice the amount of long-term debt, the ratio is 2.0.

The threshold for the viability ratio falls in the range of 1.25 to 2.0. Dropping below a ratio of 1.0 would limit an institution's ability to fund new initiatives through debt and may identify the institution as a credit risk. Strategic debt can be valuable to an institution, but excessive or extended levels of debt jeopardize an institution’s ability to achieve its mission. A viability ratio greater than 2.0 is an indicator of robust financial health.

### Asset Performance: *The Return On Net Assets Ratio*

The return on net assets ratio measures asset management and performance, indicating whether an institution’s total assets, both restricted and unrestricted, are increasing or decreasing. This ratio is calculated by dividing the change in total net assets, from the beginning of the year to the end, by the total net assets at the beginning of the year.

The return on net assets ratio should fall in the range of 3 to 4 percent above the rate of inflation. So if the Consumer Price Index (CPI) is at 3 percent, a healthy return on the net assets ratio would be between 6 and 7 percent. Since both unforeseen and planned events can affect asset performance, in some years the ratio may fall below the recommended level. An occasional decrease is not a cause for concern if the financial reason for the drop is understood and if it results from an isolated financial circumstance from which the institution can recover. If, however, the return on net assets ratio is not 3 to 4 percent above inflation for a period of time, an institution should be concerned. Plant investment, a capital campaign, or a poor stock market can all affect this ratio in any given year, but the trend over time should be positive.

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## Operating Results: *The Net Operating Revenues Ratio*

The net operating revenues ratio gauges the outcome of institutional operations, indicating whether normal operations resulted in a surplus or a deficit. In other words, is the institution operating within available resources in its basic day-to-day function of educating students? The developers of the CFI offer two methods for calculating the net operating revenues ratio. This report uses the change in unrestricted net assets method that can be calculated using data publicly available from IPEDS and GuideStar (IRS Form 990). The ratio is calculated by dividing the change in unrestricted assets, from the beginning to the end of the year, by the total unrestricted revenue for the year. Restricted assets are not included in the calculation.

The challenge in calculating this ratio is determining what constitutes "normal operations" and what items may be exceptional or outside of normal operations. For example, faculty salaries and routine campus maintenance would be considered normal operations, but constructing a new science building would not. This ratio is also referred to as the Net Income Ratio. The similar return on net assets ratio includes everything that happened over the year—expected, unexpected, the stock market, operations, and so on—whereas the net operating revenues ratio is limited to basic operations.

The threshold for the net operating revenues ratio (using the change in net assets method included in this report) is 4 percent. A deficit in a single year does not necessarily indicate a problem, but deficits over several years are a cause for concern and suggest the need for restructuring institutional finances. Continued decline in the net operating revenues ratio may signal that the institution is reaching the stage when it will be too late to make the necessary changes in operations that would turn the institution around. One of the purposes of the net operating revenues ratio is to provide a bellwether to warn of such impending financial distress. Although the net operating revenues ratio only constitutes 10 percent of the Composite Financial Index, this small percentage is somewhat misleading since operating surpluses or deficits have an impact on all of the other three ratios over time.

## Liquidity: *A Threshold Consideration*

During the recent recession with the steep decline in market values and the severe tightening of credit issuing, most colleges and universities experienced unprecedented cash flow issues. As a result, the developers of the Composite Financial Index (CFI) methodology introduced a new consideration in the 2010 edition of *Strategic Financial Analysis for Higher Education*. Specifically, the authors recommended that college leaders consider whether the institution has sufficient liquidity to maintain operations at the current level. Their position is that a strong CFI score is no longer adequate if the institution does not have enough liquid assets or cash on hand to handle immediate expenses.

The liquidity ratio, calculated for both short-term and intermediate-term needs, measures the institution's ability to access cash quickly. The basic calculation is "Sources of Liquidity" divided by "Uses of Liquidity." In all cases, the result should be greater than 1.0, though many institutions would want to adopt a higher threshold. Sources of liquidity include cash on hand, operating funds, lines of credit, accounts receivable, and pledges or gifts anticipated. Uses of liquidity include operational expenses, endowment payouts, payments on debt, and anticipated capital investments. Each institution will want to establish its own specific measures for both short-term and intermediate-term liquidity. For additional guidance, please consult Chapter 4 of *Strategic Financial Analysis for Higher Education* (2010).

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## TURNING KNOWLEDGE INTO STRATEGIC ACTION

CIC's Financial Indicators Tool is designed to inform decision making and enhance institutional effectiveness. An institution's indicator scores as contained in this report are merely a reference-point for strategic decision making. Each score needs to be considered in light of the unique institutional context and mission, as well as the trend over time. This information is ideally translated into next steps, whether taking advantage of strong market position and good financial health, or charting a responsible path during a time of fiscal challenge. Knowing the rate and direction of change will help determine the appropriate sense of urgency with which action should be taken. Marginal financial health that is rapidly deteriorating calls for intense measures applied quickly. In most cases, successful financial turnarounds have included well-conceived fiscal strategies matched with closely monitored execution.

The developers of the CFI methodology recommend a series of mission-related implications based on a range of CFI scores as follows:

### CFI Performance Strategies

Adapted from Tahey, et al. (2010), *Strategic Financial Analysis for Higher Education*, *p. 96.*

These ranges suggest that small differences in CFI scores, for example, between 3.1 and 3.5, may not be meaningful, while larger differences, such as between 3.2 and 5.2, suggest different strategies for achieving missional objectives. Institutions with identical scores can have very different futures depending on the extent to which substantial investments in mission-critical objectives are needed to sustain performance. A very low CFI score may indicate financial distress and inadequate resources to accomplish missional objectives effectively. A very high CFI score may indicate that an institution's resources are not being deployed effectively, suggesting unrealized opportunities for robust achievement of mission.

| *CFI Range* | *Strategy* |
|---|---|
| *8 to 10* | Deploy resources to achieve robust mission |
| *6 to 9* | Allow experimentation with new initiatives |
| *4 to 7* | Focus resources to compete in future state |
| *2 to 5* | Direct resources to allow transformation |
| *0 to 3* | Re-engineer the institution |
| *-1 to 1* | Consider substantive programmatic adjustments |
| *-2 to 0* | Assess debt and Department of Education compliance and remediation |
| *-3 to -1* | Consider structured programs to conserve cash |
| *-4 to -2* | Consider whether financial exigency is appropriate |

### Federal Test of Financial Responsibility

The US Department of Education's Test of Financial Responsibility should not be confused with the Composite Financial Index used in CIC's FIT. The Financial Responsibility Test uses a composite score based upon three ratios, two of which are ratios also used in the CFI, the primary reserve ratio and the net operating revenues ratio (formerly called the net income ratio). The third ratio in the Department of Education's methodology is the equity ratio, which is a measure of an institution's ability to borrow. This composite index was developed for the Department of Education by KPMG to determine eligibility for Title IV funds. Its purpose is primarily to identify institutions that are at risk of precipitous closure (using a scale of -1 to 3). The CFI presents a more complete picture of an institution's financial strengths and weaknesses (using a scale of -4 to 10) and is a useful strategic indicator for institutions at various levels of financial health. Appendix B in this report allows institutions to calculate and compare CFI ratios and scores with those for the US Department of Education.

## FORMAT AND ANALYSES

***Individually Customized.*** A customized FIT report has been prepared for each CIC member institution. The institution's unique data are plotted against national and regional backdrops. The four core ratios and the CFI are presented in the same manner as the indicators in CIC's Key Indicators Tool with a few exceptions. There are no regional charts by financial resources, enrollment, size, or Carnegie classification for the four ratios; there are two extra worksheets, one showing the impact of the strength factor for each ratio on the CFI and one showing the 25th, 50th, and 75th percentiles for the entire national group of institutions; and brief strategy descriptions from the developers of the CFI are also included.

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***FIT Trends.*** This section at the front the FIT report provides a summary or dashboard-type presentation of the indicators in the FIT. This feature was developed in response to requests from CIC member presidents for summary charts that can be used in presenting benchmarked trend data to key constituents, such as trustees. This page contains a series of compact charts and graphs showing only the trend line for your institution compared to the national and regional medians.

***Medians versus Means.*** The FIT uses median values (identical to the 50th percentile). The advantage of using median values instead of the mean (or average) is that the median is less influenced by high or low extremes, thus providing a more meaningful mid-point for comparative purposes. Only institutions with complete data for all six years of the report are used in calculating group medians.

***Four Types of Comparisons.*** Explanations of the types of comparisons made in the report are found below. These criteria are identical to those used in CIC's Key Indicators Tool (KIT).

**1. Region:** Each institution is located in one of the six regional categories as outlined below. (Note: the regions vary slightly from those used in IPEDS.)

| | States |
|---|---|
| Far West | Alaska, California, Hawaii, Nevada, Oregon, Washington |
| Mid East | Delaware, District of Columbia, Maryland, New Jersey, New York, Pennsylvania |
| Midwest | Illinois, Indiana, Iowa, Michigan, Minnesota, Missouri, Ohio, Wisconsin |
| New England | Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont |
| Southeast | Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, South Carolina, Tennessee, Virginia, West Virginia |
| West | Arizona, Colorado, Idaho, Kansas, Montana, Nebraska, New Mexico, North Dakota, Oklahoma, South Dakota, Texas, Utah, Wyoming |

**2. Financial Resources Quartile:** Each institution was placed in one of four quartiles based on an institution's financial resources. The financial resource measure was calculated by converting two, equally weighted KIT indicators, Net Tuition Revenue per Student and Endowment Assets per Student. An average of the three most recent years for this calculation is used to create a percentile rank of all institutions in the dataset. The institutions were then assigned to a national and regional quartile. These are the same quartiles used for the 2014 KIT.

**3. Enrollment Size:** Institution size utilizes four enrollment categories: 1) fewer than 1,000 students; 2) 1,000 to 2,000; 3) 2,001 to 3,000; and 4) greater than 3,000. The first indicator, Student Enrollment based on total enrollment FTE, from CIC's Key Indicators Tool (KIT) was used to determine enrollment size.

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**4. 2010 Basic Carnegie Classification:** Comparisons are based upon the following five Basic Carnegie Classifications established in 2005: Baccalaureate Colleges-Diverse Fields, Baccalaureate Colleges-Arts & Sciences, Master's Colleges and Universities (smaller programs), and Master's Colleges and Universities (medium programs), and Master's Colleges and Universities (larger programs). These classification groups comprise 93 percent of CIC's membership. The 2010 Carnegie Classification updates for individual institutions were used for this report. For additional information about the Basic Carnegie Classifications, including definitions of various categories, please visit the Carnegie website:

http://classifications.carnegiefoundation.org/

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The following table shows the relative distribution of institutions in the FIT dataset within each region by national financial resource quartile, enrollment size category, and Carnegie classification.

| | Financial Resources | % | Enrollment Size | % | Carnegie Classification | % |
|---|---|---|---|---|---|---|
| **Far West** | Quartile 1 (top) | 44% | >3,000 | 30% | MA-Large | 31% |
| | Quartile 2 | 21% | 2,001-3,000 | 15% | MA-Medium | 19% |
| | Quartile 3 | 20% | 1,000-2,000 | 31% | MA-Small | 6% |
| | Quartile 4 (bottom) | 15% | <1,000 | 24% | BA-Arts & Sciences | 28% |
| | | | | | BA-Diverse Fields | 16% |
| **Mid East** | Quartile 1 (top) | 32% | >3,000 | 25% | MA-Large | 36% |
| | Quartile 2 | 27% | 2,001-3,000 | 32% | MA-Medium | 11% |
| | Quartile 3 | 29% | 1,000-2,000 | 33% | MA-Small | 8% |
| | Quartile 4 (bottom) | 12% | <1,000 | 10% | BA-Arts & Sciences | 29% |
| | | | | | BA-Diverse Fields | 16% |
| **Midwest** | Quartile 1 (top) | 20% | >3,000 | 24% | MA-Large | 24% |
| | Quartile 2 | 25% | 2,001-3,000 | 22% | MA-Medium | 13% |
| | Quartile 3 | 27% | 1,000-2,000 | 39% | MA-Small | 6% |
| | Quartile 4 (bottom) | 28% | <1,000 | 15% | BA-Arts & Sciences | 27% |
| | | | | | BA-Diverse Fields | 30% |
| **New England** | Quartile 1 (top) | 44% | >3,000 | 32% | MA-Large | 28% |
| | Quartile 2 | 25% | 2,001-3,000 | 22% | MA-Medium | 14% |
| | Quartile 3 | 10% | 1,000-2,000 | 24% | MA-Small | 5% |
| | Quartile 4 (bottom) | 21% | <1,000 | 22% | BA-Arts & Sciences | 35% |
| | | | | | BA-Diverse Fields | 18% |
| **Southeast** | Quartile 1 (top) | 14% | >3,000 | 18% | MA-Large | 12% |
| | Quartile 2 | 26% | 2,001-3,000 | 14% | MA-Medium | 9% |
| | Quartile 3 | 26% | 1,000-2,000 | 37% | MA-Small | 7% |
| | Quartile 4 (bottom) | 34% | <1,000 | 31% | BA-Arts & Sciences | 31% |
| | | | | | BA-Diverse Fields | 41% |
| **West** | Quartile 1 (top) | 15% | >3,000 | 14% | MA-Large | 25% |
| | Quartile 2 | 25% | 2,001-3,000 | 24% | MA-Medium | 11% |
| | Quartile 3 | 29% | 1,000-2,000 | 26% | MA-Small | 9% |
| | Quartile 4 (bottom) | 31% | <1,000 | 36% | BA-Arts & Sciences | 10% |
| | | | | | BA-Diverse Fields | 47% |
| **National** | | | >3,000 | 23% | MA-Large | 24% |
| | | | 2,001-3,000 | 22% | MA-Medium | 12% |
| | | | 1,000-2,000 | 33% | MA-Small | 6% |
| | | | <1,000 | 22% | BA-Arts & Sciences | 28% |
| | | | | | BA-Diverse Fields | 30% |

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## ABOUT THE DATA

The FIT contains data from approximately 800 four-year, private, not-for-profit colleges and universities in the United States belonging to the five 2005 Carnegie Basic Classification categories that represent 93 percent of CIC's membership: Baccalaureate-Diverse, Baccalaureate-Arts & Sciences, Master's-Smaller, Master's-Medium, and Master's-Larger. The number of institutions included in each chart and table vary somewhat due to incomplete data for some institutions. For each indicator, only institutions with complete data for all years of the comparison are included.

***Public Sources.*** The FIT uses data from two publicly available sources. As with the KIT, some data are drawn from the Integrated Postsecondary Education Data System (IPEDS), the major national source of public information on postsecondary institutions provided by the U.S. Department of Education's National Center for Education Statistics. In addition, the FIT utilizes data from institutional financial statements as reported to the Internal Revenue Service on Form 990 and made publicly available by GuideStar.

***Separate Financial Entities.*** A small number of private colleges and universities have foundations or other entities that contribute revenue, incur expenses, and/or house assets that need to be considered as part of the overall financial operations of the institution. In some cases, while these other entities report separately to the IRS, their activities are reflected in the institution's consolidated financial statement. Since it is important to capture a consolidated view of an institution's financial position, CIC asked that member colleges and universities identify foundations or other entities reporting on separate Form 990s that should be included in the FIT calculations. Where separate financial entities were identified and data were available, these values were incorporated into the FIT report.

***Institutional Aid.*** The guidelines for IPEDS stipulate that institutions follow NACUBO's Financial Accounting and Reporting Manual (FARM) when reporting financial information. These guidelines state that unfunded institutional aid in the form of tuition discounts should not be included in either total expense or total revenue amounts (FARM, paragraph 442). The assumption is that these guidelines were followed for the expense and revenue data in this report.

***Temporarily Restricted Net Assets.*** Temporarily restricted funds may include short-term funding designated for fixed assets (e.g., accumulated capital campaign funding prior to construction) or long-term funding that should not be considered as part of the financial flexibility computation (e.g., long term charitable remainder trust equity). In such circumstances, it is preferable to remove these amounts from the calculations of the primary reserve and the viability ratio computation. Otherwise, an institution's primary reserve and viability ratios may be somewhat inflated. In the Data Worksheet at the end of this report (DATA Tab or p. 31), the rows containing temporarily restricted net assets for the primary reserve ratio and for the viability ratio have been left unlocked. This allows an institution to make adjustments if local circumstances warrant. Inserting revised figures in these cells will automatically recalculate indicators throughout the report.

***Missing or Incorrect Data.*** In cases where data from public sources were missing, institutions were contacted twice to supply the necessary information to CIC. In addition, data retrieved from public sources (IPEDS or GuideStar) occasionally do not agree with institutional records. Data from public sources were not altered nor were missing values imputed unless corrected information was received directly from a participating institution. The data items used in an institution's analysis are shown on the DATA worksheet (p. 31). Institutions are encouraged to review their data contained in this report and submit missing or corrected values to CIC for inclusion in future FIT reports. When institutional data is missing in a table, Microsoft Excel defaults the missing value to a zero on the chart.

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***Projection Tool, Graphic Profile, and Appendix.*** A Projection Tool, Graphic Profile, and Appendix are provided at the end of the report. The DATA worksheet (p. 31) allows an institution to project its scores through 2015-2016 by inserting relevant values in the yellow cells. An additional column permits experimenting with various scenarios. Ratios are automatically calculated once data are entered. The PROJECTION worksheet (p. 32) charts the added data, displaying the impact of the four ratios on the CFI in a similar manner to the STRENGTH FACTORS worksheet (p. 25). The GRAPHIC PROFILE (p. 33) shows the relative strength of the ratios for each of the four years. The APPENDIX (p. 34) explains in detail the sources of the data, as well as the formulas for all calculations used in the report.

## THE COUNCIL OF INDEPENDENT COLLEGES

The Council of Independent Colleges (CIC) is an association of 750 nonprofit independent colleges and universities and higher education affiliates and organizations that has worked since 1956 to support college and university leadership, advance institutional excellence, and enhance public understanding of private higher education's contributions to society.CIC is the major national organization that focuses on providing services to leaders of independent colleges and universities as well as conferences, seminars, and other programs that help institutions improve educational quality, administrative and financial performance, and institutional visibility. CIC conducts the largest annual conference of college and university presidents. CIC also provides support to state fundraising associations that organize programs and generate contributions for private colleges and universities.

Additional information may also be found by visiting CIC on the web at:

www.cic.edu

For questions or comments about CIC's benchmarking services, including the Financial Indicators Tool (FIT), please contact Natalie Pullaro Davis, director of research projects, by phone at (202) 466-7230 or by email at

ndavis@cic.nche.edu

## AUSTEN GROUP

In addition to its national benchmarking work for private colleges, the Austen Group provides operational analyses and reporting tools for individual institutions in the areas of academic program costs and demand and the analyses of co-curricular costs and demand. These tools assist administrators in making informed decisions regarding the efficiency and effectiveness of university operations. Michael Williams, president, is the primary Austen Group contact for CIC's Financial Indicators Tool initiative. He may be reached at the email addresses below.

mwilliams@austengroup.com

## TIAA-CREF

TIAA-CREF helps provide lifelong financial security for those in the academic, cultural, governmental, medical and research fields. We invest for the long term and apply our deep expertise across a wide range of traditional and alternative assets. Our mission to serve, our record of performance and the values we embrace make us a different kind of financial services company.

www.tiaa-cref.org

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## FOR ADDITIONAL READING

For additional information about indicators of institutional strength and performance, please consult the following publications:


Alstete, J. W. (1995). *Benchmarking in Higher Education.* ASHE-ERIC Higher Education Report No. 5. Washington, DC: The George Washington University Graduate School of Education and Human Development.

Borden, V. M. H. & Banta, T. W. (1994). *Using Performance Indicators to Guide Strategic Decision Making.* New Directions for Institutional Research, No. 82. San Francisco, CA: Jossey-Bass.

Burke, J. C., & Minassians, H. P. (2002). *Reporting Higher Education Results: Missing Links in the Performance Chain.* New Directions for Institutional Research, No. 116. San Francisco, CA: Jossey-Bass.

Chabotar, K. J. (1989). Financial Ratio Analysis Comes to Nonprofits. *Journal of Higher Education, 60 (2),* 188-208.

Chabotar, K. J. (2006). *Strategic Finance: Planning and Budgeting for Boards, Chief Executives, and Finance Officers.* Washington, DC: Association of Governing Boards.

Hartley, H. V. (2009). Benchmarking Tool Provides National Comparisons. *NACUBO Business Officer, 42 (10),* 17.

Hignite, K. (2009). Diagnosing Fiscal Fitness. *NACUBO Business Officer, 42 (10),* 14-20.

Hudack, L. R., Orsini, L. L., & Snow, B. M. (2003). How to Assess and Enhance Financial Health. *NACUBO Business Officer, 36 (10),* 31-39.

McCormack, A. & Walstra, R. (2010). Reversal of Misfortune. *NACUBO Business Officer, 43 (7),* 13-17.

Minter, J., & Peat, Marwick, Mitchell, and Company. (1980). *Ratio Analysis in Higher Education: A Guide to Assessing the Institution's Financial Condition.* New York: Peat, Marwick, Mitchell, and Company.

Prager, F. J., Cowen, C. J., Beare, J., Mezzina, L., Salluzzo, R. E., Lipnick, J. & Tahey, P. (2005). *Strategic Financial Analysis for Higher Education.* (6th ed.): KPMG, Prager, Sealy & Co., LLC, and BearingPoint, Inc.

Tahey, P., Salluzzo, R. E., Prager, F. J., Mezzina, L., & Cowen, C. J. (2010). *Strategic Financial Analysis for Higher Education: Identifying, Measuring & Reporting Financial Risks.* (7th ed.): KPMG, Prager, Sealy & Co., LLC, and Attain.

*Note: This work defines and describes the CFI and its components in depth. CIC uses the material in the FIT report with permission of the copyright holders. Please note the second paragraph on page 86 of Prager, et al: "The CFI…must be analyzed in context with…activities and plans to achieve an assessment of …overall health, not just financial health…. When put in context of achievement of mission, a very high CFI…may indicate a failing institution."*

Taylor, B. E., Meyerson, J. W., & Massy, W. F. (1993). *Strategic Indicators in Higher Education: Improving Performance.* Princeton: Peterson's Guides.

Townsley, M. K. (2009). *The Small College Guide to Financial Health: Weathering Turbulent Times.* Washington, DC: National Association of College and University Business Officers.

Townsley, M. K. (2014). *Financial Strategy for Higher Education.* Lulu Publishing Services.

**ATTACHMENT E**

PRAGER & CO., LLC

INVESTMENT BANKERS

To: Rider University

From: Prager & Co., LLC

Re: Assessment of AAUP Consultants' Reports

Date: October 28, 2015

Prager was asked to assess the two AAUP reports from Howard Bunsis and Rudy Fichtenbaum (provided September 22, 2015). Generally, both reports demonstrate an incomplete understanding of current financial analytical practices, and are devoid of appropriate benchmark comparisons to support stated conclusions.

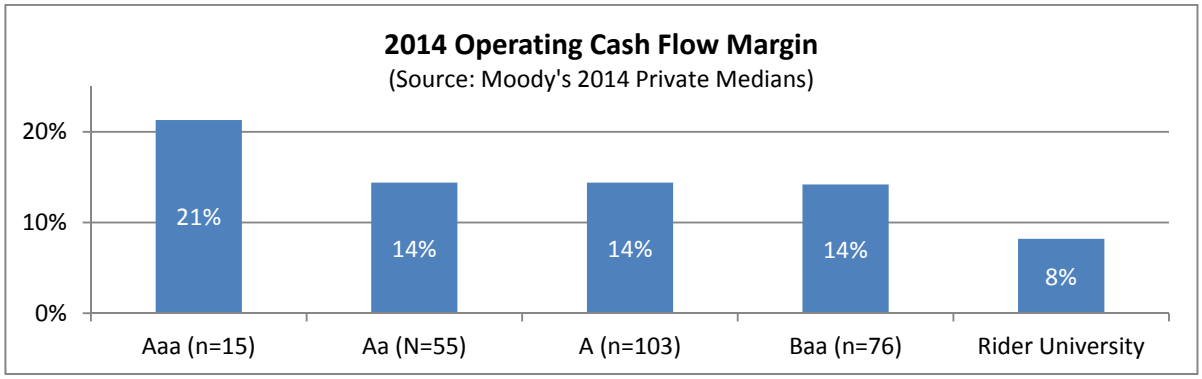
## CASH FLOW

Dr. Bunsis states "The S&P report does suggest that cash flows…are solid". This is both false and a mischaracterization of S&P's comments. S&P does not assess "cash flow" in their report. They do repeatedly cite operating deficits. Dr. Fitchenbaum suggests cash flow is "positive and healthy". We strongly disagree with this assertion.

Dr. Bunsis' "Cash Flow Ratio" is very close to our calculation of the Operating Cash Flow Margin—one of the more important ratios[1] in assessing the financial health of a revenue-dependent institution. Our measure of this ratio is slighty stronger than that of Dr. Bunsis':

| Operating Cash Flow Margin ($000's) | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|
| Operating Revenues | 150,079 | 153,584 | 153,198 | 157,331 | 157,146 |
| Operating Expenses | 148,166 | 152,872 | 152,979 | 156,343 | 155,997 |
| Depreciation | 8,157 | 9,038 | 9,140 | 9,800 | 10,426 |
| Interest Expense | 2,764 | 2,508 | 2,249 | 2,152 | 1,941 |
| Operating Cash Flow | 12,834 | 12,258 | 11,608 | 12,940 | 13,516 |
| Operating Cash Flow Margin | 8.55% | 7.98% | 7.58% | 8.22% | 8.60% |

Dr. Bunsis' assertion that Rider's cash flow ratio is "very strong" is simply wrong. Rider's 8.6% is in fact fairly weak, consistent with a Baa3/BBB- credit. Moody's median Baa operating cash flow margin in 2014 was 14.4%, significantly higher than Rider's.




[1] Moody's (not S&P) 2014 quantitative rating has five ratios which comprise 50% of the quantitative score; this is one.

### TUITION REVENUE

Rider's increase in Net Tuition Revenue from 2014 to 2015 was primarily a result of a 4.5% increase in tuition pricing. The fact that this only increased Net Tuition Revenue by 1.3% was due to increased discounting and reduced enrollment. With an approximately 70% selectivity rate and declining matriculation, Rider has diminishing pricing power to push further tuition increases in light of a challenging enrollment environment.

Dr. Bunsis suggests that the change in Net Tuition from 2014-2015 is more important than the enrollment decline from 2009-2014, but we would argue that neither is a particularly instructive number. What is particularly relevant are the lasting impacts of the enrollment declines from 2012-2015 (and expected challenging environment going forward) on both Net Tuition Revenue and Auxiliary Revenue. Generally, a one-year decline in enrollment will harm Rider for four years, so when combined with the demographic reality facing all higher educational institutions, the likely future trend will be negative.

Pointing to one year of revenue growth is not helpful in understanding the significant financial headwinds Rider faces over the next decade due to a declining number of New Jersey high school graduates entering a competitive higher education landscape.

### FUNDRAISING

Dr. Bunsis' assertion that fundraising is not covering its own expenses is false. The Advancement Office is responsible for both non-operating (endowment contributions of $792,000 in 2015) and operating contributions ($4,371,000 in 2015)[2]. Although down from 2014 to 2015, $5.61 million is decidedly larger than $2.8 million of fundraising expenses.

### EXPENSE ANALYSIS

Dr. Bunsis asserts that "instruction went down while institutional support went up" and that "if instruction changed in the same manner than institutional support did, then it would have increased $2 million instead of going down about ½ a million."

Although we do not view this as particularly relevant, at face value this is an accurate assessment. However, as an example, institutional support includes expenses for doubtful student accounts receivable (which are identified on the statement of cash flows).

| Numbers in $000's | | | Change | |
|---|---|---|---|---|
| | **2014** | **2015** | **$** | **%** |
| Institutional Support | 20,961 | 21,639 | 678 | 3.2% |
| less: Expense for doubtful student accounts receivable | (447) | (1,407) | (960) | 214.8% |
| | 20,514 | 20,232 | (282) | -1.4% |
| Instruction | 63,323 | 62,857 | (466) | -0.7% |

When making this adjustment, Institutional Support declined by double the percentage of Instruction's decline.

[2]Corporate and foundation grants are also raised by Advancement, and these are incorporated in the "Grants and Contracts" line item. Although not separated out in the financials, the University suggests that this amounted to $383,000 in 2014 and $678,000 in 2015, which is in addition to the amounts listed above.

**RESERVES**

Financial analysts' use of the term "reserves" when discussing endowed institutions is generally limited to qualitative statements, as there is no accepted definition of "reserves". Dr. Bunsis mischaracterizes S&P's assessment, "The S&P report does suggest that cash flows and reserves are solid". S&P says several things on this subject:

- "financial resources we consider only just-adequate"
- "modest endowment"
- "Low-but-adequate financial resources for the rating category"

We cannot construe any of this as implying "solid" reserves. On the contrary, the S&P report must be interpreted within the context of the rating category of BBB institutions.

The Primary Reserve Ratio is the best indicator of balance sheet strength for an institution—Expendable Resources divided by Operating Expenses—essentially, what is the sum of net assets that could ever be expended on operations, versus annual operating expenses. S&P calculates this ratio to be 16.1% for Rider in FY2014. For comparison, S&P's 2014 medians are shown below:

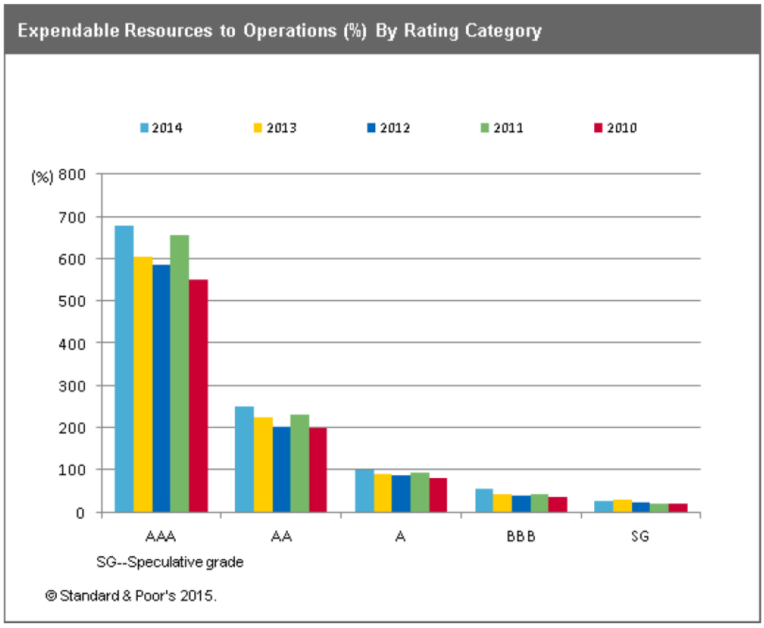
| Rating | AAA | AA | A | BBB | Speculative grade |
|---|---|---|---|---|---|
| Sample size | 12 | 51 | 97 | 85 | 18 |

| Expendable resources to operations (%) | | | | | |
|---|---|---|---|---|---|
| Median | 676.6 | 250.4 | 97.9 | 54.5 | 24.8 |
| Mean | 691.2 | 274.7 | 123.2 | 55.3 | 34.0 |

On average, AAA-rated institutions have expendable resources of seven times their annual operating expenses. Speculative-grade (also referred to as "sub-investment grade") institutions have an average of 34% of operating expenses. **Rider has 16.1%.**

This is why S&P says "low-but-adequate financial resources for the rating category," that category being the bottom 35th percentile of investment-grade rated institutions that S&P covers.

Rider does not have a strong balance sheet, and while the median has been increasing over the last five years in all rating categories (see chart at right), Rider's has been decreasing.



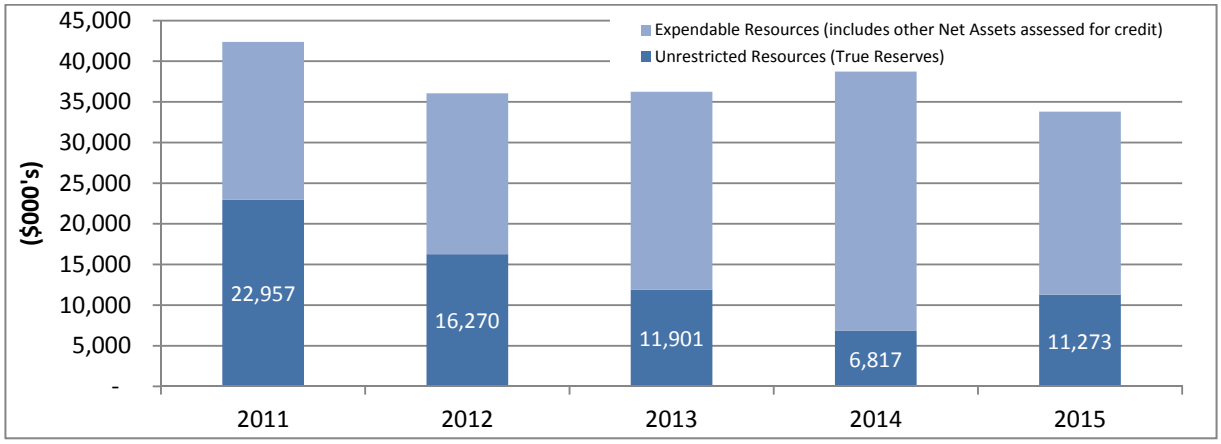
In our view, true "reserves" are really Unrestricted Resources, defined in Rider's Case in 2015 as:

| | |
|---|---|
| Unrestricted Net Assets ($000's) | 75,910 |
| - Unrestricted Net Investment in Plant | (66,551) |
| - Construction in progress funded by contributions and grants | 1,914 |
| | 11,273 |

The adjustment resulting from construction in progress is relatively small but instructive. Although it is currently a number which subtracts from unrestricted net assets in 2015 (cash has gone out the door), it is expected to release (soon) temporarily restricted net assets to reimburse the University, accordingly, this *is* like Dr. Fichtenbaum's Account Receivable. Because we have temporarily restricted net assets—and the conditions of their release is in the process of being met—we give credit to unrestricted net assets currently (from a credit standpoint—the University is not allowed to do this on their financial statements).

When we make these sorts of adjustments, we compute an Expendable Resources to Operations ratio of 22%, better than 16%, but still very low in the landscape of rated higher educational institutions.

Most worrisome for Rider is the trend in Expendable Resources:




Rider's budgetary imbalance has led to declining financial resources under any measure, and absent additional budgetary adjustments, this negative trend will continue—at a time when peer institutions are gaining financial resources.

### Temporarily Restricted Operating Revenues

Rudy Fichtenbaum's analysis contends that temporarily restricted operating revenue should be added to total operating revenue by the University, suggesting that temporarily restricted revenues are akin to accounts receivable. In effect he is saying that the University is not properly accounting for temporarily restricted operating revenue in its financial analysis. On the contrary, the University is following standard accounting and legal practice, and adding temporarily restricted net assets *released from restriction* to operating revenues when reporting income.

Temporarily Restricted Operating Revenues cannot currently be used for *any* expenses. When Temporarily Restricted Net Assets have their restriction released, they become "other support" on the Statement of

Activities, and are appropriately accounted for by the University as Operating Revenues in all of the reports provided by to AAUP[3].

"Expendable" is a specific term of art in not-for-profit credit analysis—it does not mean "able to be spent". The term was created to separate assets which *may* eventually be used to pay for obligations or operating expenses—from those which may *never* be used to pay for operating expenses or obligations (i.e. Permanently Restricted Assets). Expendable Net Assets (and "Expendable Resources", a more nuanced calculation which removes assets which will not be available to pay for expenses) are calculated by the credit community to assess what resources may eventually be available. They are not "reserves" in the sense that Drs. Bunsis and Fichtenbaum suggest—particularly in those cases where Rider does not actually have the funds, such as with restricted pledges receivable. They are included in credit analysis because Rider may be able to borrow against such funds, but they are not available to be spent.

Accounts Receivable are typically received (or written off as doubtful) within months or a few years, whereas Temporarily Restricted Revenues are often not able to be spent for years or even decades. A $10 million gift given in equal $1 million amounts over ten years is reflected as $1 million of unrestricted revenue and $9 million of temporarily restricted revenue, $1 million of which is released each year[4]. The $9 million pledge receivable is booked in the year committed as temporarily restricted net assets,but it is not remotely spendable. In the case of charitable remainder trusts or unitrusts (split-interest agreements), funds may not be spent until the donor's death, which may be many years from the date of the donation. *Using such funds for current expenses would both be a breach of fiduciary duty, a violation of the Uniform Prudent Management of Institutional Funds Act, and in many cases illegal.*

Rider does not have a choice in allocating between fund categories—that choice is made implicitly and explicitly by the donor. University staff would like nothing better than to only receive unrestricted funds, but they cannot legally or practically do so. Including the change from the draft to actual financials in 2014, the University has accurately reported operating revenue and expenses—consistent with current accounting guidance and financial analytic practices.

**OBSERVATIONS**

Dr. Bunsis and Dr. Fichtenbaum are doing a disservice to Rider University and AAUP by mischaracterizing Rider's financial position and entirely ignoring financial pressures which are unlikely to abate for a decade or more. The increasingly competitive higher education landscape and unfavorable demographics are not a surprise to industry observers or forward-thinking institutions—they have expected and been preparing for this environment for years. Further delays in Rider's ability to reduce costs puts the University at an increasing competitive disadvantage.

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[3] Each time Rider has reported "Operating Revenues", they are in fact reporting "Operating Revenue and Other Support", which includes assets released from restrictions, as is the standard in analysis of not-for-profit financial statements.

[4] "Receipts of unconditional promises to give with payments due in future periods shall be reported as restricted support unless explicit donor stipulations or circumstances surrounding the receipt of a promise make clear that the donor intended it to be used to support activities of the current period. For example, receipts of unconditional promises to give cash in future years generally increase temporarily restricted net assets." – FAS 116 Standards of Financial Accounting and Reporting Item 15 – http://www.fasb.org/resources/ccurl/770/425/fas116.pdf

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PRAGER & CO., LLC
INVESTMENT BANKERS

To: Rider University

From: Prager & Co., LLC

Re: Prager Credit Assessment

Date: October 28, 2015

With downgrades to BBB by Standard & Poor's (August 2015) and Baa2 by Moody's (October 2014), Rider will face increased borrowing costs and more challenging terms for any future borrowing. Rider's relatively low degree of leverage and historical results are positive credit factors, while a very limited balance sheet, and likely operating deficits for the next several years are significant credit negatives.

Moody's is in the process of adopting a new quantitative scorecard for assessing higher education credits. Running this scorecard with Rider's 2014 financials results in a score of 8.55, or a strong Baa2 (scores between 8.5 and 9.5 are considered a Baa2, where lower numbers are better). With the operating deficit of 2015, Rider moves towards the middle of the Baa2 range, with a score of 8.85:

| Moody's Global Higher Education Scorecard | Sub-Factor Weights | Value | Score | Implied Rating |
|---|---|---|---|---|
| **Factor 1: Market Profile (30%)** | | | | |
| Operating Revenue ($000) | 15% | 157,146 | 6.00 | A |
| Annual Change in Operating Revenue (%) | 5% | -0.12% | 15.00 | B |
| Strategic Positioning (Qualitative Factor) | 10% | Good | 9.00 | Baa |
| **Factor 2: Operating Performance (25%)** | | | | |
| Operating Cash Flow Margin (%) | 10% | 8.60% | 9.00 | Baa |
| Revenue Diversity (Max Single Contribution) (%) | 15% | 90% | 15.00 | B |
| **Factor 3: Wealth & Liquidity (25%)** | | | | |
| Total Cash and Investments ($000) | 10% | 84,134 | 9.00 | Baa |
| Spendable Cash & Investments to Operations (x) | 10% | 0.31 | 9.00 | Baa |
| Monthly Days Cash on Hand (x) | 5% | 103 | 9.00 | Baa |
| **Factor 4: Leverage (20%)** | | | | |
| Spendable Cash & Investments to Total Debt (x) | 10% | 0.99 | 6.00 | A |
| Total Debt to Cash Flow (x) | 10% | 3.55 | 3.00 | Aa |
| **Total Scorecard Indicated Outcome** | | | **8.85** | **Baa2** |

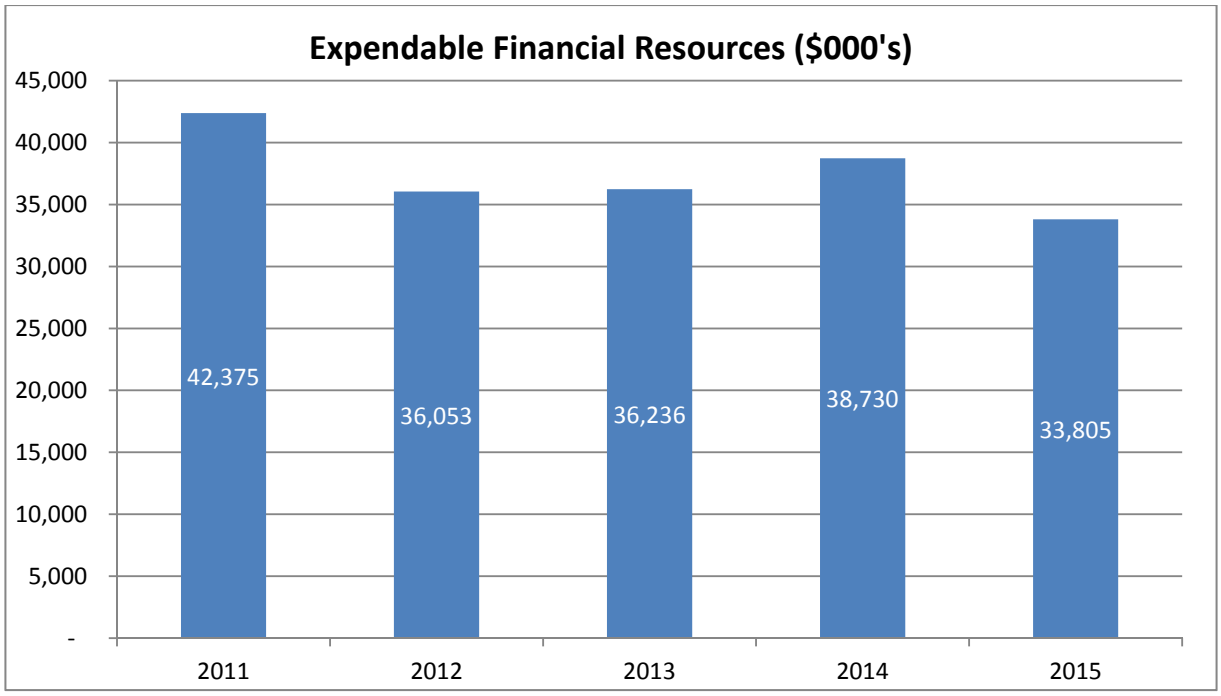
Each scoring element has an attendant Implied Rating on the right, with Factor 4 (Leverage) in the A/Aa category, while Wealth (Factor 3) is solidly Baa, and Operating Performance (Factor 2) is Baa/B, with B being a sub-investment grade rating. Market Profile (Factor 1) covers a large range, from B to A. While the magnitude of operating revenues is associated with A-rated instutions, the negative change in the University's operating revenue is associated with a sub-investment grade implied rating of B.

Both rating agencies relied on 2014 financial statements, with S&P having more information due to their later review. The actual 2015 results, combined with likely future operating deficits, expose the University to

further negative rating action from both agencies upon their next reviews, absent an improvement in operating performance.

Looking *solely* at the University's balance sheet, Rider could increase leverage (increase debt relative to assets) and retain a Baa2 rating. However, potential lenders will not focus only on the balance sheet from an affordability standpoint; Rider's operating results do not reflect incremental debt capacity. Any increased interest expense would further strain a budget which already has operating deficits expected for several years due to enrollment pressures and inflexibility in managing instructional expenses.

Without offsetting revenues, the deficits will continue to diminsh Expendable Resources (utilized in Moody's prior scorecard) making it increasingly difficult to obtain financing on favorable terms.




Rider's investment grade rating allows it to continue to access the capital markets, but on an increasingly expensive basis—even in the current interest rate environment. However, lenders are likely to impose covenants which may impair Rider's operating flexibility for years to come and may not be acceptable to the University. At Rider's rating level, such covenants on future borrowings are likely to have relatively narrow margins, and if breached could result in very negative consequences, such as an acceleration of Rider's outstanding debt or the imposition of an outside administrator.

Especially in light of the challenging enrollment environment ahead, it is essential for the University to develop and implement a plan to return to operational balance with growing resources.

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