Howard and I spoke about issues raised in e) and f). Here are my comments.

The issue in e) is when calculating operating revenues do you use just unrestricted or do you include temporarily restricted operating revenues. The administration contends that you should look only at unrestricted operating revenues. They specifically claim that the administration and outside ratings agencies exclude temporarily restricted revenue. This is followed by a long explanation of temporarily restricted net assets. There is nothing wrong that I can see with the explanation of how temporarily restricted net assets work. A donation is made with a condition and when the condition is met, the revenue becomes unrestricted.

However, there both Howard and I disagree with the administration's contention that temporarily restricted operating revenue should be excluded from operating revenue. Temporarily restricted operating revenue is still operating revenue. That is why the audited statement, when it calculates total operating revenue adds the two columns together. To claim that that is not revenue that can be used now is silly, because it implies that revenue is cash. However, we know that whenever you have an increase in receivables they show up on the statement of activities as revenue. So the claim that we have this revenue (temporarily restricted operating revenue) but it is not really operating revenue because we can spend it now is also true of receivables that are part of unrestricted revenue. The administration is counting on the fact that most people do not understand the difference between revenue and cash and so when they reduce their revenue they are claiming that they need to make budget cuts
. Of course we know that budgets are just plans anyway and have nothing to do with actual revenues and expenses. So again the administration is mixing revenue, cash and budgeted expenses but these are all different. This is like claiming we are in trouble because budgeted revenue is less than actual expenses. This ignores the fact that actual revenue could also be higher than budgeted revenue.

Moreover, the claim that both Rider and ratings agencies do not count temporarily restricted net assets when calculating operating revenue is misleading. First, Howard believes that the administration move funds between unrestricted and temporarily restricted all the time. But somehow now they are claiming that when funds are temporarily restricted they are in a lock box and should not be counted. This is reminiscent of the Social Security “lockbox”!

The misleading nature of the claim made by the administration can be seen by the administration’s own definition of expendable net assets (see f). The term “expendable net assets” as the sum of temporarily restricted and temporarily restricted net assets. Expendable net assets are those assets that are available to meet the obligations of an institution. The change in expendable net assets is positive when unrestricted and temporarily restricted revenue is greater than operating expenses. So would the administration claim that if expendable net assets increase it doesn’t really matter? Rating agencies use many different financial ratios and there is a ratio of net unrestricted revenue/unrestricted revenue. But so what? There is also a ratio of the change in net assets/total revenue. Ratios are indicators and you can’t rely just one one ratio. In my opinion the administration is misusing or taking advantage of the fact that this one ratio is going down to make an argument to cut your salaries.

Remember that even when net unrestricted revenue is negative that this calculation includes depreciation which is a non-cash expense. In theory an institution could continue to meet it obligations for years even if revenue is less than expenses as long as the deficit is smaller than the depreciation expense. In other words, they could still pay all of their vendors, pay for the utilities and employees while running an operating deficit. What is most important for operations is cash. And when you look at Rider’s cash flow – its operating cash flow even if your subtract interest payments it is positive and healthy.

As to what is happening in f) I don’t know where they got the $4,438 for unrestricted net assets in the original table for 2014. The $784,000 looks right to me. The thing that is puzzling actually is the low number that Rider uses for Temporarily restricted net assets. For 2014 they show $31,914 but their own highlighted number from the 2014 Balance Sheet is 38,455.

By the way, as I am sure you have already noted, unrestricted net assets for 2015 were $9,359 million, up from $784,000. Interestingly, temporarily restricted net assets went down from $38,455 million to $26,540 million.

I am attaching a memo from Howard. I redid the first table on reserves but the rest of the memo Howard wrote. Naturally I agree with Howard’s analysis.

Hope this helps. I am copying Howard in case he thinks I have gotten something wrong or wants to chime in with some more comments on my analysis.

Best

Rudy

Rudy Fichtenbaum