

**Rating Update: Colgate University, NY**

**MOODY'S AFFIRMS COLGATE UNIVERSITY'S Aa3 DEBT RATING; OUTLOOK IS STABLE**

**UNIVERSITY HAS APPROXIMATELY \$162.7 MILLION OF RATED DEBT OUTSTANDING**

Madison County I.D.A., NY  
Higher Education  
NY

**Opinion**

NEW YORK, May 26, 2009 -- Moody's Investors Service has affirmed the Aa3 debt rating on Colgate University's outstanding bonds issued through the Madison County Industrial Development Agency and the Dormitory Authority of the State of New York (see RATED DEBT section below). The affirmation affects \$162.7 million of direct debt outstanding all of which is in the fixed rate mode. The outlook remains stable.

LEGAL SECURITY: Unsecured general obligation pledge of the University.

INTEREST RATE DERIVATIVES: None.

**STRENGTHS**

\*Strong market position as a liberal arts university with an emphasis on undergraduate education and research with a national student draw. Student enrollment in recent years has been slightly above targeted levels, with 2,823 full-time equivalent (FTE) enrollment in fall 2008. The University's student demand has gradually improved, with highly selective admissions in fall 2008 (accepting 24% of applicants) while matriculation rates have remained level (33% yield on admitted students). Management reports that total applications for fall 2009 are below the prior year's record numbers by 17%. However, the number of applications received for fall 2009 still represents the 5th highest amount received by the University in its history.

\*Healthy financial resources, with an expendable financial resource base of \$490 million as of FY 2008 that provided a cushion for annual operations of 3.3 times and direct debt of 3.0 times (compares to Moody's FY 2008 preliminary Aa-rated medians for private colleges and universities of 3.4 and 3.7 times, respectively). Unrestricted financial resources account for a favorable 60% of total financial resources. The University's direct debt has increased by a net amount of \$103 million, or 171%, since FY 2003, but financial resource growth has kept these balance sheet measures relatively stable. The University has no additional borrowing plans in the near term and historically has not exceeded borrowing expected in capital plans.

\*Prudent financial practices and careful management oversight yield consistent record of breakeven to positive operating results (average operating margin of 1% in fiscal years 2006-2008). In FY 2008, operating performance as calculated by Moody's remained positive, but tightened to 0.3% as expense growth outpaced growth in revenues, particularly net tuition and fees. Colgate's operating performance benefits from strong net tuition per student (\$25,395 in FY 2008 compared to Moody's median of \$22,728) and controlled tuition discounting as the University's admissions process is not need blind.

\*Solid fundraising base as evidenced by the \$340 million raised to date toward Colgate's \$400 million capital campaign goal; average annual gift revenue of \$41.7 million for FY 2006- 2008 is in line with Moody's median for Aa-rated private colleges and universities of \$43 million.

**CHALLENGES**

\*Competitive market environment with a yield rate of 33%. The yield rate is expected to remain relatively constant as the University competes with other highly regarded, selective universities such as Middlebury College (rated Aa2), Boston College (Aa3), and Cornell University (Aa1). In FY 2008, 73.6% of incoming freshman were from outside New York State, but the University will be subject to the unfavorable demographic shifts expected in the northeast over the next decade.

\*Narrower operating surpluses (1% average operating margin in FY 2008 compared to 7.2% in FY 2005) that

are expected to remain pressured in the current environment as the University seeks to increase contingencies for financial aid and hold down its endowment draw. Operating cash flow provided debt service coverage of 2.2 times in FY 2008 (compared to Moody's median of 3.3 times). Primary sources of revenue are tuition and auxiliaries and investment income, which comprise 65% and 22% of operating revenue, respectively.

\*Balance sheet decline due to recent investment losses (negative 22.1% for fiscal year 2009 through April 30, 2009) pressures the financial resources cushion. Colgate's investments are allocated as follows: 41.4% to hedge funds; 23.8% to fixed income and cash; 21.4% to private equity, venture capital and real asset funds; and 13.4% long-only alternative equity funds. Colgate has a relatively high allocation to alternatives, but management projects that 28% of the portfolio is available on a monthly basis and exposure to calls upon the University's liquidity is limited due to the University's fixed rate debt structure. The portfolio is also well diversified among managers with the largest exposure to any one manager below 10%. Assuming a 30% decline in total financial resources from expendable financial resources to reflect investment losses combined with endowment spending, expendable financial resources would cover debt and annual operations 1.7 times and 1.8 times, respectively.

## RECENT DEVELOPMENTS

Colgate University's president is stepping down May 31, 2009 after seven years with the University. An interim president has been selected and a search committee has initiated the selection process, which is expected to be completed by July 2010.

## Outlook

Colgate's stable outlook reflects our expectation for continued positive operating performance, driven by healthy fundraising and growing net tuition revenue.

### What Could Change the Rating - UP

Rapid increase in financial resources relative to any future borrowing; strengthened operating margins; continued strengthening of market demand.

### What Could Change the Rating - DOWN

Sizeable and sustained operating deficits; substantial, unexpected additional borrowing that is not offset by growing financial resources.

## KEY INDICATORS (Fall 2008 enrollment data and FY 2008 financial data):

\* Ratios in parentheses represent a projected 30% decline in total financial resources that fully impacts expendable financial resources to reflect expected investment losses and endowment spending

Total Full Time Equivalent Enrollment: 2,823

Freshmen Selectivity: 24%

Freshmen Matriculation: 33%

Net Tuition per Student: \$25,395

Total Financial Resources: \$730.6 million (\$511.4 million)

Expendable Financial Resources: \$490.0 million (\$270.8 million)

Expendable Financial Resources to Direct Debt: 3.0 times (1.7 times)

Expendable Financial Resources to Operations: 3.3 times (1.8 times)

Three-Year Average Operating Margin: 1%

Reliance on Student Charges: 65%

Reliance on Investment Income: 22%

## RATED DEBT

Series 2005A, 2003A, 2003B (issued through the Madison County Industrial Development Authority): Aa3

Series 2004A (issued through the Madison County Industrial Development Authority): Aa3; National Public Finance Guarantee Corp insured (National Public Finance Guarantee Corp's current financial strength rating is Baa1 on review for possible upgrade)

Series 1996, 1998 (issued through the Dormitory Authority of the State of New York): Aa3; National Public Finance Guarantee Corp insured (National Public Finance Guarantee Corp's current financial strength rating is Baa1 on review for possible upgrade)

## CONTACTS:

University: David Hale, Vice President for Finance & Administration; Treasurer, 315-228-7422; Carolee White, Associate Vice President for Finance & Assistant Treasurer, 315-228-7488.

The principal methodology used in rating Colgate University was Moody's Rating Approach for Private Colleges and Universities, which can be found at [www.moody.com](http://www.moody.com) in the Credit Policy & Methodologies directory, in the Ratings Methodologies subdirectory. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Credit Policy & Methodologies directory.

The last rating action was on August 25, 2005 when Colgate University's Aa3 rating and stable outlook were affirmed.

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