

Big Rich School

We are pleased to present our financial analysis to the Big Rich School. Our report is designed to analyze each school's existing financial condition as compared against industry benchmarks, evaluate capacity for additional leverage, offer commentary on the overall financial structure, and finally to suggest changes or scenarios for improvement. This preliminary report will be subsequently refined as we meet with each school to confirm our assumptions.

Strengths and Weaknesses

As is no surprise to the big rich school, balance sheet and cash-flow ratios are all exceptional.

- *Balance sheet* is currently under-leveraged as compared to relatively liquid accumulated assets. Expendable financial resources/debt of 5.61 compares very favorably to the industry benchmark of 1.07.
- *Cash-flow*: Net operating margin of 13.76% compares exceptionally with 3.00% industry benchmark. Debt service coverage and debt service to operations also compare extremely well.
- *Revenue mix*: Tuition and investment income, as proportionate contribution to total income, exceed investment grade benchmarks, and are comparable to the mostly highly rated schools. Annual gifts have been relatively insignificant.

Strategic Capital Allocation

- *Incremental debt capacity* conservatively varies from \$75-\$200 million. A strong balance sheet is somewhat undermined by the school's ability to meet debt service payments.
- Endowment funds, annual gifts, etc. seem fine to us.

Our Thoughts

- We have been asked our opinion as to the credit rating the school can expect to receive on a future borrowing. Big Rich School can easily and conservatively borrow about \$70 million at an investment grade rating of Baa. Ultimately, the rating on any borrowing will depend on the size, purpose, and collateral. An A rating is achievable with the right combination of collateral, etc.