

An Analysis of the Financial Statements

of

**Rider University
Academic Years 2002-2006**

Prepared for AAUP

By

**Rudy Fichtenbaum
Professor of Economics
Department of Economics
Wright State University
Dayton, OH 45435**

(937) 775-3085

rfichtenbaum@sbcglobal.net

Introduction

This report provides an analysis of the financial status of the Rider University for the years 2002 through 2006. The analysis contained in this report is based on information contained in the audited financial statements.

Traditionally, universities, like other non-profit organizations use a system of accounting known as “fund accounting.” The reason why universities use this system of accounting has to do with their purpose as an institution of higher learning. The goal of for-profit businesses is to earn a profit. Thus, their financial statements are designed to allow stockholders and others concerned with their profitability a means to monitor their performance in meeting their primary objective. Universities and other non-profit organization have an entirely different purpose. Universities are established as institutions of higher learning primarily to create and disseminate knowledge. Universities receive a significant portion of their funding from donors and governmental entities. These funds are often given with certain restrictions and conditions. The primary purpose of fund accounting is to provide trustees, who are legally responsible for running universities, the information to monitor the funds that come into the institution and make sure that they are expended for their intended purpose.

Since the primary purpose of fund accounting systems was to ensure that funds are expended in the manner they were intended by donors or government entities it was difficult for faculty to look at a university’s financial statements and get a true picture of the university’s financial health. Although universities continue to use fund accounting they have in recent years changed the reporting structure in their annual financial statements so that they more closely resemble those used in the for-profit sector.

Most often, faculty members are misled by looking only at a university’s budget. A budget is just a financial plan. However, institutions have no legal obligation to spend money in accordance with their budget. For example, a budget may show that money has been allocated for a certain number of faculty positions. However, administrations routinely leave faculty positions vacant and are thus able to spend the money that has been budgeted for faculty positions for other purposes. To get a true picture of a university’s finances one must look at the actual financial statements, which represent the actual revenues and expenditures of the university. Evaluating a university’s finances by looking at its budget would be the equivalent of evaluating the performance of a for profit company by looking at its business plan.

In a for-profit business, revenues come into the business through the sale of goods and services. In the process of producing goods and services firms incur costs. The difference between revenues and costs represents the firm’s profit or loss. This profit or loss is one of the primary indicators of how the firm is performing. Non-profit organizations such as universities take in revenue in the form of tuition dollars, donations and governmental support. In the process of carrying out the mission of the institution they incur expenses. The difference between the revenues that come into a university and its expenditures has traditionally been referred to as a change in fund balance. If a university takes in more revenue than it expends there is a positive increase in fund balances. Conversely, if the expenses exceed the revenues there is a decrease in fund

balances. Increase or decreases in fund balances are one of the prime indicators of how a university is performing financially. With the transition to the new reporting system, which mirrors the reporting system used in the for-profit sector, changes in fund balances are referred to as a change in net assets.

Under the new reporting system universities have three basic statements which summarize the financial position of the institution. The first statement is a Statement of Financial Position. This statement provides information on the assets and liabilities of the institution. The second statement is a Statement of Activities which shows the revenues and expenses of the institution. The final statement is a Statement of Cash Flows which provides information on changes in the cash holdings of the institution resulting from operations, investments and financing activities.

Apart from looking at absolute numbers, such as the increase or decrease in net assets, this report will also calculate certain ratios, which are indicators of financial performance. These ratios can be used to look at the historical performance of the institution. In addition, these ratios can also be used to compare one institution to another institution, assuming that most institutions use generally recognized accounting procedures as set forth in Audits of Colleges and Universities a publication of the American Institute of Certified Public Accountants. However, caution should be exercised particularly at lower levels of detail because of differences in reporting.

The purpose of this report is to help educate faculty at Rider University about the financial status of their institution. The report contains three major sections. The first section will review the assets and liabilities of the university. The second section will examine the revenue and expenses of the university. The final section will summarize the findings of this report and draw conclusions about the financial status of the institution.

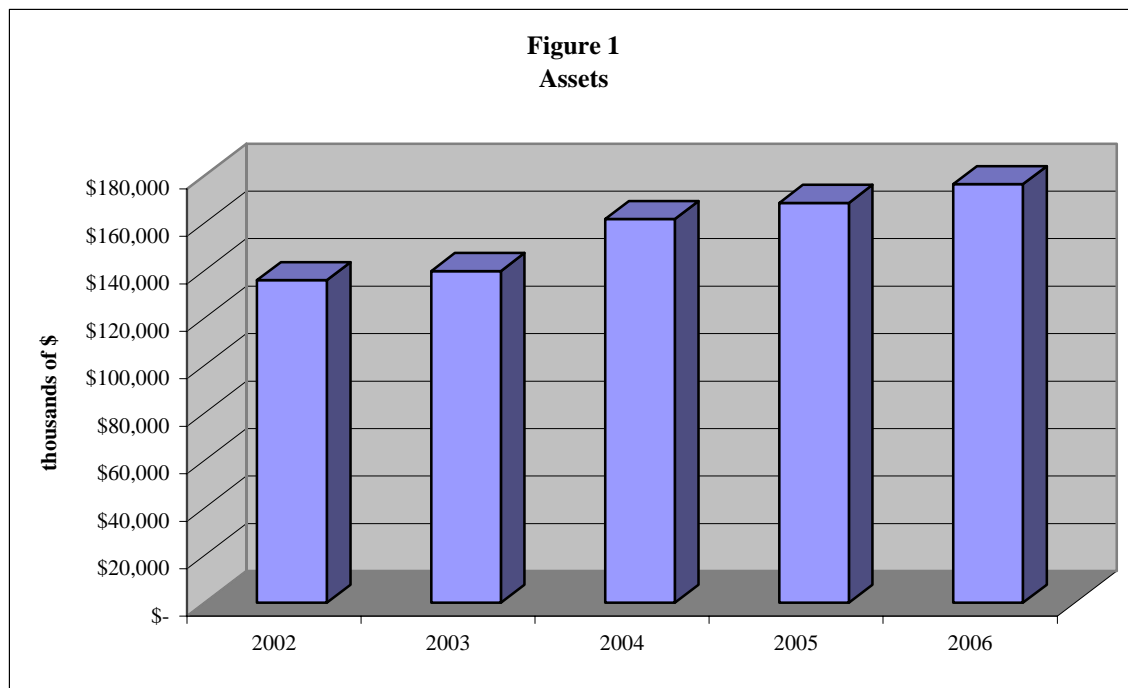
The information provided in this report is provided solely for educational purposes. Every effort has been made to ensure that the information in this report is accurate. Any errors or misstatements are purely unintentional and the author accepts no responsibilities for any damage that may result.

What are resources owned by the University?

Assets and Liabilities

An asset is something that an institution owns that is expected to provide a benefit in the future. Assets can be divided into two classes: real assets such as classrooms, laboratories, computers, library books and journals etc., and financial assets such as cash that can be used to make student loans and finance current operations, and investments in financial instruments such as endowments which can be used to generate income to defray certain expenses or be liquidated during a period of a financial crisis. Table 1 shows the assets, liabilities and net assets of Rider University.

From 2002 to 2006 total assets at Rider have been increasing. Figure 1 shows the total assets of Rider University. Total assets increased by approximately 3 percent in 2003. In 2004 there was a jump in assets where total assets increased 16 percent. Then in both 2005 and 2006, total assets increased by 4 and 5 percent respectively. In 2002 total assets were approximately \$135.8 million and by 2006 they had increased to \$176.3 million an increase of approximately 30 percent.



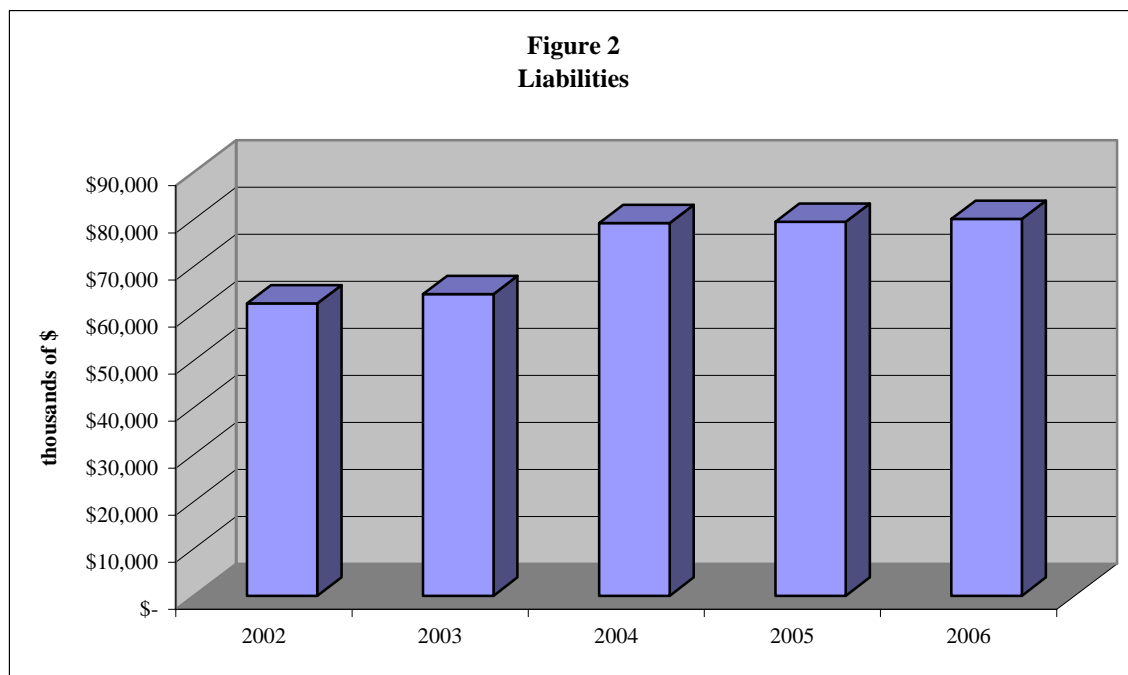
Two main factors explain the growth in total assets. The most important factor explaining the growth in total assets has been the growth in the value marketable securities. Marketable securities increased by 42 percent with the largest increase coming between 2003 and 2004. After 2004 the value of marketable securities declined slightly but remained significantly above the 2003 level.

Table 1
Assets, Liabilities and Net Assets
thousands of \$
for the year ending June 30

	2002	2003	2004	2005	2006
Assets					
Cash and cash equivalents	\$ 14,944	\$ 12,330	\$ 11,735	\$ 10,714	\$ 5,814
Student accounts receivable	\$ 2,524	\$ 2,532	\$ 2,859	\$ 2,742	\$ 2,724
Grants & other receivables	\$ 4,743	\$ 4,576	\$ 2,979	\$ 3,332	\$ 3,923
Contributions receivable	\$ 1,731	\$ 1,237	\$ 3,431	\$ 3,532	\$ 6,634
Loans to students	\$ 7,456	\$ 7,690	\$ 7,405	\$ 7,701	\$ 7,268
Marketable securities	\$ 52,423	\$ 57,920	\$ 79,774	\$ 72,714	\$ 74,368
Land held for investments	\$ 2,000	\$ 2,000	\$ 2,660	\$ 2,660	\$ 3,190
Plant Assets	\$ 47,686	\$ 49,035	\$ 47,804	\$ 60,603	\$ 67,385
Other Assets	\$ 2,335	\$ 2,341	\$ 2,911	\$ 4,388	\$ 4,965
Total assets	\$ 135,842	\$ 139,661	\$ 161,558	\$ 168,386	\$ 176,271
Liabilities					
Accounts payable	\$ 2,024	\$ 2,272	\$ 1,931	\$ 2,951	\$ 1,566
Accrued wages and benefits	\$ 6,299	\$ 6,780	\$ 7,697	\$ 7,985	\$ 8,943
Other Liabilities	\$ 4,516	\$ 4,341	\$ 4,149	\$ 4,902	\$ 3,677
Deferred revenue	\$ 5,729	\$ 6,997	\$ 7,155	\$ 7,219	\$ 8,791
Asset retirement obligation	\$ -	\$ -	\$ -	\$ -	\$ 5,045
Refundable government loan funds	\$ 4,379	\$ 4,542	\$ 4,760	\$ 4,950	\$ 3,312
Bonds & mortgage notes payable	\$ 39,142	\$ 39,136	\$ 53,450	\$ 51,436	\$ 48,715
Total Liabilities	\$ 62,089	\$ 64,068	\$ 79,142	\$ 79,443	\$ 80,049
Net Assets					
Unrestricted	\$ 38,626	\$ 39,386	\$ 40,147	\$ 41,892	\$ 44,603
Temporarily restricted	\$ 4,996	\$ 5,864	\$ 6,573	\$ 5,830	\$ 9,281
Permanently restricted	\$ 21,189	\$ 21,881	\$ 24,446	\$ 25,179	\$ 26,070
Net investment in plant assets	\$ 8,942	\$ 8,462	\$ 11,250	\$ 16,042	\$ 16,268
Total net assets	\$ 73,753	\$ 75,593	\$ 82,416	\$ 88,943	\$ 96,222
Total liabilities and net assets	\$ 135,842	\$ 139,661	\$ 161,558	\$ 168,386	\$ 176,271

The second factor explaining the growth in assets is the increase in the value of plant assets. Plant assets are net of accumulated depreciation and represent the value of land, buildings, equipment and library books. Net investment in plant assets increased from \$8.9 million in 2002 to \$16.2 million in 2006. In addition to the changes in investments and plant assets there was also a significant decline in cash and cash equivalents although this was offset by an increase in contributions receivable.

Figure 2 shows the total liabilities of the University. Liabilities are claims against the resources of the institution. In general, total liabilities have increased moderately over the last five years. Liabilities were nearly flat between 2002 and 2003. In 2004 there was a significant increase in liabilities due almost entirely to an increase in bonds and mortgage notes payable. It would appear that this increase in liabilities help fund plant and equipment expenditures which increased significantly in 2005 and 2006. Other than the increase in bonds and mortgage notes payable there have been relatively minor increases in accrued wages and benefits and deferred revenue. Deferred revenue is revenue that the University has collected in one fiscal year that will be used to cover expenses in a subsequent fiscal year.



There are several ratios that can be calculated that reflect the financial health of an institution. Before looking at these ratios it is important to note that a single ratio does not provide sufficient information to judge the overall performance of a university. However, trends in a series of ratios can provide valuable information about the financial health of an institution. One can also compare ratios with other universities provided that the data underlying the ratios is comparable. In this report, the main use of ratios is to look at trends in financial performance. Three key ratios are shown in Table 2 and a graphical representation of the ratios is shown in Figure 3.

Table 2					
Ratios of Assets to Liabilities					
for year ending June 30					
	2002	2003	2004	2005	2006
Current ratio	1.58	1.27	1.33	1.23	1.07
Fixed Assets to Long Term Debt	1.22	1.25	0.89	1.18	1.38
Total Assets to Total Liabilities	2.19	2.18	2.04	2.12	2.20

The first of these ratios is known as the current ratio which is the ratio of current assets to current liabilities. The current ratio is a key indicator of liquidity. There are different ways of calculating this ratio. In some cases, the type of asset or liability determines whether it is current or non-current. Current assets are short term assets i.e., assets available in a year and current liabilities are short term liabilities due within a year. For example, cash is a short-term asset and accounts payable is a short-term liability. In some cases a type of asset can be divided between current and non current. For example, some portion of student loans are payable with in the year and would thus be considered a current asset. However, the portion of student loans not payable within a year is a non-current asset.

Private universities are not required to split assets between current and non-current assets so we can only estimate the current ratio. For purposes of this report we have categorized cash, receivables, and other assets as current assets. All other assets are considered non-current. Current liabilities consist of all liabilities except bonds and mortgage notes payable which is a non-current liability. It is likely that the current ratio underestimates the true current ratio because some portion of student loans would also be considered a short-term asset.

Looking at Table 2 and Figure 3 we can see a decline in the current ratio in 2003. In 2004 and 2005 the current ratio remained fairly stable and then it declined again in 2006. It would appear that most of the decline in 2003 was due to a decrease in current assets and an increase in current liabilities. Thereafter, current assets remain fairly stable but moderate increases in current liabilities continued. In 2006 there was a liability listed for asset retirement obligation which was presumably a one time charge. In the absence of this one time charge the current ratio would have been 1.39. A current ratio of 1.07 indicates that the University had enough current assets to cover 107 percent of its current liabilities. There is no exact target for a current ratio although clearly the number should be greater than one and probably not much greater than two. Too large a current ratio imposes an opportunity cost on a university. Given the imprecise nature of this calculation and the likelihood that in 2006 it was influenced by what appears to be a one time charge the overall trend in the current ratio does not raise any cause for concern.

The second ratio examined in this report is the ratio of fixed assets to long-term liabilities also shown in Table 2 and Figure 3. This ratio increased slightly between 2002 and 2003. It declined in 2004 due to an increase in long-term debt and then rose in both 2005 and 2006. Another key ratio is the ratio of total assets to total liabilities also shown in Table 2 and Figure 3. This ratio is considerably higher than the ratio of fixed assets to long-term debt but the changes over the five years of data examined in this report follow the same pattern as the ratio of fixed assets to long-term debt, although the changes are less dramatic.

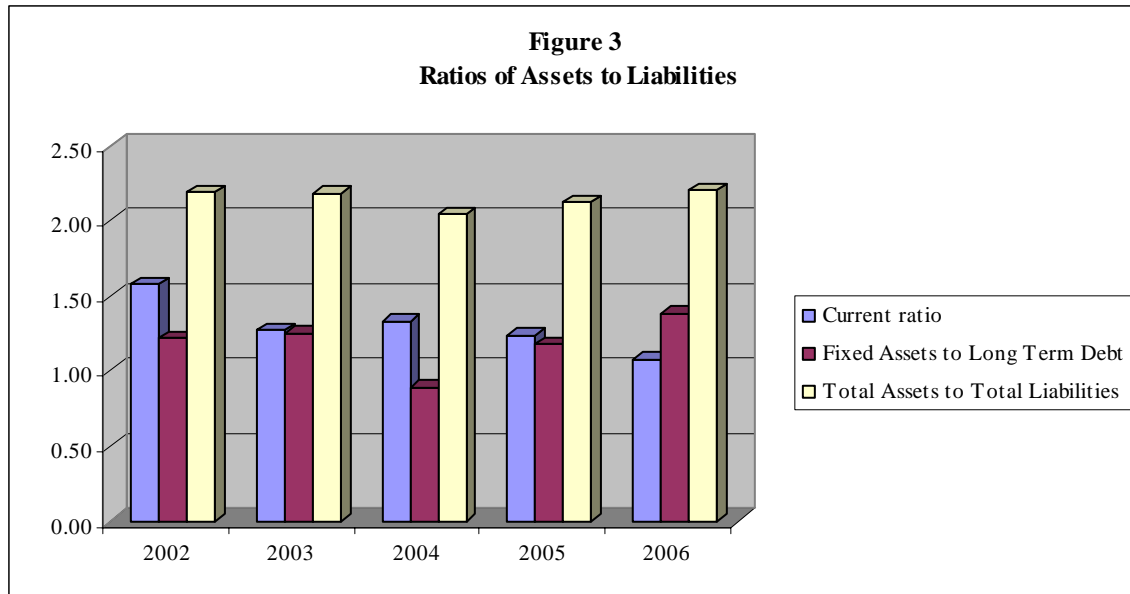
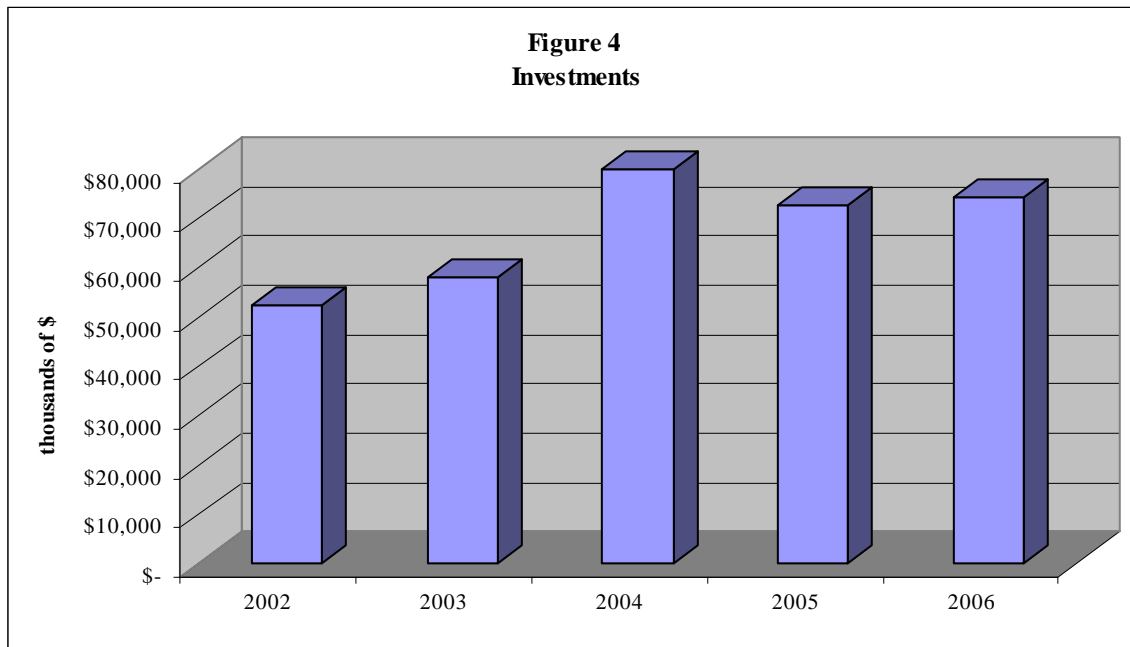


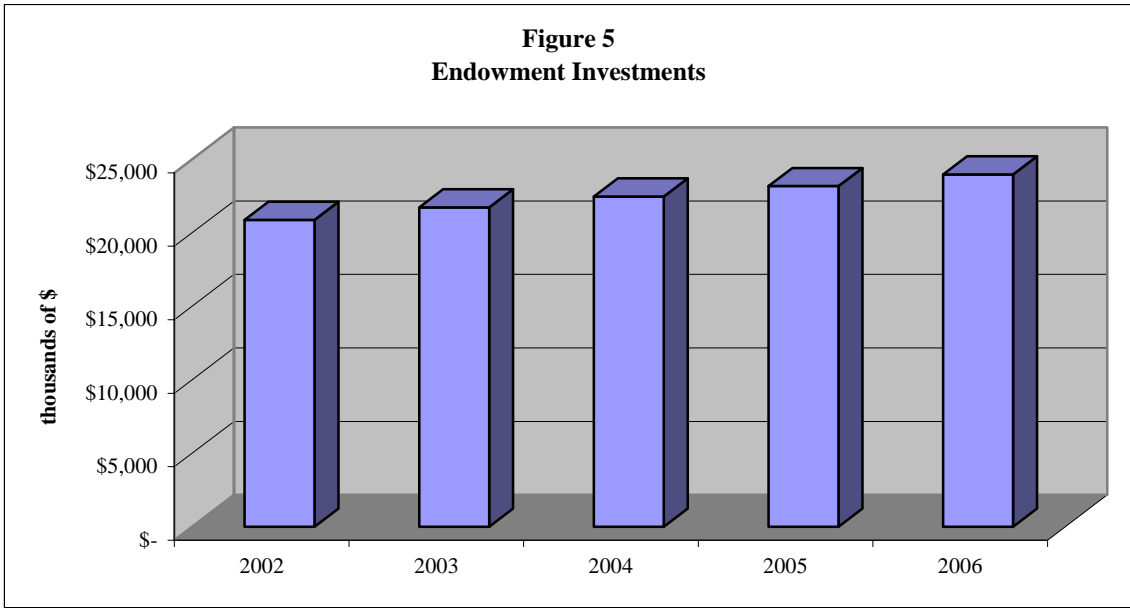
Table 3
Investments
thousands of \$
for year ending June 30

	2002	2003	2004	2005	2006
Investments (Fair Value)					
Common stocks	\$ 19,124	\$ 20,273	\$ 23,798	\$ 26,119	\$ 30,824
Preferred stocks	\$ 31	\$ 380	\$ 35	\$ 1,037	\$ 1,212
U.S. Government obligations	\$ 15,859	\$ 16,429	\$ 11,199	\$ 11,927	\$ 18,842
Diversified bonds	\$ 11,519	\$ 14,343	\$ 14,700	\$ 13,311	\$ 16,431
Certificates of deposits	\$ 456	\$ 1,984	\$ 18,139	\$ 8,453	\$ 572
Real estate					\$ 1,978
Venture capital					\$ 65
Money market funds	\$ 5,434	\$ 4,511	\$ 11,903	\$ 11,867	\$ 4,444
Total	\$ 52,423	\$ 57,920	\$ 79,774	\$ 72,714	\$ 74,368

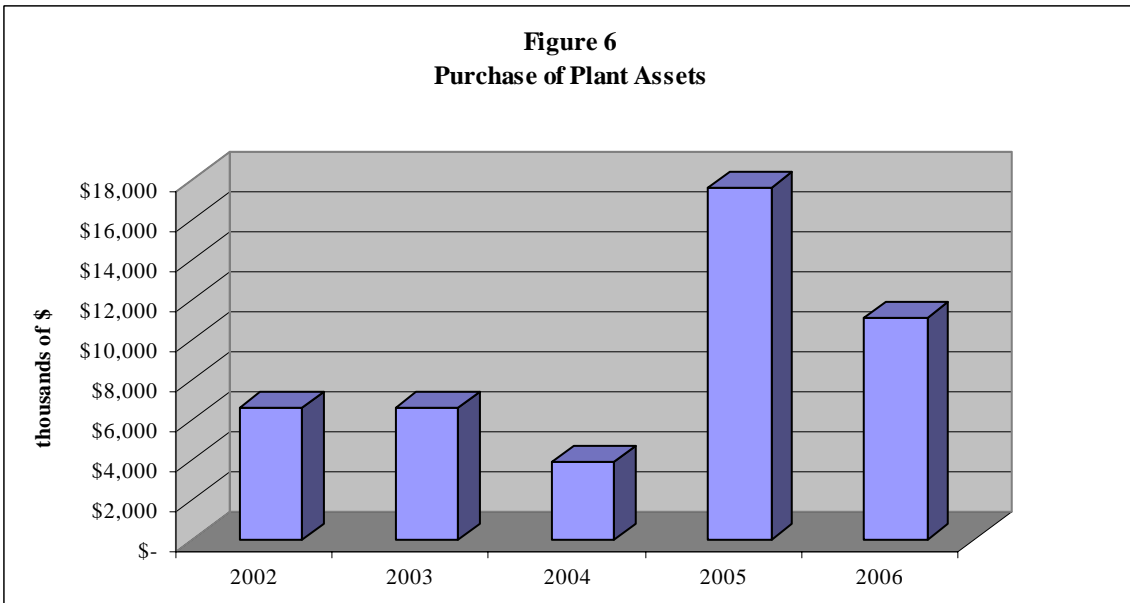
Table 3 and Figure 4 show the investments of Rider University. Investments are listed at fair market value. The largest components of Rider’s investments are in common stocks, followed by U.S. Government obligations and Diversified bonds. The investments of the University increased in both 2003 and 2004. They declined in 2005 and then increased again in 2006 although they did not surpass the level reached in 2004. It would appear that some of the increase in 2004 may have been due to an inflow of funds from the sale of bonds which may have been invested in certificates of deposit. This would explain time of both the increase and then subsequent decrease in certificates of deposit.



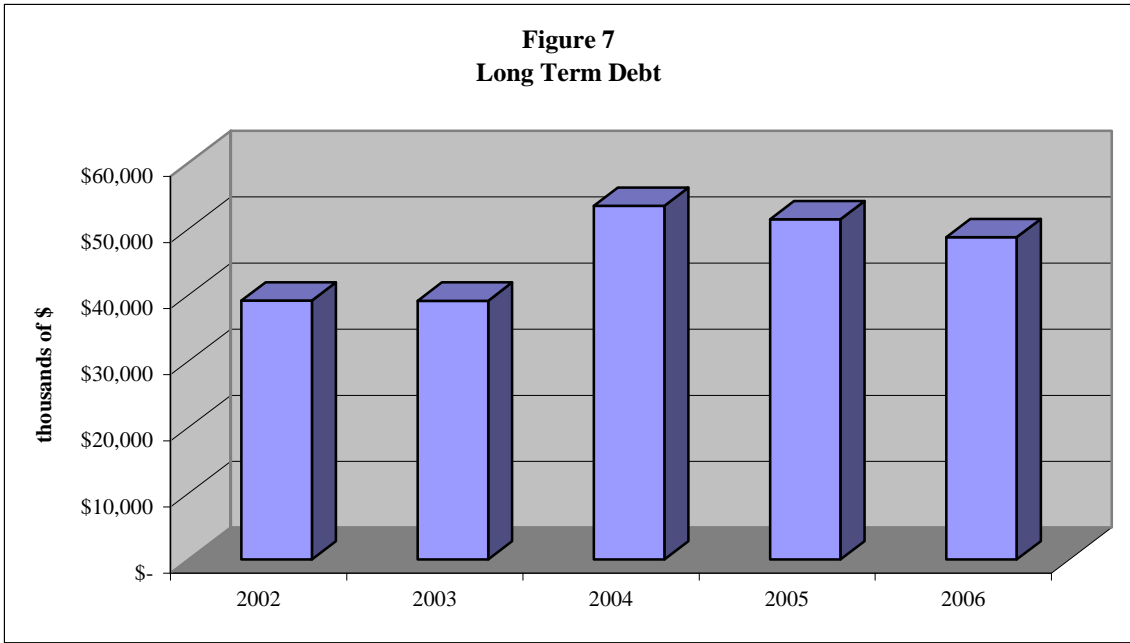
One important category of investments is a university’s endowment. Figure 5 shows marketable securities that are permanently restricted which make up the bulk of the University’s endowment. In the case of the University’s endowment it appears as if there has been steady but fairly slow growth. The value of the endowment has been growing fast enough to keep up with inflation thus preserving the real purchasing power of the principal of the endowment. It is often the case that universities set spending policies that allow them to spend a fixed percentage of a universities endowment each year with the idea that this will preserve the value of the endowment which is normally a condition of most gifts to university endowments. The specifics of Rider’s policy will be discussed later in this report.



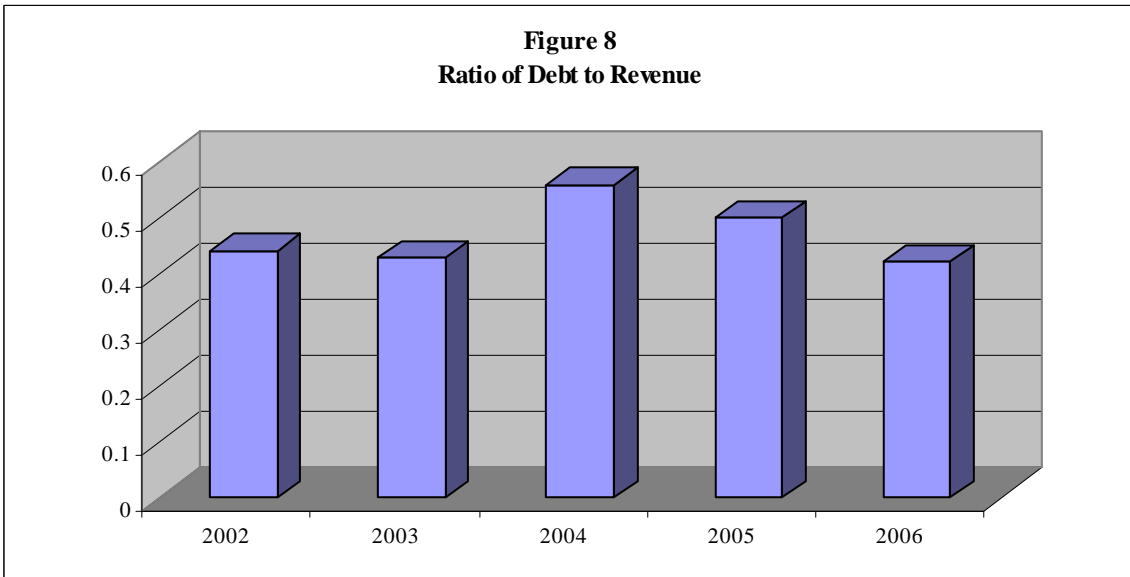
The amount spent each year for purchases of property, plant and equipment has fluctuated from year to year reaching a high in 2005. Over a five year period, the University spent a total of \$45.8 million on the purchase of plant assets.



One way of financing capital expenditures is to take on more debt. Figure 7 shows the debt of the University was stable between 2002 and 2003. Then in 2004 the University borrowed an additional \$16.1 million increasing its total long-term debt to approximately \$53.4 million. This level of debt held by the University is moderate and as the graph in Figure 7 indicates, the level of debt declined in both 2005 and 2006.



One indicator of the ability of a University to meet its debt obligations is the ratio of debt to revenue. Revenues provide the source for making both principal and interest payments so that if this ratio is declining it means that the University is less likely to have problems meeting its obligations. The ratio of debt to revenue is shown in Figure 8. From 2002 to 2003 the ratio of debt to revenue declined indicating a strengthening of the University's financial position. In 2004, with increased borrowing the ratio increased but thereafter it has declined and was actually lower in 2006 than it was in 2002 before the increased borrowing.



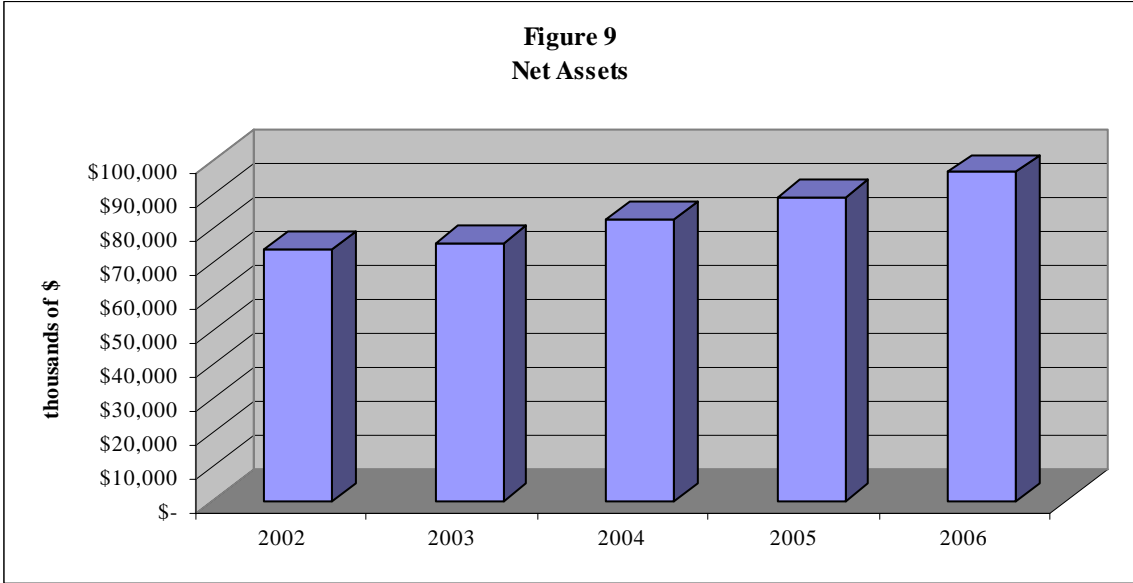
Net Assets

In for profit businesses the difference between assets and liabilities is referred to as owner's equity. In theory if a business were to sell off all of its assets and pay off all claims against the business the amount remaining would be the owner's claims on the business's resources. In a non-profit organization, the difference between assets and liabilities is referred to as a net asset. These net assets represent the wealth of the institution

Net assets represent the net accumulation of a university's assets minus its liabilities over a period of time. Large portions of these net assets consist of the value of land, buildings, books and journals and equipment owned by the university. In addition, to these real assets, universities also own financial assets such as stocks and bond, CDs and mutual funds. Finally, universities also generally hold small amounts of cash and money in checking and savings accounts.

Total net assets are listed in Table 1 and shown in Figure 9. In the past, these net assets were referred to as fund balances. From 2002 to 2006 total net assets increased from \$73.8 million to \$96.2 million an increase of 30 percent. This increase in net assets represents an increase in the University's wealth and this occurs when revenues exceed expenses or when the University receives donations for capital projects or donations that add to its endowment. Included in the value of net assets is the value of the University's property, plant and equipment. In most cases, universities do not sell their physical assets so it is also important to look at financial net assets. Table 4 and Figure 10 show the liquid or financial net assets for Rider University. Total liquid net assets increased from \$64.8 million to \$80 million.

	2002	2003	2004	2005	2006
Unrestricted	\$ 38,626	\$ 39,386	\$ 40,147	\$ 41,892	\$ 44,603
Temporarily restricted	\$ 4,996	\$ 5,864	\$ 6,573	\$ 5,830	\$ 9,281
Permanently restricted	\$ 21,189	\$ 21,881	\$ 24,446	\$ 25,179	\$ 26,070
Liquid Net Assets	\$ 64,811	\$ 67,131	\$ 71,166	\$ 72,901	\$ 79,954
Long-term debt	\$ 39,142	\$ 39,136	\$ 53,450	\$ 51,436	\$ 48,715
Total Expenses	\$ 82,217	\$ 90,087	\$ 94,567	\$ 98,412	\$ 107,705
Viability ratio	0.99	1.01	0.75	0.81	0.92
Primary reserve ratio	0.47	0.44	0.42	0.43	0.41



Financial net assets are divided into three categories. The first category is unrestricted net assets consisting of assets which have no donor imposed stipulations. The second category is temporarily restricted net assets which are subject to donor stipulations that will expire with the passage of time. Finally, there is the category of permanently restricted net assets which are subject to donor imposed stipulations which must be maintained indefinitely by the University. Figure 11 shows the net assets by category.

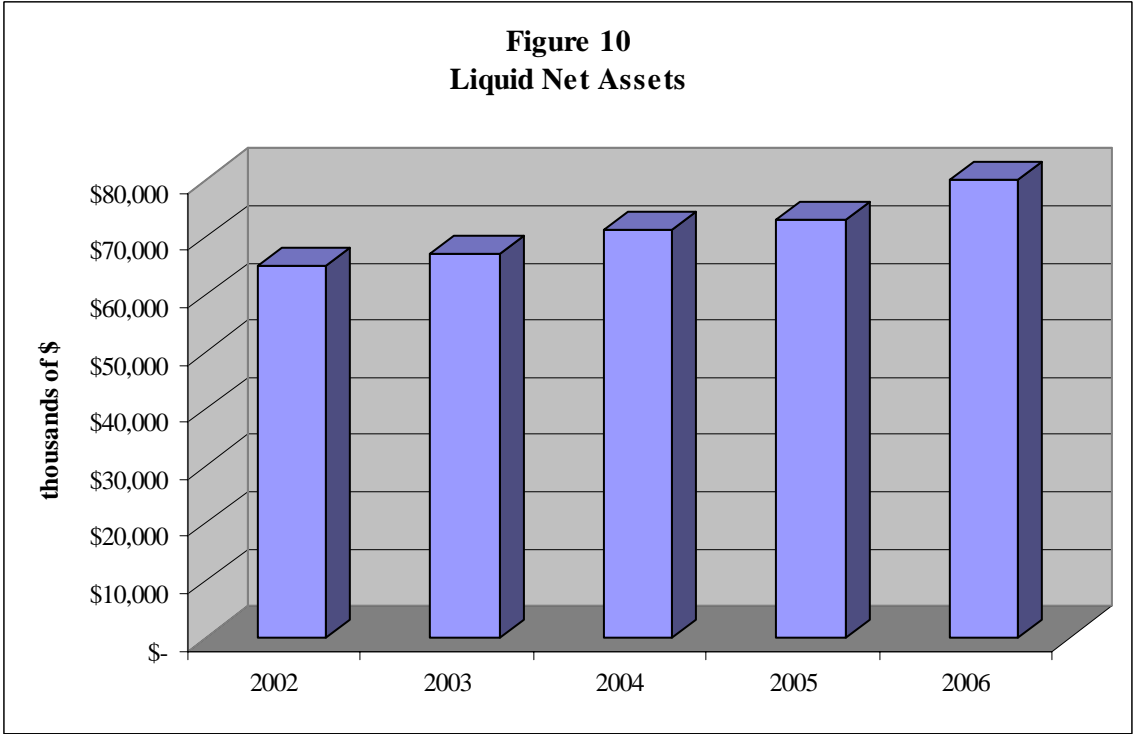


Figure 11 shows that there are substantial differences in the categories. Unrestricted net assets represent the largest category of liquid net assets and therefore the pattern of unrestricted net assets follows the same pattern of total net assets. Unrestricted net assets account for the largest portion of liquid net assets and have been trending up each year. Over the five year period unrestricted net assets increased by 15 percent. Temporarily restricted net assets increased slowly between 2002 and 2004. In 2005 there was actually a decline in temporarily restricted net assets and then in 2006 there was a fairly dramatic increase in temporarily restricted net assets. Over the five year period temporarily restricted net assets increased 86 percent however they increased 17 percent between 2002 and 2005 and increased by 59 percent in 2006. While these increases are significant in percentage terms it is important to remember that temporarily restricted net assets account for a relative small portion of liquid net assets. Finally, permanent net assets have been growing throughout the five year period. Over the five year period they increased 23 percent growing from \$21.2 million to 26.1 million.

For the most part the permanently restricted assets consist of the endowment of the University and while the University may not spend the principal in many cases it is free to spend some or all of the return earned on its endowment. In general, most universities establish policies that permit them to spend a certain percentage of the value of their endowment. In the case of Rider the policy is to distribute 5 percent of a three year moving average of the fair market value of investments for the Lawrenceville campus and 8 percent for the Princeton campus.

Quasi-endowments are funds that universities set aside to be used as endowment although the universities are free to spend this money for any legal purpose. In many cases, faculty members do not realize the difference between true endowments and quasi-endowments. The distinction between these two types of “endowment” is important because the principal for quasi-endowments comes directly from operating funds. Figure 12 shows the quasi-endowment for Rider University. In general, the quasi-endowments for Rider University have been fairly stable.

Figure 11
Liquid Net Assets by Type

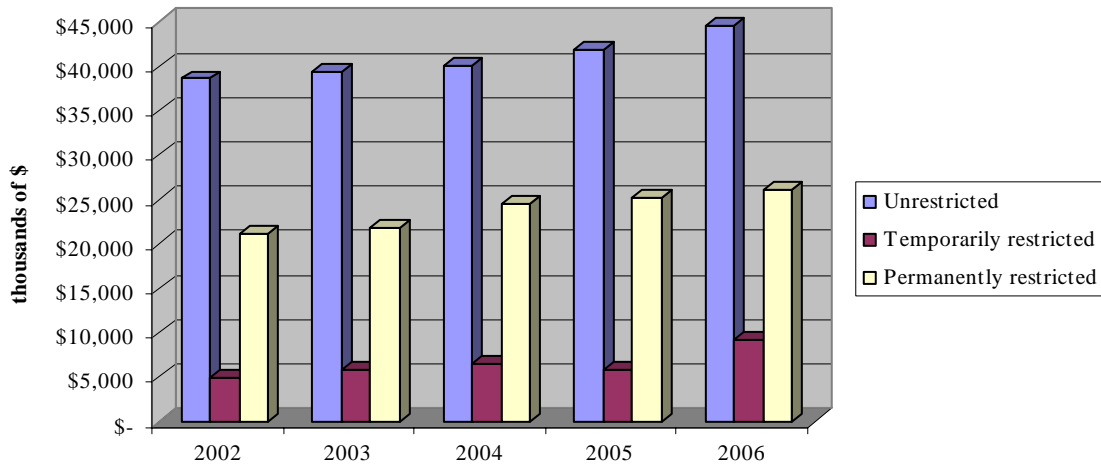
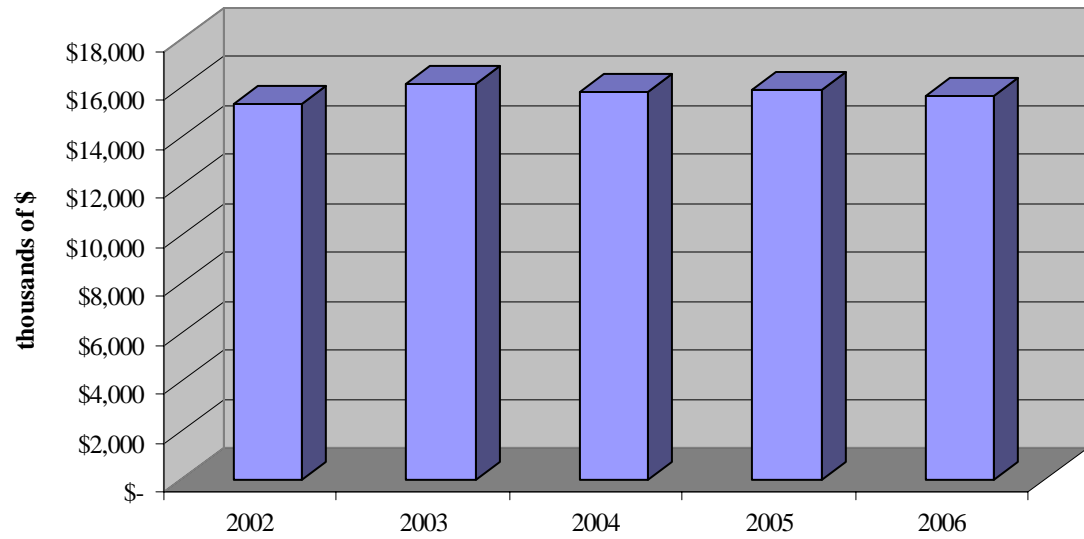


Figure 12
Quasi-Endowments



Frequently, universities will show unrestricted funds as being “designated.” Quasi-endowments are one form of designation for unrestricted net assets. The term “designated” indicates that the Board of Trustees or the administration has set aside certain unrestricted funds for particular uses. For the most part, these designations are a budget planning device. An analogy would be household savings. I have a certain amount of wealth that I have accumulated in the form of savings. I can designate that some of it is for emergencies, some to finance college education for my children, some for retirement

etc. However, these are my designations and as my priorities change I can shift my savings from one designation to another. Therefore, these designations reflect the priorities of the Board and the administration but may not reflect the priorities of the faculty. While these designations are not subject to negotiations in collective bargaining they can be changed if the outcome of negotiations leads to a change in priorities for the University.

Table 5 shows the breakdown of unrestricted net assets. Notice that most of the unrestricted assets are “designated.” The largest portion of designated unrestricted net assets is held in the form of quasi-endowments. Also holds money for “other specific purposes” and for student loans. Many of these designations are legitimate for example a university may allow departments to accumulate unspent funds to use for purchasing equipment or funding other one time expenses. Nevertheless it is the case that these funds belong to the University and the uses to which they are put reflect the priorities of the administration and the Trustees. At times it is possible that these priorities also coincide with the priorities of the faculty but that is for the faculty to decide.

Table 5					
Unrestricted Net Assets					
thousands of \$					
year ending June 30					
	2002	2003	2004	2005	2006
Designated					
Bond indenture deposit requirements	\$ 6,010	\$ 6,447	\$ 7,108	\$ 7,075	\$ 7,512
Other Specific purposes	\$ 5,574	\$ 4,795	\$ 2,299	\$ 3,016	\$ 4,342
Student loans	\$ 3,727	\$ 4,022	\$ 4,005	\$ 4,053	\$ 4,023
Quasi-endowment	\$ 15,363	\$ 16,176	\$ 15,814	\$ 15,863	\$ 15,647
Accumulated net appreciation of endowment corpus	\$ 7,952	7,946	10,921	11,885	\$ 13,079
Unrestricted Net Assets	\$ 38,626	\$ 39,386	\$ 40,147	\$ 41,892	\$ 44,603

If the increase in unrestricted net assets is exclusively due to increases in the value of land, buildings and equipment the increase in wealth while real, does not give the University added flexibility with respect to operations. To the extent that a university uses funds it generates through operations to purchase land, building and equipment it can decide to reallocate these funds for alternative uses. While private universities can buy and sell property, in general once they spend fund to put up buildings they are unlikely to sell these assets to generate funds, which could be used for other purposes. Thus, it is important to distinguish between increases in net assets which are liquid and increases due to increases in the value of physical assets.

Table 6					
Property, Plant & Equipment					
thousands of \$					
for the year ending June 30					
	2002	2003	2004	2005	2006
Land	\$ 253	\$ 253	\$ 253	\$ 253	\$ 253
Land improvements	\$ 4,814	\$ 4,814	\$ 4,815	\$ 4,824	\$ 4,824
Buildings and improvements	\$ 70,267	\$ 74,955	\$ 75,702	\$ 77,188	\$ 101,943
Equipment	\$ 19,125	\$ 20,321	\$ 17,354	\$ 17,076	\$ 17,685
Library Collection	\$ 8,712	\$ 8,976	\$ 10,038	\$ 11,125	\$ 12,451
Construction in Progress	\$ 550	\$ 168	\$ 1,178	\$ 15,455	\$ 47
Total Assets	\$ 103,721	\$ 109,487	\$ 109,340	\$ 125,921	\$ 137,203
Accumulated depreciation	\$ (56,035)	\$ (60,452)	\$ (61,536)	\$ (65,318)	\$ (69,818)
Total Net of Accumulated Depreciation	\$ 47,686	\$ 49,035	\$ 47,804	\$ 60,603	\$ 67,385

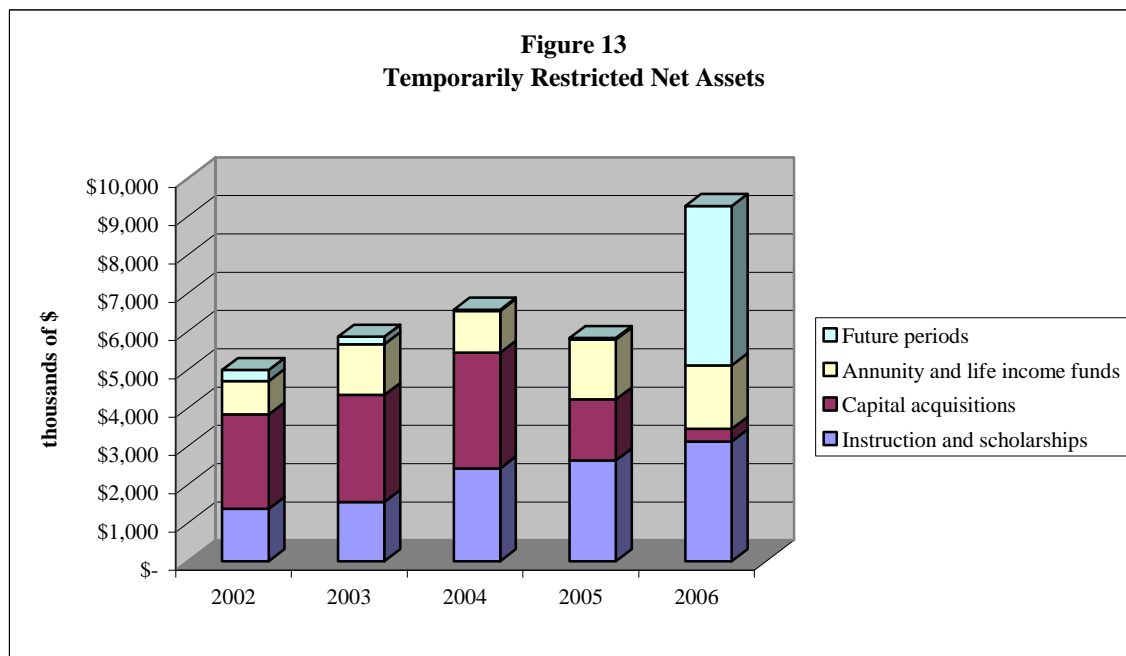
In the case of Rider University total assets invested in property, plant and equipment valued at historic cost increased from \$103.7 million to \$137.2 million from 2002 to 2006 as shown in Table 6. The value invested in property, plant and equipment represents the value of land and land improvements, buildings and building improvements, equipment, software and library holdings and construction in progress.

Finally, net investment in plant is the value of a university's physical plant including the value of the land, buildings, and equipment minus accumulated depreciation. For most businesses depreciation is a deduction from income that is taken for tax purposes. The calculation of depreciation is fixed by law and does not reflect the actual economic cost to a business. As businesses use buildings and equipment they wear out or become obsolete and need to be replaced. This is part of the cost of doing business and therefore should be reflected in financial statements. Recording depreciation does not necessarily mean that a business actually sets aside money for replacement and renewal. For profit businesses can borrow money from operating funds or issue new stock to raise money to replace an asset that is worn out or obsolete. Private universities generally receive money to renew and replace assets through capital campaigns and borrowing.

Temporarily restricted net assets are net assets that are subject to legal or donor restrictions that will expire some time in the future. Permanently restricted assets remain restricted by the donor or by law indefinitely.. Table 7 shows temporarily restricted net

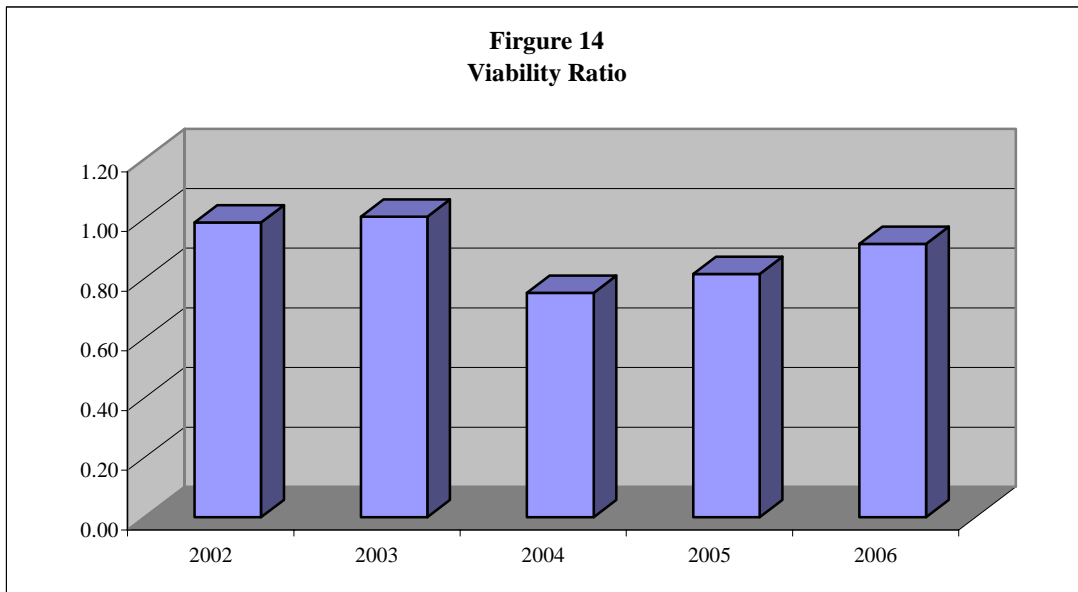
assets Figure 13 shows the trends as well as the change in the composition of temporarily restricted net assets.

	2002	2003	2004	2005	2006
Instruction and scholarships	\$ 1,367	\$ 1,548	\$ 2,426	\$ 2,635	\$ 3,129
Capital acquisitions	\$ 2,469	\$ 2,798	\$ 3,023	\$ 1,591	\$ 328
Annuity and life income funds	\$ 872	\$ 1,324	\$ 1,089	\$ 1,564	\$ 1,659
Future periods	\$ 288	\$ 194	\$ 35	\$ 40	\$ 4,165
Total	\$ 4,996	\$ 5,864	\$ 6,573	\$ 5,830	\$ 9,281

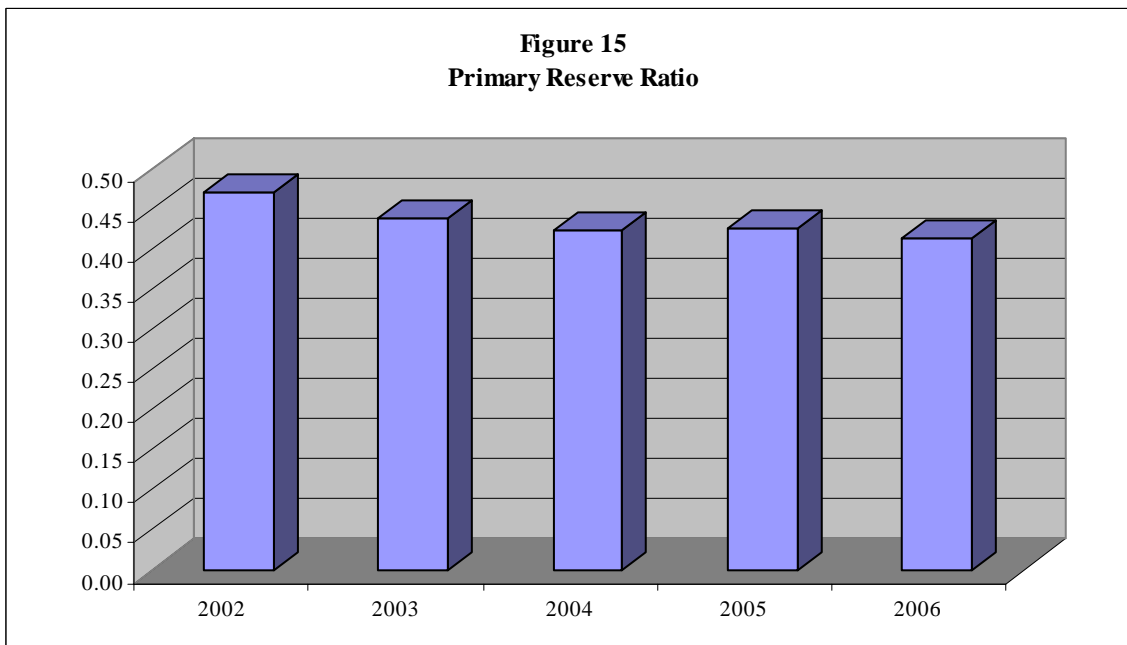


Finally, we look at two additional ratios that are key indicators of financial health. The first is known as the viability ratio, which is the ratio of unrestricted liquid net assets to long-term debt. The changes in Rider University's viability ratio can also be seen in Figure 14. The viability ratio increased slightly between 2002 and 2003 and then declined in 2004 due primarily to an increase in debt. In 2005 the viability ratio increased and increased again in 2006. The University has a relatively high viability ratio indicating that the University has ample borrowing capacity. In 2002 the viability ratio was 0.99, which meant that the University had sufficient unrestricted net assets to pay 99 percent of its

long-term debt. In 2006 the viability ratio was 0.92 which meant the University had sufficient unrestricted net assets to pay 92 percent of its long-term debt.



The second ratio is the primary reserve ratio which is the ratio of liquid unrestricted net assets to operating expenses. This ratio shows the ability of the University to meet its operating expenses from its unrestricted reserves. Figure 15 shows the primary reserve ratio for Rider University. The primary reserve ratio has been declining primarily because expenses are rising more rapidly than the increase in unrestricted net assets. Nevertheless the University's primary reserve ratio remains relatively high. A primary reserve ratio of 0.41 means, the University has enough unrestricted net assets to cover 41 percent of its operating expenses.



In summary, by 2006 the Rider University had net assets of \$96.2 million including \$44.6 million in unrestricted liquid net assets. Over the period examined in this report the University's wealth increased by 30 percent.

What is the income and expenses of the University?

Revenues and Expenses

The flow of wealth into a university is, for the most part, referred to as revenue. For most private universities there are four major sources of revenue: 1) tuition and fees, 2) endowments, 3) grants and 4) sales. In order for a university to carry out its mission it is necessary for it to purchase certain resources, which represent an outflow of resources from the university. These outflows are referred to as expenses. These expenses consist of wages, salaries and benefits as well as expenditures for purchases of goods and services from external vendors.

This flow of resources is accounted for in the Statement of Activities, showing the change in net assets which is the closest thing that a university has to an income or profit and loss statement that would be found in a for profit business. In fact, the change in net assets is in many ways analogous to the concept of net income or profit that one would encounter in a for profit enterprise. The Statement of Activities reports activities as being unrestricted, temporarily restricted and permanently restricted. In this report, we look at a consolidated statement of activities.

Table 8 shows the revenues, expenses and net income of the University from 2002-2006. Total revenue increased from \$88.8 million in 2002 to \$115.6 million in 2006, an increase of 30 percent. The largest source of revenue for the University is student tuition and fees. Over the period 2002-2006 tuition and fees have risen 36 percent and net tuition, which is tuition and fees after being discounted for scholarships rose 38 percent. The difference in the growth of tuition and net tuition reflects a 31 percent increase in scholarships.

The second largest source of revenue is sales and services of auxiliary operations. Sales and services from auxiliary operations increased from \$18.9 million in 2002 to \$24.6 million 2006, an increase of 30 percent. In general, auxiliary enterprises would include revenue from housing, the bookstore, athletics and other activities that are not directly related to the primary mission of the institution.

Table 8
Revenue, Expenses and Net Income
thousands of \$
for the year ending June 30

	2002	2003	2004	2005	2006
Revenue					
Student tuition and fees	\$ 74,305	\$ 80,807	\$ 87,288	\$ 93,596	\$ 100,751
Less: Scholarship allowance	\$ (22,910)	\$ (24,938)	\$ (26,391)	\$ (28,658)	\$ (29,921)
Net Tuition	\$ 51,395	\$ 55,869	\$ 60,897	\$ 64,938	\$ 70,830
Sales & services of auxiliary enterprises	\$ 18,928	\$ 19,821	\$ 20,862	\$ 21,583	\$ 24,578
Less: Scholarship allowance	\$ (191)	\$ (199)	\$ (233)	\$ (233)	\$ (267)
Net sales & services of auxiliary enterprises	\$ 18,737	\$ 19,622	\$ 20,629	\$ 21,350	\$ 24,311
State of New Jersey appropriations	\$ 1,960	\$ 2,654	\$ 2,410	\$ 2,553	\$ 2,496
Grants & Contracts	\$ 7,017	\$ 3,993	\$ 4,249	\$ 4,912	\$ 4,216
Contributions	\$ 4,395	\$ 3,707	\$ 3,057	\$ 3,664	\$ 6,797
Endowment spending policy	\$ 2,587	\$ 2,533	\$ 2,525	\$ 2,996	\$ 3,140
Interest & dividends on working capital	\$ 1,021	\$ 850	\$ 545	\$ 858	\$ 1,699
Other revenues	\$ 1,710	\$ 2,019	\$ 1,478	\$ 1,760	\$ 2,096
Total Operating Revenue	\$ 88,822	\$ 91,247	\$ 95,790	\$ 103,031	\$115,585
Expenses					
Educational & general					
Instruction	\$ 31,306	\$ 33,390	\$ 35,268	\$ 37,861	\$ 40,475
Research	\$ 669	\$ 653	\$ 1,005	\$ 821	\$ 991
Academic support	\$ 7,637	\$ 8,484	\$ 8,189	\$ 7,887	\$ 8,681
Student services	\$ 9,827	\$ 11,200	\$ 12,042	\$ 12,886	\$ 13,830
Institutional support	\$ 11,059	\$ 12,461	\$ 13,565	\$ 14,114	\$ 15,102
Fundraising	\$ 1,637	\$ 1,931	\$ 1,915	\$ 1,537	\$ 1,358
Auxiliary enterprises	\$ 7,097	\$ 7,892	\$ 7,843	\$ 8,360	\$ 10,984
Operation & Maintenance of plant	\$ 12,985	\$ 14,076	\$ 14,740	\$ 14,946	\$ 16,284
Total Operating expenses	\$ 82,217	\$ 90,087	\$ 94,567	\$ 98,412	\$107,705
Increase (Decrease) in Net Assets from Operations	\$ 6,605	\$ 1,160	\$ 1,223	\$ 4,619	\$ 7,880
Loss on defeasance of debt	\$ (1,552)	\$ -	\$ -	\$ -	\$ -
Realized gain on sale of land	\$ -	\$ -	\$ -	\$ -	\$ -
Endowment contributions	\$ -	\$ 692	\$ 647	\$ 712	\$ 808
Net endowment surplus	\$ (3,758)	\$ (12)	\$ 3,038	\$ 1,177	\$ 1,435
Beneficial interest in perpetual trust	\$ -	\$ -	\$ 1,915	\$ 19	\$ 85
Cumulative effect of change in accounting principle	\$ -	\$ -	\$ -	\$ -	\$ (2,929)
Total Increase (Decrease in Net Assets)	\$ 1,295	\$ 1,840	\$ 6,823	\$ 6,527	\$ 7,279
Beginning Net Assets	\$ 72,458	\$ 73,753	\$ 75,593	\$ 82,416	\$ 88,943
Ending Net Assets	\$ 75,305	\$ 75,593	\$ 82,416	\$ 88,943	\$ 96,222

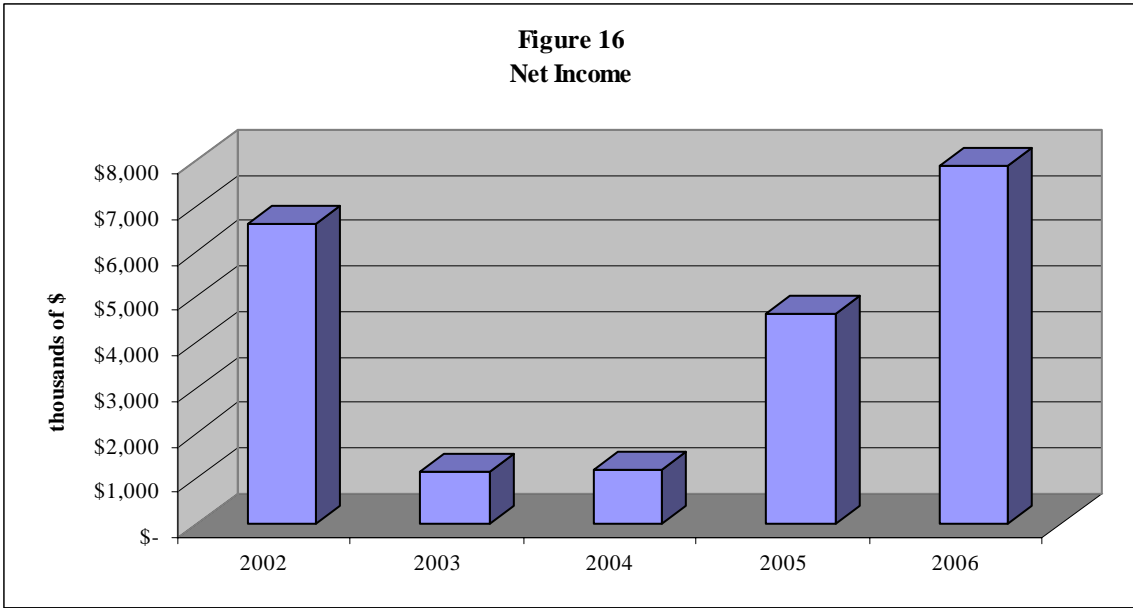
Table 8 also shows the expenses of Rider University from 2002 to 2006. Total operating expenses increased from \$82.2 million to \$107.7 million an increase of approximately 31 percent. Expenses are broken down into several functional categories. In its original Statement on Activities, Rider University included expenses for operations and maintenance of plant within each of the functional categories of expense. In Table 8 we have separated operations and maintenance expenses to get a more accurate picture of functional expenses.

Most important are the expenses for instruction which increased from \$31.3 to \$40.5 million, an increase of 29 percent. Administrative expenses, that is expenses for academic support and institutional support increased 14 percent and 37 percent respectively. Another important expense category is student services which increased 41 percent. Expenses for auxiliary operations also increased rapidly going up by 55 percent.

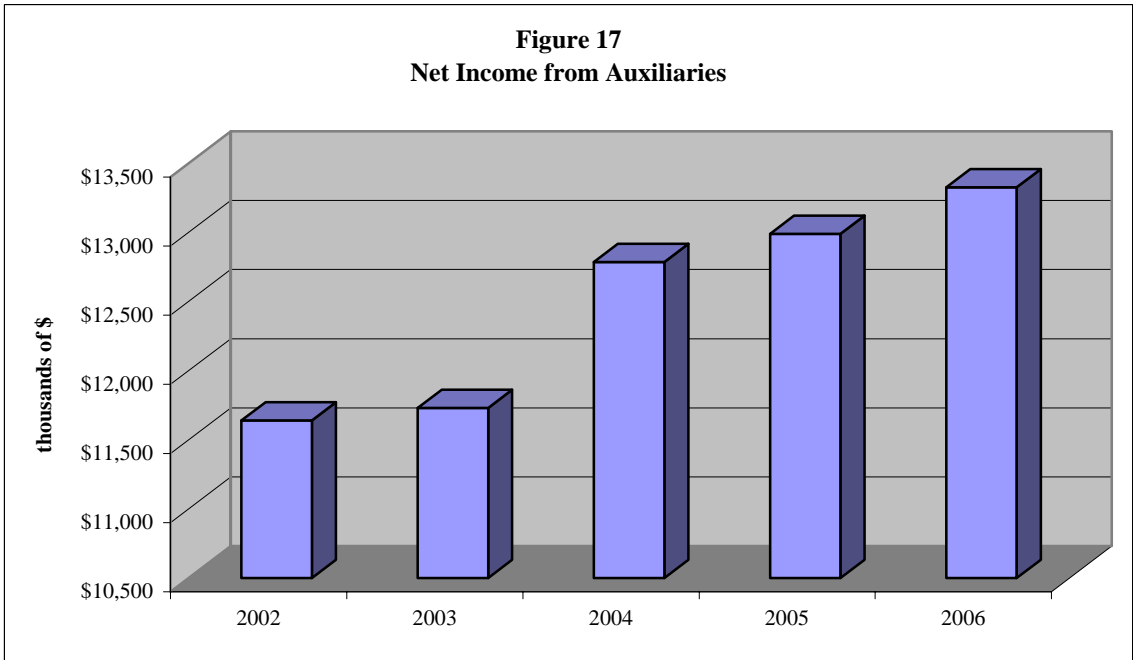
Included in these functional expenses is depreciation which is a non-cash expense. In 2002 the University claimed \$4.4 million in depreciation. In 2003 depreciation increased to \$5.2 million and then decreased steadily reaching \$4.5 million by 2006. The University's financial statements do not explain exactly how this overall depreciation expense is allocated across functional categories so it is impossible to separate actual cash expenses by functional category from non-cash expenses i.e., depreciation. Depreciation is an expense in that there is a certain amount of wear and tear on physical assets which represent a cost to the University. However, many universities do not have to rely on funds from depreciation to replace or renovate buildings because they either receive private donations or borrow money to fund capital projects. Moreover, depreciation is figured using the historic cost of an asset so that it cannot cover the replacement cost of the asset because of inflation. In any event, while depreciation is an expense it does not represent a flow of resources out of the University and therefore these funds are available to be spent.

“Net Income”

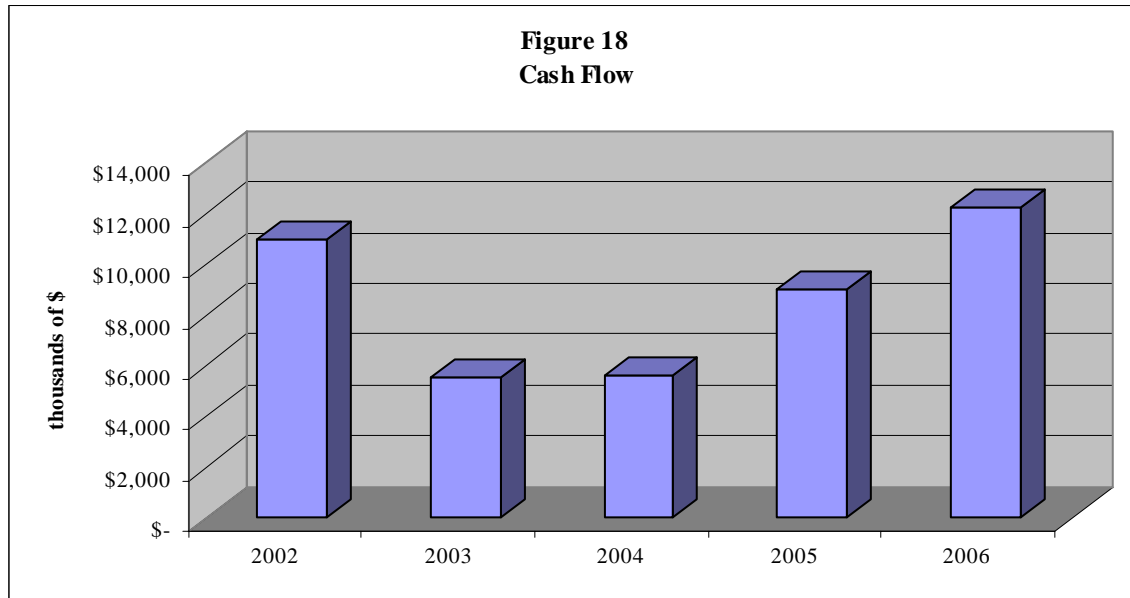
Next we turn to the analysis of net income. Net income or profit is calculated by taking revenue minus expenses. Net income from operations in 2002 was \$6.6 million. In 2003 net income fell to \$1.2 million and then rose in each successive year reaching \$7.9 million. Most of the decline in net income in 2003 was due to rapid growth in expenses in almost all categories except instruction. Increases in expenses for instruction have been fairly stable in the 6 to 7 percent range. After 2003 the growth of expenses moderated and that along with revenue growth explains the growth in net income. Over the past five years the University has had an average net income from operations of \$4.3 million although as previously mentioned there was a significant amount of variation in net income. Figure 16 shows the net income for Rider University.



Auxiliary operations can be an important source of income for some schools. In the case of Rider University, auxiliary operations result in a net gain each year. Figure 17 shows the net income from auxiliary operations. The fact that net income from auxiliaries is actually greater than over all net income means that auxiliary operations are actually subsidizing other operations at the University.

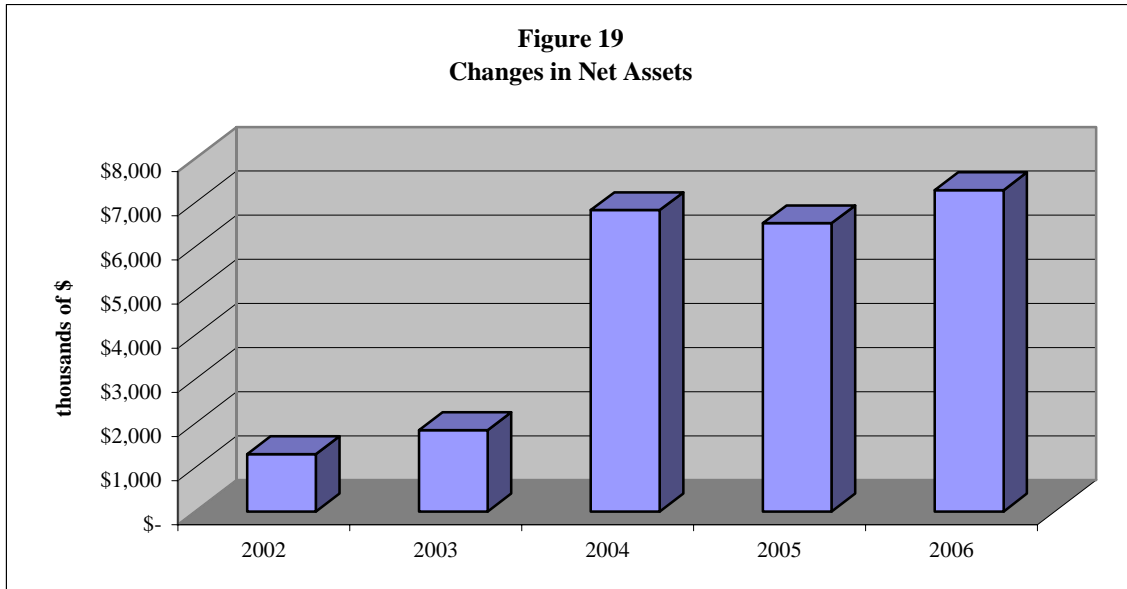


As mentioned earlier, depreciation is a non-cash expense. While we will look in greater detail at the Cash Flow Statement later in this report, another measure of net income can be obtained by combining net income and depreciation. We refer to this as “cash flow.” Figure 18 shows cash flow for Rider University. The cash flows shown in Figure 18 follow the same general pattern of net income shown earlier in Figure 16.



Another important number in Table 8 is the change in net assets. This number includes the net income earned from operations and it also includes non-operating income. Non-operating income actually showed a loss in 2002 due to losses due to defeasance of debt and a net endowment deficit. Normally, the major sources of non-operating income are investment income, net realized and unrealized gains and gifts for long term investments. In 2004 there was a substantial increase in the net endowment surplus which represents earnings over and above what is transferred to the operating budget. In subsequent years, the University continued to show a net endowment surplus. In 2004 and 2005 the change in net assets was substantially more than the net income. This would have been true in 2006 except for a charge due to a change in accounting principles requiring the University to recognize a new liability. Figure 19 shows the changes in net assets.

Figure 19
Changes in Net Assets



Cash Flows

Although net income is an important indicator of an institution's financial health another key indicator is cash flow. The statement of cash flows is divided into three major categories. Cash flows from operations show all of the money flowing into the University as a result of its operations and all of the cash flowing out. In the operations category most of the inflows represent revenues and most of the outflows represent expenses. Thus, net cash flow from operations is similar to the change in net assets or "net income."

One of the crucial differences between net cash flow from operations and net income is depreciation. When calculating its expenses the University subtracts depreciation from its revenue to determine its net income. This deduction is an expense because the University has used up some of the assets causing their value to decline. Thus, each year when the University presents its net assets and calculates the value of its plant, it does so net of accumulated depreciation. While it is absolutely the case that depreciation is an expense it does not involve any cash flowing out of the University. Therefore, while depreciation lowers net income it does not lower cash flow and in fact this cash is available for the University to spend.

The second item in the cash flow statement shows cash flows from investing activities. Here the University shows certain inflows and outflows of cash which are neither revenues nor expenses. For example, the University shows the amount it spends on new buildings. While this represents an outflow of cash it is not an expense because expenses represent an asset being used up over time. Thus the expense of putting up a building is accounted for when the University depreciates the building as the asset is used up. If the University were to depreciate the asset and count the construction cost as an expense it would be double counting its expenses. Another major item is this category proceeds from the sale of investments which produces an inflow of cash and purchase of

investments which produces and outflow of cash. The cash flow from investments is normally negative because the University is spending money on buildings and it normally purchases more in investments than it receives in proceeds. The fact that this number is negative does not imply that the University is in financial trouble. It is more a reflection of how the Trustees and the Administration have chosen to spend the University's assets in a given year.

The final category in the cash flow statement is cash flow from financing activities. Here one of the most important items is cash obtained from borrowing money. This represents an inflow of cash that is available to spend but once again it is not revenue. Resorting again to the example of an individual, if an individual goes to a bank and borrows money to buy a car they have cash to spend but they have not increased their income. A major outflow in this category is repayment of principle on loans. This represents an outflow but unlike interest payments, it is not an expense. It is not an expense because the expense is incurred when the loan is used to put up a building, which is then depreciated.

Table 9 shows the cash flow statement for Rider University. Looking first at net flows from operations we observe that between 2002 and 2006 Rider University had a positive cash flow from operations every year. This means in effect that cash inflows for operations exceeded cash outflows for operations every year. Operating cash flow is different than the "cash flow" measure shown in Figure 18. Figure 18 just looks at net income plus depreciation whereas the operating cash flow shown in Figure 20 is more comprehensive because it also takes into account changes in assets and liabilities.

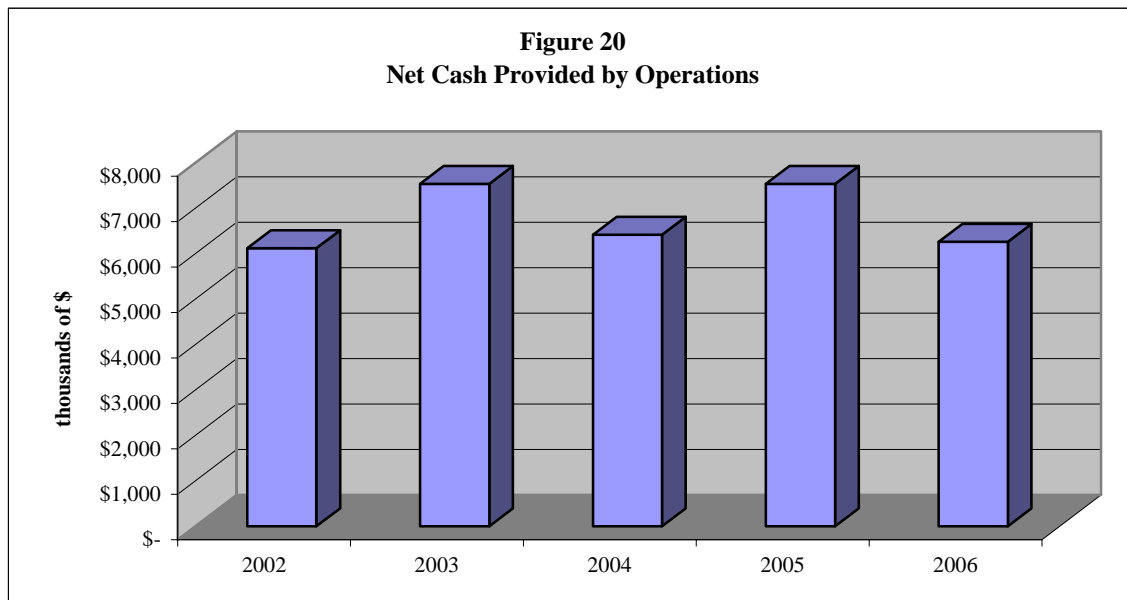


Table 9
Cash Flows
thousands of \$
for the year ending June 30

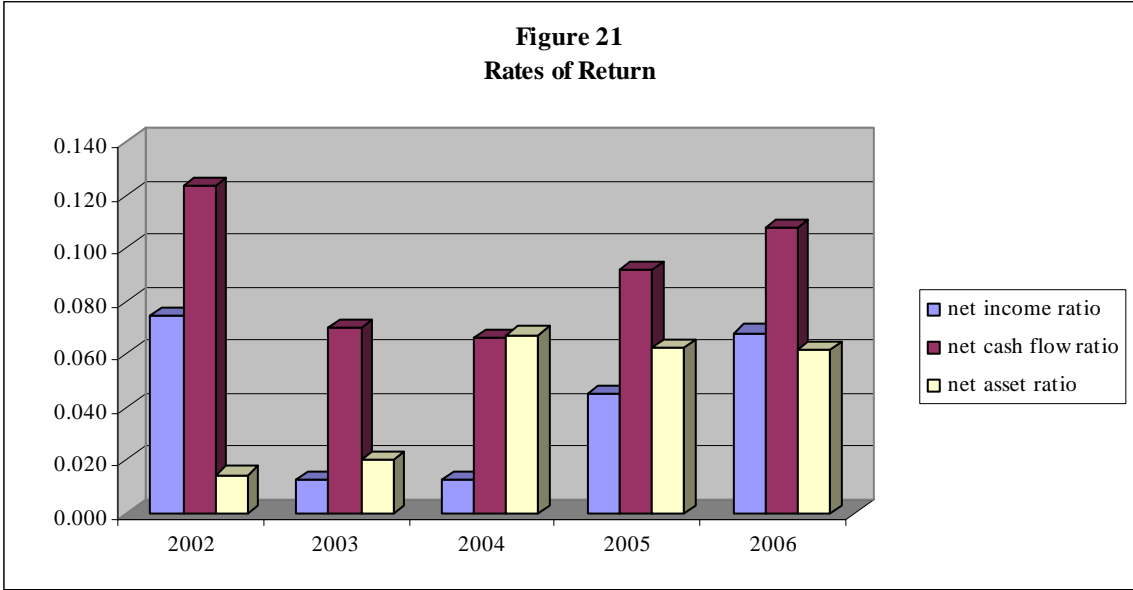
	2002	2003	2004	2005	2006
Cash flows from Operating Activities					
Increase in Net Assets	\$ 1,295	\$ 1,840	\$ 6,823	\$ 6,527	\$ 7,279
Adjustments to reconcile increase in net assets to net cash					
Loss on defeasance of debt	\$ 1,552				
Cumulative effect of change in accounting principle					\$ 2,929
Depreciation	\$ 4,387	\$ 5,219	\$ 5,103	\$ 4,843	\$ 4,551
Accretion expense					\$ 157
Net realized gains on sales of investment	\$ (186)	\$ (62)	\$ (168)	\$ (2,424)	\$ (1,159)
Increase in unrealized appreciation on investments	\$ 2,756	\$ (1,003)	\$ (4,165)	\$ (258)	\$ (2,000)
Contributed beneficial interest in perpetual trust			\$ (1,915)		
Contributions restricted for plant facilities				\$ (966)	\$ (475)
Contributions & investment income permanently restricted for long term investment	\$ (1,566)	\$ (862)	\$ (732)	\$ (693)	\$ (788)
Decrease (increase) in student accounts receivable	\$ (269)	\$ (8)	\$ (327)	\$ 117	\$ 18
(Increase) decrease in grants and other receivables	\$ (2,733)	\$ 167	\$ 1,597	\$ (353)	\$ (591)
Increase in contributions receivable	\$ 303	\$ 494	\$ (279)	\$ (101)	\$ (3,102)
Increase in student loans	\$ (201)	\$ (234)	\$ 285		
Increase in other assets	\$ (819)	\$ (6)	\$ (570)	\$ (1,477)	\$ (577)
Increase (decrease) in accounts payable	\$ (192)	\$ 248	\$ (341)	\$ 1,020	\$ (1,385)
Increase in accrued wages and benefits	\$ 408	\$ 481	\$ 917	\$ 288	\$ 958
Increase (decrease) in other liabilities	\$ (968)	\$ (175)	\$ (192)	\$ 753	\$ (1,225)
Increase in deferred revenue	\$ 2,260	\$ 1,268	\$ 158	\$ 64	\$ 1,572
Increase in refundable government loan funds	\$ 92	\$ 163	\$ 218	\$ 190	\$ 95
Net Cash Provided by Operating Activities	\$ 6,119	\$ 7,530	\$ 6,412	\$ 7,530	\$ 6,257
Cash flows from Investing Activities					
Purchases of investments	\$ (4,029)	\$ (8,856)	\$ (25,698)	\$ (27,303)	\$ (19,919)
Proceeds from sale of investments	\$ 2,632	\$ 4,424	\$ 7,517	\$ 37,045	\$ 20,894
Purchases of plant assets	\$ (6,594)	\$ (6,568)	\$ (3,872)	\$ (17,642)	\$ (11,107)
Increase (decrease) in student loans				\$ (296)	\$ 433
Net Cash flow from Investing	\$ (7,991)	\$ (11,000)	\$ (22,053)	\$ (8,196)	\$ (9,699)

Table 9 (continued)					
Cash Flows					
thousands of \$					
for the year ending June 30					
	2002	2003	2004	2005	2006
Cash flows from financial activities					
Proceeds from bonds payable	\$ 28,903	\$ 1,045	\$ 16,167		
Repayment of bonds and mortgage notes payable	\$ (29,893)	\$ (1,051)	\$ (1,853)	\$ (2,014)	\$ (2,721)
Contributions restricted for plant facilities				\$ 966	\$ 475
Contributions & investment income permanently restricted for long-term investment	\$ 1,566	\$ 862	\$ 732	\$ 693	\$ 788
Net cash provided by financing activities	\$ 576	\$ 856	\$ 15,046	\$ (355)	\$ (1,458)
Net Increase in Cash and cash equivalents	\$ (1,296)	\$ (2,614)	\$ (595)	\$ (1,021)	\$ (4,900)
Cash at the beginning of the year	\$ 16,240	\$ 14,944	\$ 12,330	\$ 11,735	\$ 10,714
Cash at the end of the year	\$ 14,944	\$ 12,330	\$ 11,735	\$ 10,714	\$ 5,814

Figure 20 showing operating cash flows, provides an interesting contrast to the net income shown in Figure 16. While the net income declined in 2003 and 2004 operating cash flow has remained fairly stable, fluctuating between \$6.1 million and \$7.5 million. Thus, the cash flow from operations paints a picture of a University that has had a significantly greater inflow of cash compared to the outflow of cash.

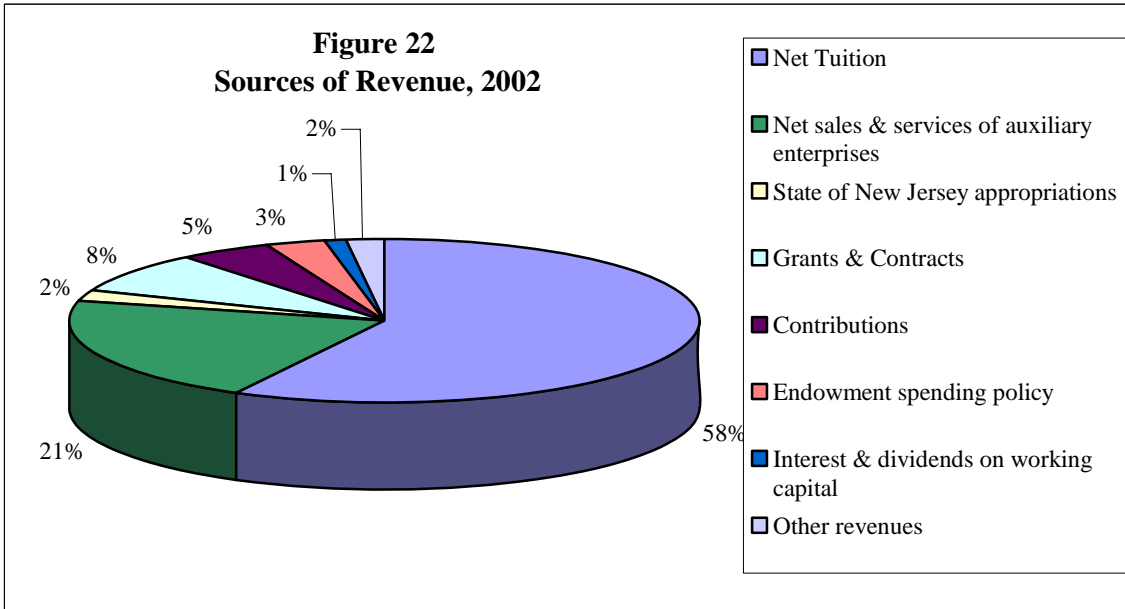
Total Operations Ratios

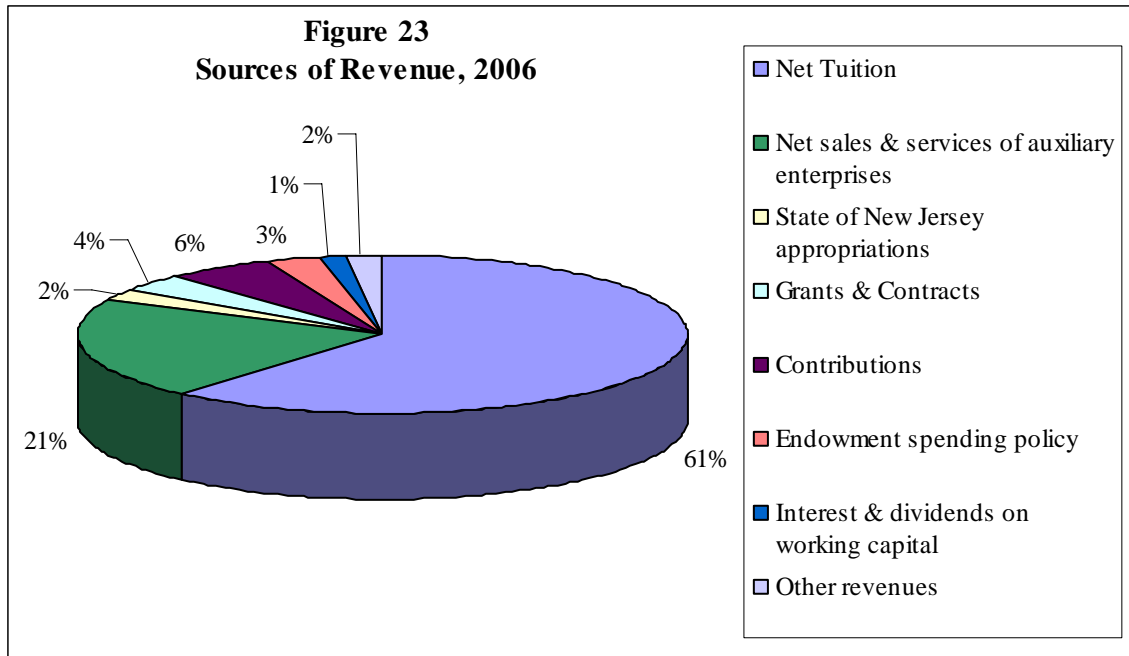
Figure 21 shows three rates of return. The first is the rate of return on operating revenue, which is the net income divided by revenue which approximates ratio of “net income to sales” in a for profit business. The second ratio is “cash flow” divided by operating revenue. The third rate of return is the return on net assets which is the change in net assets divided by total revenue. The ratios, particularly in the last three years, show relatively high rates of return and indicating that the University is in excellent financial condition.



Sources of Revenue

Figure 22 and Figure 23 shows the major sources of revenue for the University in the years 2002 and 2006. In both years the most important source of revenue is tuition. In 2002 it accounted for 58 percent of revenue but by 2006 it accounted for 61 percent of revenue. The only other significant change in the sources of revenue is that in 2002 grants and contracts accounted for 8 percent of revenue and in 2006 it accounted for only 4 percent of revenue.





Allocation Ratios

When most faculty members want to understand spending priorities they look at annual budgets. Again, budgets are simply planning documents. The actual spending priorities of the University are clearly reflected in the actual expenditures. Figure 24 and Figure 25 show the expenses of the University by functional category for the years 2002 and 2006.

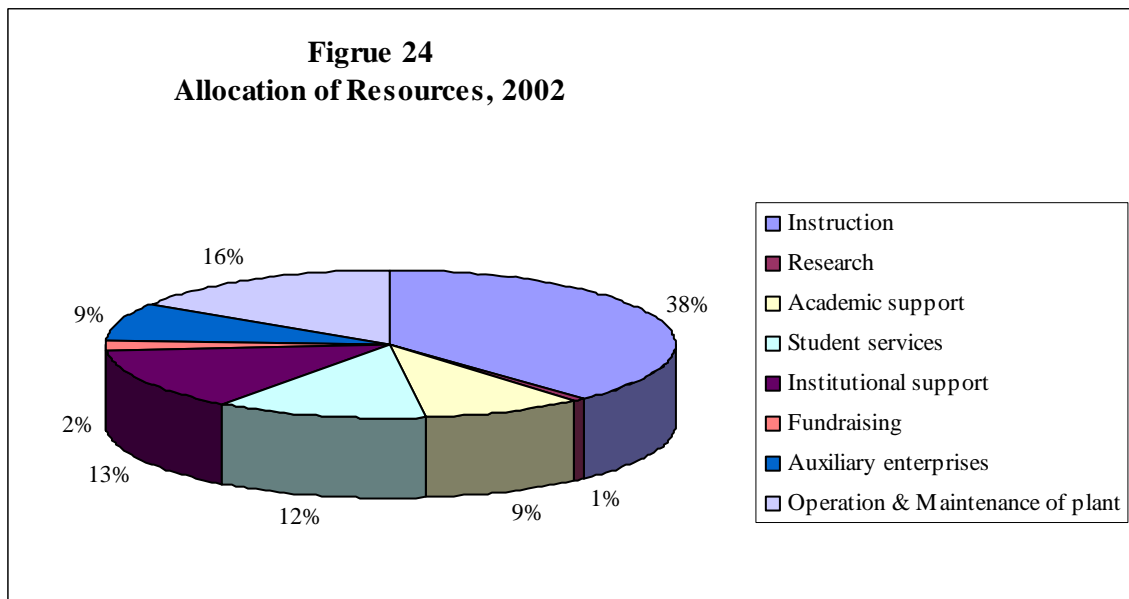
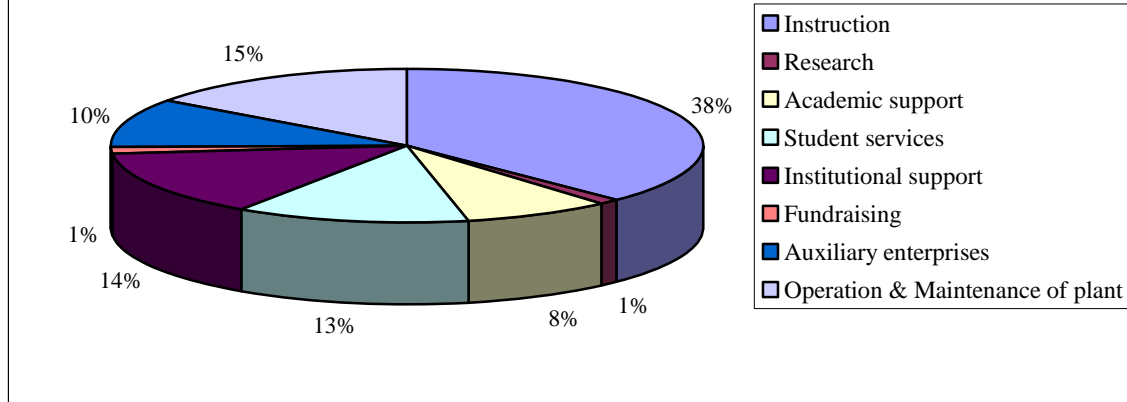


Figure 25
Allocation of Resources, 2006



Between 2002 and 2006 the proportion of expenses allocated for instruction remained constant at 38 percent of total operating expenses. Expenses for auxiliary operations increased from 9 percent to 10 percent. Spending on student services also increased from 12 percent to 13 percent. Spending on academic support decreased from 9 to 8 percent while spending on institutional support increased from 13 to 14 percent.

Conclusion

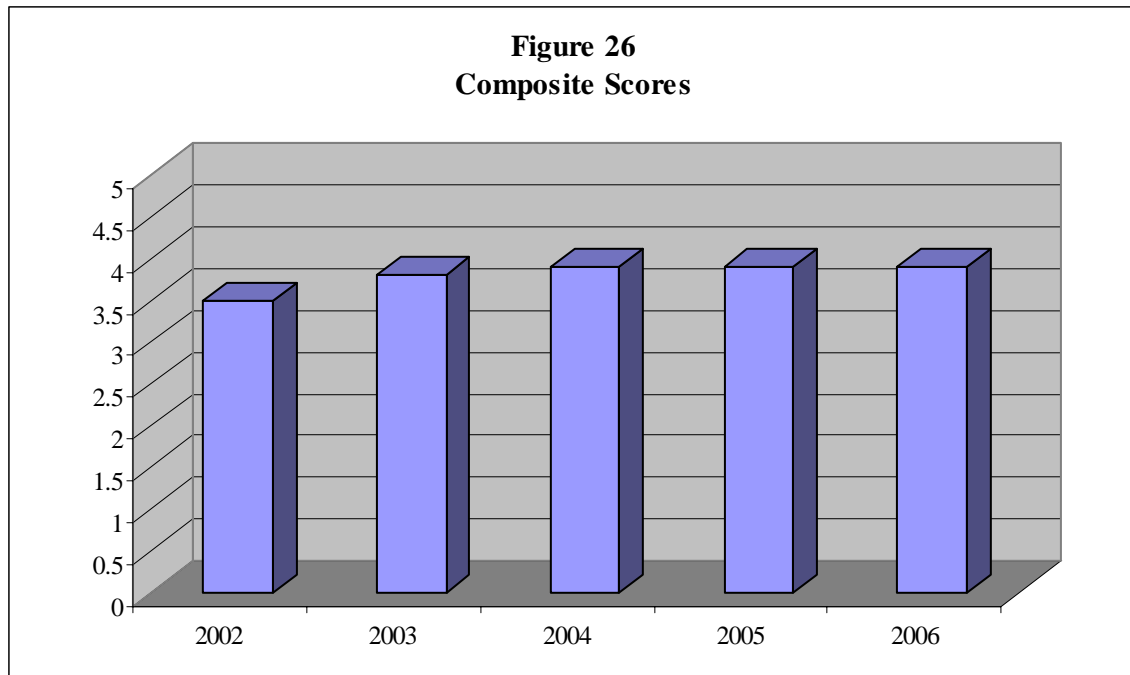
This report shows that Rider University is in very good financial condition and that condition has shown moderate improvement over the time period 2002 to 2006. The University's financial condition can be summarized by looking at three key ratios. These ratios are often used by bond rating agencies to assess the credit worthiness of an institution. One method for evaluating the overall financial health of an institution is to assign scores these three and then use a weighted average of those scores to create a composite index indicating the financial health of an institution. The methodology used in this report is based on a slight modification of the Ohio Board of Regents methodology to take into account the differences in financial reporting for public and private institutions. http://regents.ohio.gov/financial/campus_accountability/index.php

The first score is based on a ratio is known as the viability ratio which the ratio of unrestricted liquid net assets to long-term debt. The score is based on the primary reserve ratio which is the ratio of unrestricted liquid net assets to total expenses. The final score is based on the net asset ratio is the ratio of change in net assets to total revenue.

Table 9 Composite Scores for year ending June 30					
	2002	2003	2004	2005	2006
Viability Score	3	4	3	3	3
Primary Reserve Score	4	4	4	4	4
Net Asset Score	3	3	5	5	5
Composite Score	3.5	3.8	3.9	3.9	3.9

Each of the above mentioned ratios is then scored on a scale of 0 to 5 using whole numbers with 5 being the highest score. A weighted average of these scores is then used to calculate a composite index that reflects the bond rating that would be given to an institution. These bond ratings reflect the overall financial health of the institution.

Table 9 shows the composite scores and these same scores are also shown in Figure 26. The composite scores for Rider University have increased from 3.5 to 3.9 on a five point scale for the last five years. This is a high rating. The University has a moderate level of debt, has a high level of reserves to relative to expenses and has a very high rate of return on revenue.



The University depends heavily on tuition and fees which is enrollment driven. Thus, barring any major declines in enrollment the University should continue to generate positive changes in net assets and have positive cash flows in upcoming years

providing the University with an opportunity to invest, not only in improving its plant and equipment, but also in improving its human resources.